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**ACCOUNTING**

**9706/21**

Paper 2 Structured Questions

**May/June 2017**

MARK SCHEME

Maximum Mark: 90

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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

Question	Answer	Marks																																				
1(a)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">300 000</td> <td></td> </tr> <tr> <td>Opening inventory (bal. figure)</td> <td style="text-align: right;">28 000</td> <td></td> <td><b>(1) OF</b></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">250 000</td> <td></td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>(38 000)</u></td> <td></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>240 000</u></td> <td><b>(1) OF</b></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">60 000</td> <td><b>(1)</b></td> </tr> <tr> <td>Expenses</td> <td></td> <td style="text-align: right;">27 000</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>33 000</u></td> <td><b>(1) OF</b></td> </tr> </table>		\$	\$		Revenue		300 000		Opening inventory (bal. figure)	28 000		<b>(1) OF</b>	Purchases	250 000			Closing inventory	<u>(38 000)</u>			Cost of sales		<u>240 000</u>	<b>(1) OF</b>	Gross profit		60 000	<b>(1)</b>	Expenses		27 000		Profit for the year		<u>33 000</u>	<b>(1) OF</b>	<b>4</b>
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1(b)	<p>Previous loss brought forward <b>(1)</b>            Payment of dividends <b>(1)</b>            Bonus issue of shares <b>(1)</b>  <b>Max 2</b></p>	<b>2</b>																																				
1(c)(i)	<p>Inventory turnover</p> <p><math>240\,000/33\,000</math> <b>(1)OF</b> = 7.27 times <b>(1)OF</b></p>	<b>2</b>																																				
1(c)(ii)	<p>Liquid (acid test) ratio</p> <p><math>80\,000/78\,000</math> <b>(1)</b> = 1.03: 1 <b>(1)</b></p>	<b>2</b>																																				
1(c)(iii)	<p>Trade payables turnover (days)</p> <p><math>(27\,000/200\,000) \times 365</math> <b>(1)</b> = 50 days <b>(1)</b></p>	<b>2</b>																																				
1(d)	<p>Rate of inventory turnover (days) – Better for XY Limited and worse for AB Limited <b>(1)</b>            The goods being sold by AB Limited are less popular or slower selling than those of XY Limited;  <b>or</b> XY Limited may have offered sales promotions. <b>(1)</b></p> <p>Liquid (acid test) ratio – Better for AB Limited and worse for XY <b>(1)</b>            AB Limited have sufficient current assets to cover its short term debts;  <b>Or</b> For every \$1 of current liabilities AB Limited has enough liquid assets <b>(1)</b>.</p> <p>Trade payables payment – Slower for AB Limited and faster for XY Limited <b>(1)</b>            AB Limited’s suppliers may have poor credit control. They may not be offering AB Limited incentives to pay early, unlike XY Limited. <b>(1)</b></p> <p><b>(2 marks)</b> for each ratio            1 mark for basic point and 1 for development.</p>	<b>6</b>																																				
1(e)	<p>AB Limited: More liquidity, lower inventory turnover but has ability to pay trade payables.            XY Limited: Higher rate of inventory turnover, faster payment period</p> <p><b>1 mark for decision and 3 for reasons.</b>            Accept other valid points.</p>	<b>4</b>																																				

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1(f)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Original profit</td> <td style="text-align: right;">71 000</td> <td></td> </tr> <tr> <td>Error 1</td> <td style="text-align: right;">(90)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Error 2</td> <td style="text-align: right;">(100)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Error 3</td> <td style="text-align: right;">1 200</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Revised gross profit</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">72 010</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">(1)OF</td> </tr> </table>		\$		Original profit	71 000		Error 1	(90)	(1)	Error 2	(100)	(1)	Error 3	1 200	(1)	Revised gross profit	72 010	(1)OF	<b>4</b>
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1(g)	<p>A revenue reserve is profit retained by the directors and is the property of the ordinary shareholders. Source of capital reserve is from issuing capital, that is, share premium.</p> <p>Revenue reserves can be used to pay cash dividends from retained profits.</p> <p>Capital reserves help protect creditors.</p> <p>Capital reserves cannot be used to pay cash dividends but can be used for bonus shares.</p> <p><b>(2 marks) × 2 points</b> – 1 mark for basic point and 1 for development</p>	<b>4</b>																		
	<b>Total:</b>	<b>30</b>																		

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2(c)	<p>Disagreements between partners Death or retirement of a partner Bankruptcy</p> <p><b>Max 2</b></p>	<b>2</b>																																																							
2(d)	<p>This means that the partner owes money to the partnership (1) The partner must use his personal funds to repay the partnership bank account (1) in order that funds owing to other partners may be repaid (1)</p>	<b>3</b>																																																							
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3(c)	<p>A customer has overpaid in error  A credit has been given and the customer has not taken  A contra has been put through but the customer has ignored it.  A customer has paid in advance  Not taking a discount  There is a deposit on goods.  Customer paid for the goods before returning them.  Customer overpaid and invoice</p> <p><b>(1 mark) × 3 points</b></p>	<b>3</b>																																																				
3(d)	<p>May improve trade receivables collection period.  Improve cash flows</p> <p>Meena may lose customers  May need tighter credit control which may increase cost</p> <p><b>Decision (1 mark)</b>  <b>Justification (2 marks)</b></p>	<b>3</b>																																																				
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4(b)(ii)	$\frac{\$3.75^*}{\$5.25^*} = 71.43\% \text{ (1)OF}$	<b>2</b>																												
4(c)	It shows how much contribution is earned from each \$1 of sales revenue (1)	<b>1</b>																												
4(d)(i)	It represents the margin of safety (1)	<b>1</b>																												
4(d)(ii)	The amount by which actual sales can fall short of the budgeted sales before he reaches break-even point (1) and then makes no profit (1).	<b>2</b>																												

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4(e)	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: center;">Units</td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Total revenue (TR)</td> <td style="text-align: center;">0,</td> <td style="text-align: center;">0</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">0,</td> <td style="text-align: center;">189 000</td> <td>36 000 units × \$5.25</td> </tr> <tr> <td>Fixed costs (FC)</td> <td style="text-align: center;">0,</td> <td style="text-align: center;">60 000</td> <td></td> </tr> <tr> <td>Total costs (TC)</td> <td style="text-align: center;">0,</td> <td style="text-align: center;">60 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">36 000,</td> <td style="text-align: center;">114 000</td> <td>36 000 units × \$1.50 = 54 000 + 60 000</td> </tr> </table> <p><b>Marks (incl labels) 1 × 3 = 3 marks</b>  <b>1 mark profit area, 1 mark loss area and 1 mark break-even point</b>  <b>1 mark for axis</b></p>		Units	\$		Total revenue (TR)	0,	0			0,	189 000	36 000 units × \$5.25	Fixed costs (FC)	0,	60 000		Total costs (TC)	0,	60 000			36 000,	114 000	36 000 units × \$1.50 = 54 000 + 60 000	7
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4(f)	Limitations: <ul style="list-style-type: none"> <li>• Some costs are not easily classified as fixed or variable.</li> <li>• Some costs are semi-variable.</li> <li>• It assumes fixed costs stay the same.</li> <li>• Straight lines can be misleading – discounts can cause curved lines.</li> <li>• A chart can be time consuming to prepare.</li> <li>• It assumes the selling price is constant at all levels of output.</li> <li>• It can be misleading for those with limited accounting knowledge.</li> <li>• Can only be applied to one product at a time</li> </ul> <p><b>(1 mark)</b> × any 3 limitations, max 3</p>	<b>3</b>
4(g)	<p>New contribution = 6.00 – 1.50 = \$4.50 <b>(1)</b></p> <p>Fixed cost   \$60 000            Profit       <u>\$75 000</u>            Target       135 000 <b>(1)</b></p> <p>Sales per month = (135 000 / 4.50) <b>(1)</b>OF = 30 000 / 12 <b>(1)</b> = 2500 units <b>(1)</b>OF</p>	<b>5</b>
4(h)	<p>Proceed because</p> <ul style="list-style-type: none"> <li>• It covers the budgeted total costs and provides a profit.</li> <li>• It provides a positive contribution.</li> </ul> <p>Need to bear in mind</p> <ul style="list-style-type: none"> <li>• The market price of similar products.</li> <li>• How innovative is his product to justify the price increase / will customers expect higher quality for higher price.</li> <li>• Will customers accept the increase or go elsewhere / decrease in demand.</li> <li>• Fixed costs are covered for now but they may change in the future.</li> <li>• Short term view – he could lose profit in the long term.</li> </ul> <p><b>Advice 1 mark</b>  <b>(1 mark)</b> × any 3 reasons, max 3</p>	<b>4</b>
	<b>Total:</b>	<b>30</b>