Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/23**

Paper 2 Fundamentals of Accounting **October/November 2023**

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 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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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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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
OF	Own figure
Highlight	Highlight
Off page Comment	Off page comment

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Abbreviations and guidance
The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation.

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. **}***

row = all figures in the row must be correct for this mark to be awarded

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

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Question	Answer	Marks
1(a)	**Prepare an extract from the statement of profit or loss for the year ended 30 September 2023 commencing with the gross profit for the year.**	**10**

B Limited
Statement of profit or loss for the year ended 30 September 2023

		$	
Gross profit		321 070	
Distribution costs	**W1**	(91 520)	**(3)OF**
Administrative expenses	**W2**	(176 730)	**(5)OF**
Profit from operations		52 820	
Finance costs		(5 950)	**(1)**
Profit before taxation		46 870	
Taxation		(12 500)	
Profit for the year		34 370	**(1)OF**

W1 Distribution costs
84 650 + 7620 **(1)** – 750 **(1)** = $91 520 **(1)OF**

W2 Administrative expenses
161 100 + 1480 **(1)** + 240 **(1)** + 11 430 **(1)** + 2480 **(1)** = $176 730 **(1)OF**

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Question	Answer	Marks
1(b)	**Prepare the statement of financial position at 30 September 2023.**	**15**

B Limited
Statement of financial position at 30 September 2023

		$	
Assets			
Non-current assets		263 700	**(1)**
Current assets			
Inventory		74 000	**(1)**
Trade receivables	**W1**	77 140	**(1)**
Other receivables	**W2**	1 690	**(1)**
Cash and cash equivalents		4 680	**(1)**
		157 510	
Total assets		421 210	**(1)OF**
Equity and liabilities			
Equity			
Share capital		220 000	
Retained earnings	**W3**	65 220	**(4)OF**
Total equity		285 220	
Non-current liabilities			
8% debentures (2025)		60 000	**(1)**
Current liabilities			
Trade payables		57 150	**(1)**
Other payables	**W4**	6 340	**(1)**
Taxation		12 500	**(1)**
		75 990	
Total liabilities		135 990	
Total equity and liabilities		421 210	**(1)OF**

Question	Answer	Marks
	W1 Trade receivables. 82 680 – 1480 **–** 4060 = $77 140 **(1)** **W2 Other receivables** 940 + 750 = $1690 **(1)** **W3 Retained earnings.** 45 850 + 34 370 **(OF)** – 4000 **(1)** – 6000 **(1)** – 5000 **(1)** = $65 220 **(1)OF** **W4 Other payables** 1860 + 2480 + 2000 = $6340 **(1)**	
1(c)	**Advise the directors which option they should choose. Justify your answer.** **Option 1 – rights issue** • Rights issue is a permanent source of capital **(1)** • Dividend payment is discretionary **(1)** • Will issue be fully subscribed? **(1)** • Will raise $60 500 cash **(1)** **Option 2 – 10% debenture** • Debenture will have to be repaid **(1)** • Interest must be paid whether profits or losses **(1)** • Interest payments will reduce profits **(1)** • Security may be required **(1)** **Accept other valid responses**. **Max 4** **Advice supported with a comment**	**5**

Question	Answer	Marks
2(a)	**Calculate the trade receivables turnover (days) for the year ended 31 July 2023. State the formula used.** Formula $\frac{\text{Trade receivables}}{\text{Credit sales}} \times 365$ **(1)** Calculation $\frac{23150}{188\,650}$ **(1)** $\times 365 = 45$ days **(1)OF**	**3**

Question	Answer	Marks
2(b)(i)	**State the formula used to calculate the rate of inventory turnover (times).** $\frac{\text{Cost of sales}}{\text{Average inventory}}$ **(1)**	**1**
2(b)(ii)	**Calculate the closing inventory at 31 July 2023.** Cost of sales = 56 380 × 75/25 = 169 140 **(1)** 8 = ((169 140/8) × 2) = 42 285 **(1)** Closing inventory = 42 285 – 19 100 = $23 185 **(1)OF**	**3**
2(c)	**Calculate the trade payables turnover (days) for the year ended 31 July 2023. State the formula used.** Formula $\frac{\text{Trade payables}}{\text{Credit purchases}}$ × 365 **(1)** Calculation Purchases = 169 140 + 23 185 – 19 100 = 173 225 $\frac{17\,370}{173\,225}$ **(1)** × 365 = 37 days **(1)OF**	**3**
2(d)	**Advise Alex whether his understanding is correct. Justify your answer.** Different businesses may use different accounting methods **(1)** which will invalidate the comparison **(1).** Also, financial statements only take account of monetary data **(1)**, ignoring non-financial matters such as staff morale, location of the business etc **(1)**. Valid comparison is only useful if related to businesses of similar size in the same business sector **(1)** **Max 4 for comments** **Advice supported by a comment (1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
3(a)	**Prepare the following ledger accounts to record the transactions. Dates are <u>not</u> required.**	**9**

Share capital

Details	$		Details	$	
Balance c/d	99 000		Balance b/d	60 000	
			Bank	12 000	**(1)**
			Share premium	26 600	**(1)**
			Retained earnings	400	**(1)**
	99 000			99 000	
			Balance b/d	99 000	**(1)OF**

Share premium

Details	$		Details	$	
Share capital	26 600		Balance b/d	21 800	
			Bank	4 800	**(1)**
	26 600			26 600	

Retained earnings

Details	$		Details	$	
Bank	2 400	**(1)**	Balance b/d	32 600	
Share capital	400		Statement of profit or loss	16 500	**(1)**
Bank	3 960	**(1)**			
Balance c/d	42 340				
	49 100			49 100	
			Balance b/d	42 340	**(1)OF**

Question	Answer	Marks
3(b)	**State <u>three</u> disadvantages of introducing a computerised accounting system.** Installing a computerised accounting system can be expensive **(1)** May involve extra expense in staff training **(1)** Data may be vulnerable to hacking **(1)** Data may be vulnerable to viruses **(1)** **Max 3** **Accept other valid responses**	**3**
3(c)	**State <u>three</u> ways in which the security of data in a computerised accounting system can be assured.** Strong unique password protection **(1)** Virus protection software **(1)** Data encryption **(1)** VPN **(1)** **Max 3** **Accept other valid responses**	**3**
4(a)	**Explain <u>one</u> difference between marginal costing and absorption costing.** Marginal costing values inventory at variable cost only **(1)** whereas absorption costing values inventory at full cost **(1)** **OR** Marginal costing treats fixed overheads as period costs **(1)** whereas absorption costing treats fixed overheads as a product cost **(1)** **Accept other valid responses**	**2**
4(b)	**Explain <u>one</u> difference between a direct cost and an indirect cost.** Direct costs can be specifically allocated to units of production **(1)** whereas indirect costs cannot economically be specifically attributed to units of production **(1)** **Accept other valid responses**	**2**
4(c)(i)	**State the meaning of the following terms:** **break-even point** Break-even point is the point at which total revenue equals total cost / there is no profit and no loss **(1)**	**1**
4(c)(ii)	**margin of safety** Margin of safety is the difference between actual / budgeted output and break-even point **(1)**	**1**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(d)</td><td>State <u>three</u> situations where marginal costing can help in decision making.

Make or buy decisions (1)
Accepting a special order (1)
In limiting resource situations (1)
Closure of business unit (1)
Discontinuance of a product line (1)

Max 3
Accept other valid responses</td><td>3</td></tr>
<tr><td>4(e)</td><td>Calculate the break-even point <u>in units</u> for Aye.

Contribution: 11.00 – (3.20 + 2.60 + 1.90) = $3.30
Fixed costs: 60 000 + 33 000 = $93 000
Break-even point: $93 000 (1) / $3.30 (1) = 28 182 (1)</td><td>3</td></tr>
<tr><td>4(f)</td><td>Calculate the break-even point <u>in units</u> for Bee.

Contribution: 8.50 – (3.20 + 2.60 + 1.90) = $0.80
Fixed costs: 35 000 + 44 000 = $79 000
Break-even point: $79 000 (1) / $0.80 (1) = 98 750 (1)</td><td>3</td></tr>
<tr><td>4(g)</td><td>Calculate the revised <u>total profit</u> of the business if <u>option 1</u> is adopted.

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Revised contribution:
0.80 – 0.45 + 0.85 = 1.20 × 96 000</td><td>115 200</td><td>(1)</td></tr>
<tr><td>Revised fixed costs:
79 000 + 18 000</td><td>(97 000)</td><td>(1)</td></tr>
<tr><td>Revised profit Bee</td><td>18 200</td><td>(1)</td></tr>
<tr><td>Profit Aye</td><td>105 000</td><td>(1)</td></tr>
<tr><td>Revised total profit</td><td>123 200</td><td>(1)OF</td></tr>
</table></td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(h)</td><td>Calculate the revised <u>total profit</u> of the business if <u>option 2</u> is adopted.

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Revised contribution:
3.30 – 0.44 = 2.86 × 90 000</td><td>257 400</td><td>(1)</td></tr>
<tr><td>Revised fixed costs: W</td><td>(151 000)</td><td>(3)</td></tr>
<tr><td>Revised profit Aye</td><td>106 400</td><td>(1)OF</td></tr>
</table>
W Revised fixed costs
(60 000 + 44 000 + 33 000) (1) + (6000 (1) + 8000) (1)
= $151 000</td><td>5</td></tr>
<tr><td>4(i)</td><td>Advise Dev which option he should choose. Justify your answer.

Option 1
Produces higher overall profit than option 2 (1)
Will existing Bee customers favour the upgraded model? (1)
How reliable is estimated 20% sales growth? (1)

Option 2
Will redundancies affect staff morale? (1)
Will discontinuing Bee have negative affect on sales of Aye? (1)
How reliable is estimated 50% sales growth? (1)
Additional advertising and redundancy costs are one-off expenses. (1)

Max 4 for comments

Advice supported with a comment (1)

Accept other valid responses</td><td>5</td></tr>
</table>