Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **May/June 2023**

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 May/June 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U 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 descriptors 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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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

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.

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Question	Answer	Marks
1(a)	**Prepare the statement of profit or loss for the year ended 30 September 2022.**	**11**

J Limited
Statement of profit or loss for the year ended 30 September 2022

	$	
Revenue	869 000	
Cost of sales	(457 000)	**(1)**
Gross profit	412 000	**(1)OF**
Administrative expenses **W1**	(191 000)	**(4)**
Distribution costs **W2**	(161 000)	**(2)**
Profit from operations	60 000	**(1)OF**
Finance costs	(8 000)	**(1)**
Profit for the year	52 000	**(1)OF**

W1 Administrative expenses		
$191 000 **(4)**		
Working	$	
Trial balance	28 000	
Depreciation of NCA	156 000	**(1)**
Irrecoverable debts	3 000	**(1)**
Allowance for irrecoverable debts	4 000	**(1)**
	191 000	**(1)OF**

Question	Answer	Marks
1(a)		

W2 Distribution costs		
$161 000 **(2)**		
Working	$	
Trial balance	57 000	
Depreciation of NCA	104 000	**(1)**
	161 000	**(1)OF**

1(b) **Calculate the balance of retained earnings at 30 September 2022 following the bonus issue.** **6**

$86 000 **(6)**

Working

W1 Bonus issue:		
$70 000 **(3)**		
Working	$	
Share issue	280 000	**(1)**
Share premium	(210 000)	**(1)**
Retained earnings	(70 000)	**(1)OF**

	$	
Opening balance	125 000	
Profit for the year	52 000	**(1)OF**
Dividends paid	(21 000)	**(1)**
Bonus issue **W1**	(70 000)	**(3)**
Closing balance	86 000	**(1)OF**

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Question	Answer	Marks
1(c)	**State <u>one</u> reason why the directors of a company might decide to make a bonus issue.** To reward/satisfy shareholders **(1)** Insufficient liquid funds to pay a dividend **(1)** To utilise the capital reserves of the company **(1)** **Max 1**	**1**
1(d)	**Explain <u>one</u> reason why trade payables and potential lenders might approve of a company making a bonus issue.** A bonus issue is a non-cash item **(1)** so therefore will have no effect on the repayment of liabilities **(1).**	**2**
1(e)	**Identify <u>three</u> points the directors should consider when deciding whether to pay a dividend.** The amount of profits/retained earnings available for distribution **(1)** Liquid funds available to pay dividends **(1)** Shareholders' expectations/previous dividend payments **(1)** **Accept other valid responses.**	**3**
1(f)	**Advise the directors which option they should choose. Justify your choice by discussing <u>both</u> options.** **Option 1 (Max 3)** Will encourage earlier payment by credit customers which will improve liquidity **(1)** Reduce risk of irrecoverable debts/the need for an allowance for irrecoverable debts **(1)** Could result in increased sales which could improve cash flow **(1)** Amounts received from credit customers will be less/Negative effect of cash discount on cash flow **(1)** Customers my not be encouraged to pay within 20 days **(1)** **Option 2 (Max 3)** Will reduce overall payments for purchases which will improve liquidity **(1)** Positive impact on profits **(1)** Will payment terms be favourable **(1)** Will supplier prove reliable **(1)** Will quality be maintained **(1)** **Decision** supported by a comment **(1)** **Accept other valid responses.**	**7**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>State <u>three</u> reasons why it is important to a business to prepare bank reconciliation statements at regular intervals.

To identify errors in the cash book/in the bank statement (1)
To help reduce the chance/assist in the discovery of fraud (1)
To identify unpresented cheques/outstanding lodgements/dishonoured cheques (1)
To ensure accurate (bank balance in the) financial statements (1)

Max 3
Accept other valid responses.</td><td>3</td></tr>
<tr><td>2(b)</td><td>Prepare the cash book to show the updated balance at 31 March 2022. Dates are not required.

Cash book (bank columns)
<table><tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr><tr><td>Interest (received)</td><td>450</td><td>(1)</td><td>Balance b/d</td><td>3 060</td><td></td></tr><tr><td>Balance c/d</td><td>3 809</td><td></td><td>Water charges</td><td>442</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Bank charges</td><td>85</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Peter</td><td>90</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Jamia</td><td>582</td><td>(1)</td></tr><tr><td></td><td>4 259</td><td></td><td></td><td>4 259</td><td></td></tr><tr><td></td><td></td><td></td><td>Balance b/d</td><td>3 809</td><td>(1)OF</td></tr></table></td><td>6</td></tr>
<tr><td>2(c)</td><td>Prepare a bank reconciliation statement to show the bank statement balance at 31 March 2022.

Rudra
Bank reconciliation statement at 31 March 2022
<table><tr><td></td><td>$</td><td>$</td><td></td></tr><tr><td>Balance as per updated cash book</td><td></td><td>(3 809)</td><td>(1)OF</td></tr><tr><td>Unpresented cheques:
TK Stores</td><td>482</td><td></td><td></td></tr><tr><td>RH Supplies</td><td><u>1 043</u></td><td></td><td></td></tr><tr><td></td><td></td><td>1 525</td><td>(1)</td></tr><tr><td>Outstanding bankings</td><td></td><td><u>(893)</u></td><td>(1)</td></tr><tr><td>Balance as per bank statement</td><td></td><td><u>(3 177)</u></td><td>(1)OF</td></tr></table></td><td>4</td></tr>
</table>

Question	Answer	Marks
2(d)(i)	**Define <u>each</u> of the following terms:** **Unpresented cheque:** a cheque payment (recorded in the cash book but) not yet presented to the bank for payment **(1)**	**1**
2(d)(ii)	**Define <u>each</u> of the following terms:** **Dishonoured cheque:** a cheque which a bank refused to pay due to an error or lack of funds in the account **(1)**	**1**

Question	Answer	Marks
3(a)	**Calculate the business's profit or loss for the year ended 31 December 2021.** Loss $3 860 **(7)** **Workings** **Closing capital** |	$	$	| |---|---|---|---| | Assets			| | Non-current assets	27 500		| | Inventory	18 450		| | Trade receivables	7 230		| |		53 180	**(1)** | | Liabilities			| | Bank loan	8 500		| | Trade payables	9 940		| | Bank overdraft	3 470		| |		21 910	**(1)** | |		31 270	**(1)OF** | **Profit/loss calculation** |	$	| |---|---|---| | Opening capital	41 000	| | Capital introduced	9 000	**(1)** | |	50 000	| | Less: drawings	(14 870)	**(1)** | |	35 130	| | Closing capital	31 270	**(1)OF** | | Loss for year	3 860	**(1)OF**	**7**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Calculate revenue for the year ended 31 December 2022.

$225 750 (4)

Workings

<table>
<tr><td>Cost of sales</td><td>$</td><td></td></tr>
<tr><td>Opening inventory</td><td>18 450</td><td></td></tr>
<tr><td>Purchases</td><td>148 300</td><td></td></tr>
<tr><td></td><td>166 750</td><td>(1)</td></tr>
<tr><td>Closing inventory</td><td>(16 250)</td><td></td></tr>
<tr><td>Cost of sales</td><td>150 500</td><td>(1) OF</td></tr>
</table>
Revenue: $150 500 (OF) × 1.5 (1) = $225 750 (1)OF</td><td>4</td></tr>
<tr><td>3(c)</td><td>State <u>two</u> advantages to a business of maintaining a full set of accounting records.

Financial information will be more reliable/accurate (1)
Will provide more comprehensive information to inform decision making (1)
Facilitates preparation of the financial statements (1)

Max 2
Accept other valid responses.</td><td>2</td></tr>
<tr><td>3(d)</td><td>State <u>two</u> disadvantages to a business of maintaining a full set of accounting records.

May not have time/skills to maintain full accounting records (1)
Possible cost of employing bookkeeper (1)
Possible additional expenditure on equipment/accounting software etc. (1)

Max 2
Accept other valid responses.</td><td>2</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(i)</td><td>Define <u>each</u> of the following terms:

cost centre: a department/activity/location to which costs can be directly attributed (1)</td><td>1</td></tr>
<tr><td>4(a)(ii)</td><td>Define <u>each</u> of the following terms:

allocation of overheads: where overheads can be directly attributed to a cost centre. (1)</td><td>1</td></tr>
<tr><td>4(a)(iii)</td><td>Define <u>each</u> of the following terms:

apportionment of overheads: where it is necessary to divide overheads between cost centres on some rational basis (1)</td><td>1</td></tr>
<tr><td>4(b)</td><td>Reapportion the service department’s overheads to the production departments.

<table>
<tr><td></td><td>Cutting department</td><td>Finishing department</td><td>Service department</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td>$</td><td></td></tr>
<tr><td>Factory overheads</td><td>273 820</td><td>189 240</td><td>31 350</td><td></td></tr>
<tr><td>Reapportionment</td><td>18 750</td><td>12 600</td><td>(31 350)</td><td></td></tr>
<tr><td>Total overheads</td><td>292 570
(1)</td><td>201 840
(1)</td><td>–</td><td></td></tr>
</table>
</td><td>2</td></tr>
<tr><td>4(c)(i)</td><td>Calculate an appropriate overhead absorption rate, correct to <u>two</u> decimal places, for <u>each</u> production department:

Cutting department

$\frac{\$292\,570}{17\,900}$ = $16.34 per machine hour (1) OF</td><td>1</td></tr>
<tr><td>4(c)(ii)</td><td>Calculate an appropriate overhead absorption rate, correct to <u>two</u> decimal places, for <u>each</u> production department:
Finishing department.

$\frac{\$201840}{7\,420}$ = $27.20 per labour hour (1)OF</td><td>1</td></tr>
<tr><td>4(d)(i)</td><td>Calculate the under- or over-absorption of factory overheads for <u>each</u> production department for the year ended 31 August 2022.
Cutting department

$312 600 – (17 200 × $16.34)
$312 600 – $281 048 (1) OF = $31 552 (1) OF under absorbed (1) OF</td><td>3</td></tr>
</table>

Question	Answer	Marks
4(d)(ii)	**Calculate the under- or over-absorption of factory overheads for <u>each</u> production department for the year ended 31 August 2022.** **Finishing department** (7210 × $27.20) – $196 112 $193 400 – $196 112 **(1) OF** = $2 712 **(1) OF** over absorbed **(1) OF**	**3**
4(e)	**Calculate the profit for one month.** $154 000 **(1)**	**1**
4(f)(i)	**Calculate the profit to be made on <u>each</u> option in the first month of production.** **Option A** $166 025 **(3)** **Working** Selling price: 60 × 95% = $57 per unit Contribution $17 per unit Total contribution: (10 500 × 125%) × $17 = $223 125 Profit = $223 125 **(1)** – Fixed costs $57 100 **(1)** = $166 025 **(1) OF**	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(f) (ii)</td><td>
Calculate the profit to be made on <u>each</u> option in the first month of production.

Option B

$173 445 (6)

Working
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Revenue: 15 400 × $58</td><td>893 200</td><td>(1)</td></tr>
<tr><td>Direct materials 15 400 × $24.20</td><td>(372 680)</td><td>(1)</td></tr>
<tr><td>Direct labour</td><td></td><td></td></tr>
<tr><td>Normal working: 14 000 × $18</td><td>(252 000)</td><td>(1)</td></tr>
<tr><td>Overtime: 1 400 × $27</td><td><u>(37 800)</u></td><td>(1)</td></tr>
<tr><td>Contribution</td><td>230 720</td><td></td></tr>
<tr><td>Fixed costs W1</td><td>(57 275)</td><td>(1)</td></tr>
<tr><td>Profit for month</td><td>173 445</td><td>(1)OF</td></tr>
</table>
W1 New fixed costs: $56 000 + $1125 (depreciation) + $150 (interest) = $57 275
</td><td>6</td></tr>
</table>

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Question	Answer	Marks
4(g)	**Advise the directors which option they should choose. Justify your answer by considering both financial and non-financial factors.** **Financial (Max 2)** **Option A** • Less profitable than option B **(1)** • More profitable than current situation.**(1)** • Cost of advertising will reduce profits **(1)** **Option B** • More profitable than Option A **(1)** (Allow once only) • More profitable than current situation.**(1)** • Additional interest and depreciation costs will reduce profits **(1)** **Non-financial (Max 4)** **Option A** • Will sales continue to decrease **(1)** • Will advertising campaign be effective for Option A? **(1)** • Will forecasts be reliable **(1)** (Allow once only) **Option B** • Are employees prepared to work overtime in Option B? **(1)** • Will overtime working result in decreased efficiency/deteriorated quality **(1)** • Will forecasts be reliable **(1)** **Decision** supported by a comment **(1)** **Accept other valid responses.**	**7**