

**MARK SCHEME for the May/June 2011 question paper**  
**for the guidance of teachers**

**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 must be read in conjunction with the question papers and the report on the examination.

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1 (a) (i) Purchases Ledger Control account

|                   | \$             |   | \$                  |                |
|-------------------|----------------|---|---------------------|----------------|
| Cash              | 88 400         | 1 | Balance b/d         | 16 600         |
| Discount received | 9 000          | 1 | Purchases (bal fig) | 95 600         |
| Balance c/d       | 14 800         | 1 |                     |                |
|                   | <u>112 200</u> |   |                     | <u>112 200</u> |
|                   |                |   | Balance b/d         | 14 800         |

[5]

(ii) Sales Ledger Control account

|                        | \$             |     | \$               |                |
|------------------------|----------------|-----|------------------|----------------|
| Balance                | 18 200         | 1   | Cash             | 103 160        |
| Credit sales (bal fig) | 128 900        | 10F | Sales returns    | 9 200          |
|                        |                |     | Discount allowed | 9 540          |
|                        |                |     | Bad debts        | 8 200          |
|                        |                |     | Balance c/d      | <u>17 000</u>  |
|                        | <u>147 100</u> |     |                  | <u>147 100</u> |
| Balance b/d            | 17 000         |     |                  |                |

[7]

|   |               |     |  |  |
|---|---------------|-----|--|--|
| (b) Opening inventory                   | 33 000        | 1   |  |  |
| Add: Purchases                          | <u>95 600</u> | 10F |  |  |
| Cost of goods available for sale        | 128 600       |     |  |  |
| Less: Cost of sales                     |               |     |  |  |
| Sales to staff (10 750 × 100/125)       | 8 600         |     |  |  |
| Clearance sale at cost                  | 29 700        | 1   |  |  |
|   | <u>60 000</u> |     |  |  |
| Normal sales (128 900 – 9 200 – 29 700) |               |     |  |  |
| = Credit sales (90 000 × 2/3)           |               |     |  |  |
| (OR 85 933 – 6 133 – 19 800 = 60 000)   |               |     |  |  |
| TOTAL COST OF SALES                     | <u>98 300</u> |     |  |  |
| Closing inventory                       | 30 300        | 1   |  |  |
| Actual closing inventory                | <u>20 600</u> | 1   |  |  |
| Cost of goods destroyed in fire         | 9 700         | 10F |  |  |

[11]

|               |                                       |                 |              |
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(c) Income statement (trading account) for the year ended 30 April 2011

|                           | \$            | \$            |                     |
|---------------------------|---------------|---------------|---------------------|
| Revenue (sales) on credit | 128 900       |               | <b>10F</b>          |
| Staff sales               | <u>10 750</u> |               | <b>1</b>            |
|                           | 139 650       |               |                     |
| Less sales returns        | <u>9 200</u>  | 130 450       |                     |
| Less Cost of Sales        |               |               |                     |
| Opening inventory         | 33 000        |               | <b>1</b>            |
| Purchases                 | <u>95 600</u> |               | <b>10F</b>          |
|                           | 128 600       |               |                     |
| Less stock lost in fire   | <u>9 700</u>  |               | <b>10F from (b)</b> |
| Goods available for sale  | 118 900       |               |                     |
| Less closing inventory    | <u>20 600</u> | <u>98 300</u> |                     |
| GROSS PROFIT              |               | <u>32 150</u> | [7]                 |

**[Total: 30]**

2 (a) (i)

|                       | \$000      | \$000      |            |
|-----------------------|------------|------------|------------|
| Opening inventory     | 28         |            | <b>1</b>   |
| Purchases (240 + 100) | <u>340</u> |            |            |
|                       | 368        |            |            |
| Closing inventory     | <u>40</u>  |            |            |
| Cost of goods sold    |            | <u>328</u> | <b>0F1</b> |

[4]

| (ii)                             | \$000      |  |            |
|----------------------------------|------------|--|------------|
| Sales                            | 480        |  |            |
| LESS cost of goods sold          | <u>328</u> |  |            |
| Gross profit                     | 152        |  |            |
| Less expenses                    | <u>120</u> |  | <b>1</b>   |
| Profit for the year (net profit) | 32         |  | <b>10F</b> |

[2]

(b) For (b) award 1 for numerator and 1 for denominator, all own figures  
From (a) (i) and (ii) OR 2 for correct answer

(i) Mark up =  $\frac{GP \times 100}{COGS} = \frac{152 \times 100}{328} = 46.34\%$

(ii) GP %age =  $\frac{GP \times 100}{Turnover} = \frac{152 \times 100}{480} = 31.67\%$

(iii) Exp/sales =  $\frac{Exp \times 100}{Turnover} = \frac{120 \times 100}{480} = 25\%$

|               |                                       |                 |              |
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(iv) NP %age =  $\frac{NP \times 100}{\text{Turnover}} = \frac{32 \times 100}{480} = 6.67\%$

(v) ROCE =  $\frac{NP \times 100}{\text{CAP EMP}} = \frac{32 \times 100}{220} = 14.54\%$

(vi) ROIT =  $\frac{\text{COGS}}{\text{Average inventory}} = \frac{328}{(40 + 28)/2} = 9.65 \text{ times}$

(vii) Liquid ratio =  $\frac{\text{CA} - \text{inventory}}{\text{CL}} = \frac{78}{78} = 1:1$  [14]

| (c) |                            | <b>Southern</b> | <b>Northern</b> |
|-----|----------------------------|-----------------|-----------------|
| 1   | Mark-up                    | 40%             | 46.34%          |
| 2   | Gross profit percentage    | 28.57%          | 31.67%          |
| 3   | Expenses to sales          | 20%             | 25%             |
| 4   | Net Profit percentage      | 8.57%           | 6.67%           |
| 5   | Return on capital employed | 18.00%          | 14.54%          |

**One mark each for better or worse (poorer) than – maximum 5 marks**

- Northern has a better mark up.
- Consequently a better gross profit percentage.
- Expenses to sales is worse for Northern.
- Net profit percentage for Northern is poorer.
- Northern's ROCE is poorer.

Must be clear that one is better than the other – do not accept higher, lower, greater, lesser, more, less.

Some candidates have treated the comparisons as if they were for the same business over 2 years – do not accept.

**One mark each for each valid comment – maximum 5**

Sales price is higher – higher mark up.

Administration and advertising costs are higher to sell a higher priced product.

Northern has a better GP percentage but the higher expenses incurred pull down the net profit advantage below Southern and contribute to a poorer ROCE.

The ROCE is poorer because Northern may have more non-current assets employed.

Any valid comment is acceptable provided it justifies the "better or worse" statement. A maximum of 1 mark for each statement and 1 mark for an attached comment. [10]

**[Total: 30]**

|                  |           |            |            |     |
|------------------|-----------|------------|------------|-----|
| <b>3 (a) (i)</b> | P         | T          | O          |     |
|                  | \$        | \$         | \$         |     |
| Sales price      | 61        | 158        | 170        |     |
| Variable costs   | <u>51</u> | <u>118</u> | <u>120</u> |     |
| Contribution     | 10        | 40         | 50         |     |
|                  | <b>1</b>  | <b>1</b>   | <b>1</b>   | [3] |

|                              |              |              |              |                |
|------------------------------|--------------|--------------|--------------|----------------|
| <b>(ii)</b>                  | P            | T            | O            |                |
|                              | \$           | \$           | \$           |                |
| Fixed cost per unit          | 15           | 30           | 40           |                |
| Number of units              | <u>2 000</u> | <u>1 600</u> | <u>1 000</u> |                |
|                              | 30 000       | 48 000       | 40 000       | <b>1 all 3</b> |
| Total fixed cost = \$118 000 |              |              |              | <b>1</b> [2]   |

|   |           |           |           |                |
|---|-----------|-----------|-----------|----------------|
| <b>(iii)</b>  | P         | T         | O         |                |
|   | \$        | \$        | \$        |                |
|   | 30 000/10 | 48 000/40 | 40 000/50 |                |
| <b>Units are OF using candidate's answer to (a) (i)</b> |           |           |           |                |
| BEP (units)   | 3 000     | 1 200     | 800       | <b>3OF</b>     |
| <b>Dollar OF = units × SP</b>                           |           |           |           |                |
| Dollars   | 183 000   | 189 600   | 136 000   | <b>3OF</b> [6] |

|                       |              |              |            |                |
|-----------------------|--------------|--------------|------------|----------------|
| <b>(b)</b>            | P            | T            | O          |                |
|                       | \$           | \$           | \$         |                |
| Output                | 2 000        | 1 600        | 1 000      |                |
| BEP (from (a) (iii))  | <u>3 000</u> | <u>1 200</u> | <u>800</u> |                |
|                       | (1 000)      | 400          | 200        | <b>3OF</b>     |
|                       | x            | x            | x          |                |
| Contribution per unit | <u>10</u>    | <u>40</u>    | <u>50</u>  | <b>3OF</b>     |
| Profit (loss)         | (10 000)     | 16 000       | 10 000     | <b>3OF</b> [9] |

**OR**

|                                     |               |               |               |                |
|-------------------------------------|---------------|---------------|---------------|----------------|
| Total contribution                  | 20 000        | 64 000        | 50 000        | <b>3OF</b>     |
| <b>(based on unit contribution)</b> |               |               |               |                |
| Less Fixed costs                    | <u>30 000</u> | <u>48 000</u> | <u>40 000</u> | <b>3OF</b>     |
| P/(L)                               | (10 000)      | 16 000        | 10 000        | <b>3OF</b> [9] |

|               |                                       |                 |              |
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(c) TOTAL FIXED COSTS WERE \$118000

|                           | T             | O             | TOTAL          |                 |
|---------------------------|---------------|---------------|----------------|-----------------|
|                           | \$            | \$            |                |                 |
|                           | <b>1</b>      | <b>1</b>      |                |                 |
| Output                    | 2 400         | 1 500         |                |                 |
|                           | <b>1</b>      | <b>1</b>      |                |                 |
| Contribution              | 40            | 50            |                |                 |
| <b>TOTAL CONTRIBUTION</b> | <b>96 000</b> | <b>75 000</b> | <b>171 000</b> |                 |
| LESS Fixed costs          | 118 000       | <b>1</b>      |                |                 |
| Add 25%                   | <u>29 500</u> | <b>2</b>      | <u>147 500</u> |                 |
| <b>TOTAL PROFIT</b>       |               |               | <b>23 500</b>  | <b>1</b>        |
| Old profit                |               |               | <u>16 000</u>  | <b>1</b>        |
| <u>Increase in profit</u> |               |               | <b>7 500</b>   | <b>10F</b> [10] |

**Alternative correct calculation for contribution**

|                    |                |                |
|--------------------|----------------|----------------|
| Sales              | <u>379 200</u> | <u>255 000</u> |
| Direct materials   | 144 000        | 120 000        |
| Direct labour      | 110 400        | 36 000         |
| Variable overheads | <u>28 800</u>  | <u>24 000</u>  |
|                    | <u>283 200</u> | <u>180 000</u> |
| Total contribution | 96 000         | 75 000         |

**[Total: 30]**