

**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

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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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(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>
			<b>[8]</b>

**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		\$	\$
<b>Assets</b>			
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
Inventory	64 060 (1)OF		
Trade receivables	14 800		
Cash and cash equivalents	14 200 (1)CF		93 060
			<u>466 560 (1)OF</u>
<b>Total assets</b>			
<b>Capital and liabilities</b>			
Capital at 1 January 2014			348 200
Amended profit for year			51 920 (2)CF
			<u>or (1)OF</u>
<b>Non-current liability</b>			
6% loan repayable 2021			24 000 (1)
<b>Current liabilities</b>			
Trade payables	38 000		
Other payables (1440 (1)OF + 3000 (1)OF)	4 440		42 440
			<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.

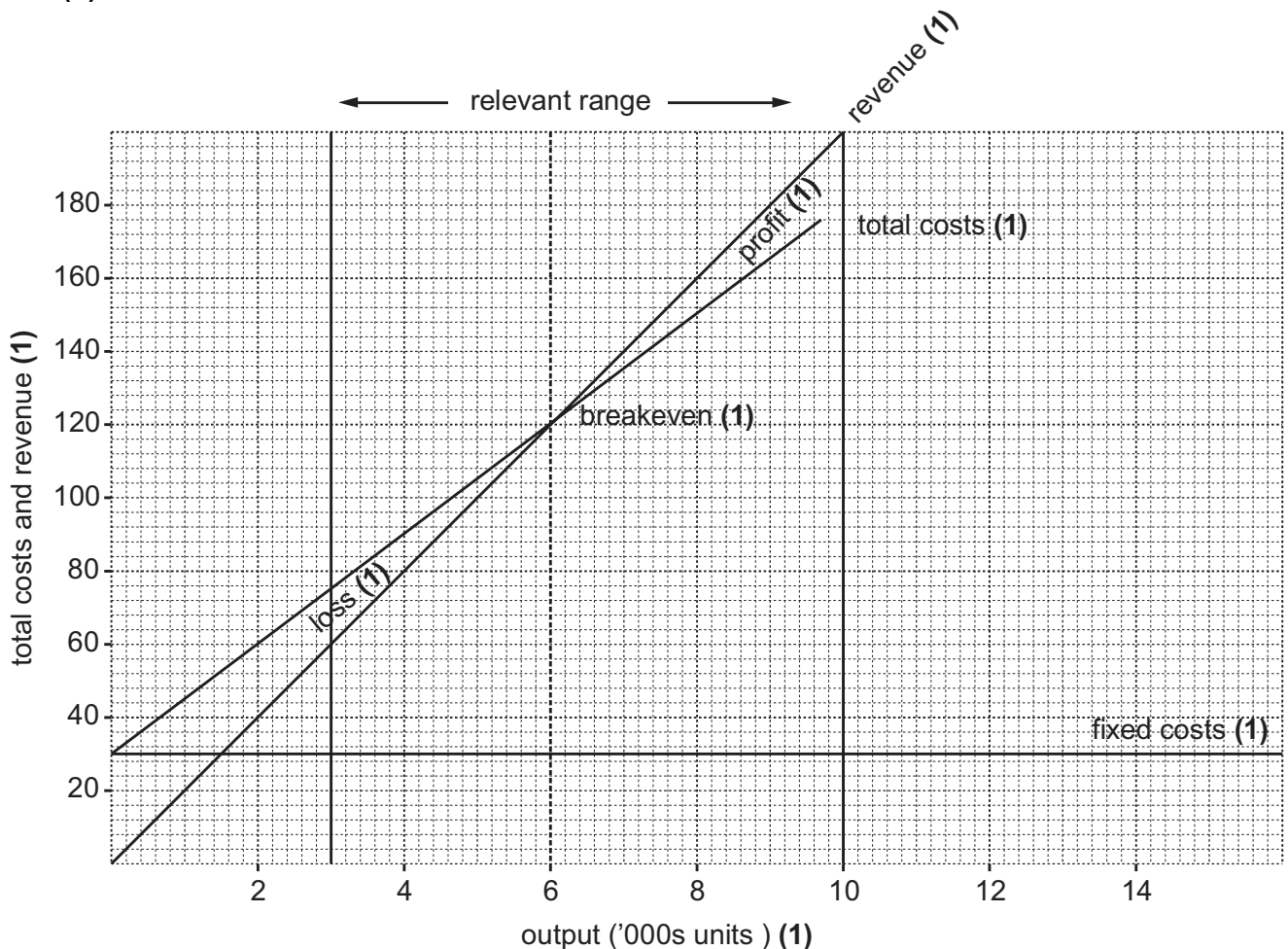
Maximum **two** marks per user, **one** for title and **one** for their interest to a maximum of **ten** marks **[10]**

**[Total: 30]**

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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 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 of safety =  $40\,000 - 37\,500 = 2\,500 \text{ units} \text{ [1] OF}$
- (b) (i) Selling price =  $\$110 - \$11 = \$99 \text{ (1)}$   
 Sales =  $40\,000 \times 1.2 = 48\,000 \text{ units}$   
 Variable 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 costs =  $\$1\,500\,000 \times 0.9 = \$1\,350\,000$   
 Contribution 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 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]**