CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the March 2016 series

9706 ACCOUNTING

9706/22 Paper 22 (AS Level Structured Questions), 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 March 2016 series for most Cambridge IGCSE® and Cambridge International A and AS Level components.

1 (a)

Seema Limited
Income Statement for the year ended 30 June 2015

	$		$		$	
Revenue					526 000	
Inventory at 1 July 2014			37 500			
Purchases			342 000			
Inventory at 30 June 2015			(29 400)		350 100	
Gross Profit					175 900	**(1)**
Selling and distribution expenses	37 510					
Depreciation on warehouse buildings	12 000	**(1)**				
Depreciation on motor vehicles	17 500	**(1)**	67 010	**(1)OF**		
Administrative expenses	36 130					
Depreciation on office equipment	2 350	**(1)**				
Bad debts	200	**(1)**				
Increase in provision for Doubtful debts	116	**(1)**	38 796	**(1)OF**	105 806	
Profit from operations					70 094	
Finance costs					1 250	**(1)**
Profit for the year (Must be labeled)					68 844	**(1)OF**

[10]

Workings

Depreciation office equipment 25 000 – 1500 × 10%

(b)

Seema Limited
Statement of financial Position at 30 June 2015

	$ Cost	$ Accumulated depreciation	$ Net book value	
Non-current assets				
Warehouse buildings	300 000	24 000	276 000	
Motor vehicles	70 000	30 000	40 000	
Office equipment	25 000	3 850	21 150	
	395 000	57 850	337 150	
Current assets				
Inventory			29 400	
Trade and other receivables			4 579	**(2)**
Cash and cash equivalents			27 200	
			61 179	
Total assets			398 329	
Equity and liabilities				
Equity				
Ordinary share capital			140 000	
General reserve			50 000	**(1)**
Retained earnings			176 434	**(3)OF**
Total equity			366 434	
Non-current liabilities				
5% Debentures (2014 – 2025)			25 000	**(1)**
Current liabilities				
Trade and other payables			6 895	**(1)**
Total equity and liabilities			398 329	**[8]**

Workings

Trade receivables 5020 – 200 **(1)** – 241 **(1)**
Retained earnings 140990 + 68844 -8400 **(1OF)** – 25000 **(1)** = 176434 **(1)**

(c) It shows the funds available in the short term **(1)** to pay the current liabilities **(1)**.

It does not show the liquid assets available **(1)** because it includes inventory **(1)**
It provides a judgement on liquidity **(1)** by comparing current assets with current liabilities **(1)**

(1 mark for stating the importance and 1 for development)
Max 4 marks **[4]**

(d) **(i)** Working capital
Will reduce the bank **(1)** to only $2200 **(1)**
Working capital will fall **(1)** and the ratio will become 5.25: 1 **(1)**
It may cause some cash flow problems **(1)** **[2]**

(ii) The return on capital employed
Now 17.28% would be 18.78% if no debentures **(1)**
This will rise **(1)** as the capital employed falls **(1)**
If profits are maintained **(1)** **[2]**

(e) It will seriously weaken the cash position **(1)**
Interest cost is relatively low **(1)**
It is not due for repayment for a minimum of 5 years **(1)**. If it was repaid and there was a need for another loan it might be much higher interest **(1)**
Increase the profit, due to removal of interest payable **(1)**.
1 OF for decision
3 marks for appropriate reasons **[4]**

[Total: 30]

2 (a) Revaluation account

		$		$
Current assets		4 000 **(1)**	Non-current assets	40 000 **(1)**
Share of profit:				
	James	18 000		
	Lewis	18 000 **(1OF)**		
		40 000		40 000

[3]

(b) Capital Accounts

	Ahmed	James	Lewis			Ahmed	James	Lewis	
	$	$	$			$	$	$	
Goodwill	20 000	20 000	20 000	**1 for all**	Balance b/d		200 000	70 000	
					Bank	80 000 **(1)**			
					Goodwill		30 000	30 000	**1 both**
Bal c/d	60 000	228 000	98 000		Profit on revaluation		18 000	18 000	
	80 000	248 000	118 000			80 000	248 000	118 000	
					Balance b/d	60 000	228 000	98 000	**1 OF for all**

[4]

(c) (i) To the partners
reward the partners for their investment in the business **(1)**

To the partnership
encourage partners to invest in the business not elsewhere **(1)** **[2]**

(ii) To the partners
reduce the drawings **(1)**

To the partnership
defer the partners from drawing cash out of the business possibly causing cash flow problems **(1)** **[2]**

(d) (i) James
James will benefit **(1)** as he has higher capital **(1)** and lower drawings **(1)**.
Max 2

(ii) Lewis
Lewis will not benefit **(1)** as he has lower capital **(1)** and higher drawings **(1)**.
Max 2 **[4]**

[Total: 15]

3 (a)

	Dr $000	Cr $000	
Bank	140		
Share capital		100	**(1)**
Share premium		40	**(1)**
Dividends paid (or retained earnings)(2800 × $0.04)	112		**(1)**
Bank		112	**(1)**
Share premium	200		**(1)**
Share capital		200	**(1)**

[6]

(b) $000

Balance at 1 January 2015	260	
February 1: issue 200 000 shares	40	**(1OF)**
May 1: Bonus issue	(200)	**(1OF)**
August 1: Rights issue	34	**(1OF)**
Balance at 31 December 2015	134	

[3]

(c) It enables the company to liquidate capital reserves that cannot be used to pay a dividend **(1)**
It is less expensive than making a rights issue or an ordinary issue of shares **(1)**
It enables the company to match long-term assets with long term capital **(1)**
If the company has not made a profit in the current year, it enables it to reward shareholders without paying a dividend **(1)**
They do not affect the debt-equity ratio **(1)**

One mark for each valid point – maximum 3 marks **[3]**

(d) Preference shareholders receive a fixed rate of dividend **(1)**
Preference shareholders are paid their dividend before ordinary shareholders **(1)**
Preference share dividend is not dependent on profits **(1)**
Preference shareholders do not have a vote at the annual general meeting **(1)**
Preference shareholders are repaid before ordinary shareholders in the event of the company being wound-up **(1)**

One mark for each valid difference – maximum 3 marks **[3]**

[Total: 15]

4 (a) (i) the break-even point in units **(1 mark)** **[1]**

(ii) Fixed costs **(1 mark)** **[1]**

(b) A measure of how much **contribution** is earned from each $1 of sales **(1 mark)** **[1]**

(c) Answers may include:

Benefits:
- useful for planning
- provides quick estimates
- changes in costs can be easily incorporated
- forecasts profit at various levels of output
- identifies breakeven point
- charts provide a clear way of presenting information – better for non accountants

(1 mark) any two advantages **(max2)**

Drawbacks:
- can be time consuming to prepare charts
- assumes fixed costs are constant
- assumes variable costs per unit are the same at all levels of output
- assumes selling price per unit is the same at all levels of output
- assumes sales and production levels are the same
- ignores uncertainty in estimates of fixed costs and variable costs

(1 mark) any two disadvantages **(max 2)** **[4]**

(d) (i) the total contribution for each product

X 15000 × $8 = $120 000 – ($5 × 15 000) = $45 000 **(1)**
Y 5000 × $10 = $50 000 – ($4 × 5000) = $30 000 **(1)**
Z 8000 × $7 = $56 000 – ($2 × 8000) = $40 000 **(1)**

Alternative:

X $8 – $5 = $3 × 15 000 = $45 000 **(1)**
Y $10 – $4 = $6 × 5000 = $30 000 **(1)**
Z $7 – $2 = $5 × 8000 = $40000 **(1)** **[3]**

(ii) the total profit or loss for each product

X $45 000 – $60 000 = (15 000) loss **}**
Y $30 000 – $25 000 = 5000 profit **} (1OF) for all three**
Z $40 000 – $30 000 = 10 000 profit **}** **[1]**

(e) Answers may include:

- continue with all three/do not cease production of X as they all make a contribution **(1)** towards fixed costs **(1)**
- Y has the highest contribution per unit **(1)** so should maximise its sales **(1)**
- X has the lowest contribution per unit **(1)** so should consider a price increase **(1)**
  (max 4) **[4]**

(f) Order 1

	Units	Marginal cost		Proposed price	Loss of contribution on order
X	1000	5000	**(1)**		
Y	1000	4000	**(1)**		
Z	1000	2000	**(1)**		
		11 000		10 000	1000 **(1)**

Order 2

	Units	Marginal cost	Proposed price	Contribution gained on order
X	1000	5000	6000	1000
Y	1000	4000	5000	1000
Z	1000	2000	4000	2000
				4000 **(1)**

[5]

(g) Order 1

- reject **(1 of)**
- offered price doesn't cover marginal cost/loss of contribution **(1)**

Order 2

- accept **(1 of)**
- total contribution gained covers marginal costs **(1)**

General comments:

proposed order price must equal marginal cost to be worthwhile. **(1)**
or
fixed costs remain the same and so are irrelevant **(1)**
Max 3 marks for each Order. **[6]**

(h) Map the future
Support growth
Manage cash flow

1 mark for valid point + 1 mark for development
Max 4 **[4]**

[Total: 30]