



Cambridge International AS & A Level

ACCOUNTING**9706/23**

Paper 2 Structured Questions

May/June 2020

MARK SCHEME

Maximum Mark: 90

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

This document consists of **9** 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.

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)	<p style="text-align: center;">K Limited</p> <p style="text-align: center;">Income statement for the year ended 31 October 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">542 370</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;"><u>(259 240)</u></td> <td></td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">283 130</td> <td></td> </tr> <tr> <td>Administrative expenses (W1)</td> <td style="text-align: right;">(103 166)</td> <td style="text-align: right;">(3) OF</td> </tr> <tr> <td>Distribution costs (W2)</td> <td style="text-align: right;"><u>(130 044)</u></td> <td style="text-align: right;">(5) OF</td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;">49 920</td> <td></td> </tr> <tr> <td>Finance costs (W3)</td> <td style="text-align: right;"><u>(1 400)</u></td> <td style="text-align: right;">(2) OF</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;">8 520</td> <td style="text-align: right;">(1) OF</td> </tr> </table> <p>Workings:</p> <p>W1: Administrative expenses</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Payment</td> <td style="text-align: right;">8 490</td> <td></td> </tr> <tr> <td>Directors' fees ($4/5 \times \\$41\,200$)</td> <td style="text-align: right;">32 960</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Staff wages and salaries ($2/5 \times \\$140\,790$)</td> <td style="text-align: right;">56 316</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Furniture and equipment depreciation</td> <td style="text-align: right;">5 400</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>80% \times ($\\$45\,000 \times 15\%$)</td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">103 166</td> <td></td> </tr> </table> <p>W2: Distribution costs:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Payment</td> <td style="text-align: right;">16 500</td> <td></td> </tr> <tr> <td>Advertising prepayment ($5/6 \times \\$7\,200$)</td> <td style="text-align: right;">(6 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Directors' fees ($1/5 \times \\$41\,200$)</td> <td style="text-align: right;">8 240</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Staff wages and salaries ($3/5 \times \\$140\,790$)</td> <td style="text-align: right;">84 474</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Motor vehicle depreciation ($20\% \times \\$117\,400$)</td> <td style="text-align: right;">25 480</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Furniture and equipment depreciation</td> <td style="text-align: right;">1 350</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>20% \times ($\\$45\,000 \times 15\%$)</td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">130 044</td> <td></td> </tr> </table> <p>W3: Finance costs</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Payment</td> <td style="text-align: right;">800</td> <td></td> </tr> <tr> <td>Interest for 3 months ($\\$20\,000 \times \frac{1}{4} \times 8\%$)</td> <td style="text-align: right;">400</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Interest for final 3 months ($\\$10\,000 \times \frac{1}{4} \times 8\%$)</td> <td style="text-align: right;">200</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">1 400</td> <td></td> </tr> </table>		\$		Revenue	542 370		Cost of sales	<u>(259 240)</u>		Gross profit	283 130		Administrative expenses (W1)	(103 166)	(3) OF	Distribution costs (W2)	<u>(130 044)</u>	(5) OF	Profit from operations	49 920		Finance costs (W3)	<u>(1 400)</u>	(2) OF	Profit for the year	8 520	(1) OF		\$		Payment	8 490		Directors' fees ($4/5 \times \$41\,200$)	32 960	(1)	Staff wages and salaries ($2/5 \times \$140\,790$)	56 316	(1)	Furniture and equipment depreciation	5 400	(1)	80% \times ($\$45\,000 \times 15\%$)			Total	103 166			\$		Payment	16 500		Advertising prepayment ($5/6 \times \$7\,200$)	(6 000)	(1)	Directors' fees ($1/5 \times \$41\,200$)	8 240	(1)	Staff wages and salaries ($3/5 \times \$140\,790$)	84 474	(1)	Motor vehicle depreciation ($20\% \times \$117\,400$)	25 480	(1)	Furniture and equipment depreciation	1 350	(1)	20% \times ($\$45\,000 \times 15\%$)			Total	130 044			\$		Payment	800		Interest for 3 months ($\$20\,000 \times \frac{1}{4} \times 8\%$)	400	(1)	Interest for final 3 months ($\$10\,000 \times \frac{1}{4} \times 8\%$)	200	(1)	Total	1 400		11
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1(b)	<p style="text-align: center;">Statement of changes in equity for the year ended 31 October 2019</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Details</th> <th style="width: 15%;">Share capital \$</th> <th style="width: 15%;">Share premium \$</th> <th style="width: 15%;">Retained Earnings \$</th> <th style="width: 15%;">Total \$</th> </tr> </thead> <tbody> <tr> <td>Balances, 1 November 2018</td> <td style="text-align: right;">90 000</td> <td style="text-align: right;">36 000</td> <td style="text-align: right;">65 600</td> <td style="text-align: right;">191 600</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">(1) for row</td> </tr> <tr> <td>Dividends paid</td> <td></td> <td></td> <td style="text-align: right;">(18 000)</td> <td style="text-align: right;">(18 000)</td> </tr> <tr> <td>Bonus issue (W1)</td> <td style="text-align: right;">60 000</td> <td style="text-align: right;">(36 000)</td> <td style="text-align: right;">(24 000)</td> <td style="text-align: right;">(18 000)</td> </tr> <tr> <td>Profit for year</td> <td></td> <td></td> <td style="text-align: right;">48 520</td> <td style="text-align: right;">48 520</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">(1)OF</td> <td></td> </tr> <tr> <td>Balances 31 October 2019</td> <td style="text-align: right;">150 000</td> <td></td> <td style="text-align: right;">72 120</td> <td style="text-align: right;">222 120</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">(1)OF for row</td> </tr> </tbody> </table> <p>W1 Bonus issue</p> <p>Number of shares: $90\,000 \times 2 = 180\,000$ Bonus issue = $\frac{2}{3} \times 180\,000 = 120\,000$ shares Value of bonus issue = $120\,000 \times \\$0.50 = \\$60\,000$</p>	Details	Share capital \$	Share premium \$	Retained Earnings \$	Total \$	Balances, 1 November 2018	90 000	36 000	65 600	191 600					(1) for row	Dividends paid			(18 000)	(18 000)	Bonus issue (W1)	60 000	(36 000)	(24 000)	(18 000)	Profit for year			48 520	48 520				(1)OF		Balances 31 October 2019	150 000		72 120	222 120					(1)OF for row	7
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1(c)	<ul style="list-style-type: none"> • Limited liability for the debts of the business (1) • Shareholders enjoy a separate legal identity from the company (1) • Shareholders can easily transfer ownership. (1) <p>Max 3</p> <p>Accept other valid responses</p>	3																																													
1(d)	<p>General: the ratios show the company's performance has deteriorated over the three-year period (1)</p> <p>Non-current assets to turnover ratio: has remained better than the industry average (1) indicating a more efficient use of non-current assets than other similar businesses/a larger turnover than other similar businesses (1).</p> <p>Return on capital employed: has been worse than the industry average for the last year (1), indicating a less efficient use of capital employed than other similar businesses/a poorer profit than other similar businesses (1).</p> <p>Max 4</p> <p>Accept other valid responses.</p>	4																																													

Question	Answer	Marks
1(e)	<p>The company will no longer pay interest on debentures which will increase profits (1)</p> <p>The capital employed will be reduced because debentures no longer included (1)</p> <p>The return on capital employed will increase (1)</p> <p>Will the company have sufficient liquid funds to repay the debentures? (1)</p> <p>Will other forms of borrowing be required to make the repayment possible? (1)</p> <p>Advice (1) comments Max 4 Accept other valid responses.</p>	5

Question	Answer	Marks																				
2(a)	<p>Rent receivable account</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Income statement</td> <td style="text-align: center;">4700 (1)</td> <td>Balance b/d</td> <td style="text-align: center;">700 (1)</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: center;">800</td> <td>Bank</td> <td style="text-align: center;">4800 (1)</td> </tr> <tr> <td></td> <td style="text-align: center;">5500</td> <td></td> <td style="text-align: center;">5500</td> </tr> <tr> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: center;">800 (1)</td> </tr> </tbody> </table>		\$		\$	Income statement	4700 (1)	Balance b/d	700 (1)	Balance c/d	800	Bank	4800 (1)		5500		5500			Balance b/d	800 (1)	4
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2(b)	Rent receivable appears in the profit and loss section of the income statement/it follow immediately after gross profit (1)	1																				
2(c)	Closing balance will appear in the current liabilities section (1) .	1																				
2(d)	<p>Calculation of change in the provision for doubtful debts.</p> <p>Rate used: $672/(\\$16\,128 + 672, \text{ i.e. } \\$16\,800)(1) = 4\% \text{ (1)}$</p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 50%;">Old provision</td> <td style="width: 50%; text-align: right;">\$ 672</td> </tr> <tr> <td>New provision = $4\%(\text{OF}) \times \\$15\,300$</td> <td style="text-align: right;">612 (1) OF</td> </tr> <tr> <td>Change in provision</td> <td style="text-align: right;">60 (1) OF decrease (1) OF</td> </tr> </tbody> </table>	Old provision	\$ 672	New provision = $4\%(\text{OF}) \times \$15\,300$	612 (1) OF	Change in provision	60 (1) OF decrease (1) OF	5														
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2(e)	<p>Accounting concepts and provisions for doubtful debts</p> <p>Accruals concept (1)</p> <p>Prudence concept (1)</p>	2																				

Question	Answer	Marks
2(f)	<p>The business's past experience of irrecoverable debts (1) The usual rate applied for businesses of this type (1) Analysis of the existing debts and how long they have been outstanding/based on ageing schedule of trade receivables (1)</p> <p>Max 2</p> <p>Accept other valid responses</p>	2

Question	Answer	Marks																																								
3(a)	<p style="text-align: center;">Purchases ledger control account for September 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>Opening balance</td> <td style="text-align: right;">290</td> <td>Opening balance</td> <td style="text-align: right;">27 450</td> <td>(1)*</td> </tr> <tr> <td>Purchases returns</td> <td style="text-align: right;">1 430</td> <td>Purchases</td> <td style="text-align: right;">32 480</td> <td>(1)**</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">26 980</td> <td>Interest charges</td> <td style="text-align: right;">470</td> <td>(1)</td> </tr> <tr> <td>Discounts received</td> <td style="text-align: right;">1 060</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Contras</td> <td style="text-align: right;">810</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Closing balance c/d</td> <td style="text-align: right;"><u>29 830</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>60 400</u></td> <td>Balance b/d</td> <td style="text-align: right;"><u>60 400</u></td> <td>(1)OF</td> </tr> </table> <p>*for recording both opening balances correctly ** for recording both purchases and purchases returns correctly</p>		\$		\$		Opening balance	290	Opening balance	27 450	(1)*	Purchases returns	1 430	Purchases	32 480	(1)**	Bank	26 980	Interest charges	470	(1)	Discounts received	1 060				Contras	810				Closing balance c/d	<u>29 830</u>					<u>60 400</u>	Balance b/d	<u>60 400</u>	(1)OF	7
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3(b)	<p>Reasons for preparing purchase ledger control accounts</p> <ul style="list-style-type: none"> • To check the arithmetical accuracy of the purchases ledger (1) • To provide managers with a quick method of finding total trade payables (1) • To facilitate the preparation of financial statements (1) • To act as a deterrent to fraud (1) <p>Max 3</p> <p>Accept other valid responses.</p>	3																																								

Question	Answer				Marks
3(c)		Correction of sales ledger control account balance	Correction of total of sales ledger balances		5
	\$	\$			
Incorrect figures	14 850	15 320			
Error (1)	160				
Error (2)		150	(1)		
Error (3)	–	–	(1)		
Error (4)	420	420	(1)		
Error (5)		(460)	(1)		
Corrected figures	15 430	15 430	(1)OF		
4(a)	<p>Advantages of break-even analysis</p> <ul style="list-style-type: none"> • Identifies point at which product will make a profit (1) • Identifies margin of safety (1) • Helps cost control by showing relative importance of fixed costs and variable costs (1) • Provides information in a concise/straightforward/easy to understand format (1) <p>Max 3</p> <p>Accept other valid responses</p>				3
4(b)(i)	<p>Break-even point $\\$66\,000 / (\\$75 - \\$60)$ (1) = 4400 units (1)</p>				2
4(b)(ii)	<p>Break-even point $4400 \text{ units} \times \\$75 = \\$330\,000$ (1)OF</p>				1
4(c)	<p>Forecast profit per month</p> <p>$5800 - 4400 = 1400$ (1of) $\times \\$15 = \\$21\,000$ (1)OF</p>				2
4(d)	<p>Margin of safety</p> <p>Is the difference between maximum possible production/sales and break-even point (1)/the range of production which will ensure a profit is made (1)/the amount of sales which can be lost before a making a loss (1).</p> <p>Max 1</p>				1

Question	Answer				Marks																																																						
4(e)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="5" style="text-align: center;">Marginal costing statement for one month</th> </tr> <tr> <th></th> <th style="text-align: center;">Workings</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>8120 units (W1) (1) × \$82</td> <td></td> <td style="text-align: right;">665 840</td> <td>(1)OF</td> </tr> <tr> <td>Less Variable costs</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Direct materials</td> <td>2.2 kg × \$15, i.e. \$33 (1) × 8120 units OF</td> <td style="text-align: right;">267 960</td> <td></td> <td>(1)OF</td> </tr> <tr> <td>Direct labour</td> <td>Normal working: 7 500 units × 3.5 hr × \$10, i.e. \$262 500 (1)</td> <td rowspan="2" style="text-align: right; vertical-align: middle;">289 625</td> <td></td> <td>(1)OF</td> </tr> <tr> <td></td> <td>Overtime working: [8120 (of) – 7500] = 620 units × 3.5 hr × \$12.50, i.e. \$27 125</td> <td></td> <td>(1)OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">557 585</td> <td></td> </tr> <tr> <td>Contribution</td> <td></td> <td></td> <td style="text-align: right;">108 255</td> <td>(1)OF</td> </tr> <tr> <td>Less fixed costs</td> <td>\$66 000 + depreciation of new machinery (\$24 000/5 = \$4800/12) i.e. \$400</td> <td></td> <td style="text-align: right;">66 400</td> <td>(1)</td> </tr> <tr> <td>Profit per month</td> <td></td> <td></td> <td style="text-align: right;">41 855</td> <td>(1)OF</td> </tr> </tbody> </table>				Marginal costing statement for one month						Workings	\$	\$		Revenue	8120 units (W1) (1) × \$82		665 840	(1)OF	Less Variable costs					Direct materials	2.2 kg × \$15, i.e. \$33 (1) × 8120 units OF	267 960		(1)OF	Direct labour	Normal working: 7 500 units × 3.5 hr × \$10, i.e. \$262 500 (1)	289 625		(1)OF		Overtime working: [8120 (of) – 7500] = 620 units × 3.5 hr × \$12.50, i.e. \$27 125		(1)OF				557 585		Contribution			108 255	(1)OF	Less fixed costs	\$66 000 + depreciation of new machinery (\$24 000/5 = \$4800/12) i.e. \$400		66 400	(1)	Profit per month			41 855	(1)OF	10
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4(g)	<p>Reasons for agreeing</p> <ul style="list-style-type: none">• The plan will ensure the factory makes the optimum profit (1).• This is because Product B has the higher contribution per \$1 of direct labour (1). <p>Reasons for disagreeing</p> <ul style="list-style-type: none">• The company risks losing regular customers for Product A (1).• As a result in the longer term the profits of the company may be reduced (1) if regular customers cannot be won back.• Regular customers for Product A may also cancel their orders for Product B (1).• The directors need to consider how the suppliers of direct materials for Product A will react to a reduction in orders (1).• Will it be possible to continue to make usual orders with these suppliers when the problem is overcome? (1).• Trade discounts for ordering in bulk may be lost causing a decrease in the profitability of this unit (1). <p>Advice (1)</p> <p>Max 4 marks for comments</p> <p>Accept other valid responses.</p>	5