

Cambridge
International
AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/22

Paper 2 Structured Questions

May/June 2016

MARK SCHEME

Maximum Mark: 90

Published

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge International AS/A Level – May/June 2016	9706	22

1 (a) (i) Sales = 96 300 + 200 (1) + 2250 – 3750 = 95 000 (1) [2]

(ii) Purchases = 73540 + 2480 (1) + 1790 – 3460 = 74 350 (1) [2]

(iii) Jing
Income Statement for the year ended 30 April 2015

	\$	\$	\$
Revenue			95 000
Opening inventory		15 000	
Purchases	74 350		
Purchases returns	<u>2 480</u> (1)	71 870	
Carriage inwards		<u>630</u> (1)	
		87 500	
Closing inventory		11 500	
Cost of sales			<u>76 000</u> (1) of
Gross profit			<u>19 000</u> (1) of
Less:			
Rent (5500 + 500 – 400)		5 600 (1)	
Carriage outwards		950	
Other operating expenses		95	
Electricity (345 – 35 (1) + 40 (1))		350 (2)	
Irrecoverable debts		200 (1)	
Depreciation – equipment		243 (2)	
			<u>7 438</u>
Profit for the year			<u>11 562</u> (1) of

[11]

(b)	Debit	Credit
	\$	\$
Other operating expenses	36 (1)	
Capital (introduced)		36 (1)

[2]

- (c) Opening entries (1)
Purchase and sale of non-current assets (1)
Non-regular transactions (such as year-end transfers) (1)
Calculating opening capital (1)
Write off bad debts (1)
Depreciation (1)

Any 2 points – Max 2

[2]

Page 3	Mark Scheme	Syllabus	Paper
	Cambridge International AS/A Level – May/June 2016	9706	22

(d)

Level	Description	Marks
Level 3	Movements in both ratios analysed with identification of a wide range of possible causes for the movements in both ratios	5–8
Level 2	Movements in both ratios analysed with valid comments for both , with a more limited evaluation of possible causes for the movements.	3–4
Level 1	Movement in only one ratio analysed with valid comments with very limited identification of possible causes for the movement. Or discussion of both ratios but only valid comments on one .	1–2
Level 0	No creditable response	0

Gross Profit

Valid comments may include

Jing may have had to pay higher prices from his usual suppliers but have been unable to pass on these higher prices to his customers. Or Jing may have had to purchase from new suppliers who were more expensive.

To be competitive with other businesses, Jing may have had to reduce his prices and therefore his gross margin has reduced

Jing may have introduced some new products at a lower introductory price.

To increase his volume of sales, Jing may have had more seasonal sales promotions

Jing's closing inventory has reduced significantly so there may have been out-of-date inventory that he wanted to clear at reduced prices.

Jing's inventory control may not have been as good and if more inventory was being lost, damaged or stolen, this would increase his cost of sales.

Closing inventory may be understated/miscalculated.

Profit for the year

Valid comments may include

The increase in the profit margin could have resulted from Jing controlling his overheads better

The increase in the profit margin could have resulted from a decrease in total overheads

Most overheads, including rent, do not normally increase in proportion to sales

Jing may have moved to smaller premises such that his rent has reduced compared to the previous year.

[8]

Page 4	Mark Scheme	Syllabus	Paper
	Cambridge International AS/A Level – May/June 2016	9706	22

(e) Benefits of ratio analysis

Compare the results of the business over time
 Compare the performance of businesses of different sizes
 Compare the performance of the business with the market leader
 Compare the performance of the business against industry averages

1 mark for each benefit to a max of 3 marks [3]

[Total: 30]

2 (a)

Revaluation account

Dr	\$000	Cr	\$000	
Motor vehicles (36 – 8 – 25)	3	Premises (180 – 135)	45	(1)
Inventory (56 – 52)	4			(1)
Trade receivables (48 – 46)	2			(1)
Capital a/c – Colin	18			
Capital a/c – Darim	12			} (1)
Capital a/c – Emran	<u>6</u>			
	<u>45</u>		<u>45</u>	

[5]

(b)	\$000	\$000		
Capital account opening balance		40		
Revaluation surplus		<u>6</u>	(1) of	
		46		
Less: Goodwill (16 – 8)	8			(1)
Capital account closing balance	<u>65</u>	<u>73</u>		
Paid into partnership bank account		<u>27</u>	(1) of	

[4]

- (c) Access to increased capital**
 Increased knowledge expertise
 Losses shared by all partners
 Able to offer greater range of services
 Availability of cover
 Shared responsibilities
- Max 3 marks** **[3]**

- (d) To keep capital invested separate from profit and drawings**
 To help avoid the possibility of partners overdrawing
 To reward the partner who has invested more capital with interest on the amount invested
 To identify partners' drawings in order to calculate interest on drawings
- Max 3 marks** **[3]**

[Total: 15]

Page 5	Mark Scheme	Syllabus	Paper
	Cambridge International AS/A Level – May/June 2016	9706	22

- 3 (a) Depreciation is the allocation of the cost of a (non-current) asset over its expected working life. (1)
The allocation of the cost of using the asset over the year (1) [1]

- (b) wear and tear
obsolescence
technological advance
passage of time
depletion
economic reasons
Any three points – Max 3 marks [3]

(c) (i) **Motor vehicles at cost account**

2014		\$	2015		\$
Jun 1	Balance b/d	152 000	Mar 1	Motor vehicle disposal	152 000
2015			May 31	Balance c/d	190 000
Mar 1	Loan	106 000 (1)			
	Motor vehicle disposal	84 000 (1)			
		<u>342 000</u>			<u>342 000</u>
Jun 1	Balance b/d	190 000			

(ii) **Motor vehicles provision for depreciation account**

2014		\$	2014		\$
May 31	Balance c/d	30 400	May 31	Income statement	30 400 (1)
		<u>30 400</u>	June 1	Balance b/d	30 400
2015			2015		
May 31	Motor vehicle disposal	48 640 (1of)	May 31	Income statement	18 240 (1)
	Balance c/d	9 500		Income statement	9 500 (1)
		<u>58 140</u>	June 1	Balance b/d	9 500 (1of)

Marker note

Dates must be correct to award marks [5]

- (iii) Loss on disposal 152 000 – (48 640 + 84 000) = 19 360 (1of) [1]

Page 6	Mark Scheme	Syllabus	Paper
	Cambridge International AS/A Level – May/June 2016	9706	22

- (d) Income statement:
 Loss on sale increases (1)
 Loan interest increases (1)
 Profit decreases (1)

Max 2

- Statement of financial position:
 Amount of loan outstanding is increased (1)
 Owner's capital is reduced (1)
 Net assets reduce (1)

Max 2

Overall Max 3

[3]

[Total: 15]

4 (a)

	Machining	Assembly	Finishing	Stores	Canteen
	\$	\$	\$	\$	\$
Indirect labour	253 000	290 000	340 100	52 000	78 000
Other indirect overhead costs	<u>205 000</u>	<u>90 000</u>	<u>225 000</u>	<u>88 000</u>	<u>92 000</u>
Total costs	458 000	380 000	565 100	140 000	170 000
Stores	49 000 (1)	35 000 (1)	56 000 (1)	(140 000)	
Canteen	<u>42 500 (1)</u>	<u>51 000 (1)</u>	<u>76 500 (1)</u>		(170 000)
			(1)		
Total	<u>549 500</u>	<u>466 000</u>	<u>697 600</u>	row	
	549 500	466 000	697 600		
	/ 45 000	/ 60 000	/ 40 000		
Overhead absorption rate	\$12.21 (1of)	\$7.77 (1of)	\$17.44 (1of)		
	per (1)	per (1)	per (1)		
	machine	labour	labour		
	hour	hour	hour		

[13]

(b)

	\$	
Direct Materials (20 kilos @ \$5 per kilo)	100.00	(1)
Direct labour (10 hours @ \$9 per hour)	90.00	(1)
Machining department overhead (2 × \$12.21)	24.42	(1)of
Assembly department overhead (3 × \$ 7.77)	23.31	(1)of
Finishing department overhead (2 × \$17.44)	<u>34.88</u>	(1)of
	272.61	
Margin	<u>181.74</u>	(1)of
Price to quote	<u>454.35</u>	(1)of

[7]

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge International AS/A Level – May/June 2016	9706	22

- (c) Easier to calculate
Cheaper to calculate
Some products may require more labour hour/machine hours
Less accurate
Different products may spend different time in each department.

1 mark for decision and 1 mark for each valid point

[4]

- (d) Over absorption of overheads will mean that too much overhead is charged to the product (1). This means that a higher price is charged to the customer (1) leading to increased profits (1).

Or

Over absorption of overheads could also lead to a higher selling price (1) leading to lower demand (1) and lower profits (1).

Under absorption of overheads could lead to insufficient overhead being charged to a product (1). This means a lower price is charged to the customer (1) which fails to cover costs and reduces profit (1).

Or

Under absorption of overheads could also lead to a lower selling price (1) leading to higher demand (1) and higher profits (1).

[6]

[Total: 30]