

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
GCE Advanced Subsidiary Level and GCE Advanced Level

## **MARK SCHEME for the October/November 2013 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 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 (a)

Joe Brown  
Departmental income statement for the year ended 31 December 2012

	Fuel	Car wash	Café
	\$	\$	\$
Revenue	735 600	30 650	61 300
Opening inventory	38 700	3 650	4 725
Add Purchases	454 320	7 240	9 620 (1) mark all 3
Less Closing inventory	<u>39 760</u>	<u>2 480</u>	<u>4 820 (1) mark all 3</u>
Cost of goods sold	453 260	8 410	9 525
Wages	<u>36 000</u>	<u>3 000</u>	<u>12 000 (1) mark all 3</u>
Gross Profit	<u>489 260</u> 246 340	<u>11 410</u> 19 240	<u>21 525</u> 39 775
Less expenses			
Rent	33 664 (1)	8 416 (1)	4 208 (1)
Electricity	12 200 (1)	3 050 (1)	3 050 (1)
Administration	12 084 (1)	1 007 (1)	4 028 (1)
Other expenses	48 020 (1)	2 001 (1)	4 002 (1)
Depreciation	<u>12 000 (1)</u>	<u>2 070 (1)</u>	<u>414 (1)</u>
	<u>117 968</u>	<u>16 544</u>	<u>15 702</u>
Profit for the year	<u>128 372</u>	<u>2 696</u>	<u>24 073</u> [18]

(b) Fixed costs will be reallocated

Alternative uses of the vacant space

Customers making additional purchases when having car washed

Loss of business and goodwill

Staff redundancies

Disposal of closing inventory

Sale of equipment

Decrease in profit/revenue

Closure costs

(1) + (1) for development × 3 points [6]

(c) Interest is only charged on overdraft if used. Loan interest is for the whole agreed period.

Loans are for an agreed period

Overdrafts can be called in at any time

Loans are normally at fixed interest but overdraft interest can fluctuate

Overdrafts have a higher rate of interest than a loan

Overdraft balance may vary from day to day

Loans are usually for a longer period than overdrafts

Loans would be taken out for non-current asset purchase but overdrafts are normally for running expenses in periods of shortage of working capital

Loans are for a larger value whereas an overdraft is for a smaller sum

Overdraft is short term borrowing whereas a loan is long term borrowing

Loans are usually non-current liabilities and overdrafts are current liabilities.

(1) + (1) for development × 3 points [6]

[Total: 30]

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2 (a)

Current accounts					
	Alec	Jean		Alec	Jean
	\$	\$		\$	\$
Balance	2 900 (1)		Balance		3 100 (1)
Drawings	20 000	22 000 (1)	Interest on capital	4 500 (1)	3 000 (1)
Interest on drawings	1 600 (1)	1 760 (1)	Salaries	14 000	12 000 (1)
Balance c/d	<u>3 000</u>	<u>340</u>	Share of profit	<u>9 000 (1of)</u>	<u>6 000 (1of)</u>
	<u>27 500</u>	<u>24 100</u>	Balance b/d	3 000	340

**Marker Note:**

Drawings and Salaries – 1 mark for both figures.

Share of profit must be in ratio of 3:2 for (of).

[10]

(b) Calculation of profit for the year ended 31 May 2013 before appropriation.

	\$
Share of profit	15 000 (1of) from (a)
Salary	26 000 (1)
Interest on capital	<u>7 500 (1of)</u>
	48 500
LESS	
Interest on drawings	<u>3 360 (1of)</u>
Profit for the year	45 140 (2cf/1of)

An anchor figure must be present for any marks to be awarded.

[6]

(c) Goodwill is an intangible asset (1). It arises from the location (1) reputation (1) and customer loyalty (1). It represents the value of the business in excess of (1) the book value of its net assets (1).

[4]

(d)

Capital accounts							
	Alec	Jean	Chris		Alec	Jean	Chris
	\$	\$	\$		\$	\$	\$
Goodwill	18 000 (1)	12 000 (1)	6 000 (1)	Balance b/d	90 000	60 000	
Balance c/d	93 600	62 400	48 000	Goodwill	21 600 (1)	14 400 (1)	
				Cash			36 000 (1)
				Vehicle			12 150 (1)
				Inventory			<u>5 850 (1)</u>
	<u>111 600</u>	<u>74 400</u>	<u>54 000</u>		<u>111 600</u>	<u>74 400</u>	<u>54 000</u>
				Balance b/d	93 600	62 400	48 000 (2cf/1of)

**Marker Note:**

Award 0 marks for Balance b/d is not brought down.

[10]

[Total: 30]

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3 (a) (i) Calculate the weekly breakeven point in units.

$$\begin{aligned} \text{Fixed cost } & 800 \times (\$3.50 + \$1.00) = \$3600 \\ \text{Contribution } & \$35.00 - (\$13.50 + \$1.50) = \$20 \end{aligned}$$

$$\text{Breakeven point} = \$3600 \text{ (1)} / \$20 \text{ (1)} = 180 \text{ units (1cf)} \quad [3]$$

(ii) Calculate the weekly breakeven point in value.

$$180 \text{ units (1of)} \times \$35 \text{ (1)} = \$6300$$

If contribution to sales ratio method is used allow answers between \$6300 and \$6320. [2]

(iii) Calculate the margin of safety in revenue.

$$800 \text{ (1)} - 180 \text{ (1of)} = 620 \times \$35 = \$21\,700 \text{ (1of)}$$

Or

$$28\,000 \text{ (1)} - 6300 \text{ (1of)} = \$21\,700 \text{ (1of)} \quad [3]$$

(iv) Calculate the margin of safety as a percentage.

$$(\$21\,700 / 800 \times \$35) \text{ (1of)} \times 100 = 77.5\% \text{ (1of)}$$

Allow 77% or 78% [2]

(b) Calculate the profit for the four weeks that Kirkton will be without the machine if they decide to lease a machine.

	\$	
Revenue – 500 × 4 weeks × \$35	70 000	(1)
Variable production costs – 500 × 4 weeks × \$13.50	(27 000)	(1)
Fixed production costs – 800 × 4 weeks × \$3.50	(11 200)	(1)
Variable selling costs – 500 × 4 weeks × \$1.50	( 3 000)	(1)
Fixed selling costs – 800 × 4 weeks × \$1.00	( 3 200)	(1)
Machine lease costs – 4 weeks × \$2000	( 8 000)	(1)
Training costs	<u>( 3 000)</u>	(1)
Profit	14 600	(2cf / 1of) [9]

(c) Calculate the profit for the four weeks if Kirkton decide to buy the Kirks from the competitor.

	\$	
Revenue – 800 × 4 weeks × \$35	112 000	(1)
Purchase price – 800 × 4 weeks × \$26.25	(84 000)	(1)
Fixed production costs – 800 × 4 weeks × \$3.50	(11 200)	(1)
Variable selling costs – 800 × 4 weeks × \$1.50	( 4 800)	(1)
Fixed selling costs – 800 × 4 weeks × \$1.00	( 3 200)	(1)
Delivery costs – 4 weeks × \$400	<u>( 1 600)</u>	(1)
Profit	7 200	(1of) [7]

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(d) State two advantages if Kirkton decides to buy the Kirks from the competitor rather than lease the machine.

- The full quota of 800 units will be available for customers (1)
- Kirkton's business reputation will be maintained (1)
- No training costs (1)

Do not allow references to delivery charge.

[2]

(e) State two disadvantages if Kirkton decides to buy the Kirks from the competitor.

- The product quality may not be the equivalent of the company's own quality (1)
- The competitor may not deliver on time (1)
- The competitor may increase the price (1)
- Kirkton will have to continue to pay wages (1)
- Competitive advantage (1)
- Kirkton will make a lower profit (1of)

Do not allow references to delivery charge.

[2]

[Total: 30]