

## **CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International Advanced Subsidiary and Advanced Level

### **MARK SCHEME for the October/November 2015 series**

#### **9706 ACCOUNTING**

**9706/22**

Paper 2 (Structured Questions – Core),  
maximum raw mark 90

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.

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Page 2	Mark Scheme	Syllabus	Paper
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1 (a)

Winners Athletic Club Shop		
Income Statement for the year ended 30 June 2015		
	\$	\$
Sales (690 (1) + 6 670 – 540 (1))		6820
Opening inventory *	640	
Add purchases (429 (1) + 2 590 – 376 (1))	<u>2643</u>	
	3283	
Less closing inventory *	<u>530 (1 both *)</u>	<u>2753</u>
Gross profit		4067
Wages	2780 (1)	
Bad debt	<u>60 (1)</u>	<u>2840</u>
Profit for the year		<u>1227</u>

[7]

(b)

Winners Athletic Club		
Income and Expenditure Account for the year ended 30 June 2015		
	\$	\$
Shop profits		1227
Subscriptions		
[(485 + 895 + 2100) (1) – [(675 + 345 + 8690)] (1)]		6230 (1)OF
Events		
Less costs (3720 – 275 (1) – 2 120 (1))		1325
Life membership		<u>460 (1)</u>
		9242
Entry fees (2160 +140)	2300 (1)	
Bank charges	126 (1)	
Depreciation	1768 (1)CF	
Secretary's expenses	1370	
Loss on equip. sale	<u>260 (1)CF</u>	<u>5824</u>
Surplus for the year		<u>3418 (1)OF</u>

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Page 3	Mark Scheme	Syllabus	Paper
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(c)

Winners Athletic Club  
Statement of Financial Position at 30 June 2015

	\$	\$	\$
Non-current assets			
Equipment at net book value <b>(W1)</b>			7072 <b>(1)OF</b>
Current assets			
Inventory	530		
Trade receivables	630 }		
Subs in arrears	345 }	<b>(1) for both</b>	
Bank (1970–126)	1844 <b>(1)</b>		
Current liabilities		3349	
Trade payables	429		
Subs in advance	895		
Events in advance	275 }		
Entries in arrears	<u>140</u> }	<u>1739</u>	<u>1610</u>
			<u>8682</u>
Financed by			
Accumulated fund <b>(W2)</b>		1124 <b>(2)</b>	
Add surplus		<u>3418</u> <b>(1) OF</b>	4542
Life membership fund <b>(W3)</b>			<u>4140</u> <b>(1)CF</b>
			<u>8682</u>

**[8]**

**W1** NBV = 8840 – 1768(OF) = 7072

**W2** Opening accumulated fund: 640 + 540 + 6700 + 485  
= 8365 (1) – (3690 + 2500 + 376 + 675)(1) = 1124

**W3** Life membership 2500 + 2100 – 460 = 4140

(d) These people are not paid **(1)**, it cannot be entered in the accounts. Money measurement concept **(1)** **[2]**

(e) The revenue and income must be matched to the period being reported and if these were not entered then the surplus/deficit maybe under/overstated **(1)**. Matching/accruals concept **(1)** **[2]**

**[Total: 30]**

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2 (a)

	Add (\$)	Deduct (\$)	Total (\$)
Original net profit			53 400 (1)
Damaged inventory		1 540 (2)	
Loan interest		1 440 (2)	
Insurance		3 000 (2)	
Depreciation	4 500 (2)		
	4 500	5 980	1 480
			51 920 (1of)

Where 2 marks are awardable, award 1 for correct figure, 1 for correct application [10]

(b)

Francis Flintoff Corrected Statement of Financial Position at 31 December 2014			
	\$		\$
Assets			
Non-current assets			
Buildings at valuation			254 000
Office equipment at book value			74 500
Motor vehicles at book value			45 000 (1)OF
			<u>373 500 (1)OF</u>
Current assets			
Inventory	64 060 (1)OF		
Trade receivables	14 800		
Cash and cash equivalents	<u>14 200 (1)CF</u>		<u>93 060</u>
Total assets			<u>466 560 (1)OF</u>
Capital and liabilities			
Capital at 1 January 2014			348 200
Amended profit for year			<u>51 920 (2)CF</u>
			or (1)OF
Non-current liability			
6% loan repayable 2021			24 000 (1)
Current liabilities			
Trade payables	38 000		
Other payables (1440 (1)OF + 3000 (1)OF)	4 440		<u>42 440</u>
			<u>466 560</u>

[10]

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- (c) 1 Trade creditors (suppliers)  
Need to know the organisation's ability to pay its debts and continue to supply .
- 2 Providers of finance to the business (e.g. banks).  
Need to know that business can pay interest/repay loans/grant finance.
- 3 Trade unions.  
Need to know financial situation as a means of discussing working conditions and pay/job security.
- 4 Financial analysts (e.g. stockbrokers)  
Need information to help advise clients
- 5 Government and its agencies  
Interested in allocation of resources also to provide a basis for national statistics Inland revenue for taxation purposes.
- 6 The public  
Need information regarding jobs and may be local suppliers
- 7 Trade receivables (customers)  
Interested in continuity of business for supply of goods/services
- 8 Competitors  
To compare to their own business.
- 9 (Potential) investors  
Need to know whether the investment is worthwhile.
- 10 Auditors  
Need to examine the accounts.

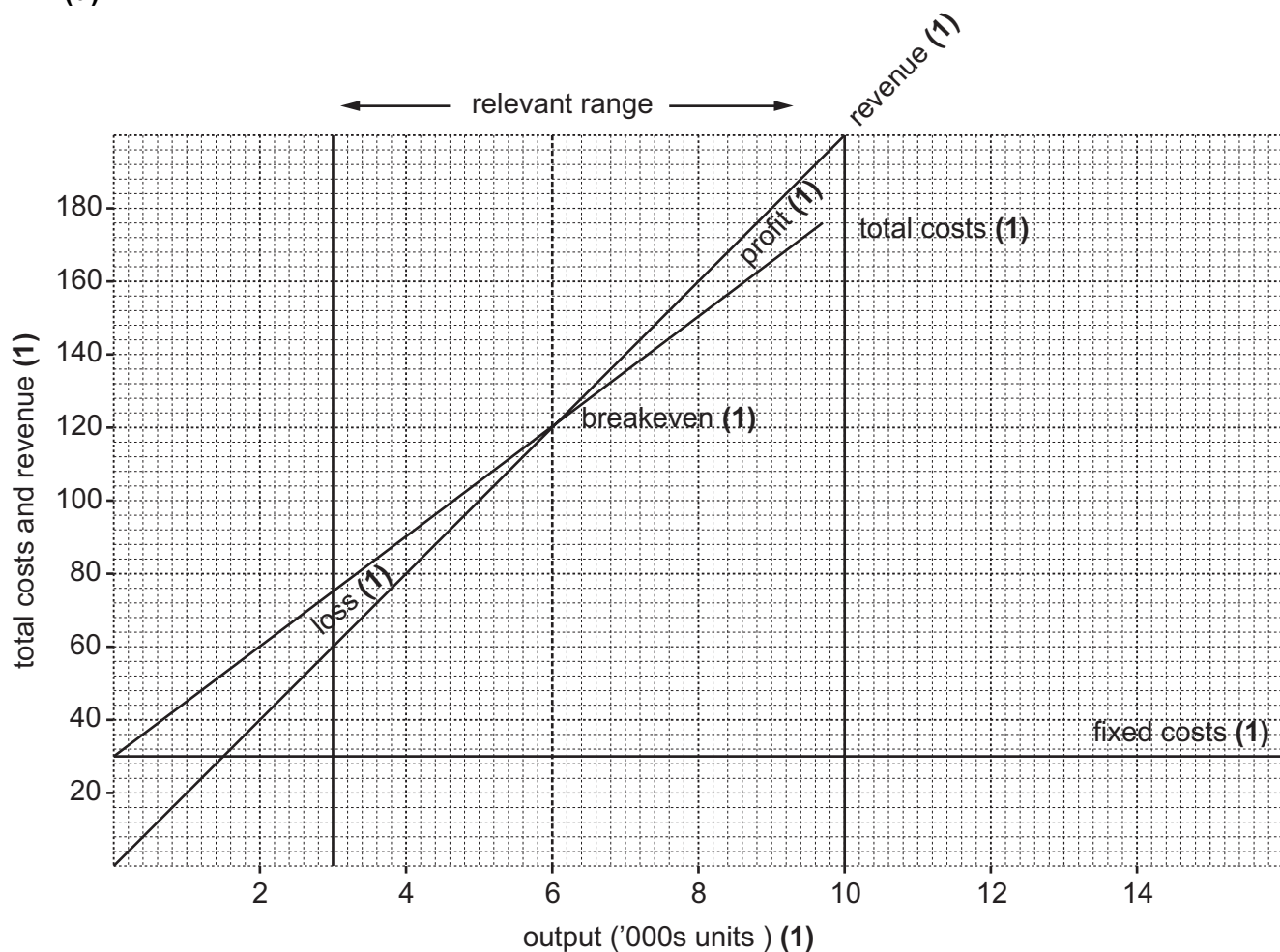
Maximum **two** marks per user, **one** for title and **one** for their interest to a maximum of **ten** marks [10]

[Total: 30]

Page 6	Mark Scheme	Syllabus	Paper
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- 3 (a) (i)  $SP = \$4\,400\,000 / 40\,000 \text{ units} = \$110$   
 $Contribution = \$110 \text{ (1)} - (\$1\,400\,000 + \$1\,000\,000 + \$400\,000 \text{ (1)} / 40\,000) = \$40 \text{ [2]}$
- (ii)  $Fixed \text{ costs} = \$300\,000 + \$1\,200\,000 = \$1\,500\,000$   
 $Breakeven = \$1\,500\,000 \text{ (1)} / \$40 \text{ (1) OF} = 37\,500 \text{ units} \text{ [2] OF}$
- (iii)  $Margin \text{ of safety} = 40\,000 - 37\,500 = 2\,500 \text{ units} \text{ [1] OF}$
- (b) (i)  $Selling \text{ price} = \$110 - \$11 = \$99 \text{ (1)}$   
 $Sales = 40\,000 \times 1.2 = 48\,000 \text{ units}$   
 $Variable \text{ costs per unit} = \$1\,400\,000 + (1\,000\,000 \times 1.03) + \$400\,000$   
 $= \$2\,830\,000 \text{ (1)} / 40\,000 \text{ (1)} = \$70.75$   
 $Fixed \text{ costs} = \$1\,500\,000 \times 0.9 = \$1\,350\,000$   
 $Contribution \text{ per unit} = \$99 - \$70.75 = \$28.25 \text{ (1)} \text{ [4] OF}$
- (ii)  $Breakeven = \$1\,350\,000 \text{ (1)} / \$28.25 \text{ (1 of)} = 47\,788 \text{ units} \text{ [2] OF}$
- (iii)  $Margin \text{ of safety} = 48\,000 - 47\,788 = 212 \text{ units (1 of)} \text{ [1] OF}$
- (c)  $(\$30\,000 / 12 \text{ months} = \$2500 \text{ (1)}) / (\$20 - \$15 = \$5) = 500 \text{ units} \times \$20 = \$10\,000 \text{ (1)} \text{ [2]}$

(d)



Allow **1 mark** for correct labelling of **both** axes

[7]

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- (e)
- 1 All variable costs per unit remain constant.
  - 2 Fixed costs do not change within the relevant range.
  - 3 Deals with only a single product or a constant sales mix.
  - 4 Total costs and total revenue are linear.
  - 5 Costs can be accurately classified into fixed or variable.
  - 6 Chart applies to the relevant range only.
  - 7 Chart covers only the short-term.
  - 8 All units produced are sold i.e. there is no inventory.
  - 9 It assumes that the selling price is constant at all levels of output.

**(1 per assumption) Max 3**

**[3]**

- (f)
- Making decisions on allocation **(1)** of scarce/limited resources **(1)**
  - Accept orders below normal selling price **(1)** if spare capacity **(1)**
  - Determine the selling prices **(1)** of entering into a new market **(1)**
  - The use of sensitivity analysis **(1)** if there is a change in output/cost structure **(1)**
  - Accept or reject orders **(1)** below normal selling price **(1)**
  - Whether to close down a department/discontinue a product **(1)** positive/negative contribution **(1)**
  - To ascertain the additional overhead **(1)** in producing one extra unit **(1)**
  - To ascertain the required turnover **(1)** to achieve a target profit **(1)**

**[max 3 + 3]**

**[Total: 30]**