Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2018**

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 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.

Question	Answer	Marks
1(a)	Debit bank/application **(1)** Credit ordinary share capital **(1)** Credit share premium **(1)**	3
1(b)(i)	bonus issue of (ordinary) shares **(1)**	1
1(b)(ii)	because the share premium account is a capital reserve with limited uses **(1)** so that reserves are kept in their most flexible form **(1)** to maximise the future dividends which could be paid **(1)** **Max 2**	2
1(b)(iii)	final dividend of the previous year paid **(1)**	1
1(b)(iv)	to retain profits for reinvestment in the business **(1)**	1
1(b)(v)	because the loan is a non-current liability/loan capital **(1)** and does not affect equity **(1)**	2
1(c)	Property, plant and equipment — \$ — \$ Buildings at valuation — — 650 000 **(1)** Equipment – cost 256 000 + 37 000 — 293 000 provision for dep 61 000 + 29 300 — 90 300 — 202 700 **(1)** Motor vehicles – cost 188 000 – 10 000 — 178 000 **(1)** prov for dep 81 000 – 2 000 **(1)** + 19 800 **(1)** — 98 800 — 79 200 — — 931 900 **(1)OF**	6

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)</td><td>M Limited
Statement of financial position at 31 December 2017

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Assets</td><td></td><td></td></tr>
<tr><td>Non-current assets</td><td></td><td></td></tr>
<tr><td>Property, plant and equipment</td><td>931 900</td><td>(1) OF</td></tr>
<tr><td>Current assets</td><td>290 300</td><td>(1)</td></tr>
<tr><td>Total assets</td><td>1 222 200</td><td></td></tr>
<tr><td>Equity and liabilities</td><td></td><td></td></tr>
<tr><td>Equity</td><td></td><td></td></tr>
<tr><td>Ordinary share capital</td><td>500 000</td><td>}</td></tr>
<tr><td>Share premium</td><td>50 000</td><td>} (1)</td></tr>
<tr><td>General reserve</td><td>50 000</td><td>}</td></tr>
<tr><td>Revaluation reserve</td><td>288 000</td><td>(1)</td></tr>
<tr><td>Retained earnings</td><td>137 900</td><td>(4) OF</td></tr>
<tr><td></td><td>1 025 900</td><td></td></tr>
<tr><td>Non-current liabilities</td><td></td><td></td></tr>
<tr><td>10% bank loan (2025)</td><td>100 000</td><td>(1)</td></tr>
<tr><td>Current liabilities</td><td>96 300</td><td>(1)</td></tr>
<tr><td>Total equity and liabilities</td><td>1 222 200</td><td></td></tr>
</table>

Retained earnings
100 000 + 163 000 – 66 000 (1) – 10 000 (1) – 49100 (1) OF
= 137 900 (1) OF</td><td>10</td></tr>
<tr><td>1(e)</td><td>Reasons for:
Profit would increase in the short term.
The capital base / asset base of the company would rise in the short term.

Reasons against:
The change would not be in accordance with the accounting concept of consistency.
The change would not be prudent / against prudence concept.
Assets/profit could be overstated.
Lower depreciation charges would mean higher losses on disposal.
The change would not help profit in the long term.

Accept other valid points.

Max (3) for comments plus (1) for decision</td><td>4</td></tr>
</table>

Question	Answer	Marks
2(a)	Realisation account	6

	$			$	
Land and buildings	150 000	}	Discount received	1 500	**(1)**
Motor vehicles (1 and 2)	40 000	}	Bank – Land and buildings	200 000	}
Machinery	60 000	} **(1)**	Bank – Machinery	55 150	}
Inventory	35 000	}	Bank – Inventory	33 750	} **(1)**
Discount allowed	4 500	**(1)**	Angela's capital – Motor vehicle 1	20 000	}
Dissolution costs	2 300	**(1)**	Beena's capital – Motor vehicle 2	13 000	}
Profit on realisation – Angela	15 800	}			
Profit on realisation – Beena	11 850	} **(1) OF**			
Profit on realisation – Cai	3 950	}			
	323 400			323 400	

Question	Answer	Marks
2(a)	Alternative presentation Realisation account Debit ($): Land and buildings 150 000 (1) Motor vehicles (1 and 2) 40 000 (1) Machinery 60 000 (1) Inventory 35 000 (1) Trade receivables 45 000 (1) Bank-Trade payables 25 000 (1) for both entries Dissolution costs 2 300 **(1)** Profit on realisation – Angela 15 800 **(1) OF** Profit on realisation – Beena 11 850 **(1) OF** Profit on realisation – Cai 3 950 **(1) OF** Total 388 900 Credit ($): Bank – Land and buildings 200 000 **(1)** Angela's capital – Motor vehicle 1 20 000 **(1)** Beena's capital Motor vehicle 2 13 000 **(1)** Bank-Machinery 55 150 **(1)** Bank-Inventory 33 750 **(1)** Bank-Trade receivables 40 500 **(1) for both entries** Trade payables 26 500 **(1) for both entries** Total 388 900	
2(b)	$ Capital account 75 000 **(1) OF** Current account 4 000 **(1) OF** Profit on realisation 11 850 **(1) OF** Motor vehicle (13 000) **(1) OF** Loan account 100 000 **(1)** Total 177 850 **(1) OF**	**3**
2(c)	Amount of capital contributed by each partner. **(1)** Profit share for each partner. **(1)** Duties of each partner. **(1)** Interest on capital. **(1)** Interest on drawings. **(1)** Partners' salaries **(1)** Drawings limitations **(1)** **Max 2 marks**	**2**

Question	Answer	Marks
2(d)	Partners may want separate **capital accounts** to: Show the permanent investment **(1)** Show the impact of any changes in capital **(1)** (e.g. goodwill, capital introduced, revaluations) Facilitate the calculation of interest on capital **(1)** Partners may want separate **current accounts** to: Show the ongoing transactions between the partners and the partnership **(1)** Show the amount of drawings compared with the share of profit **(1)** Facilitate the calculation of interest on drawings **(1)** **Max 2 for capital account and Max 2 for current account.**	**4**

Question	Answer	Marks
3(a)	the gross margin looks at gross profit in relation to revenue **(1)** whereas mark-up looks at gross profit in relation to cost of sales. **(1)**	**2**
3(b)(i)	purchases / cost of sales / carriage inwards **(1)**	**1**
3(b)(ii)	any two correct answers for **(1)** mark each e.g. rent, insurance	**2**
3(c)(i)	$\frac{18\,500\ \mathbf{(1)}}{92\,500\ \mathbf{(1)}} \times 100 = 20\%$ **(1) OF**	**3**
3(c)(ii)	$\frac{14\,800}{92\,500}$ **(1) OF** $\times 100 = 16\%$ **(1) OF**	**2**
3(c)(iii)	$\frac{3700}{92\,500}$ **(1) OF** $\times 100 = 4\%$ **(1) OF**	**2**
3(d)	the gross margin less the expenses ratio equals the profit margin	**1**
3(e)	increase in selling price combined with constant purchase price **(1)** decrease in purchase price with no change in selling price **(1)** change in product mix **(1)** **Max 2**	**2**

Question	Answer	Marks
4(a)(i)	<table><tr><td></td><td>Total $000</td><td>Per unit $</td><td></td></tr><tr><td>Sales (20 000 units)</td><td>2 900</td><td>145</td><td rowspan="3">(1)</td></tr><tr><td>Direct materials</td><td>500</td><td>25</td></tr><tr><td>Direct labour</td><td>300</td><td>15</td></tr><tr><td>Production overheads (20 000 × $5)</td><td>100</td><td>5</td><td>**(1)**</td></tr><tr><td>Selling overheads (20 000 × $10)</td><td>200</td><td>10</td><td>**(1)**</td></tr><tr><td></td><td>1 100</td><td>55</td><td></td></tr><tr><td>Contribution</td><td>1 800</td><td>90</td><td>**(1) OF**</td></tr></table>	4
4(a)(ii)	$\dfrac{(680\,000-100\,000)\,\textbf{(1)}+(898\,000-200\,000)\,\textbf{(1)}}{90\ \textbf{(1) OF}} = 14\,200 \text{ units}$ **(1) OF** 20 000 – 14 200 = 5800 **(1)OF**	5
4(a)(iii)	$\left(\dfrac{5800}{20\,000}\right) \times 100 = 29\%$ **(1)OF**	1
4(b)(i)	<table><tr><td></td><td>$</td><td>$</td><td></td></tr><tr><td>Sales (25 000 × $145 × 0.85)</td><td></td><td>3 081 250</td><td>**(1)**</td></tr><tr><td>Direct materials (25 000 × $25 × 0.95)</td><td>593 750 **(1)**</td><td></td><td></td></tr><tr><td>Direct labour (25 000 × $15)</td><td>375 000 **(1)**</td><td></td><td></td></tr><tr><td>Variable production overheads (25 000 × $5)</td><td>125 000 **(1)**</td><td></td><td></td></tr><tr><td>Variable selling overheads (25 000 × $10)</td><td>250 000 **(1)**</td><td></td><td></td></tr><tr><td></td><td></td><td>1 343 750</td><td></td></tr><tr><td>Revised contribution</td><td></td><td>1 737 500</td><td>**(1) OF**</td></tr></table> **Alternative presentation** <table><tr><td></td><td>$</td><td></td><td>$</td><td>$</td></tr><tr><td>Contribution</td><td>90.00</td><td>**(1) OF**</td><td></td><td></td></tr><tr><td>Reduction in selling price</td><td>(21.75)</td><td>**(1)**</td><td></td><td></td></tr><tr><td>Saving on direct materials</td><td>1.25</td><td>**(1)**</td><td></td><td></td></tr><tr><td>Revised contribution</td><td>69.50</td><td>**(1) OF**</td><td></td><td></td></tr><tr><td>× 25 000 **(1)**</td><td>1 737 500</td><td>**(1) OF**</td><td></td><td></td></tr></table>	6
4(b)(ii)	<table><tr><td>Contribution</td><td></td><td>1 737 500</td><td></td></tr><tr><td>Production overheads</td><td>580 000</td><td></td><td></td></tr><tr><td>Selling overheads (698 000 + 250 000)</td><td>948 000</td><td></td><td></td></tr><tr><td></td><td></td><td>1 528 000</td><td>**(1)**</td></tr><tr><td>Profit for the year</td><td></td><td>209 500</td><td>**(1) OF**</td></tr></table>	2

Question	Answer	Marks
4(c)	**Financial (max 4)** If the company did not adopt the sales manager's proposal it would achieve the following profits over three years: \$ 522 000 + 322 000 + 220 000 = 1 064 000 **(1)** If the sales manager's proposal were to be accepted the following profits would be earned over three years; 209 500 + 459 500 + 459 500 = 1 128 500 **(1) OF** Comparison of the two profit figures **(1) OF** How reliable are the directors' estimates of costs and revenues **(1)** **Non-financial (Max 4)** Availability of labour – would the current labour force be able to absorb the additional work or will additional staff need to be recruited and trained? **(1)** Machinery – would additional machinery be required to absorb a 25% increase in production? **(1)** Space – would the company have sufficient space available? **(1)** Competitors – would they respond and reduce their price? **(1)** Advertising – will sales target be reached in years 2 and 3? **(1)** Will the direct material quality suffer with the cost reduction **(1)** **Overall max (6) for comments plus (1) for recommendation**	**7**
4(d)	Selling price is constant and will not change as volumes change **(1)** The sales mix remains constant in a multi-product company **(1)** The number of units produced equals the number of units sold **(1)** Costs are linear **(1)** Costs can be accurately divided into fixed and variable elements **(1)** **Max 3**	**3**
4(e)	Ease of calculation. CVP is based upon a standard set of formulas that work for all of the analysis techniques **(1)** Useful for making short term decisions e.g. make or buy, use of limiting resources, spare capacity **(1)** Calculation of breakeven point **(1)** **Max 2**	**2**