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 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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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.

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Question	Answer						Marks
1(a)	S Limited Income statement for the year ended 30 September 2019						**12**
			$		$		
	Revenue				764 570		
	Returns inwards				(3 470)		
					761 100	**(1)**	
	Cost of sales	**W1**			387 340	**(2)**	
	Gross profit				373 760		
	Expenses						
	Administrative expenses	**W2**	106 720	**(4)**			
	Distribution costs	**W3**	73 230	**(3)**	179 950		
	Profit from operations				193 810		
	Finance costs	**W4**			9 180	**(1)**	
	Profit for the year				184 630		
						(1)	
						OF	
	Workings:						
	W1: Cost of sales:						
	Opening inventory		62 500*				
	Purchases		392 340*	**(1)**			
	Carriage inwards		3 600*				
			458 440				
	Closing inventory		71 100	**(1)**	387 340		
	W2: Administrative expenses		$63 810 + $39 620 **(1)** – $4800 **(1)** + $1730 **(1)** + 6360 **(1)** = $106 720				
	Depreciation – Office equipment		($68 700 + $6000 – $32 300) × 15% = $6360				
	W3: Distribution costs		$49 330 + $16 980 **(1)** – $6000 **(1)** + $12 920 **(1)** = $73 230				
	Depreciation – Motor vehicles		($84 600 – $20 000) × 20% = $12 920				
	W4: Finance costs		$8160 + $1020 = $9 180				

Question	Answer	Marks
1(b)	S Limited Statement of financial position at 30 September 2019 $ $ $ Non-current assets Freehold property 220 000 Office equipment **W1** 36 040 **(2)** Motor vehicles **W2** 32 920 **(2)** 288 960 Current assets Inventory 71 100 **(1) OF** Trade receivables **W3** 84 770 **(1)** Other receivables **W4** 9 200 **(1)** 165 070 Total Assets 454 030 Equity and liabilities Share capital 50 000 Share premium 15 000 Retained earnings **W5** 254 330 **(1) OF** 319 330 Non-current liabilities 6% Debenture (2021 – 2022) 68 000 **(1)** Current liabilities Bank overdraft 12 770 Trade payables 48 730 Other payables **W6** 5 200 **(1) OF** 66 700 Total equity and liabilities 454 030 Workings: **W1** Office equipment $68 700 + $6000 = $74 700 **(1)** – $6360 – $32 300 = $38 660 **(1) OF**= $36 040 **W2** Motor vehicles $84 600 **(1)** – $12 920 – $38 760 = $51 680 **(1) OF** = $32 920 **W3** Trade receivables $86 500 – $1730 = $84 770 **(1)** **W4** Other receivables $4400 + $4800 = $9 200 **(1)** **W5** Retained earnings $69 700 + $184 630 = $254 330 **(1)** **W6** Other payables $2480 + $1700 + $1020 = $5200 **(1)**	**10**
1(c)	S Limited have taken out a long-term loan **(1)** repayable between 2021 and 2022 **(1)** at an annual interest rate of 6%. **(1)**	**3**

Question	Answer	Marks
1(d)	Option 1 Would require an immediate cash outflow **(1)** The company already has a bank overdraft **(1)** The debenture is due for repayment in the near future **(1)** Payment of dividends is discretionary **(1)** **Accept other valid points.** Option 2 The company will not require a cash outflow **(1)** They have sufficient retained earnings to issue bonus shares **(1)** They have a share premium account which can be used **(1)** Will keep the shareholders happy **(1)** Will not dilute voting rights **(1)** **Accept other valid points.** **Max 5 marks** for comments Decision **(1)**	**5**

Question	Answer	Marks
2(a)	Income statement Only a profit or loss on disposal would appear in the income statement **(1)** Charge for depreciation would reduce **(1)** **Max 1** Statement of financial position Disposal proceeds would increase the bank account / the current assets total in the statement of financial position. **(1)** The asset cost and accumulated depreciation would be eliminated from non-current assets. **(1)** **Max 2**	**3**
2(b)	Non-current assets Motor vehicles: Cost $ 194 245 **(1)** **W1**; Accumulated depreciation $ 93 655 **(4)** **W2**; Net Book Value $ 100 590 **(1) OF** **Workings:** **W1:** Cost:185 000 + 27 745 – 18 500 = 194 245 **(1)** **W2:** Accumulated depreciation: Charge for the year: 120 250 + 27 745 **(1)** – 13 875 **(1)** = 134 120 Accumulated provision: 64 750 – 4625 **(1)** + 33 530 **(1) OF** = 93 655	**6**
2(c)(i)	Computer equipment tends to fall in value more in the early years. **(1)** They lose value very quickly due to obsolescence/ technological changes. **(1)** The reducing balance method depreciates the assets more in the earlier years and less in later years **(1)** which matches the fall in value of computer equipment **(1).** The straight line method of depreciation depreciates assets at the same amount each year **(1)** which does not match the rapid loss in value. **(1)** **Accept other valid points.** **Max 4**	**4**
2(c)(ii)	It is not worthwhile keeping individual records of loose tools **(1)** as they are usually many small value items **(1)** and are difficult to keep track of. **(1)** They are easily broken, damaged or lost and have to be regularly replaced. **(1)** **Max 2**	**2**

Question	Answer	Marks
3(a)(i)	Gross margin 42 700 ÷ 163 000 × 100 = 26.20% **(1)**	**1**
3(a)(ii)	Profit margin 16 500 ÷ 163 000 × 100 = 10.12% **(1)**	**1**
3(a)(iii)	Rate of inventory turnover 120 300 ÷ 18 700 **(1)** = 6.43 times **(1) OF** Workings: 163 000 – 42 700 = 120 300 $\frac{17\,800 + 19\,600}{2} = 18\,700$	**2**
3(a)(iv)	Current ratio 38 200 ÷ 10 700 = 3.57 : 1 **(1)** Workings: 2018 19 600 + 15 900 + 2 700 = 38 200	**1**
3(a)(v)	Liquid (acid test) ratio 18 600 ÷ 10 700 = 1.74: 1 **(1)**	**1**
3(a)(vi)	Return on capital employed (ROCE) 12.69% **(1)** Workings: $\frac{16\,500}{130\,000} \times 100 = 12.69\,\%$	**1**
3(b)(i)	Profitability Gross margin in 2018 improves due to either the selling price increased or cost of sales decreased or both **(1)** Reduction the profit margin due to increased expenses **(1)** ROCE has deteriorated probably due to reduction in profit for the year or increase in capital employed or both **(1)** **Accept other valid points.** **Max 2**	**2**
3(b)(ii)	Liquidity The current ratio has reduced which means there are fewer current assets and / or more current liabilities. **(1)** The liquid ratio has reduced due to either increased trade payables or reduced liquid assets. Slower rate of inventory turnover due to either increased inventory levels or reduced sales. **(1)** **Accept other valid points.** **Max 2**	**2**

Question	Answer	Marks
3(c)	(Potential) investors **(1)** – to assess return on investment **(1)** Providers of finance **(1)** – to assess whether loans / interest will be repaid **(1)** Government **(1)** – to ensure taxation liabilities will be paid **(1)** Suppliers **(1)** - to assess whether or not to continue to supply and whether or not they will get paid **(1)** Customers **(1)** – to assess continuity of supply **(1)** Trade unions **(1)** – to assess the wellbeing of members **(1)** **Accept other valid points.** **Max 2 marks for stakeholders, max 2 marks for their interests.**	**4**

Question	Answer	Marks
4(a)	Overhead allocation is charging costs to a cost centre **(1)** those costs which are directly attributable to it. **(1)** Overhead apportionment is charging costs to a cost centre which are not directly attributable **(1)** to it using a suitable basis **(1)**	**4**
4(b)	Machining $ / Finishing $ / Stores $ / Maintenance $ Total apportioned overheads: 177 255 / 101 150 / 26 585 / 33 010 Reapportionment of stores: 15 951 / 7 975 / (26 585) / 2 659 **(1) for row** Subtotal: 193 206 / 109 125 / – / 35 669 Reapportionment of maintenance: 26 752 / 8 917 / – / (35 669) **(1) OF for row** Total: 219 958 / 118 042 **(1) OF** / **(1) OF**	**4**
4(c)	Machining $\frac{\$219\,958}{84\,000} = \$2.62$ **(1) OF** per machine hour **(1) OF** Finishing $\frac{\$118\,042}{52\,000} = \$2.27$ **(1) OF** per direct labour hour **(1) OF**	**4**
4(d)	The overhead absorption rate should be chosen to reflect the activity of that department **(1).** If the department is machine-intensive then machine hours should be chosen / If the department is labour intensive then labour hours should be chosen **(1)** This should lead to a more accurate absorption of overheads **(1)** which in turn leads to a more accurate cost figure / selling price **(1)** **Accept other valid points.** **Max 4**	**4**

Question	Answer	Marks
4(e)	$ Direct materials 16.00 Direct labour – machining $\left(\frac{10}{60} \times 9.60\right)$ 1.60 **(1)** Direct labour – finishing $\left(\frac{45}{60} \times \$10.80\right)$ 8.10 **(1)** Overheads – machining $\left(\frac{90}{60} \times \$2.62\right)$ 3.93 **(1) OF** Overheads – finishing $\left(\frac{45}{60} \times \$2.27\right)$ 1.70 **(1) OF** 31.33 Mark-up $\left(\$31.33 \times \frac{25}{75}\right)$ 10.44 **(1) OF** Selling price* 41.77 **(1) OF** * Must include direct materials for final OF	**6**
4(f)	$41.77 × 200 = $8354.00 × 92.5% = $7727.45 **(1) OF**	**1**

Question	Answer	Marks
4(g)	**1 mark for identification, max 2 marks for development** Benefits Formal budget will inform all departments of the common goal **(1)** and therefore improve communication between the departments. **(1)** Will provide clear indication of individual managers' areas of responsibility **(1)** and therefore improve co-ordination between departments. **(1)** Will motivate managers and employees **(1)** thus improving company performance. **(1)** Facilitates planning **(1)** which enables targets to be set **(1)** and improve performance by analysing variances. **(1)** Drawbacks Short term costs will increase **(1)** which would reduce profits though long term benefits should accrue. **(1)** May be problems implementing the control system **(1),** employees may be resistant to change. **(1)** Causes a straightjacket effect **(1)** which may prevent innovation **(1)** and missed opportunities **(1)** May result in demotivation **(1)** if the budgets are unrealistic **(1)** **Accept other valid points.** **Decision 1 mark** **Max 3 marks for identification** **Max 3 marks for development** **Overall max 6**	**7**