Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/23**

Paper 2 Structured Questions (Core) **October/November 2016**

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2016 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **7** printed pages.

1 (a)

Maneesh
Income statement for the year ended 31 December 2015

	$		$	
Revenue (184 190 + **(W1)** 8 490)			192 680	**(1)**
Cost of sales			115 608	**(1of)**
Gross profit *(must be labelled)*			77 072	**(1of)**
General expenses	14 160			
Rent	24 600			
Depreciation ((83 400 + 5 200) ×20%)	17 720	**(1)**		
Irrecoverable debt written off	900	**(1)**	57 380	
Profit for the year *(must be labelled)*			19 692	**(1of)**

Workings: **W1** Cash sales: 7 450 + 1 040 = 8 490 **[6]**

(b)

Maneesh
Statement of financial position at 31 December 2015

		$	
Non-current assets (83 400 + 5 200 – 17 720)		70 880	**(1)**
Current assets			
Inventory	**(W2)**	39 314	**(1of)**
Trade receivables	**(W3)**	29 000	**(1)**
Prepayments	**(W4)**	4 400	**(1)**
Cash in hand		180	
		72 894	
Total assets		143 774	
Capital account			
Balance at 1 January 2015		106 710	
Profit for the year		19 692	**(1of)**
		126 402	
Drawings (14 120 + 1 040)		(15 160)	**(1)**
		111 242	
Current liabilities			
Trade payables	**(W5)**	11 060	**(1)**
Accruals		4 200	**(1)**
Cash at bank		17 272	**(1)**
		32 532	
Total capital and liabilities		143 774	

Workings

W2 Closing inventory

Opening inventory	18 500	
Purchases	136 422	
Cost of sales((184 190 + 8 490) × 60%)	(115 608)	
Closing inventory	39 314	**(1of)**

W3 Trade receivables

Balance b/d	22 460	
Credit sales	184 190	
Bank	(176 750)	
Bad debt written off	(900)	
Closing trade receivables	29 000	**(1)**

W4 Prepayment

Balance b/d	1 900	
Bank	27 100	
Income statement	(24 600)	
Closing prepayments	4 400	**(1)**

W5 Trade payables

Balance b/d	12 770	
Purchases	136 422	
Bank	(138 132)	
Closing trade payables	11 060	**(1)**

[9]

(c) Inventory increased by almost $21 000 **(1)**
Trade receivables increased from $22 460 to $29 000 **(1)**
Trade payables reduced from $12 770 to $11 060 **(1)**
Non-current assets expenditure of $5 200 **(1)**
Prepayments increased from $1 900 to $4 400 **(1)**

Max 4 **[4]**

(d) Decision (1)

Loan (Max 3)
Will cost $5 000 in interest over the 5 years
Means Maneesh will keep all future profit earned
Loan has to be repaid

Partnership (Max 3)
Brother may bring in additional expertise
Will be able to share workload
Maneesh will lose 10% of profits earned
Brother will bear 10% of any losses
Capital does not have to be repaid **[7]**

(e) Affect appropriation account
Interest on capital
Partners' salaries
Interest on drawings

1 mark × 2 **[2]**

Will not affect appropriation account
Interest on loans
Amount of fixed capital
Annual limit on drawings

1 mark × 2 **[2]**

[Total: 30]

2 (a) (i) Selling price less cost to completion less selling expenses. **[1]**

(ii) To give the benefit of the change in value of the business to the existing partners and any partner who may be retiring. **(1)**

So that the statement of financial position on the entry of the new partner shows a true and fair view. **(1)** **[2]**

(iii) On the introduction of a new partner. **(1)**

On the retirement of an existing partner. **(1)**

On a change in the profit sharing ratio. **(1)**
Max 2 **[2]**

(b)

Capital accounts

	Alice	Eve	Jean			Alice	Eve	Jean	
	$	$	$			$	$	$	
Goodwill		12 150	8 100	**(1)**	Balance b/d	76 500	63 000	27 000	
Revaluation	19 345	11 607	7 738	**(1)**	Goodwill	10 125	6 075	4 050	**(1)**
Current a/c	14 112			**(1)**					
Bank	53 168			**(1of)**					
Balance b/d		45 318	15 212						
	86 625	69 075	31 050			86 625	69 075	31 050	
					Balance b/d		45 318	15 212	**(1of)**

Marks are for the full line

Workings:

Goodwill old ratio: 20 250 × 5 / 10, 3 / 10 and 2 / 10 = 10 125, 6075 and 4050

Goodwill new ratio: 20 250 × 3 / 5 and 2 / 5 = 12 150 and 8100

Revaluation account

Non-current assets	32 400	Alice	19 345
Inventory	4 300	Eve	11 607
Trade receivables	1 990	Jean	7 738
	38 690		38 690

Split: 38 690 × 5 / 10, 3 / 10 and 2 / 10 = 19 345, 11 607 and 7738. **[6]**

(c) Possible answers could include:

Reduced cash flow after paying Alice to leave the business in view of the current overdraft **(1)**
Having to raise additional finance to pay Alice off **(1)**
Impacts on profitability having to raise additional capital **(1)**
Lower capital investment in the business **(1)**
Difficult to raise additional finance to pay to Alice due to the current overdraft **(1)**
Max 4 **[4]**

[Total: 15]

3 (a)

Bank account

	$			$	
Application for shares	150 000	**(1)**	Application for shares	25 000	**(1)**
Application for shares	137 500	**(1)**			

Application of shares account

	$			$	
Bank	25 000	**(1)**	Bank	150 000	**(1)**
Share premium	12 500	**(1)**	Bank	137 500	**(1)**
OSC	250 000	**(1)**			
	287 500			287 500	

Share Premium account

	$	
Application for share	12 500	**(1)**

Ordinary Share Capital account

	$	
Balance b/d	600 000	
Application for shares	250 000	**(1)**

[10]

(b)

Preference shares:	**Ordinary shares**
Receive a fixed rate of dividend	Dividend varies
No voting rights	Have voting rights
Not owner of the company	Are owners of the company
Priority for dividend	Receive dividend after preference shareholders

Any 2 differences 2 marks **[4]**

(c) Share premium
Revaluation reserve
1 mark for any 1 **[1]**

[Total: 15]

4 (a)

	Total	Production cost centres Machining	Assembly	Service cost centres Stores	Canteen	
	$	$	$	$	$	
Depreciation	8750	5625	1875	750	500	**(1) line**
Machinery maintenance	27000	22728	4272			**(1) line**
Power	15370	7950	5300	1590	530	**(1) line**
Rent of premises	63510	32850	21900	6570	2190	**(1) line**
	114630	69153	33347	8910	3220	
Re-apportionment of canteen	0	1215	1823	182	(3220)	**(1) of line**
Re-apportionment of stores	0	6061	3031	(9092)		**(1) of line**
Total overhead cost	114630	76429 **(1)of**	38201 **(1)of**			

[8]

(b)

Machining

$$\frac{\text{Overhead cost}}{\text{Machine hours}} \quad \frac{\$76\,429}{14\,100} = \$5.42$$ **(1of)** per machine hour **(1)**

Assembly

$$\frac{\text{Overhead cost}}{\text{labour hours}} \quad \frac{\$38\,201}{13\,900} = \$2.75$$ **(1of)** per direct labour hour **(1)**

[4]

(c) Overhead cost calculation:

Product A

Machining	1.5 hrs × $5.42	8.13
Assembly	0.5 hrs × $2.75	1.37
		9.50 **(1)of**

Product B

Machining	0.3 hrs × $5.42	1.63
Assembly	2.0 hrs × $2.75	5.50
		7.13 **(1)of**

	Product A		Product B	
	$ per unit		$ per unit	
Direct costs	5.75		8.25	
Overhead costs	9.50		7.13	
Total cost	15.25	**(1)of**	15.38	**(1)of**

[4]

(d)

	Machining $			Assembly $	
Actual hrs × OAR					
16210 × $5.42	87 858		12650 × $2.75	34 788	
Less: actual overhead	76 750			45 675	
Over absorbed **(1)**	11 108	**(1)of**	Under absorbed **(1)**	10 887	**(1)of**

[4]

(e) The process of charging whole costs **directly** to a cost unit or cost centre. **(1)** **[1]**

(f) Answers may include:

a cost incurred which cannot be traced directly **(1)** to a product, service or department **(1)**
an indirect cost **(1)** **(max 2)** **[2]**

(g) So that each unit of production **(1)** contains a share of total overhead costs. **(1)** **[2]**

(h) Decision **(1 mark)**

Reasons to change to marginal costing: **(max 2)**

- simple and quick to operate
- no apportionment of fixed costs
- fixed costs are treated as period costs and so remain unchanged at different activity levels
- no over/under absorption of overhead costs to calculate
- no further adjustment needed in the income statement for over/under absorption
- closing inventory is realistically valued at variable production cost
- allows easy calculation of profit when changes in activity occur
- great aid in decision making/pricing/make or buy situation.

Reasons to keep absorption costing: **(max 2)**

- it shares fixed production costs to units of production, which is fair as these costs are incurred in order to make the output
- it is easier to determine profitability of several products as they include a share of fixed overheads.
- it values closing inventory fairly **[5]**

[Total: 30]