Cambridge International AS & A Level

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ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2017**

MARK SCHEME

Maximum Mark: 90

Published

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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 400 1200 **(1)** 220200 Less Interest on capital Ramadhin 18 000 Statham 12 000 Trueman 6 000 (36000) **(1)** Salary Trueman (12000) **(1)** 172200 Share of profit Ramadhin 86 100 **(1) OF** Statham 57 400 **(1) OF** Trueman 28 700 **(1) OF** 172200	**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 36 300 * **(5)** 137 050 × 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)** Financial **(Maximum 3)** 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)** Non-financial **(Maximum 3)** 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)	Decision. **(1)** Partnership may not have funds available. **(1)** It may be able to take a loan to repay at a lower interest thereby increasing the profit of the remaining partners. **(1)** Taking a loan will increase the risk to the business. **(1)** Loan may require a security. **(1)** **1 mark for decision plus maximum 3 marks for justification**	**4**
	Total:	**30**

Question	Answer	Marks
2(a)	WX Limited Statement of Changes in equity for the year ended 28 February 2017 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: / / 50 500 **(1)** / Balance c/d: 219 375 / 29 625 / 72 950 / 50 000 **(1)OF** **Workings:** Bonus issue: 150 000/0.5=300 000 **(1)** / 10×3=90 000×$0.50=45 000 Rights issue: 300 000+90 000=390 000 **(1)OF** 8=48 750 48 750×$0.50=24 375 48 750×$0.30=14 625 Dividends 300 000+90 000+48 750=438 750 **(1)OF** ×$0.04=17 550	**11**
2(b)	Advantages **(Maximum 3)** Can be issued instead of paying dividends and so cash flow is not reduced. **(1)** Keeps existing shareholders satisfied as there is no dilution of ownership. **(1)** Retains cash in the business for reinvestment. **(1)** Gives a positive sign to potential shareholders. **(1)** Enables company to release its capital reserves. **(1)** Disadvantage No cash raised from selling the shares. **(1 mark for a valid point up to a maximum of 4 marks)**	**4**
	Total:	**15**

Question	Answer	Marks
3(a)	Trade receivables / credit sales × 365 **(1)** 16 500/167 175×365=37 days **(1)OF** Credit sales: 37 150×100/20=185 750 **(1)** –18 575=167 175 **(1)OF**	**4**
3(b)	Cost of goods sold: 37 150×80/20 **(1)** =148 600 **(1)OF** Cost of goods sold / average inventory 148 600/(25 200 + closing inventory)/2 **(1)OF** =5 Closing inventory: 148 600/5×2–25 200=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**

Question	Answer				Marks
4(a)		Exe	Wye	Zed	**3**
	Selling price	96.00	128.00	140.00	
	Variable costs	54.40	71.20	95.20	
	Contribution	41.60 **(1)**	56.80 **(1)**	44.80 **(1)**	
4(b)			$		**3**
	Exe	$41.60×100	4 160		
	Wye	$56.80×120	6 816		
	Zed	$44.80×60	2 688		
		Contribution	13 664 **(1)OF**		
		Fixed costs	7 000 **(1)**		
		Profit	6 664 **(1)OF**		
4(c)	Exe	1×100	100		**1**
	Wye	2.5×120	300		
	Zed	5×60	300		
		Total machine hours	700 **(1)**		

Question	Answer	Marks
4(d)		**10**

	Exe	Wye	Zed	
Unit contribution	41.60	56.80	44.80	
Machine hours	1	2.5	5	
Contribution per machine hour	41.60	22.72	8.96	**(1)OF**
Ranking	1	2	3	**(1)OF**

Production plan

Exe × 100 **(1OF)**	100 hours
Wye × 120 **(1OF)**	300 hours
Zed × 20 **(1OF)**	100 hours
Total	500 hours

	$	
Exe $41.60×100	4 160	**(1)OF**
Wye $56.80×120	6 816	**(1)OF**
Zed $44.80×20	896	**(1)OF**
Contribution	11 872	**(1)OF**
Fixed costs	7 000	
Profit	4 872	**(1)OF**

4(e)	Decision. **(1)** Advantages **(Maximum 2)** Will enable company to fulfil maximum demand. **(1)** Will enable full utilisation of resources. **(1)** Disadvantages **(Maximum 2)** Will reduce profit. **(1)** Forecast maximum demand may not be achieved thus reducing profit even further. **(1)** **1 mark for decision plus maximum 3 marks for justification**	**4**
4(f)	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**	**3**
4(g)	Department 1: 560 000/140 000=$4.00 per labour hour **(1)** Department 2: 304 000/160 000=$1.90 per machine hour **(1)**	**2**
4(h)	Department 1: (124 000×$4.00)=496 000–533 000=$37 000 **(1)OF** under absorbed **(1)OF** Department 2: (151 000×$1.90)=286 900–294 000=$7100 **(1)OF** under absorbed **(1)OF**	**4**
	Total:	**30**