

Cambridge
International
AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/23

Paper 2 Structured Questions

May/June 2019

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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This document consists of **16** printed pages.

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.

<p>GENERIC MARKING PRINCIPLE 1:</p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> • 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.
<p>GENERIC MARKING PRINCIPLE 2:</p> <p>Marks awarded are always whole marks (not half marks, or other fractions).</p>
<p>GENERIC MARKING PRINCIPLE 3:</p> <p>Marks must be awarded positively:</p> <ul style="list-style-type: none"> • 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.
<p>GENERIC MARKING PRINCIPLE 4:</p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>

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)	<p>D Limited</p> <p>Income statement for the year ended 31 December 2018</p> <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">\$000</td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">5080 (1)</td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">(2501) (3)</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;"><u>2579</u></td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;">(725) (4)</td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">(971) (3)</td> </tr> <tr> <td>Property costs</td> <td style="text-align: right;">(260) (1)</td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;"><u>623</u></td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;">(29)</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>594 (1)</u></td> </tr> </table> <p>Workings</p> <table style="margin-left: 40px;"> <tr> <td>Revenue</td> <td style="text-align: right;">5120 – 40 = 5080 (1)</td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">620 + 8 (1) + 2502 – 12 (1) – 617 (1) = \$2501</td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;">608 + 78 (1) + 6 (1) + 18 (1) + 15 (1) = 725</td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">937 + 22 (1) – 6 (1) + 18 (1) = 971</td> </tr> <tr> <td>Property costs</td> <td style="text-align: right;">239 + 21 = 260 (1)</td> </tr> <tr> <td>Depreciation</td> <td></td> </tr> <tr> <td>Buildings: 1050 × 2% = 21 (Property costs)</td> <td></td> </tr> <tr> <td>Fixtures and fittings: 520 × 15% = 78 (Administration expenses)</td> <td></td> </tr> <tr> <td>Motor vehicles: 96 × 25% = 24 (Distribution costs \$18, Administrative expenses \$6)</td> <td></td> </tr> </table>		\$000	Revenue	5080 (1)	Cost of sales	(2501) (3)	Gross profit	<u>2579</u>	Administrative expenses	(725) (4)	Distribution costs	(971) (3)	Property costs	(260) (1)	Profit from operations	<u>623</u>	Finance costs	(29)	Profit for the year	<u>594 (1)</u>	Revenue	5120 – 40 = 5080 (1)	Cost of sales	620 + 8 (1) + 2502 – 12 (1) – 617 (1) = \$2501	Administrative expenses	608 + 78 (1) + 6 (1) + 18 (1) + 15 (1) = 725	Distribution costs	937 + 22 (1) – 6 (1) + 18 (1) = 971	Property costs	239 + 21 = 260 (1)	Depreciation		Buildings: 1050 × 2% = 21 (Property costs)		Fixtures and fittings: 520 × 15% = 78 (Administration expenses)		Motor vehicles: 96 × 25% = 24 (Distribution costs \$18, Administrative expenses \$6)		13
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1(b)	<p data-bbox="220 1041 247 1164">D Limited</p> <p data-bbox="252 660 279 1545">Extract from the statement of financial position at 31 December 2018</p> <table data-bbox="319 716 526 1612"> <tr> <td data-bbox="319 1489 343 1601">Inventory</td> <td data-bbox="319 840 343 918">\$000</td> <td data-bbox="319 716 343 806"></td> </tr> <tr> <td data-bbox="343 1232 367 1601">Trade receivables (600 – 18)</td> <td data-bbox="343 840 367 918">617</td> <td data-bbox="343 716 367 806">(1) OF</td> </tr> <tr> <td data-bbox="367 1377 391 1601">Other receivables</td> <td data-bbox="367 840 391 918">582</td> <td data-bbox="367 716 391 806">(1)</td> </tr> <tr> <td></td> <td data-bbox="391 840 414 918">6</td> <td data-bbox="391 716 414 806">(1)</td> </tr> <tr> <td></td> <td data-bbox="414 817 438 952"><u>1205</u></td> <td></td> </tr> </table>	Inventory	\$000		Trade receivables (600 – 18)	617	(1) OF	Other receivables	582	(1)		6	(1)		<u>1205</u>		3			
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1(d)	<p>Preference shares (Max 2 marks)</p> <p>Permanent capital (1)</p> <p>Incurs annual finance costs of \$15000 (1)</p> <p>Issuing will cost will be more time consuming/costly (1)</p> <p>Bank loan (Max 2 marks)</p> <p>Has to be repaid (1)</p> <p>Incurs annual finance costs of \$24000 (1)</p> <p>Bank may/may not be willing to advance the loan at lower interest rate than the current loan (1)</p> <p>May require security (1)</p> <p>Advice (1)</p> <p>Accept other valid points.</p>	5
1(e)	<p>Bonus shares are not paid for, (1) Rights issue are paid for (1)</p> <p>Bonus shares do not change the net assets, (1) Rights issue increases net assets (1)</p> <p>Bonus shares are issued to all shareholders, (1) Shareholders have a choice whether to take up rights issue. (1)</p> <p>Bonus shares are issued at par value, (1) Rights issue may be made at a discount to market value/at a premium (1)</p> <p>Bonus shares do not give additional capital/equity, (1) Rights issue gives additional capital/equity (1)</p> <p>2 marks × max 2 points of difference</p>	4

Question	Answer	Marks
2(a)	<p>Death / ill health / retirement of a partner (1)</p> <p>A partner has been declared bankrupt (1)</p> <p>Disagreement between partners (1)</p> <p>Insufficient level of profits (1)</p> <p>Insufficient levels of cash reserves (1)</p> <p>Partnership has achieved its purpose (1)</p> <p>Accept other valid points.</p> <p>Max 3 marks</p>	3

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2(b)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" data-bbox="215 974 247 1232">Realisation account</th> <th data-bbox="215 616 247 728">\$</th> <th data-bbox="215 616 247 728">\$</th> </tr> </thead> <tbody> <tr> <td data-bbox="247 1332 311 1702">Motor vehicles</td> <td data-bbox="247 1198 311 1332">29400</td> <td data-bbox="247 504 311 616"></td> <td data-bbox="247 504 311 616"></td> </tr> <tr> <td data-bbox="311 1332 375 1702">Furniture and equipment</td> <td data-bbox="311 1198 375 1332">15600</td> <td data-bbox="311 504 375 616">Furniture and equipment</td> <td data-bbox="311 504 375 616">9500</td> </tr> <tr> <td data-bbox="375 1332 438 1702">Inventory</td> <td data-bbox="375 1198 438 1332">14920</td> <td data-bbox="375 504 438 616">Inventory</td> <td data-bbox="375 504 438 616">11000</td> </tr> <tr> <td data-bbox="438 1332 502 1702">Trade receivables</td> <td data-bbox="438 1198 502 1332">11540</td> <td data-bbox="438 504 502 616">Capital: Liz</td> <td data-bbox="438 504 502 616"></td> </tr> <tr> <td data-bbox="502 1332 566 1702">Bank: dissolution costs</td> <td data-bbox="502 1198 566 1332">2350</td> <td data-bbox="502 504 566 616">Motor vehicle</td> <td data-bbox="502 504 566 616">16600</td> </tr> <tr> <td data-bbox="566 1332 630 1702"></td> <td data-bbox="566 1198 630 1332"></td> <td data-bbox="566 504 630 616">Bank:</td> <td data-bbox="566 504 630 616"></td> </tr> <tr> <td data-bbox="630 1332 694 1702"></td> <td data-bbox="630 1198 694 1332"></td> <td data-bbox="630 504 694 616">Motor vehicle</td> <td data-bbox="630 504 694 616">8450</td> </tr> <tr> <td data-bbox="694 1332 758 1702"></td> <td data-bbox="694 1198 758 1332"></td> <td data-bbox="694 504 758 616">Trade receivables (W1)</td> <td data-bbox="694 504 758 616">10260</td> </tr> <tr> <td data-bbox="758 1332 821 1702"></td> <td data-bbox="758 1198 821 1332"></td> <td data-bbox="758 504 821 616">Realisation loss:</td> <td data-bbox="758 504 821 616"></td> </tr> <tr> <td data-bbox="821 1332 885 1702"></td> <td data-bbox="821 1198 885 1332"></td> <td data-bbox="821 504 885 616">John</td> <td data-bbox="821 504 885 616">7200</td> </tr> <tr> <td data-bbox="885 1332 949 1702"></td> <td data-bbox="885 1198 949 1332"></td> <td data-bbox="885 504 949 616">Kathy</td> <td data-bbox="885 504 949 616">5400</td> </tr> <tr> <td data-bbox="949 1332 1013 1702"></td> <td data-bbox="949 1198 1013 1332"></td> <td data-bbox="949 504 1013 616">Liz</td> <td data-bbox="949 504 1013 616">5400</td> </tr> <tr> <td data-bbox="1013 1332 1077 1702"></td> <td data-bbox="1013 1198 1077 1332">73810</td> <td data-bbox="1013 504 1077 616"></td> <td data-bbox="1013 504 1077 616">73810</td> </tr> <tr> <td data-bbox="1077 1332 1157 1702"></td> <td data-bbox="1077 1198 1157 1332"></td> <td data-bbox="1077 504 1157 616"></td> <td data-bbox="1077 504 1157 616"></td> </tr> </tbody> </table>										Realisation account		\$	\$	Motor vehicles	29400			Furniture and equipment	15600	Furniture and equipment	9500	Inventory	14920	Inventory	11000	Trade receivables	11540	Capital: Liz		Bank: dissolution costs	2350	Motor vehicle	16600			Bank:				Motor vehicle	8450			Trade receivables (W1)	10260			Realisation loss:				John	7200			Kathy	5400			Liz	5400		73810		73810					7
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3(a)	<p>Provides an arithmetical check on the accuracy of the ledgers (1), as the balances on each control account should agree with the total of balances in each ledger. (1)</p> <p>Helps prevent fraud (1) as the work of those employees working on each ledger is independently checked by another employee. (1)</p> <p>Provides a figure for total trade receivables and total trade payables (1) aiding preparation of financial statements. (1)</p> <p>Any two benefits, 2 marks each</p>	4																								
3(b)(i)	<p>Purchases ledger control account</p> <table border="1" data-bbox="614 526 1013 1691"> <tbody> <tr> <td></td> <td>\$</td> <td></td> <td>\$</td> </tr> <tr> <td>Contra error</td> <td>485</td> <td>(1)</td> <td>18981</td> </tr> <tr> <td>Balance c/d</td> <td>18617</td> <td></td> <td>54 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td>67 (1)</td> </tr> <tr> <td></td> <td>19102</td> <td></td> <td>19102</td> </tr> <tr> <td></td> <td></td> <td></td> <td>18617 (1) OF</td> </tr> </tbody> </table>		\$		\$	Contra error	485	(1)	18981	Balance c/d	18617		54 (1)				67 (1)		19102		19102				18617 (1) OF	4
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3(b)(ii)	<p>Sales ledger control account</p> <table border="1" data-bbox="1109 526 1436 1691"> <tbody> <tr> <td></td> <td>\$</td> <td></td> <td>\$</td> </tr> <tr> <td>Balance b/d</td> <td>12385</td> <td></td> <td>480 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td>11905</td> </tr> <tr> <td></td> <td>12385</td> <td></td> <td>12385</td> </tr> <tr> <td>Balance b/d</td> <td>11905</td> <td>(1) OF</td> <td></td> </tr> </tbody> </table>		\$		\$	Balance b/d	12385		480 (1)				11905		12385		12385	Balance b/d	11905	(1) OF		2				
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3(c)(i)	<p>Purchases ledger accounts</p> <table border="1" data-bbox="279 638 614 1579"> <tr> <td></td> <td>\$</td> <td></td> </tr> <tr> <td>Original total</td> <td>18496</td> <td></td> </tr> <tr> <td>Purchases returns error</td> <td>54</td> <td>(1)</td> </tr> <tr> <td>Interest charged on overdue account</td> <td>67</td> <td>(1)</td> </tr> <tr> <td></td> <td>18617</td> <td>(1) OF</td> </tr> </table> <p>Final balances c/d must be the same amount in the purchases ledger control account and the purchases ledger balances.</p>		\$		Original total	18496		Purchases returns error	54	(1)	Interest charged on overdue account	67	(1)		18617	(1) OF	3
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Interest charged on overdue account	67	(1)															
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3(c)(ii)	<p>Sales ledger accounts</p> <table border="1" data-bbox="774 638 1061 1579"> <tr> <td></td> <td>\$</td> <td></td> </tr> <tr> <td>Original total</td> <td>11117</td> <td></td> </tr> <tr> <td>Dishonoured cheque</td> <td>788</td> <td>(1)</td> </tr> <tr> <td></td> <td>11905</td> <td>(1) OF</td> </tr> </table> <p>Final balances c/d must be the same amount in the sales ledger control account and the sales ledger balances.</p>		\$		Original total	11117		Dishonoured cheque	788	(1)		11905	(1) OF	2			
	\$																
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	11905	(1) OF															

Question	Answer	Marks
4(a)	Payment to employee is based on the number of completed units they produce (1)	1
4(b)	Production overheads include all factory indirect costs (1) that cannot be traced directly to a unit of production (1)	2
4(c)(i)	<div style="text-align: right;"> Advertising \$ Sales team salaries 24 000 Fixed selling expenses 51 000 <hr style="width: 100px; margin-left: 0;"/> 75 000 (1) </div>	1
4(c)(ii)	Variable selling expenses \$720 000 × 3.5% \$25 200 (1)	1
4(c)(iii)	<div style="text-align: right;"> Sales \$ Less: Direct labour 270 000 Material C 48 000 Material D 90 000 Variable selling expenses 25 200 <hr style="width: 100px; margin-left: 0;"/> 286 800 (1) OF </div>	1

Question	Answer	Marks																												
4(c)(iv)	<p style="text-align: right;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Sales</td> <td style="text-align: right;">720000</td> </tr> <tr> <td>Less:</td> <td></td> </tr> <tr> <td> Direct labour</td> <td style="text-align: right;">270000</td> </tr> <tr> <td> Material C</td> <td style="text-align: right;">48000</td> </tr> <tr> <td> Material D</td> <td style="text-align: right;">90000</td> </tr> <tr> <td> Fixed production overheads</td> <td style="text-align: right;">30000</td> </tr> <tr> <td> Fixed selling expenses</td> <td style="text-align: right;">75000</td> </tr> <tr> <td> Variable selling expenses</td> <td style="text-align: right;">25200</td> </tr> <tr> <td>Profit</td> <td style="text-align: right; border-top: 1px solid black;">181800 (1)</td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Alternative</td> <td style="text-align: right;">\$</td> </tr> <tr> <td> Contribution</td> <td style="text-align: right;">286800</td> </tr> <tr> <td> Fixed selling expenses</td> <td style="text-align: right;">75000</td> </tr> <tr> <td> Fixed production overheads</td> <td style="text-align: right;">30000</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">181800</td> </tr> </table>	Sales	720000	Less:		Direct labour	270000	Material C	48000	Material D	90000	Fixed production overheads	30000	Fixed selling expenses	75000	Variable selling expenses	25200	Profit	181800 (1)	Alternative	\$	Contribution	286800	Fixed selling expenses	75000	Fixed production overheads	30000		181800	1
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4(d)	<p>Additional order for 15000 pots: Budgeted capacity – current capacity = 70000 – 60000 = 10000 spare capacity. (1) Order – spare capacity = 15000 – 10000 = 5000 additional capacity (1) required to meet the order. These will incur extra costs.</p> <p>Forecast incremental profit statement Exclude variable selling expenses and fixed costs as they are not relevant to the order.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%; text-align: right;">\$</td> <td style="width: 20%; text-align: right;">\$</td> </tr> <tr> <td>Sales</td> <td></td> <td style="text-align: right;">120000 (1)</td> </tr> <tr> <td>Less variable costs</td> <td></td> <td></td> </tr> <tr> <td> Direct labour</td> <td style="text-align: right;">10 000 × \$4.50 (1) 5 000 × \$5.25 (1)</td> <td style="text-align: right; border-top: 1px solid black;">71 250 (1)</td> </tr> <tr> <td> Material C</td> <td style="text-align: right;">10 000 × \$0.80 (1) 5 000 × \$0.84 (1)</td> <td style="text-align: right; border-top: 1px solid black;">12 200 (1)</td> </tr> <tr> <td> Material D</td> <td style="text-align: right;">10 000 × \$1.50 (1) 5 000 × \$1.53 (1)</td> <td style="text-align: right; border-top: 1px solid black;">22 650 (1)</td> </tr> <tr> <td>Profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">106 100 13 900 (1) OF</td> </tr> </table>		\$	\$	Sales		120000 (1)	Less variable costs			Direct labour	10 000 × \$4.50 (1) 5 000 × \$5.25 (1)	71 250 (1)	Material C	10 000 × \$0.80 (1) 5 000 × \$0.84 (1)	12 200 (1)	Material D	10 000 × \$1.50 (1) 5 000 × \$1.53 (1)	22 650 (1)	Profit		106 100 13 900 (1) OF	13
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Question	Answer	Marks
4(e)	<p>Accept / Reject (1)</p> <p>Financial (Max 2)</p> <p>Will provide increase in sales revenue.</p> <p>The order provides positive contribution/profit OF so is worthwhile.</p> <p>Will there be an increase in the fixed cost?</p> <p>Would it be less expensive to pay the existing workforce a premium for the additional units?</p> <p>Non-financial (Max 2)</p> <p>What effect will the lower price have on other customers who are paying \$12?</p> <p>Will the temporary labour be available immediately/ existing workforce be willing to work overtime?</p> <p>Will the product quality remain the same if temporary labour is used / do they have the necessary skills for hand painted pots?</p> <p>Will the morale of the existing workforce go down if temporary labour is employed?</p> <p>1 mark for decision</p> <p>Accept other valid points.</p>	5

Question	Answer	Marks
4(f)	<p>Benefits (Max 2)</p> <p>Aids short-term decision making.</p> <p>Identifies break-even point/margin of safety/project profit.</p> <p>Accept other valid points.</p> <p>Limitations (Max 3)</p> <p>It assumes that total fixed costs are constant.</p> <p>It assumes variable costs per unit are the same.</p> <p>It assumes the selling price per unit remains the same.</p> <p>It assumes sales and production levels are the same.</p> <p>It assumes product mix remains constant.</p> <p>It ignores uncertainty in estimates of fixed costs and variable costs.</p> <p>Some costs are difficult to classify as fixed or variable.</p> <p>Accept other valid points.</p>	5