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AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/23

Paper 2 Structured Questions

May/June 2017

MARK SCHEME

Maximum Mark: 90

Published

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This document consists of **5** printed pages.

Question	Answer	Marks
1(a)	Adjusted net profit: 232 000–4000 (1) –9000 (3) =219 000 Workings: 15 000 · 2=30 000 (1) · 20%=6000 (1) OF 15 000–6000=9000 (1) OF	4
1(b)	Adjusted Net Profit 219000 Add Interest on drawings Ramadhin 400 Statham 400 Trueman <u>400</u> <u>1200 (1)</u> 220200 Less Interest on capital Ramadhin 18 000 Statham 12 000 Trueman <u>6 000</u> (36000) (1) Salary Trueman <u>(12000) (1)</u> 172200 Share of profit Ramadhin 86 100 (1) OF Statham 57 400 (1) OF Trueman <u>28 700 (1)</u> OF <u>172200</u>	6
1(c)	Fair value of assets may be greater than book value. (1) Partners are rewarded for their efforts in building up the business. (1) It is only fair that the retiring partner is compensated in this way. (1)	3
1(d)	Capital 100 000 Goodwill to Trueman 2 000 (1) Revaluation loss (1 250) (1) Current account <u>36 300 *</u> (5) <u>137 050</u> · 60% 82 230 (1)OF *28 700 (1) OF + 6000 (1) OF + 12 000 (1) OF – 400 (1) OF – 10 000 (1)	8
1(e)	Decision. (1) <u>Financial (Maximum 3)</u> Trueman would receive more / less income. (1)OF Interest will be earned on the loan. (1) The decision may be affected by the interest rate which could be obtained externally on the capital invested. (1) <u>Non-financial (Maximum 3)</u> Level of risk. (1) Degree of responsibility / decision making. (1) Security of employment. (1) 1 mark for decision plus maximum 4 marks for justification	5

Question	Answer	Marks
1(f)	<p>Decision. (1)</p> <p>Partnership may not have funds available. (1)</p> <p>It may be able to take a loan to repay at a lower interest thereby increasing the profit of the remaining partners. (1)</p> <p>Taking a loan will increase the risk to the business. (1)</p> <p>Loan may require a security. (1)</p> <p>1 mark for decision plus maximum 3 marks for justification</p>	4
	Total:	30

Question	Answer	Marks																																																
2(a)	<p style="text-align: center;">WX Limited</p> <p style="text-align: center;">Statement of Changes in equity for the year ended 28 February 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Share capital \$</th> <th style="text-align: center;">Share premium \$</th> <th style="text-align: center;">Retained earnings \$</th> <th style="text-align: center;">Revaluation reserve \$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Balance b/d</td> <td style="text-align: right;">150 000</td> <td style="text-align: right;">60 000</td> <td style="text-align: right;">40 000</td> <td style="text-align: center;">–</td> <td></td> </tr> <tr> <td>Revaluation</td> <td></td> <td></td> <td></td> <td style="text-align: right;">50 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Bonus issue</td> <td style="text-align: right;">45 000 (1)</td> <td style="text-align: right;">(45 000) (1)OF</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rights issue</td> <td style="text-align: right;">24 375 (1)OF</td> <td style="text-align: right;">14 625 (1)OF</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dividends paid</td> <td></td> <td></td> <td style="text-align: right;">(17 550) (1)OF</td> <td></td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right;"><u>50 500</u></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>219 375</u></td> <td style="text-align: right;"><u>29 625</u></td> <td style="text-align: right;"><u>72 950</u></td> <td style="text-align: right;"><u>50 000</u></td> <td style="text-align: right;">(1)OF</td> </tr> </tbody> </table> <p>Workings:</p> <p>Bonus issue: $150\,000 / 0.5 = 300\,000$ (1) / $10 \cdot 3 = 90\,000$ · $\\$0.50 = 45\,000$</p> <p>Rights issue: $300\,000 + 90\,000 = 390\,000$ (1)OF $8 = 48\,750$ $48\,750 \cdot \\$0.50 = 24\,375$ $48\,750 \cdot \\$0.30 = 14\,625$</p> <p>Dividends $300\,000 + 90\,000 + 48\,750 = 438\,750$ (1)OF · $\\$0.04 = 17\,550$</p>		Share capital \$	Share premium \$	Retained earnings \$	Revaluation reserve \$		Balance b/d	150 000	60 000	40 000	–		Revaluation				50 000	(1)	Bonus issue	45 000 (1)	(45 000) (1)OF				Rights issue	24 375 (1)OF	14 625 (1)OF				Dividends paid			(17 550) (1)OF			Profit for the year			<u>50 500</u>		(1)	Balance c/d	<u>219 375</u>	<u>29 625</u>	<u>72 950</u>	<u>50 000</u>	(1)OF	11
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2(b)	<p><u>Advantages (Maximum 3)</u></p> <p>Can be issued instead of paying dividends and so cash flow is not reduced. (1)</p> <p>Keeps existing shareholders satisfied as there is no dilution of ownership. (1)</p> <p>Retains cash in the business for reinvestment. (1)</p> <p>Gives a positive sign to potential shareholders. (1)</p> <p>Enables company to release its capital reserves. (1)</p> <p><u>Disadvantage</u></p> <p>No cash raised from selling the shares.</p> <p>(1 mark for a valid point up to a maximum of 4 marks)</p>	4																																																
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Question	Answer	Marks
3(a)	Trade receivables / credit sales · 365 (1) $16\,500/167\,175 \cdot 365 = 37$ days (1)OF Credit sales: $37\,150 \cdot 100/20 = 185\,750$ (1) – $18\,575 = 167\,175$ (1)OF	4
3(b)	Cost of goods sold: $37\,150 \cdot 80/20$ (1) = 148 600 (1)OF Cost of goods sold / average inventory $148\,600 / (25\,200 + \text{closing inventory}) / 2$ (1)OF = 5 Closing inventory: $148\,600 / 5 \cdot 2 - 25\,200 = 34\,240$ (1)OF	4
3(c)	Trade payables / credit purchases · 365 (1) Credit purchases = $148\,600 + (34\,240 - 25\,200) = 157\,640$ (1)OF $(9500/157\,640)$ (1)OF · 365 = 22 days (1)OF	4
3(d)	Shows trend / previous years. (1) Helps to compare with competitors. (1) Help to compare with industry averages. (1) Set targets for the next period. (1) (1 mark for a valid point up to 3 marks maximum)	3
	Total:	15

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4(f)	<p>Make or buy decisions. (1) Special order decisions. (1) Decide whether or not to cease manufacturing of a product. (1) Decide whether to close a department. (1) Maximum 3 marks</p>	3																																																																																					
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