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CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **May/June 2024**

MARK SCHEME

Maximum Mark: 90

Published

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 International will not enter into discussions about these mark schemes.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptions for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Abbreviations and guidance

The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation.

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation.

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'.

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. **}***

row = all figures in the row must be correct for this mark to be awarded.

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

ANNOTATIONS
The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
OF	Own figure
Highlight	Highlight
Off page Comment	Off page comment

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Calculate the gross profit of the business for the year ended 31 December 2023.

$65 000 (1)</td><td>1</td></tr>
<tr><td>1(b)(i)</td><td>Calculate for the year ended 31 December 2023:

Purchases

$136 900 (3) W1

W1
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Bank</td><td>134 240</td><td rowspan="2">(1)fb</td><td>Balance b/d</td><td>13 500</td><td>*</td></tr>
<tr><td>Discounts</td><td>560</td><td>Purchases</td><td>136 900</td><td>(1) OF</td></tr>
<tr><td>Balance c/d</td><td>15 600</td><td>*</td><td></td><td></td><td></td></tr>
<tr><td></td><td>150 400</td><td></td><td></td><td>150 400</td><td></td></tr>
</table>
*(1) for correct use of both balances

Alternative version
<table>
<tr><td>$</td><td></td></tr>
<tr><td>15 600</td><td rowspan="2">(1)fb</td></tr>
<tr><td>(13 500)</td></tr>
<tr><td>134 240</td><td rowspan="2">(1)fb</td></tr>
<tr><td>560</td></tr>
<tr><td>136 900</td><td>(1) OF</td></tr>
</table></td><td>3</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)(ii)</td><td>

Calculate for the year ended 31 December 2023:

The value of goods taken for own use by Zahid.

$840 **(4) W**

<table>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Opening inventory</td><td></td><td>16 400</td><td>*</td></tr>
<tr><td>Purchases</td><td></td><td>136 900</td><td>(1) OF</td></tr>
<tr><td>Less goods own use</td><td></td><td>(840)</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td>152 460</td><td></td></tr>
<tr><td>Closing inventory</td><td></td><td>(22 460)</td><td>*</td></tr>
<tr><td></td><td></td><td>130 000</td><td>(1) OF</td></tr>
</table>

*__(1)__ for both inventories

Alternative version

<table>
<tr><td>$</td><td></td></tr>
<tr><td>16 400</td><td>*</td></tr>
<tr><td>136 900</td><td>(1) OF</td></tr>
<tr><td>(22 460)</td><td>*(1) both</td></tr>
<tr><td>(130 000)</td><td>(1)OF</td></tr>
<tr><td>840</td><td>(1)OF</td></tr>
</table>

</td><td>**4**</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(c)</td><td>

Prepare an extract from the statement of profit or loss for the year ended 31 December 2023, starting with the gross profit calculated in (a).

Zahid
Statement of profit or loss for the year ended 31 December 2023 (Extract)

<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>65 000</td><td>(1) OF</td></tr>
<tr><td>Add: income</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Profit on disposal</td><td>2400</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Rent receivable</td><td>4480</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Discounts received</td><td>560</td><td>(1)</td><td>7440</td><td></td></tr>
<tr><td></td><td></td><td></td><td>72 440</td><td></td></tr>
<tr><td>Less: expenses</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Depreciation W1</td><td>12 000</td><td>(3)</td><td></td><td></td></tr>
<tr><td>Advertising</td><td>7060</td><td>(1)</td><td></td><td></td></tr>
<tr><td>General expenses</td><td>7910</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Insurance</td><td>4450</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Wages</td><td>12 870</td><td>(1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>(44 290)</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>28 150</td><td>(1) OF</td></tr>
</table>

W1

$194 000 - $3200 **(1)** + $9200 **(1)** - $188 000 = $12 000 **(1)**

</td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)</td><td>Explain, with reference to an accounting concept, why Zahid made adjustments to his income and expenses when preparing the statement of profit or loss.

Matching/accruals (1)

To match expenses incurred to the revenue generated (1) in the same accounting period (1) regardless of whether paid or not (1).

Accept other valid responses

Award 1 mark for concept plus up to 2 marks for explanation</td><td>3</td></tr>
<tr><td>1(e)</td><td>Advise Zahid which option he should choose. Justify your answer by considering <u>both</u> the advantages and the disadvantages of <u>each</u> option.

Award 1 mark for identification of each advantage or a disadvantage and a further 1 mark for valid development of the point

Max 3 marks for identification and max 3 marks for valid linked development of the points

<table>
<tr><th>Partnership option</th><th>Limited company option</th></tr>
<tr><td>Advantages</td><td>Advantages</td></tr>
<tr><td>• More capital available (1)</td><td>• Limited liability for debts of the business (1)</td></tr>
<tr><td>• More expertise / new skills (1)</td><td>• Separate legal identity (1)</td></tr>
<tr><td>• Possibly better decision making (1)</td><td>• Access to more finance (1)</td></tr>
</table>

<table>
<tr><th>Disadvantages</th><th>Disadvantages</th></tr>
<tr><td>• Possibility of disagreements (1)</td><td>• More complicated / expensive to set up (1)</td></tr>
<tr><td>• Unlimited liability (1)</td><td>• Mandatory financial statements (1)</td></tr>
<tr><td>• Possible slower decision making (1)</td><td>• May be subject to external audit (1)</td></tr>
</table>

Advice supported with a comment (1)

Accept other valid responses</td><td>7</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Calculate the corrected balance of retained earnings at 31 December 2023.

Revised retained earnings

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Draft balance</td><td>242 400</td><td>(1)</td></tr>
<tr><td>Add: inventory undervalued</td><td>3600</td><td>(1)</td></tr>
<tr><td>Add: depreciation</td><td>12 000</td><td>(1)</td></tr>
<tr><td>Less: returns error</td><td>(2200)</td><td>(1)</td></tr>
<tr><td>Corrected balance</td><td>255 800</td><td>(1)</td></tr>
</table>
</td><td>5</td></tr>
</table>

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Question	Answer	Marks
2(b)	**Prepare the statement of financial position at 31 December 2023.** J Limited Statement of financial position at 31 December 2023	**10**

	$	
Assets		
Non-current assets		
Property at valuation	1 060 000	
Furniture and equipment	192 000	
	1 252 000	**(1)**
Current assets		
Inventory	87 600	**(1)**
Trade and other receivables	38 100	**(1)**
Cash and cash equivalents	28 900	
	154 600	
Total assets	1 406 600	**(1) OF**

Equity and liabilities		
Equity		
Issued share capital	750 000	
Share premium	220 000	
Revaluation reserve	70 000	
Retained earnings	255 800	**(1) OF**
Total equity	1 295 800	**(1) OF**
Current liabilities		
8% Debentures	90 000	**(1)**
Trade and other payables	20 800	**(1)**
Total liabilities	110 800	**(1) OF**
Total equity and liabilities	1 406 600	**(1) OF**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)(i)</td><td>Calculate the following ratios stating the formula used.
(i) Trade payables turnover (days)

<table><tr><th>Formula</th><th>Calculation</th></tr><tr><td>Trade payables × 365 (1)
Credit purchases</td><td>$33 600 × 365 = 38 days (1)
$323 000</td></tr></table></td><td>2</td></tr>
<tr><td>3(a)(ii)</td><td>Calculate the following ratios stating the formula used.
(ii) Trade receivables turnover (days)

<table><tr><th>Formula</th><th>Calculation</th></tr><tr><td>Trade receivables × 365 (1)
Credit sales</td><td>$34 100 × 365 = 33 days (1)
$386 000</td></tr></table></td><td>2</td></tr>
<tr><td>3(b)</td><td>Discuss the performance of Suki’s business comparing the results for 2023 with those for 2022.

Suki has longer trade payables days which means that he retains his money for longer (1) this may result in a deterioration in relationships with suppliers/refusal of credit terms (1) and may also result in the possibility of losing potential cash discounts (1).

Suki has a shorter trade receivables period meaning that money is flowing into the business quicker (1) demonstrating improved efficiency / credit control (1). This could result in a reduction in irrecoverable debts (1)

Credit customers now pay more quickly than payments are made to credit suppliers (1). This will improve the cash flow position of the business (1)

Accept other valid responses.
Max 6</td><td>6</td></tr>
<tr><td>3(c)</td><td>Calculate, to <u>two</u> decimal places, the rate of inventory turnover, stating the formula used.

<table><tr><th>Formula</th><th>Calculation</th></tr><tr><td>Cost of sales (1)
Average inventory</td><td>$36 700 + 323 000 - $42 100 = $317 600
$39 400 (1)

= 8.06 times (1)</td></tr></table></td><td>3</td></tr>
</table>

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Question	Answer	Marks
3(d)	**Explain the importance of the rate of inventory turnover to a business.** **Award 1 mark for identification and 1 mark for valid linked development** The importance of the inventory turnover to a business is that it is a measure of how well the business manages the inventory **(1)** indicating how frequently inventory is turned into sales **(1).** If the rate is low it enables the business to make decisions as to changes in the cost or selling price of products.**(1)** **Max 2 marks** **Accept other valid responses.**	**2**
4(a)	**Explain <u>two</u> uses of absorption costing.** Useful for setting selling prices **(1)** because all costs are included **(1)** Useful for long-term decision making **(1)** example **(1)** Must be used for inventory valuation **(1)** as it takes account of fixed costs **(1)** **Accept other valid responses.**	**4**
4(b)	**Calculate the monthly break-even point in units.** 6000 units **(2) (W1)** **W1** $\frac{\$120\,000\ \textbf{(1)}}{\$20}$ = 6000 units **(1)**	**2**
4(c)	**Calculate the forecast profit or loss for January 2024.** $21 600 loss **(2) W1** **W1** (4920 × $20 = $98 400) - $120 000 = $21 600 **(1)** Loss **(1)**	**2**
4(d)	**Calculate the number of units to be sold in order to achieve the target profit.** 13 500 units **(2) W1** **W1** $\frac{(\$150\,000 + \$120\,000\ \textbf{(1)}}{\$20)}$ = 13 500 units **(1)**	**2**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(e)</td><td>

Calculate the <u>monthly</u> profit to be made from Option A.

$298 680 **(6) W1**

W1

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Revenue</td><td>1 248 480</td><td></td></tr>
<tr><td>Direct materials</td><td>(326 400)</td><td>(1)</td></tr>
<tr><td>Direct labour (basic hours</td><td>(346 800)</td><td>(1)</td></tr>
<tr><td>Direct labour (overtime)</td><td>(20 400)</td><td>(1)</td></tr>
<tr><td>Variable costs</td><td>(61 200)</td><td></td></tr>
<tr><td></td><td>493 680</td><td></td></tr>
<tr><td>Less fixed costs</td><td>(195 000)</td><td>(2)</td></tr>
<tr><td>Profit per month</td><td>298 680</td><td>(1)</td></tr>
</table>

Alternative presentation

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Contribution: 18 000 × $25.20</td><td>453 600</td><td>(1)</td></tr>
<tr><td>Contribution: 2400 (1) × $16.70</td><td>40 080</td><td>(1)</td></tr>
<tr><td></td><td>493 680</td><td></td></tr>
<tr><td>Less fixed costs W1</td><td>195 000</td><td>(2)</td></tr>
<tr><td>Profit per month</td><td>298 680</td><td>(1)</td></tr>
</table>

W1 Fixed costs: (14 400 **(1)** × $24) less profit $150 600 = $195 000 **(1)**

</td><td>6</td></tr>
</table>

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Question	Answer	Marks
4(f)	**Prepare a <u>monthly</u> marginal costing statement for Option B.**	**7**

Marginal costing statement for one month

	$	
Revenue: 22 000 × $61.80	1 359 600	**(1)**
Direct materials: 22 000 × $15	(330 000)	**(1)**
Direct labour: 22 000 × $18.50	(407 000)	**(1)fb**
Other variable costs 22 000 × $3	(66 000)	
Contribution 22 000 × 25.30	556 600	**(1) OF**
Less fixed costs **W1**	(217 000)	**(2)**
Profit per month	339 600	**(1) OF**

W1
$195 000 + $2 000 **(1)** + $20 000 = $217 000 **(1)**

Alternative presentation

	$	
Revenue: 22 000 × $61.80	61.80	**(1)**
Direct materials: 22 000 × $15	(15.00)	**(1)**
Direct labour: 22 000 × $18.50	(18.50)	**(1)fb**
Other variable costs 22 000 × $3	(3.00)	
	25.30	
	× 22 000	
Contribution 22 000 × 25.30	556 600	**(1) OF**
Less fixed costs **W1**	(217 000)	**(2)**
Profit per month	339 600	**(1) OF**

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Question	Answer	Marks
4(g)	**Advise the directors whether or not they should go ahead with either of these options. Justify your choice by discussing <u>both</u> financial and non-financial factors.** **Award 1 mark for identification of each comment and a further 1 mark for valid development of the comment** **Max 3 marks for identification and max 3 marks for valid linked development of the comments** **Applying to both Options (Award marks for either option, once only)** • Both more profitable than present situation **(1)** • Are forecasts accurate? **(1)** • Will price increases result in decreased demand for products **(1)** • **Option A** • • Less risky as no permanent increase in fixed costs **(1)** • Are labour force prepared to work overtime **(1)** • Will quality suffer resulting in a loss of customers? **(1)** **Option B** • Will advertising be effective? **(1)** • Cost of advertising will reduce profit **(1)** • Depreciation will result in fixed costs increase **(1)** **Advice supported with a comment (1)** **Accept other valid responses**	**7**

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