CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **October/November 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.

Cambridge International is publishing the mark schemes for the October/November 2024 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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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.

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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).

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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.

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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Question	Answer	Marks
1(a)	**Prepare the statement of profit or loss for the year ended 30 June 2024.**	**17**

Ahmed
Statement of profit or loss for the year ended 30 June 2024

		$		$	
Revenue	**W1**			105 200	**(3)OF**
Cost of sales					
Opening inventory		12 640			
Purchases	**W2**	58 740	**(1)**		
Goods for own use		(420)	**(1)**		
		70 960			
Closing inventory	**W3**	(15 680)	**(1)**	55 280	**(1)OF**
Gross profit				49 920	**(1)OF**
Decrease in allowance for irrecoverable debts	**W4**			145	**(1)**
				50 065	
Expenses					
General expenses		3 600			
Carriage outwards		1 040	**(1)**		
Rent	**W5**	14 400	**(1)**		
Electricity	**W6**	1 880	**(1)**		
Motor expenses	**W7**	4 060	**(1)**		
Irrecoverable debts		300	**(1)**		
Bank interest	**W8**	60	**(1)**		
Depreciation	**W9**	4 160	**(1)**	29 500	
Profit for the year				20 565	**(1)OF**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>
<table>
<tr><td>W1 – Revenue</td><td>(102 600 – 21 100 + 18 500) (1) + 5 200 (1) = $105 200 (1)OF</td></tr>
<tr><td>W2 – Purchases</td><td>(61 240 + 6 300 – 8 800) = $58 740 (1)</td></tr>
<tr><td>W3 – Closing inventory</td><td>15 880 – (960 – 760) = $15 680 (1)</td></tr>
<tr><td>W4 – Allowance for irrecoverable debts</td><td>18 500 – 300 = 18 200 × 5% = 910 – 1055 = $(145) (1)</td></tr>
<tr><td>W5 – Rent</td><td>16 800 – 600 – 1800 = $14 400 (1)</td></tr>
<tr><td>W6 – Electricity</td><td>1 920 – 130 + 90 = $1 880 (1)</td></tr>
<tr><td>W7 – Motor expenses</td><td>4 250 – 190 = $4 060 (1)</td></tr>
<tr><td>W8 – Bank interest</td><td>3 000 × 8% = 240 × 3/12 = $60 (1)</td></tr>
<tr><td>W9 – Depreciation</td><td>24 000 – 4 800 = 19 200 × 20% = 3 840 + 3 200 × 10% = $4 160 (1)</td></tr>
</table>
</td><td></td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Explain, with reference to an accounting concept, why adjustments were to be made to the financial statements in respect of these items.

<table>
<tr><th colspan="2">Item</th><th></th></tr>
<tr><td>5</td><td>Goods for own use</td><td>Concept
Business entity (1)</td></tr>
<tr><td colspan="2"></td><td>Explanation
The cost of goods taken by Ahmed for his own use should be charged to his drawings as they are separate from the business expenditure (1)</td></tr>
<tr><td>6</td><td>Irrecoverable debt</td><td>Concept
Prudence (1)</td></tr>
<tr><td colspan="2"></td><td>Explanation
The anticipated loss by writing off the debt as irrecoverable avoids overstating the profit for the year/trade receivables (1)</td></tr>
<tr><td>11</td><td>Motor insurance</td><td>Concept
Matching / Accruals (1)</td></tr>
<tr><td colspan="2"></td><td>Explanation
To match the expenditure of the insurance with the benefits of the same accounting period (1)</td></tr>
</table>

Accept other valid responses.</td><td>6</td></tr>
</table>

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Question	Answer	Marks
1(c)	**Advise Ahmed whether he should go ahead with either of these options. Justify your advice by discussing <u>both</u> financial and non- financial factors.** **Option 1 (Bank loan)** • Interest payments would reduce profits for the next ten years. **(1)** • Would the bank agree to providing further loan capital? **(1)** • Would the new premises result in the necessary increase in turnover? **(1)** • Would the bank require security? **(1)** **Option 2 (Partnership)** • Will provide necessary capital to avoid long-term liability. **(1)** • Would have to forgo half of future profits. **(1)** • Will Ahmed's brother add any additional skills/knowledge to the business? **(1)** • Will the partnership cause friction between the brothers? **(1)** **Max 6 for comments** **Decision supported with a comment (1)** **Accept other valid responses**	**7**

Question	Answer	Marks
2(a)	**Calculate the trade receivables turnover (days) for the year ended 31 August 2024 showing the formula used.** Formula: $\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$ **(1)** Calculation: $\frac{\$66\,000}{\$612\,000} \times 365 = 40$ days **(1)**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Explain the difference between gross profit margin and mark-up.

Gross profit margin expresses gross profit relative to revenue (1) whereas mark-up expresses gross profit relative to cost of sales (1)

Accept other valid responses.</td><td>2</td></tr>
<tr><td>2(c)(i)</td><td>State the formula for the rate of inventory turnover (times).

$\frac{\text{Cost of sales}}{\text{Average inventory}}$ (1)</td><td>1</td></tr>
<tr><td>2(c)(ii)</td><td>Calculate the value of the closing inventory at 31 August 2024.

$70 250 (3) W

Working
Cost of sales = $720 000 × 65% = $468 000 (1)
Average inventory = $468 000 / 6.4 = $73 125 (1)
Closing inventory = $76 000 – (($76 000 – 73 125) × 2) = $70 250 (1)</td><td>3</td></tr>
<tr><td>2(d)</td><td>Calculate, to <u>two</u> decimal places, the return on capital employed for the year ended 31 August 2024 showing the formula used.

<table>
<tr><th>Formula</th><th>Calculation</th></tr>
<tr><td>$\frac{\text{Profit from operations}}{\text{Capital employed}} \times 100$ (1)</td><td>$252 000 – $165 000
= $87 000 (1)
$550 000 + $95 000 + $45 000
= $690 000 (1)
($87 000 / $690 000) × 100
= 12.61% (1)</td></tr>
</table>
</td><td>4</td></tr>
</table>

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Question	Answer	Marks
2(e)	**State <u>three other</u> limitations of accounting ratios.** • Takes no account of non-financial issues. **(1)** • Ignores the effects of inflation. **(1)** • Ignores the time value of money **(1)** • Focuses on historical data. **(1)** • Takes no account of different accounting policies. **(1)** • Highlights differences, but not the causes of differences **(1)** **Max 3 marks** **Accept other valid responses.**	**3**

Question	Answer	Marks
3(a)	**Calculate the revised profit for the year ended 30 June 2024.** $60 640 **(4) W** **Working** **$** Draft profit 58 340 Closing inventory (2 800) **(1)** Returns outwards 1 140 **(1)** Advertising 3960 **(1)** Revised profit 60 640 **(1)OF**	**4**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Calculate the value of ordinary share capital at 1 July 2023.

$140 000 (3) W

Working

<table>
<tr><td>Share capital</td><td>$</td><td></td></tr>
<tr><td>Closing balance</td><td>200 000</td><td></td></tr>
<tr><td>Rights issue</td><td>(40 000)</td><td>(1)</td></tr>
<tr><td>Bonus issue</td><td>(20 000)</td><td>(1)</td></tr>
<tr><td>Opening balance</td><td>140 000</td><td>(1)OF</td></tr>
</table></td><td>3</td></tr>
</table>

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Question	Answer	Marks
3(c)	**Complete the statement of changes in equity for the year ended 30 June 2024.**	**8**

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
At 1 July 2023	140 000	19 200	6 500	18 400	184 100 **(1)OF row**
Final dividend				(14 000)	(14 000) **(1)OF row**
Bonus issue	20 000	(19 200)		(800)	– **(1)OF row**
Interim dividend				(3 200)	(3 200) **(1)OF row**
Rights issue	40 000	16 000			56 000 **(1)OF row**
Revaluation			(6 500)	(1 500)	(8 000) **(1) row**
Profit for the year				60 640	60 640 **(1)OF row**
At 30 June 2024	200 000	16 000	–	59 540	275 540 **(1)OF row**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(i)</td><td>Calculate: the budgeted contribution per unit.
$88.25 (3) W
Working

$96.00 (1) – $7.75 (1) = $88.25 (1)OF</td><td>3</td></tr>
<tr><td>4(a)(ii)</td><td>Calculate: the budgeted fixed overheads for the year.

$242 375 (3) W

Working
<table>
<tr><th></th><th>$</th><th></th></tr>
<tr><td>Selling overheads $157 500 – ($7.75 × 3 500)</td><td>130 375</td><td>(1)</td></tr>
<tr><td>Production overheads $126 000 – ($4 × 3 500)</td><td>112 000</td><td>(1)</td></tr>
<tr><td>Budgeted fixed overheads</td><td>242 375</td><td>(1) OF</td></tr>
</table>
Alternative answer if using $2.25 in part (a)

$261 625 (3) W

Working
<table>
<tr><th></th><th>$</th><th></th></tr>
<tr><td>Selling overheads $157 500 – ($2.25 × 3 500)</td><td>149 625</td><td>(1)</td></tr>
<tr><td>Production overheads $126 000 – ($4 × 3 500)</td><td>112 000</td><td>(1)</td></tr>
<tr><td>Budgeted fixed overheads</td><td>261 625</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>4(a)(iii)</td><td>

Calculate: the budgeted margin of safety <u>in units</u>.

753 (2) W

Working

	Units	
Breakeven ($242 375 / $88.25)	2 747	**(1)**
Budgeted production	3 500	
Margin of safety	753	**(1) OF**

Alternative answer if using $2.25 in part (a)

709 **(2) W**

Working

	Units	
Breakeven ($261 625 / $93.75)	2 791	**(1) OF**
Budgeted production	3 500	
Margin of safety	709	**(1) OF**

</td><td>**2**</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Prepare a marginal cost statement for the year ended 30 November 2025 to show the revised contribution and revised profit for the year if Martina decides to go ahead with the plan.

Martina
Budgeted marginal cost statement for the year ending 30 November 2025
<table>
<tr><td>Revenue</td><td>4 200 × $149</td><td>625 800</td><td>(1)</td></tr>
<tr><td>Direct materials</td><td>4 200 × $28</td><td>(117 600)</td><td>(1)</td></tr>
<tr><td>Direct labour</td><td>4 200 × $28.50</td><td>(119 700)</td><td>(1)</td></tr>
<tr><td>Variable production overhead</td><td>4 200 × $3.20</td><td>(13 440)</td><td>(1)</td></tr>
<tr><td>Sales commission basic</td><td>3 500 × $7.45</td><td>(26 075)</td><td>(1)</td></tr>
<tr><td>Sales commission proposed</td><td>700 × $14.90</td><td>(10 430)</td><td>(1)</td></tr>
<tr><td>Contribution</td><td></td><td>338 555</td><td>(1) OF</td></tr>
<tr><td>Fixed costs</td><td></td><td>267 375</td><td>(1) OF</td></tr>
<tr><td>Profit</td><td></td><td>71 180</td><td>(1) OF</td></tr>
</table></td><td>9</td></tr>
</table>

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Question	Answer	Marks
4(c)	**Advise Martina whether or not she should go ahead with the plan. Justify your answer by considering <u>both</u> financial and non-financial factors.** **Financial (Max 3)** • Will increase profits by less than 5%. **(1)** • Sales force will have greater incentive to sell with increased commission. **(1)** • Will machinery incur maintenance costs not budgeted for? **(1)** • Have finance costs been factored into the plan? **(1)** • Depreciation and advertising will increase fixed costs, reducing profit **(1)** **Non-financial (Max 3)** • Will customers remain loyal to the new product design? **(1)** • Will the new machinery actually save 5% labour hours? **(1)** • Will the workforce accept the effective lower unit wage rate? **(1)** • Will the advertising campaign result in the anticipated increased sales? **(1)** • How accurate are the estimates? **(1)** **Decision supported with a comment (1)** **Accept other valid responses**	**7**
4(d)	**Explain <u>one</u> advantage of cost – volume – profit analysis.** It enables a business to know the amount of profit generated at different levels of output **(1)** and therefore how much to produce and sell in order to prevent a loss **(1)** **Accept other valid responses**	**2**

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Question	Answer	Marks
4(e)	**Explain <u>one</u> reason why marginal costing is considered to be more useful for short-term decision making than absorption costing.** Marginal costing enables a business to calculate contribution which helps decide whether special orders etc should be accepted **(1)** whereas absorption costing treats fixed costs as part of the product cost which makes such decisions impractical **(1)** **Accept other valid responses**	**2**
4(f)	**Explain the effect on profit of using marginal costing rather than using absorption costing.** Using marginal costing will result in higher profits if inventory levels decrease/lower profits if inventory levels increase **(1) a**s inventory valuation in marginal costing does not consider fixed costs as part of the product cost, unlike absorption costing **(1)** **Accept other valid responses**	**2**

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