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CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/22 Paper 2 (Structured Questions – Core), maximum raw mark 90

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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]

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(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	140 **}(1)for both**	1739	1610
			8682
Financed by			
Accumulated fund **(W2)**		1124 **(2)**	
Add surplus		3418 **(1) OF**	4542
Life membership fund **(W3)**			4140 **(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]

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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]

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(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]

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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**

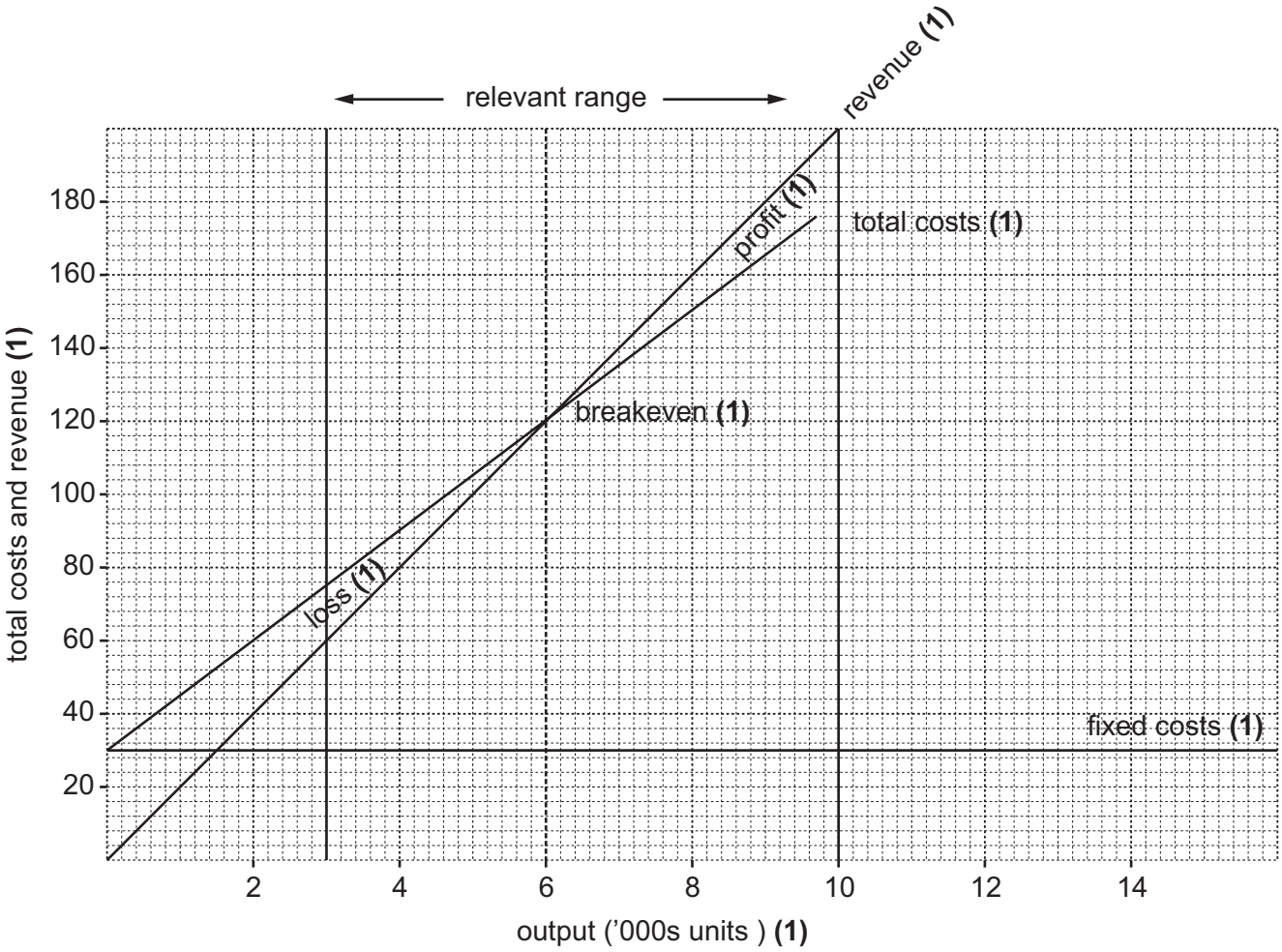
(b) (i) Selling price = \$110 – \$11 = \$99 **(1)**
Sales = 40 000 × 1.2 = 48 000 units
Variable costs per unit = \$1 400 000 + (1 000 000 x 1.03) + \$400 000
= \$2 830 000 **(1)** / 40 000 **(1)** = \$70.75
Fixed costs = \$1 500 000 x 0.9 = \$1 350 000
Contribution per unit = \$99 – \$70.75 = \$28.25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

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