
ACCOUNTING

9706/22

Paper 2 Structured Questions

October/November 2017

MARK SCHEME

Maximum Mark: 90

Published

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This document consists of **8** printed pages.

Question	Answer	Marks																																																																		
1	<p style="text-align: center;">Ross Income Statement for the year ended 31 March 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">92 520 (1)</td> </tr> <tr> <td>Returns inwards</td> <td></td> <td style="text-align: right;"><u>(1 240) (1)</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">91 280</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">21 640 (1)</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">38 950</td> <td></td> </tr> <tr> <td>Returns outwards</td> <td style="text-align: right;"><u>(440) (1)</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">60 150</td> <td></td> </tr> <tr> <td>Closing inventory W1</td> <td style="text-align: right;"><u>(25 900) (2)</u></td> <td style="text-align: right;"><u>34 250</u></td> </tr> <tr> <td>Gross profit (<i>must be labelled</i>)</td> <td></td> <td style="text-align: right;"><u>57 030 (1of)</u></td> </tr> <tr> <td>Deduct: expenses</td> <td></td> <td></td> </tr> <tr> <td>Carriage outwards</td> <td style="text-align: right;">1 090 (1)</td> <td></td> </tr> <tr> <td>Property rental W2</td> <td style="text-align: right;">13 920 (2)</td> <td></td> </tr> <tr> <td>Heating and lighting</td> <td style="text-align: right;">1 940</td> <td></td> </tr> <tr> <td>Travel expenses</td> <td style="text-align: right;">2 060</td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">6 690</td> <td></td> </tr> <tr> <td>Irrecoverable debt written off</td> <td style="text-align: right;">1 250 (1)</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;"><u>1 490 (1)</u></td> <td style="text-align: right;"><u>28 440</u></td> </tr> <tr> <td>Profit for the year (<i>must be labelled</i>)</td> <td></td> <td style="text-align: right;"><u>28 590 (1of)</u></td> </tr> <tr> <td>W1 (23 400 (1) + 2500 (1))</td> <td></td> <td></td> </tr> <tr> <td>W2 (16 240 (1) – 2320 (1))</td> <td></td> <td></td> </tr> </tbody> </table>		\$	\$	Revenue		92 520 (1)	Returns inwards		<u>(1 240) (1)</u>			91 280	Cost of sales			Opening inventory	21 640 (1)		Purchases	38 950		Returns outwards	<u>(440) (1)</u>			60 150		Closing inventory W1	<u>(25 900) (2)</u>	<u>34 250</u>	Gross profit (<i>must be labelled</i>)		<u>57 030 (1of)</u>	Deduct: expenses			Carriage outwards	1 090 (1)		Property rental W2	13 920 (2)		Heating and lighting	1 940		Travel expenses	2 060		General expenses	6 690		Irrecoverable debt written off	1 250 (1)		Depreciation	<u>1 490 (1)</u>	<u>28 440</u>	Profit for the year (<i>must be labelled</i>)		<u>28 590 (1of)</u>	W1 (23 400 (1) + 2500 (1))			W2 (16 240 (1) – 2320 (1))			13
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3(c)	<p>Bank loan The lender would need to be convinced that the company can meet the interest and repayment obligations. (1) Bank loan must be repaid. (1) The loan may need to be secured (1) on the plant and equipment purchased. Loan interest will be charged (1) to the Income Statement reducing profits. A loan will increase the gearing of the company. (1) Takes less time to issue. (1)</p> <p>Share issue The company has flexibility as to the level of dividends payable on the shares. (1) Share capital does not need to be repaid. (1) There may be loss of control. (1) Issue of more shares may dilute the share price. (1) Share issue is an expensive (1) process. Issuing ordinary shares will not increase the gearing. (1) Takes more time to issue. (1) No interest has to be paid. (1)</p> <p>(1 for decision, and max 4 for justification).</p>	5																																																																					

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Breakeven point (4200 / 20)	210 units		(1)																											
4(c)(i)	In units: $240 - 210 = 30$ units (1)OF	2																												
4(c)(ii)	In revenue: $\$45 \cdot 30 = \1350 (1)OF																													
4(d)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Maximum capacity</td> <td style="width: 20%;">$240 \cdot 100 / 75$</td> <td style="width: 20%; text-align: right;">320 units</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">\$</td> <td></td> <td></td> </tr> <tr> <td>Contribution</td> <td>$320 \cdot \\$20$</td> <td style="text-align: right;">6400</td> <td></td> <td style="text-align: right;">(1OF)</td> </tr> <tr> <td>Fixed costs</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">4200</td> <td></td> <td></td> </tr> <tr> <td>Maximum profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">2200</td> <td></td> <td style="text-align: right;">(1OF)</td> </tr> </table>	Maximum capacity	$240 \cdot 100 / 75$	320 units		(1)			\$			Contribution	$320 \cdot \$20$	6400		(1OF)	Fixed costs		4200			Maximum profit		2200		(1OF)	3			
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Question	Answer	Marks																																																																																										
4(e)	<table border="1" data-bbox="240 248 1249 813"> <tr> <td>Sales revenue</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>240 · \$49.50</td> <td></td> <td></td> <td>11 880</td> <td>(1)</td> </tr> <tr> <td>150 · \$42</td> <td></td> <td></td> <td>6 300</td> <td>(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td>18 180</td> <td></td> </tr> <tr> <td>Variable costs</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Direct material (390 · \$15)</td> <td>(5 850)</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>Direct labour (320 · \$8) + (70 · \$10)</td> <td>(3 260)</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>Variable overheads (390 · \$2)</td> <td>(780)</td> <td>(1)</td> <td>(9 890)</td> <td></td> </tr> <tr> <td>Contribution</td> <td></td> <td></td> <td>8 290</td> <td>(1of)</td> </tr> <tr> <td>Fixed costs (4200+500+200)</td> <td></td> <td></td> <td>(4 900)</td> <td>(1)</td> </tr> <tr> <td>Maximum profit</td> <td></td> <td></td> <td>3 390</td> <td>(1of)</td> </tr> </table> <p data-bbox="240 846 579 880">Alternative presentation</p> <table data-bbox="240 913 1129 1160"> <tr> <td>Contribution</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Existing customers</td> <td>240 · (49.50 – 25.00)</td> <td></td> <td>5 880</td> <td>(1)</td> </tr> <tr> <td>Bart Supplies</td> <td>80 (1) · (42 – 25) (1)</td> <td></td> <td>1 100</td> <td></td> </tr> <tr> <td></td> <td>70 (1) · (42 – 27) (1)</td> <td></td> <td>1 710</td> <td></td> </tr> <tr> <td>Total contribution</td> <td></td> <td></td> <td>8 290</td> <td>(1)</td> </tr> <tr> <td>Fixed costs</td> <td>(4200 + 500 + 200)</td> <td></td> <td>4 900</td> <td>(1)</td> </tr> <tr> <td>Maximum profit</td> <td></td> <td></td> <td>3 390</td> <td>(1)</td> </tr> </table>	Sales revenue					240 · \$49.50			11 880	(1)	150 · \$42			6 300	(1)				18 180		Variable costs					Direct material (390 · \$15)	(5 850)	(1)			Direct labour (320 · \$8) + (70 · \$10)	(3 260)	(1)			Variable overheads (390 · \$2)	(780)	(1)	(9 890)		Contribution			8 290	(1of)	Fixed costs (4200+500+200)			(4 900)	(1)	Maximum profit			3 390	(1of)	Contribution					Existing customers	240 · (49.50 – 25.00)		5 880	(1)	Bart Supplies	80 (1) · (42 – 25) (1)		1 100			70 (1) · (42 – 27) (1)		1 710		Total contribution			8 290	(1)	Fixed costs	(4200 + 500 + 200)		4 900	(1)	Maximum profit			3 390	(1)	8
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4(g)	<p>Facilitates profit maximisation (1) Enhanced cash management by identifying future inflows and outflows. (1) Facilitates working capital requirement planning. (1) Enables capital expenditure planning. (1)</p> <p>Note Benefits must be financial benefits. Do not reward: co-ordination, planning, decision making etc. unless developed from a financial perspective.</p> <p>1 mark for each valid benefit. Maximum 3 marks.</p>	3