Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2017**

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.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer	Marks
1(a)	Share issue holding account	**10**

	$			$	
Bank	7 500	**(1)**	Bank	32 500	**(1)**
Share capital	50 000	**(1)**	Bank	35 000	**(1)**
Share premium	<u>10 000</u>	**(1)**		____	
	<u>67 500</u>			<u>67 500</u>	

Bank account

	$			$	
Share issue holding account	32 500	**(1)**	Share issue holding account	7500	**(1)**
Share issue holding account	35 000	**(1)**			

Share capital account

	$			$	
			Share issue holding account	50 000	**(1)**

Share premium account

	$			$	
			Share issue holding account	10 000	**(1)**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>F Limited
Statement of Changes in Equity for the year ended 30 June 2016
<table>
<tr><th></th><th>Ordinary shares
$000</th><th>Share premium
$000</th><th>Revaluation reserve
$000</th><th>Retained earnings
$000</th><th>Total
$000</th></tr>
<tr><td>At 1 July 2015</td><td>350 (1)</td><td>30 (1)</td><td></td><td>210</td><td>590 (1)</td></tr>
<tr><td>Share issue</td><td>50</td><td>10 (1)</td><td></td><td></td><td>60</td></tr>
<tr><td>Final dividend paid</td><td></td><td></td><td></td><td>(7) (1OF)</td><td>(7)</td></tr>
<tr><td>Interim dividend paid</td><td></td><td></td><td></td><td>(12) (1OF)</td><td>(12)</td></tr>
<tr><td>Revaluation</td><td></td><td></td><td>30 (1)</td><td></td><td>30</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td></td><td>65</td><td>65</td></tr>
<tr><td>At 30 June 2016</td><td>400</td><td>40</td><td>30</td><td>256</td><td>726 (1OF)</td></tr>
</table></td><td>8</td></tr>
<tr><td>1(c)</td><td>Debentures are long-term loans (1) on which interest must be paid, whether the company makes a profit or loss. (1)
Debenture holders receive a fixed rate of dividend. (1)
(Max 1)
Ordinary shares are permanent capital (1) on which dividends may or may not be paid at the discretion of the directors. (1)
Dividends are variable. (1)
(Max 1)
Overall max 2</td><td>2</td></tr>
<tr><td>1(d)</td><td>The directors must consider the feasibility of the rights issue, bearing in mind that there has just been a share issue at $1.20 that was oversubscribed. (1)
The debt of the business will increase in relation to the equity if debentures are issued. (1) This will increase the perceived risk as debenture interest will have to be paid each year. (1) A risky business will send a negative signal to suppliers.. (1)

Rights issue is made to existing shareholders. If they are confident about the future they will take up all the shares. (1)
However, if they have any doubt rights issue will not be fully taken up. (1) If the directors can prove that the return on the investment will exceed the rate of interest, existing shareholders can benefit from this investment. (1)

Max 3 marks for reasons + 1 mark for justified decision.
Accept other valid points.</td><td>4</td></tr>
<tr><td>1(e)</td><td>Revenue expenditure is money spent: on the day-to-day running expenses of the business; (1) on resources that will generally be used up within one year. (1)</td><td>2</td></tr>
</table>

Question	Answer	Marks
1(f)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>Building costs</td><td>28 000</td><td></td></tr><tr><td>Wages to own employees to construct new loading area</td><td>4 000</td><td>**(1)**</td></tr><tr><td>Materials for new loading area</td><td>2 400</td><td>**(1)**</td></tr><tr><td>Legal fees</td><td>2 200</td><td>**(1)**</td></tr><tr><td></td><td>36 600</td><td>**(1)OF**</td></tr></table>	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
Rowsell
Income Statement for the year ended 31 May 2017
<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Revenue (W1)</td><td></td><td></td><td>181 062</td><td>(1)OF</td></tr>
<tr><td>Cost of sales</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Opening inventory</td><td>19 600</td><td></td><td></td><td></td></tr>
<tr><td>Purchases (W2)</td><td>147 585</td><td>(2)</td><td></td><td></td></tr>
<tr><td>Closing inventory</td><td>(16 300)</td><td>(1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>150 885</td><td></td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>30 177</td><td>(1)OF</td></tr>
<tr><td>Profit on disposal (W3)</td><td></td><td></td><td>795</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>30 972</td><td></td></tr>
<tr><td>Less expenses:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Rent (W4)</td><td>18 000</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Telephone (W5)</td><td>3 310</td><td>(2)OF</td><td></td><td></td></tr>
<tr><td>Depreciation (W6)</td><td>3 805</td><td>(2)OF</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>25 115</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>5 857</td><td>(1)OF</td></tr>
</table>
Workings
<table>
<tr><td>(W1)</td><td>150 885 · 120% = 181 062 (1) OF</td></tr>
<tr><td>(W2)</td><td>144 715 + 17 220 (1) – 14 350 (1) = 147 585</td></tr>
<tr><td>(W3)</td><td>10 175 – 9380 (1) = 795</td></tr>
<tr><td>(W4)</td><td>19 500 – 1500 (1) = 18 000</td></tr>
<tr><td>(W5)</td><td>2750 + (840 / 3 · 2 (1)) = 3310 (1) OF</td></tr>
<tr><td>(W6)</td><td>24 600 – 9380 (1) = 15 220 · 25% = 3805 (1) OF</td></tr>
</table>
</td><td>12</td></tr>
<tr><td>2(b)</td><td>Assists with the preparation of the trial balance.
Assists with the preparation of the financial statements.
Reduces the risk of errors.
Reduces the risk of fraud.
Improves the accuracy of accounting records.
Balances on individual accounts are available throughout the year.
1 mark for a valid point up to a maximum of 3.</td><td>3</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Revaluation account

<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Motor vehicles</td><td>4 000</td><td>(1)</td><td>Loss on revaluation</td><td></td><td></td></tr>
<tr><td>Inventory</td><td>3 000</td><td>(1)</td><td>Rahman</td><td>3 600</td><td>}</td></tr>
<tr><td>Trade receivables</td><td>200</td><td>(1)</td><td>Silva</td><td>2 400</td><td>}</td></tr>
<tr><td></td><td></td><td></td><td>Thierry</td><td>1 200</td><td>}(1OF) for all</td></tr>
<tr><td></td><td>7 200</td><td></td><td></td><td>7 200</td><td></td></tr>
</table></td><td>4</td></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td></td><td>Dr
$</td><td>Cr
$</td></tr>
<tr><td>Capital account Rahman</td><td>4 800</td><td></td></tr>
<tr><td>Capital account Silva</td><td>3 200</td><td></td></tr>
<tr><td>Capital account Thierry</td><td></td><td>8 000</td></tr>
<tr><td></td><td>(1) both</td><td>(1)</td></tr>
</table></td><td>2</td></tr>
<tr><td>3(c)</td><td>Total amount due to Thierry on retirement

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Capital account</td><td>38 000</td><td>(1) OF</td></tr>
<tr><td>Current account balance</td><td>(4 400)</td><td>(1)</td></tr>
<tr><td>Motor vehicle taken over</td><td>(12 000)</td><td>(1)</td></tr>
<tr><td>Loss on revaluation</td><td>(1 200)</td><td>(1) OF</td></tr>
<tr><td></td><td>20 400</td><td></td></tr>
</table></td><td>4</td></tr>
<tr><td>3(d)</td><td>Profit / loss sharing ratios
Interest on capital
Interest on drawings
Partners’ salaries
Limits on drawings
Partners’ responsibilities
1 mark for each item, to a maximum of 3 marks.</td><td>3</td></tr>
</table>

Question	Answer	Marks
3(e)	Realisation account: Used to close the books of account **(1)** on the dissolution of a partnership. Revaluation account: Used to record changes in the value of assets and liabilities on changes in a partnership. **(1)**	**2**

Question	Answer	Marks
4(a)		**11**

	Product A	Product B	Product C	
Contribution per unit ($)	9	9	21	**(1)row**
Contribution per limiting factor ($)	1.5 **(1)**	1 **(1)**	7	**(1)**
Ranking	2	3	1	**(1)OF for row**

	Production (units)	Contribution per unit $	Total $	
Product A	2500 **(1)**	9	22 500	
Product B	1000 **(1)**	9	9 000	
Product C	5000 **(1)**	21	105 000	
Total contribution			136 500	**(1)OF**
Less: Fixed overheads			138 000	**(1)**
Budgeted profit / loss			(1 500)	**(1)OF**

Question	Answer	Marks
4(b)		**6**

	Production (units)	Contribution per unit $	Total $	
Product A	4000	9	36 000	**(1)row**
Product B	0	9	0	**(1)row**
Product C	5000	21	105 000	**(1)row**
Total contribution			141 000	**(1)OF**
Less: Fixed overheads			138 000	**(1)**
Budgeted profit / loss			3 000	**(1)OF**

Question	Answer	Marks
4(c)	**Advantages:** The company has a better chance of fulfilling customers' orders. If the shortage is only short term there is less chance of losing customers in the long term. Fewer dissatisfied customers. Less chance of idle resources. **Disadvantages:** Products may be dependent on each other. Customers may cease purchasing some products if some are unavailable. Company makes a budgeted loss if minimum demand is met. If the shortage is long term, the company will always be operating at a loss. Competitors may exploit the material shortage. **1 for decision, 3 for advantages and 3 for disadvantages.**	**7**
4(d)	Margin of safety is the difference between a given volume of sales **(1)** and break-even point **(1)**. It can be expressed in units or as a percentage of sales **(1)**. **Max 2**	**2**
4(e)	Margin of safety provides an assessment of risk **(1)** by indicating the extent to which expected output can fall **(1)** before a loss is made **(1)**. It shows the ability to withstand adverse trading conditions **(1)**.	**4**