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.

CAMBRIDGE
International Examinations

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	39 760		2 480		4 820 **(1) mark all 3**	
Cost of goods sold	453 260		8 410		9 525	
Wages	36 000		3 000		12 000 **(1) mark all 3**	
		489 260		11 410		21 525
Gross Profit		246 340		19 240		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	12 000 **(1)**		2 070 **(1)**		414 **(1)**	
		117 968		16 544		15 702
Profit for the year		128 372		2 696		24 073

[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]

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	3 000	340	Share of profit	9 000 **(1of)**	6 000 **(1of)**
	27 500	24 100		27 500	24 100
			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	7 500	**(1of)**
	48 500	
LESS		
Interest on drawings	3 360	**(1of)**
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			5 850 **(1)**
	111 600	74 400	54 000		111 600	74 400	54 000
				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]

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

Fixed cost 800 × ($3.50 + $1.00) = $3600
Contribution $35.00 – ($13.50 + $1.50) = $20

Breakeven point = $3600 **(1)** / $20 **(1)** = 180 units **(1cf)** **[3]**

(ii) **Calculate the weekly breakeven point in value.**

180 units **(1of)** × $35 **(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 **(1)** – 180 **(1of)** = 620 × $35 = $21 700 **(1of)**

Or

28 000 **(1)** – 6300 **(1of)** = $21 700 **(1of)** **[3]**

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

($21 700 / 800 × $35) **(1of)** × 100 = 77.5% **(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	(3 000)	**(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 x 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	(1 600)	**(1)**	
Profit	7 200	**(1of)**	**[7]**

(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]