

Cambridge International AS & A Level

ACCOUNTING

9706/22

Paper 2 Fundamentals of Accounting

May/June 2024

MARK SCHEME

Maximum Mark: 90

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.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2024 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **16** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptions for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

**Social Science-Specific Marking Principles
(for point-based marking)****1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

- a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require n reasons (e.g. State two reasons ...).
- d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
- e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
- f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
- g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Abbreviations and guidance

The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation.

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation.

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'.

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. }*

row = all figures in the row must be correct for this mark to be awarded.

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
OF	Own figure
Highlight	Highlight
Off page Comment	Off page comment

Question	Answer	Marks																																							
1(a)	<p>Calculate the gross profit of the business for the year ended 31 December 2023.</p> <p>\$65 000 (1)</p>	1																																							
1(b)(i)	<p>Calculate for the year ended 31 December 2023:</p> <p>Purchases</p> <p>\$136 900 (3) W1</p> <p>W1</p> <table border="1" data-bbox="304 680 1295 1008"> <tbody> <tr> <td></td> <td>\$</td> <td></td> <td></td> <td>\$</td> <td></td> </tr> <tr> <td>Bank</td> <td>134 240</td> <td rowspan="2">(1)fb</td> <td>Balance b/d</td> <td>13 500</td> <td>*</td> </tr> <tr> <td>Discounts</td> <td>560</td> <td>Purchases</td> <td>136 900</td> <td>(1) OF</td> </tr> <tr> <td>Balance c/d</td> <td>15 600</td> <td>*</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>150 400</td> <td></td> <td></td> <td>150 400</td> <td></td> </tr> </tbody> </table> <p>*(1) for correct use of both balances</p> <p>Alternative version</p> <table border="1" data-bbox="304 1176 596 1568"> <tbody> <tr> <td>\$</td> <td></td> </tr> <tr> <td>15 600</td> <td rowspan="2">(1)fb</td> </tr> <tr> <td>(13 500)</td> </tr> <tr> <td>134 240</td> <td rowspan="2">(1)fb</td> </tr> <tr> <td>560</td> </tr> <tr> <td>136 900</td> <td>(1) OF</td> </tr> </tbody> </table>		\$			\$		Bank	134 240	(1)fb	Balance b/d	13 500	*	Discounts	560	Purchases	136 900	(1) OF	Balance c/d	15 600	*					150 400			150 400		\$		15 600	(1)fb	(13 500)	134 240	(1)fb	560	136 900	(1) OF	3
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1(b)(ii)	<p>Calculate for the year ended 31 December 2023:</p> <p>The value of goods taken for own use by Zahid.</p> <p>\$840 (4) W</p> <table border="1" data-bbox="308 450 1059 904"> <tbody> <tr> <td></td> <td>\$</td> <td>\$</td> <td></td> </tr> <tr> <td>Opening inventory</td> <td></td> <td>16 400</td> <td>*</td> </tr> <tr> <td>Purchases</td> <td></td> <td>136 900</td> <td>(1) OF</td> </tr> <tr> <td>Less goods own use</td> <td></td> <td>(840)</td> <td>(1) OF</td> </tr> <tr> <td></td> <td></td> <td>152 460</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td></td> <td>(22 460)</td> <td>*</td> </tr> <tr> <td></td> <td></td> <td>130 000</td> <td>(1) OF</td> </tr> </tbody> </table> <p>*(1) for both inventories</p> <p>Alternative version</p> <table border="1" data-bbox="308 1077 703 1464"> <tbody> <tr> <td>\$</td> <td></td> </tr> <tr> <td>16 400</td> <td>*</td> </tr> <tr> <td>136 900</td> <td>(1) OF</td> </tr> <tr> <td>(22 460)</td> <td>*(1) both</td> </tr> <tr> <td>(130 000)</td> <td>(1)OF</td> </tr> <tr> <td>840</td> <td>(1)OF</td> </tr> </tbody> </table>		\$	\$		Opening inventory		16 400	*	Purchases		136 900	(1) OF	Less goods own use		(840)	(1) OF			152 460		Closing inventory		(22 460)	*			130 000	(1) OF	\$		16 400	*	136 900	(1) OF	(22 460)	*(1) both	(130 000)	(1)OF	840	(1)OF	4
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1(c)	<p>Prepare an extract from the statement of profit or loss for the year ended 31 December 2023, starting with the gross profit calculated in (a).</p> <p>Zahid Statement of profit or loss for the year ended 31 December 2023 (Extract)</p> <table border="1" data-bbox="308 483 1139 1491"> <thead> <tr> <th></th> <th>\$</th> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Gross profit</td> <td></td> <td></td> <td>65 000</td> <td>(1) OF</td> </tr> <tr> <td>Add: income</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Profit on disposal</td> <td>2400</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>Rent receivable</td> <td>4480</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>Discounts received</td> <td>560</td> <td>(1)</td> <td>7440</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>72 440</td> <td></td> </tr> <tr> <td>Less: expenses</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Depreciation W1</td> <td>12 000</td> <td>(3)</td> <td></td> <td></td> </tr> <tr> <td>Advertising</td> <td>7060</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>General expenses</td> <td>7910</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>Insurance</td> <td>4450</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td>Wages</td> <td>12 870</td> <td>(1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>(44 290)</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td>28 150</td> <td>(1) OF</td> </tr> </tbody> </table> <p>W1</p> <p>$\\$194\,000 - \\$3200\ (1) + \\$9200\ (1) - \\$188\,000 = \\$12\,000\ (1)$</p>					\$		\$		Gross profit			65 000	(1) OF	Add: income					Profit on disposal	2400	(1)			Rent receivable	4480	(1)			Discounts received	560	(1)	7440					72 440		Less: expenses					Depreciation W1	12 000	(3)			Advertising	7060	(1)			General expenses	7910	(1)			Insurance	4450	(1)			Wages	12 870	(1)						(44 290)		Profit for the year			28 150	(1) OF	12
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1(d)	<p>Explain, with reference to an accounting concept, why Zahid made adjustments to his income and expenses when preparing the statement of profit or loss.</p> <p>Matching/accruals (1)</p> <p>To match expenses incurred to the revenue generated (1) in the same accounting period (1) regardless of whether paid or not (1).</p> <p>Accept other valid responses</p> <p>Award 1 mark for concept plus up to 2 marks for explanation</p>	3																		
1(e)	<p>Advise Zahid which option he should choose. Justify your answer by considering <u>both</u> the advantages and the disadvantages of <u>each</u> option.</p> <p>Award 1 mark for identification of each advantage or a disadvantage and a further 1 mark for valid development of the point</p> <p>Max 3 marks for identification and max 3 marks for valid linked development of the points</p> <table border="1" data-bbox="308 987 1318 1384"> <thead> <tr> <th data-bbox="308 987 812 1048">Partnership option</th> <th data-bbox="812 987 1318 1048">Limited company option</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 1048 812 1115">Advantages</td> <td data-bbox="812 1048 1318 1115">Advantages</td> </tr> <tr> <td data-bbox="308 1115 812 1216"> <ul style="list-style-type: none"> • More capital available (1) </td> <td data-bbox="812 1115 1318 1216"> <ul style="list-style-type: none"> • Limited liability for debts of the business (1) </td> </tr> <tr> <td data-bbox="308 1216 812 1283"> <ul style="list-style-type: none"> • More expertise / new skills (1) </td> <td data-bbox="812 1216 1318 1283"> <ul style="list-style-type: none"> • Separate legal identity (1) </td> </tr> <tr> <td data-bbox="308 1283 812 1384"> <ul style="list-style-type: none"> • Possibly better decision making (1) </td> <td data-bbox="812 1283 1318 1384"> <ul style="list-style-type: none"> • Access to more finance (1) </td> </tr> </tbody> </table> <table border="1" data-bbox="308 1429 1318 1798"> <thead> <tr> <th data-bbox="308 1429 812 1489">Disadvantages</th> <th data-bbox="812 1429 1318 1489">Disadvantages</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 1489 812 1590"> <ul style="list-style-type: none"> • Possibility of disagreements (1) </td> <td data-bbox="812 1489 1318 1590"> <ul style="list-style-type: none"> • More complicated / expensive to set up (1) </td> </tr> <tr> <td data-bbox="308 1590 812 1691"> <ul style="list-style-type: none"> • Unlimited liability (1) </td> <td data-bbox="812 1590 1318 1691"> <ul style="list-style-type: none"> • Mandatory financial statements (1) </td> </tr> <tr> <td data-bbox="308 1691 812 1798"> <ul style="list-style-type: none"> • Possible slower decision making (1) </td> <td data-bbox="812 1691 1318 1798"> <ul style="list-style-type: none"> • May be subject to external audit (1) </td> </tr> </tbody> </table> <p>Advice supported with a comment (1)</p> <p>Accept other valid responses</p>	Partnership option	Limited company option	Advantages	Advantages	<ul style="list-style-type: none"> • More capital available (1) 	<ul style="list-style-type: none"> • Limited liability for debts of the business (1) 	<ul style="list-style-type: none"> • More expertise / new skills (1) 	<ul style="list-style-type: none"> • Separate legal identity (1) 	<ul style="list-style-type: none"> • Possibly better decision making (1) 	<ul style="list-style-type: none"> • Access to more finance (1) 	Disadvantages	Disadvantages	<ul style="list-style-type: none"> • Possibility of disagreements (1) 	<ul style="list-style-type: none"> • More complicated / expensive to set up (1) 	<ul style="list-style-type: none"> • Unlimited liability (1) 	<ul style="list-style-type: none"> • Mandatory financial statements (1) 	<ul style="list-style-type: none"> • Possible slower decision making (1) 	<ul style="list-style-type: none"> • May be subject to external audit (1) 	7
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Question	Answer	Marks																		
2(a)	<p data-bbox="304 248 1270 315">Calculate the corrected balance of retained earnings at 31 December 2023.</p> <p data-bbox="304 349 675 383">Revised retained earnings</p> <table border="1" data-bbox="304 416 1018 804"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Draft balance</td> <td>242 400</td> <td>(1)</td> </tr> <tr> <td>Add: inventory undervalued</td> <td>3600</td> <td>(1)</td> </tr> <tr> <td>Add: depreciation</td> <td>12 000</td> <td>(1)</td> </tr> <tr> <td>Less: returns error</td> <td>(2200)</td> <td>(1)</td> </tr> <tr> <td>Corrected balance</td> <td>255 800</td> <td>(1)</td> </tr> </tbody> </table>		\$		Draft balance	242 400	(1)	Add: inventory undervalued	3600	(1)	Add: depreciation	12 000	(1)	Less: returns error	(2200)	(1)	Corrected balance	255 800	(1)	5
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2(b)	<p data-bbox="304 248 1214 282">Prepare the statement of financial position at 31 December 2023.</p> <p data-bbox="304 320 994 383">J Limited Statement of financial position at 31 December 2023</p> <table border="1" data-bbox="304 416 1086 1196"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Assets</td> <td></td> <td></td> </tr> <tr> <td>Non-current assets</td> <td></td> <td></td> </tr> <tr> <td>Property at valuation</td> <td style="text-align: right;">1 060 000</td> <td></td> </tr> <tr> <td>Furniture and equipment</td> <td style="text-align: right;">192 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">1 252 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">87 600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade and other receivables</td> <td style="text-align: right;">38 100</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">28 900</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">154 600</td> <td></td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">1 406 600</td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table> <table border="1" data-bbox="304 1240 1086 2018"> <tbody> <tr> <td>Equity and liabilities</td> <td></td> <td></td> </tr> <tr> <td>Equity</td> <td></td> <td></td> </tr> <tr> <td>Issued share capital</td> <td style="text-align: right;">750 000</td> <td></td> </tr> <tr> <td>Share premium</td> <td style="text-align: right;">220 000</td> <td></td> </tr> <tr> <td>Revaluation reserve</td> <td style="text-align: right;">70 000</td> <td></td> </tr> <tr> <td>Retained earnings</td> <td style="text-align: right;">255 800</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Total equity</td> <td style="text-align: right;">1 295 800</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> </tr> <tr> <td>8% Debentures</td> <td style="text-align: right;">90 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade and other payables</td> <td style="text-align: right;">20 800</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">110 800</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Total equity and liabilities</td> <td style="text-align: right;">1 406 600</td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table>		\$		Assets			Non-current assets			Property at valuation	1 060 000		Furniture and equipment	192 000			1 252 000	(1)	Current assets			Inventory	87 600	(1)	Trade and other receivables	38 100	(1)	Cash and cash equivalents	28 900			154 600		Total assets	1 406 600	(1) OF	Equity and liabilities			Equity			Issued share capital	750 000		Share premium	220 000		Revaluation reserve	70 000		Retained earnings	255 800	(1) OF	Total equity	1 295 800	(1) OF	Current liabilities			8% Debentures	90 000	(1)	Trade and other payables	20 800	(1)	Total liabilities	110 800	(1) OF	Total equity and liabilities	1 406 600	(1) OF	10
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Total assets	1 406 600	(1) OF																																																																								
Equity and liabilities																																																																										
Equity																																																																										
Issued share capital	750 000																																																																									
Share premium	220 000																																																																									
Revaluation reserve	70 000																																																																									
Retained earnings	255 800	(1) OF																																																																								
Total equity	1 295 800	(1) OF																																																																								
Current liabilities																																																																										
8% Debentures	90 000	(1)																																																																								
Trade and other payables	20 800	(1)																																																																								
Total liabilities	110 800	(1) OF																																																																								
Total equity and liabilities	1 406 600	(1) OF																																																																								

Question	Answer	Marks				
3(a)(i)	<p>Calculate the following ratios stating the formula used. (i) Trade payables turnover (days)</p> <table border="1" data-bbox="308 349 1187 517"> <thead> <tr> <th data-bbox="308 349 730 414">Formula</th> <th data-bbox="730 349 1187 414">Calculation</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 414 730 517"> $\frac{\text{Trade payables} \times 365 \text{ (1)}}{\text{Credit purchases}}$ </td> <td data-bbox="730 414 1187 517"> $\frac{\\$33\,600 \times 365 = 38 \text{ days (1)}}{\\$323\,000}$ </td> </tr> </tbody> </table>	Formula	Calculation	$\frac{\text{Trade payables} \times 365 \text{ (1)}}{\text{Credit purchases}}$	$\frac{\$33\,600 \times 365 = 38 \text{ days (1)}}{\$323\,000}$	2
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3(a)(ii)	<p>Calculate the following ratios stating the formula used. (ii) Trade receivables turnover (days)</p> <table border="1" data-bbox="308 647 1187 815"> <thead> <tr> <th data-bbox="308 647 730 712">Formula</th> <th data-bbox="730 647 1187 712">Calculation</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 712 730 815"> $\frac{\text{Trade receivables} \times 365 \text{ (1)}}{\text{Credit sales}}$ </td> <td data-bbox="730 712 1187 815"> $\frac{\\$34\,100 \times 365 = 33 \text{ days (1)}}{\\$386\,000}$ </td> </tr> </tbody> </table>	Formula	Calculation	$\frac{\text{Trade receivables} \times 365 \text{ (1)}}{\text{Credit sales}}$	$\frac{\$34\,100 \times 365 = 33 \text{ days (1)}}{\$386\,000}$	2
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$\frac{\text{Trade receivables} \times 365 \text{ (1)}}{\text{Credit sales}}$	$\frac{\$34\,100 \times 365 = 33 \text{ days (1)}}{\$386\,000}$					
3(b)	<p>Discuss the performance of Suki’s business comparing the results for 2023 with those for 2022.</p> <p>Suki has longer trade payables days which means that he retains his money for longer (1) this may result in a deterioration in relationships with suppliers/refusal of credit terms (1) and may also result in the possibility of losing potential cash discounts (1).</p> <p>Suki has a shorter trade receivables period meaning that money is flowing into the business quicker (1) demonstrating improved efficiency / credit control (1). This could result in a reduction in irrecoverable debts (1)</p> <p>Credit customers now pay more quickly than payments are made to credit suppliers (1). This will improve the cash flow position of the business (1)</p> <p>Accept other valid responses. Max 6</p>	6				
3(c)	<p>Calculate, to <u>two</u> decimal places, the rate of inventory turnover, stating the formula used.</p> <table border="1" data-bbox="308 1552 1262 1783"> <thead> <tr> <th data-bbox="308 1552 647 1617">Formula</th> <th data-bbox="647 1552 1262 1617">Calculation</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 1617 647 1783"> $\frac{\text{Cost of sales (1)}}{\text{Average inventory}}$ </td> <td data-bbox="647 1617 1262 1783"> $\frac{\\$36\,700 + 323\,000 - \\$42\,100 = \\$317\,600}{\\$39\,400 \text{ (1)}} = 8.06 \text{ times (1)}$ </td> </tr> </tbody> </table>	Formula	Calculation	$\frac{\text{Cost of sales (1)}}{\text{Average inventory}}$	$\frac{\$36\,700 + 323\,000 - \$42\,100 = \$317\,600}{\$39\,400 \text{ (1)}} = 8.06 \text{ times (1)}$	3
Formula	Calculation					
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Question	Answer	Marks
3(d)	<p>Explain the importance of the rate of inventory turnover to a business.</p> <p>Award 1 mark for identification and 1 mark for valid linked development</p> <p>The importance of the inventory turnover to a business is that it is a measure of how well the business manages the inventory (1) indicating how frequently inventory is turned into sales (1). If the rate is low it enables the business to make decisions as to changes in the cost or selling price of products.(1)</p> <p>Max 2 marks</p> <p>Accept other valid responses.</p>	2
4(a)	<p>Explain <u>two</u> uses of absorption costing.</p> <p>Useful for setting selling prices (1) because all costs are included (1) Useful for long-term decision making (1) example (1) Must be used for inventory valuation (1) as it takes account of fixed costs (1)</p> <p>Accept other valid responses.</p>	4
4(b)	<p>Calculate the monthly break-even point in units.</p> <p>6000 units (2) (W1)</p> <p>W1 $\frac{\\$120\,000}{\\$20} = 6000$ units (1)</p>	2
4(c)	<p>Calculate the forecast profit or loss for January 2024.</p> <p>\$21 600 loss (2) W1</p> <p>W1 $(4920 \times \\$20 = \\$98\,400) - \\$120\,000 = \\$21\,600$ (1) Loss (1)</p>	2
4(d)	<p>Calculate the number of units to be sold in order to achieve the target profit.</p> <p>13 500 units (2) W1</p> <p>W1 $\frac{\\$150\,000 + \\$120\,000}{\\$20} = 13\,500$ units (1)</p>	2

Question	Answer	Marks																																													
4(e)	<p>Calculate the <u>monthly</u> profit to be made from Option A.</p> <p>\$298 680 (6) W1</p> <p>W1</p> <table border="1" data-bbox="308 450 1054 1032"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>1 248 480</td> <td></td> </tr> <tr> <td>Direct materials</td> <td>(326 400)</td> <td>(1)</td> </tr> <tr> <td>Direct labour (basic hours)</td> <td>(346 800)</td> <td>(1)</td> </tr> <tr> <td>Direct labour (overtime)</td> <td>(20 400)</td> <td>(1)</td> </tr> <tr> <td>Variable costs</td> <td>(61 200)</td> <td></td> </tr> <tr> <td></td> <td>493 680</td> <td></td> </tr> <tr> <td>Less fixed costs</td> <td>(195 000)</td> <td>(2)</td> </tr> <tr> <td>Profit per month</td> <td>298 680</td> <td>(1)</td> </tr> </tbody> </table> <p>Alternative presentation</p> <table border="1" data-bbox="308 1137 1054 1532"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Contribution: 18 000 × \$25.20</td> <td>453 600</td> <td>(1)</td> </tr> <tr> <td>Contribution: 2400 (1) × \$16.70</td> <td>40 080</td> <td>(1)</td> </tr> <tr> <td></td> <td>493 680</td> <td></td> </tr> <tr> <td>Less fixed costs W1</td> <td>195 000</td> <td>(2)</td> </tr> <tr> <td>Profit per month</td> <td>298 680</td> <td>(1)</td> </tr> </tbody> </table> <p>W1 Fixed costs: (14 400 (1) × \$24) less profit \$150 600 = \$195 000 (1)</p>		\$		Revenue	1 248 480		Direct materials	(326 400)	(1)	Direct labour (basic hours)	(346 800)	(1)	Direct labour (overtime)	(20 400)	(1)	Variable costs	(61 200)			493 680		Less fixed costs	(195 000)	(2)	Profit per month	298 680	(1)		\$		Contribution: 18 000 × \$25.20	453 600	(1)	Contribution: 2400 (1) × \$16.70	40 080	(1)		493 680		Less fixed costs W1	195 000	(2)	Profit per month	298 680	(1)	6
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4(f)	<p>Prepare a <u>monthly</u> marginal costing statement for Option B.</p> <p>Marginal costing statement for one month</p> <table border="1" data-bbox="306 416 1088 947"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue: 22 000 × \$61.80</td> <td>1 359 600</td> <td>(1)</td> </tr> <tr> <td>Direct materials: 22 000 × \$15</td> <td>(330 000)</td> <td>(1)</td> </tr> <tr> <td>Direct labour: 22 000 × \$18.50</td> <td>(407 000)</td> <td rowspan="2">} (1)fb</td> </tr> <tr> <td>Other variable costs 22 000 × \$3</td> <td>(66 000)</td> </tr> <tr> <td>Contribution 22 000 × 25.30</td> <td>556 600</td> <td>(1) OF</td> </tr> <tr> <td>Less fixed costs W1</td> <td>(217 000)</td> <td>(2)</td> </tr> <tr> <td>Profit per month</td> <td>339 600</td> <td>(1) OF</td> </tr> </tbody> </table> <p>W1 \$195 000 + \$2 000 (1) + \$20 000 = \$217 000 (1)</p> <p>Alternative presentation</p> <table border="1" data-bbox="306 1149 1088 1812"> <thead> <tr> <th></th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue: 22 000 × \$61.80</td> <td>61.80</td> <td>(1)</td> </tr> <tr> <td>Direct materials: 22 000 × \$15</td> <td>(15.00)</td> <td>(1)</td> </tr> <tr> <td>Direct labour: 22 000 × \$18.50</td> <td>(18.50)</td> <td rowspan="2">} (1)fb</td> </tr> <tr> <td>Other variable costs 22 000 × \$3</td> <td>(3.00)</td> </tr> <tr> <td></td> <td>25.30</td> <td></td> </tr> <tr> <td></td> <td>× 22 000</td> <td></td> </tr> <tr> <td>Contribution 22 000 × 25.30</td> <td>556 600</td> <td>(1) OF</td> </tr> <tr> <td>Less fixed costs W1</td> <td>(217 000)</td> <td>(2)</td> </tr> <tr> <td>Profit per month</td> <td>339 600</td> <td>(1) OF</td> </tr> </tbody> </table>		\$		Revenue: 22 000 × \$61.80	1 359 600	(1)	Direct materials: 22 000 × \$15	(330 000)	(1)	Direct labour: 22 000 × \$18.50	(407 000)	} (1)fb	Other variable costs 22 000 × \$3	(66 000)	Contribution 22 000 × 25.30	556 600	(1) OF	Less fixed costs W1	(217 000)	(2)	Profit per month	339 600	(1) OF		\$		Revenue: 22 000 × \$61.80	61.80	(1)	Direct materials: 22 000 × \$15	(15.00)	(1)	Direct labour: 22 000 × \$18.50	(18.50)	} (1)fb	Other variable costs 22 000 × \$3	(3.00)		25.30			× 22 000		Contribution 22 000 × 25.30	556 600	(1) OF	Less fixed costs W1	(217 000)	(2)	Profit per month	339 600	(1) OF	7
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4(g)	<p>Advise the directors whether or not they should go ahead with either of these options. Justify your choice by discussing <u>both</u> financial and non-financial factors.</p> <p>Award 1 mark for identification of each comment and a further 1 mark for valid development of the comment</p> <p>Max 3 marks for identification and max 3 marks for valid linked development of the comments</p> <p>Applying to both Options (Award marks for either option, once only)</p> <ul style="list-style-type: none"> • Both more profitable than present situation (1) • Are forecasts accurate? (1) • Will price increases result in decreased demand for products (1) • <p>Option A</p> <ul style="list-style-type: none"> • • Less risky as no permanent increase in fixed costs (1) • Are labour force prepared to work overtime (1) • Will quality suffer resulting in a loss of customers? (1) <p>Option B</p> <ul style="list-style-type: none"> • Will advertising be effective? (1) • Cost of advertising will reduce profit (1) • Depreciation will result in fixed costs increase (1) <p>Advice supported with a comment (1)</p> <p>Accept other valid responses</p>	7