

**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.

<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – October/November 2013</b>	<b>9706</b>	<b>22</b>

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]

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – October/November 2013</b>	<b>9706</b>	<b>22</b>

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]

Page 4	Mark Scheme	Syllabus	Paper
	GCE AS/A LEVEL – October/November 2013	9706	22

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]

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – October/November 2013</b>	<b>9706</b>	<b>22</b>

(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]