
ACCOUNTING

9706/22

Paper 2 Structured Questions

May/June 2016

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2016 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

| | | | |
|---------------|---|-----------------|--------------|
| 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]

| | | |
|------------------------------|--------|--------|
| | Debit | Credit |
| | \$ | \$ |
| (b) 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 (1) | 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 | | |
| 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> (1) | <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 | | | | | |
| Mar 1 | Loan | 106 000 (1) | May 31 | Balance c/d | 190 000 |
| | Motor vehicle disposal | <u>84 000 (1)</u> | | | |
| | | <u>342 000</u> | | | <u>342 000</u> |
| Jun 1 | Balance b/d | 190 000 | | | |

[2]

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