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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2015 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

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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)**)	2643	
	3283	
Less closing inventory *	530 **(1 both *)** 2753	
Gross profit		4067
Wages	2780 **(1)**	
Bad debt	60 **(1)**	2840
Profit for the year		1227

[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		460 **(1)**
		9242
Entry fees (2160 +140)	2300 **(1)**	
Bank charges	126 **(1)**	
Depreciation	1768 **(1)CF**	
Secretary's expenses	1370	
Loss on equip. sale	260 **(1)CF** 5824	
Surplus for the year		3418 **(1)OF**

[11]

(c)

Winners Athletic Club
Statement of Financial Position at 30 June 2015

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

[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]

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**
		373 500 **(1)OF**
Current assets		
Inventory	64 060 **(1)OF**	
Trade receivables	14 800	
Cash and cash equivalents	14 200 **(1)CF**	93 060
Total assets		466 560 **(1)OF**
Capital and liabilities		
Capital at 1 January 2014		348 200
Amended profit for year		51 920 **(2)CF**
		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	42 440
		466 560

[10]

(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]

3 **(a) (i)** SP = $4 400 000 / 40 000 units = $110
Contribution = $110 **(1)** – ($1 400 000 + $1 000 000 + $400 000 **(1)** / 40 000) = $40   **[2]**

(ii) Fixed costs = $300 000 + $1 200 000 = $1 500 000
Breakeven = $1 500 000 **(1)** / $40**(1)**OF = 37 500 units   **[2]OF**

(iii) Margin of safety = 40 000 – 37 500 = 2 500 units   **[1]OF**

(b) (i) Selling price = $110 – $11 = $99 **(1)**
Sales = 40 000 × 1.2 = 48 000 units
Variable costs per unit = $1 400 000 + (1 000 000 x 1.03) + $400 000
= $2 830 000 **(1)** / 40 000 **(1)** = $70.75
Fixed costs = $1 500 000 x 0.9 = $1 350 000
Contribution per unit = $99 – $70.75 = $28.25 **(1)**   **[4]OF**

(ii) Breakeven = $1 350 000 **(1)** / $28.25 **(1of)**= 47 788 units   **[2]OF**

(iii) Margin of safety = 48 000 – 47 788 = 212 units **(1of)**   **[1]OF**

(c) ($30 000 / 12 months = $2500 **(1)**)) / ($20 – $15 = $5) = 500 units × $20 = $10 000 **(1)**   **[2]**

(d)
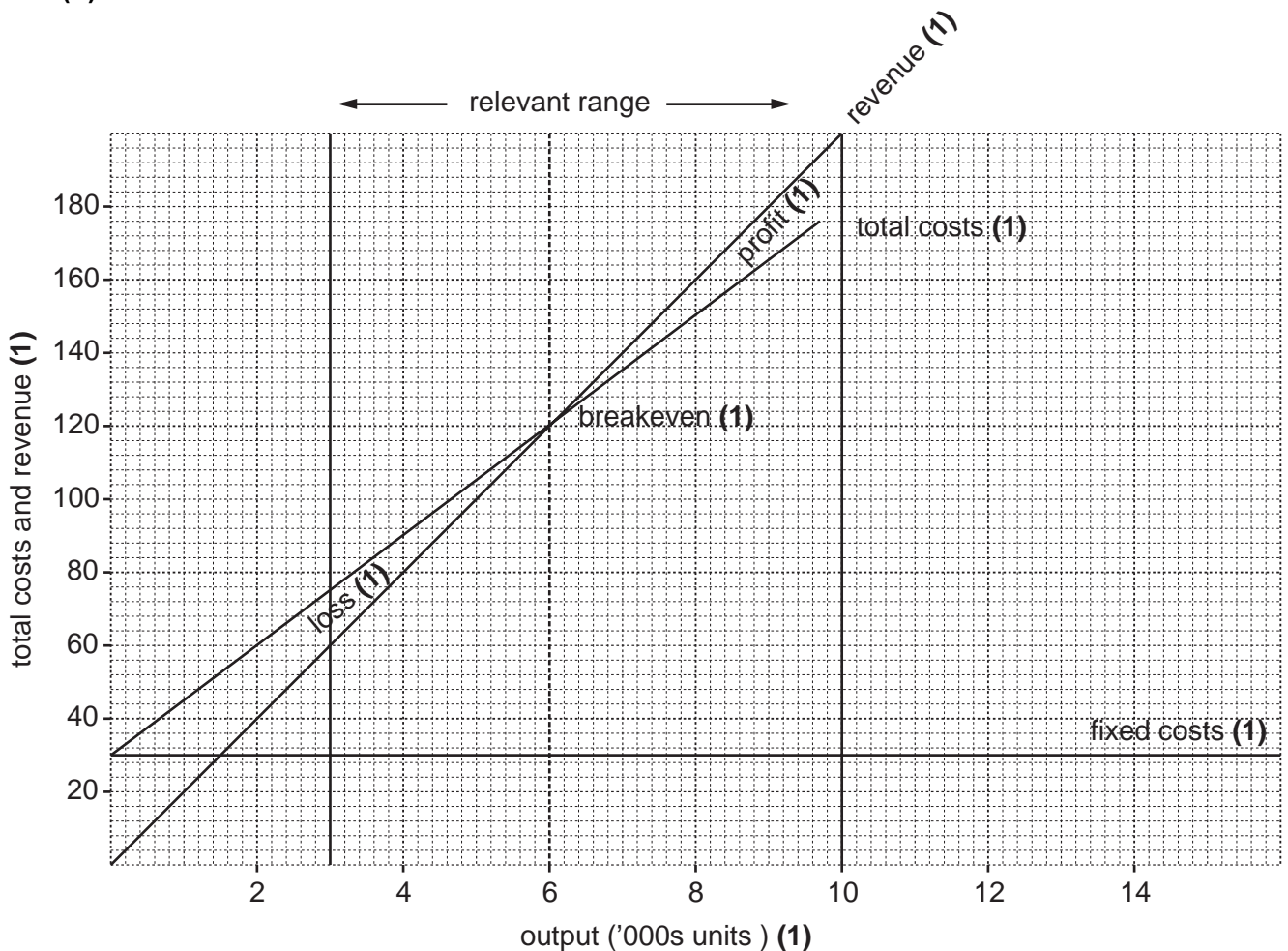
Allow **1 mark** for correct labelling of **both** axes   **[7]**

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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]