
ACCOUNTING

9706/23

Paper 2 Structured Questions

May/June 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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This document consists of **16** printed pages.



Cambridge Assessment
International Education

PUBLISHED**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)	D Limited Income statement for the year ended 31 December 2018 \$000 <table><tr><td>Revenue</td><td>5080</td><td>(1)</td></tr><tr><td>Cost of sales</td><td>(2501)</td><td>(3)</td></tr><tr><td>Gross profit</td><td>2579</td><td></td></tr><tr><td>Administrative expenses</td><td>(725)</td><td>(4)</td></tr><tr><td>Distribution costs</td><td>(971)</td><td>(3)</td></tr><tr><td>Property costs</td><td>(260)</td><td>(1)</td></tr><tr><td>Profit from operations</td><td>623</td><td></td></tr><tr><td>Finance costs</td><td>(29)</td><td></td></tr><tr><td>Profit for the year</td><td>594</td><td>(1)</td></tr></table> Workings <table><tr><td>Revenue</td><td>5120 – 40 = 5080 (1)</td></tr><tr><td>Cost of sales</td><td>620 + 8 (1) + 2502 – 12 (1) – 617 (1) = \$2501</td></tr><tr><td>Administrative expenses</td><td>608 + 78 (1) + 6 (1) + 18 (1) + 15 (1) = 725</td></tr><tr><td>Distribution costs</td><td>937 + 22 (1) – 6 (1) + 18 (1) = 971</td></tr><tr><td>Property costs</td><td>239 + 21 = 260 (1)</td></tr><tr><td>Depreciation</td><td></td></tr><tr><td>Buildings:</td><td>1050 × 2% = 21 (Property costs)</td></tr><tr><td>Fixtures and fittings:</td><td>520 × 15% = 78 (Administration expenses)</td></tr><tr><td>Motor vehicles:</td><td>96 × 25% = 24 (Distribution costs \$18, Administrative expenses \$6)</td></tr></table>	Revenue	5080	(1)	Cost of sales	(2501)	(3)	Gross profit	2579		Administrative expenses	(725)	(4)	Distribution costs	(971)	(3)	Property costs	(260)	(1)	Profit from operations	623		Finance costs	(29)		Profit for the year	594	(1)	Revenue	5120 – 40 = 5080 (1)	Cost of sales	620 + 8 (1) + 2502 – 12 (1) – 617 (1) = \$2501	Administrative expenses	608 + 78 (1) + 6 (1) + 18 (1) + 15 (1) = 725	Distribution costs	937 + 22 (1) – 6 (1) + 18 (1) = 971	Property costs	239 + 21 = 260 (1)	Depreciation		Buildings:	1050 × 2% = 21 (Property costs)	Fixtures and fittings:	520 × 15% = 78 (Administration expenses)	Motor vehicles:	96 × 25% = 24 (Distribution costs \$18, Administrative expenses \$6)	13
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Question	Answer	Marks																	
1(b)	D Limited Extract from the statement of financial position at 31 December 2018 Current assets <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$000</td><td></td></tr> <tr> <td>Inventory</td><td style="text-align: right;">617</td><td>(1) OF</td></tr> <tr> <td>Trade receivables (600 – 18)</td><td style="text-align: right;">582</td><td>(1)</td></tr> <tr> <td>Other receivables</td><td style="text-align: right;">6</td><td>(1)</td></tr> <tr> <td></td><td style="text-align: right; border-top: 1px solid black;">1205</td><td></td></tr> </table>		\$000		Inventory	617	(1) OF	Trade receivables (600 – 18)	582	(1)	Other receivables	6	(1)		1205		3		
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1(c)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$000</td><td></td></tr> <tr> <td>Share capital – ordinary shares of \$0.50 each</td><td style="text-align: right;">1200</td><td rowspan="2">} (1) for both</td></tr> <tr> <td>Share premium</td><td style="text-align: right;">60</td></tr> <tr> <td>Revaluation reserve (1050 – 540)</td><td style="text-align: right;">510</td><td>(1)</td></tr> <tr> <td>Retained earnings ((898 + 594) (1) OF – 35 (1))</td><td style="text-align: right;">1457</td><td></td></tr> <tr> <td></td><td style="text-align: right; border-top: 1px solid black;">3227</td><td>(1) OF</td></tr> </table>		\$000		Share capital – ordinary shares of \$0.50 each	1200	} (1) for both	Share premium	60	Revaluation reserve (1050 – 540)	510	(1)	Retained earnings ((898 + 594) (1) OF – 35 (1))	1457			3227	(1) OF	5
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Question	Answer	Marks
1(d)	Preference shares (Max 2 marks) Permanent capital (1) Incurs annual finance costs of \$15 000 (1) Issuing will cost will be more time consuming/costly (1) Bank loan (Max 2 marks) Has to be repaid (1) Incurs annual finance costs of \$24 000 (1) Bank may/may not be willing to advance the loan at lower interest rate than the current loan (1) May require security (1) Advice (1) Accept other valid points.	5
1(e)	Bonus shares are not paid for, (1) Rights issue are paid for (1) Bonus shares do not change the net assets, (1) Rights issue increases net assets (1) Bonus shares are issued to all shareholders, (1) Shareholders have a choice whether to take up rights issue. (1) Bonus shares are issued at par value, (1) Rights issue may be made at a discount to market value/at a premium (1) Bonus shares do not give additional capital/equity, (1) Rights issue gives additional capital/equity (1) 2 marks × max 2 points of difference	4

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Question	Answer	Marks
2(a)	Death / ill health / retirement of a partner (1) A partner has been declared bankrupt (1) Disagreement between partners (1) Insufficient level of profits (1) Insufficient levels of cash reserves (1) Partnership has achieved its purpose (1) Accept other valid points. Max 3 marks	3

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Question	Answer					Marks	
2(b)	Realisation account					7	
		\$			\$		
	Motor vehicles	29400	} (1)	Capital: John			
	Furniture and equipment	15600		Furniture and equipment	9500		(1)
	Inventory	14920		Inventory	11000		
	Trade receivables	11540		Capital: Liz			
	Bank: dissolution costs	2350	(1)	Motor vehicle	16600		(1)
				Bank:			
				Motor vehicle	8450		(1)
				Trade receivables (W1)	10260		(1)
				Realisation loss:			
				John	7200		(1) OF
				Kathy	5400		
				Liz	5400		
		73810			73810		

Question	Answer	Marks																																																												
2(b)	Alternative presentation: Realisation account <table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Assets to be realised</td><td>71 460</td><td>(1)</td><td>Capital: John – assets</td><td>20 500</td><td>(1)</td></tr><tr><td>Bank: dissolution costs</td><td>2 350</td><td>(1)</td><td>Capital: Liz – motor vehicle</td><td>16 600</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Bank – motor vehicle</td><td>8 450</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Bank – trade receivables (W1)</td><td>10 260</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Realisation loss</td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>John</td><td>7 200</td><td></td></tr><tr><td></td><td></td><td></td><td>Kathy</td><td>5 400</td><td>(1) OF</td></tr><tr><td></td><td></td><td></td><td>Liz</td><td>5 400</td><td></td></tr><tr><td></td><td><u>73 810</u></td><td></td><td></td><td><u>73 810</u></td><td></td></tr></table> W1 Receipts from trade receivables: 95% × (\$11 540 – \$740) = \$10 260		\$			\$		Assets to be realised	71 460	(1)	Capital: John – assets	20 500	(1)	Bank: dissolution costs	2 350	(1)	Capital: Liz – motor vehicle	16 600	(1)				Bank – motor vehicle	8 450	(1)				Bank – trade receivables (W1)	10 260	(1)				Realisation loss						John	7 200					Kathy	5 400	(1) OF				Liz	5 400			<u>73 810</u>			<u>73 810</u>		
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3(a)	Provides an arithmetical check on the accuracy of the ledgers (1), as the balances on each control account should agree with the total of balances in each ledger. (1) Helps prevent fraud (1) as the work of those employees working on each ledger is independently checked by another employee. (1) Provides a figure for total trade receivables and total trade payables (1) aiding preparation of financial statements. (1) Any two benefits, 2 marks each	4																																				
3(b)(i)	Purchases ledger control account <table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Contra error</td><td>485</td><td>(1)</td><td>Balance b/d</td><td>18981</td><td></td></tr><tr><td>Balance c/d</td><td>18617</td><td></td><td>Purchase returns error</td><td>54</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Interest error</td><td>67</td><td>(1)</td></tr><tr><td></td><td>19102</td><td></td><td></td><td>19102</td><td></td></tr><tr><td></td><td></td><td></td><td>Balance b/d</td><td>18617</td><td>(1) OF</td></tr></table>		\$			\$		Contra error	485	(1)	Balance b/d	18981		Balance c/d	18617		Purchase returns error	54	(1)				Interest error	67	(1)		19102			19102					Balance b/d	18617	(1) OF	4
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3(b)(ii)	Sales ledger control account <table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Balance b/d</td><td>12385</td><td></td><td>Cash sales error</td><td>480</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td>Balance c/d</td><td>11905</td><td></td></tr><tr><td></td><td>12385</td><td></td><td></td><td>12385</td><td></td></tr><tr><td>Balance b/d</td><td>11905</td><td>(1) OF</td><td></td><td></td><td></td></tr></table>		\$			\$		Balance b/d	12385		Cash sales error	480	(1)				Balance c/d	11905			12385			12385		Balance b/d	11905	(1) OF				2						
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3(c)(i)	Purchases ledger accounts <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td></td><td style="text-align: center;">\$</td><td></td></tr> <tr> <td>Original total</td><td style="text-align: right;">18 496</td><td></td></tr> <tr> <td>Purchases returns error</td><td style="text-align: right;">54</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Interest charged on overdue account</td><td style="text-align: right;">67</td><td style="text-align: right;">(1)</td></tr> <tr> <td></td><td style="text-align: right;">18 617</td><td style="text-align: right;">(1) OF</td></tr> </table> Final balances c/d must be the same amount in the purchases ledger control account and the purchases ledger balances.		\$		Original total	18 496		Purchases returns error	54	(1)	Interest charged on overdue account	67	(1)		18 617	(1) OF	3
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Question	Answer	Marks
4(a)	Payment to employee is based on the number of completed units they produce (1)	1
4(b)	Production overheads include all factory indirect costs (1) that cannot be traced directly to a unit of production (1)	2
4(c)(i)	\$ Advertising 24 000 Sales team salaries 51 000 Fixed selling expenses <u>75 000</u> (1)	1
4(c)(ii)	Variable selling expenses \$720 000 × 3.5% \$25 200 (1)	1
4(c)(iii)	\$ Sales 720 000 Less: Direct labour 270 000 Material C 48 000 Material D 90 000 Variable selling expenses 25 200 Contribution <u>286 800</u> (1) OF	1

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4(c)(iv)	<table> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Sales</td><td style="text-align: right;">720 000</td><td></td></tr> <tr> <td>Less:</td><td></td><td></td></tr> <tr> <td>Direct labour</td><td style="text-align: right;">270 000</td><td></td></tr> <tr> <td>Material C</td><td style="text-align: right;">48 000</td><td></td></tr> <tr> <td>Material D</td><td style="text-align: right;">90 000</td><td></td></tr> <tr> <td>Fixed production overheads</td><td style="text-align: right;">30 000</td><td></td></tr> <tr> <td>Fixed selling expenses</td><td style="text-align: right;">75 000</td><td></td></tr> <tr> <td>Variable selling expenses</td><td style="text-align: right;">25 200</td><td></td></tr> <tr> <td>Profit</td><td style="text-align: right;"><u>181 800</u></td><td style="text-align: right;">(1)</td></tr> <tr> <td>Alternative</td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Contribution</td><td style="text-align: right;">286 800</td><td></td></tr> <tr> <td>Fixed selling expenses</td><td style="text-align: right;">75 000</td><td></td></tr> <tr> <td>Fixed production overheads</td><td style="text-align: right;"><u>30 000</u></td><td></td></tr> <tr> <td></td><td style="text-align: right;"><u>181 800</u></td><td></td></tr> </table>		\$		Sales	720 000		Less:			Direct labour	270 000		Material C	48 000		Material D	90 000		Fixed production overheads	30 000		Fixed selling expenses	75 000		Variable selling expenses	25 200		Profit	<u>181 800</u>	(1)	Alternative	\$		Contribution	286 800		Fixed selling expenses	75 000		Fixed production overheads	<u>30 000</u>			<u>181 800</u>		1
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4(d)	Additional order for 15000 pots: Budgeted capacity – current capacity = 70000 – 60000 = 10000 spare capacity. (1) Order – spare capacity = 15000 – 10000 = 5000 additional capacity (1) required to meet the order. These will incur extra costs. Forecast incremental profit statement Exclude variable selling expenses and fixed costs as they are not relevant to the order. <table> <tr> <td></td><td></td><td></td><td>\$</td><td>\$</td><td></td></tr> <tr> <td>Sales</td><td></td><td></td><td></td><td>120 000</td><td>(1)</td></tr> <tr> <td>Less variable costs</td><td></td><td></td><td></td><td></td><td></td></tr> <tr> <td>Direct labour</td><td>10 000 × \$4.50 (1)</td><td>45 000</td><td></td><td></td><td></td></tr> <tr> <td></td><td>5 000 × \$5.25 (1)</td><td><u>26 250</u></td><td>71 250</td><td></td><td>(1)</td></tr> <tr> <td>Material C</td><td>10 000 × \$0.80 (1)</td><td>8 000</td><td></td><td></td><td></td></tr> <tr> <td></td><td>5 000 × \$0.84 (1)</td><td><u>4 200</u></td><td>12 200</td><td></td><td>(1)</td></tr> <tr> <td>Material D</td><td>10 000 × \$1.50 (1)</td><td>15 000</td><td></td><td></td><td></td></tr> <tr> <td></td><td>5 000 × \$1.53 (1)</td><td><u>7 650</u></td><td>22 650</td><td></td><td>(1)</td></tr> <tr> <td>Profit</td><td></td><td></td><td><u>22 650</u></td><td>106 100</td><td></td></tr> <tr> <td></td><td></td><td></td><td></td><td><u>13 900</u></td><td>(1) OF</td></tr> </table>							\$	\$		Sales				120 000	(1)	Less variable costs						Direct labour	10 000 × \$4.50 (1)	45 000					5 000 × \$5.25 (1)	<u>26 250</u>	71 250		(1)	Material C	10 000 × \$0.80 (1)	8 000					5 000 × \$0.84 (1)	<u>4 200</u>	12 200		(1)	Material D	10 000 × \$1.50 (1)	15 000					5 000 × \$1.53 (1)	<u>7 650</u>	22 650		(1)	Profit			<u>22 650</u>	106 100						<u>13 900</u>	(1) OF	13
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	5 000 × \$1.53 (1)	<u>7 650</u>	22 650		(1)																																																																		
Profit			<u>22 650</u>	106 100																																																																			
				<u>13 900</u>	(1) OF																																																																		

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Question	Answer	Marks
4(e)	Accept / Reject (1) Financial (Max 2) Will provide increase in sales revenue. The order provides positive contribution/profit OF so is worthwhile. Will there be an increase in the fixed cost? Would it be less expensive to pay the existing workforce a premium for the additional units? Non-financial (Max 2) What effect will the lower price have on other customers who are paying \$12? Will the temporary labour be available immediately/ existing workforce be willing to work overtime? Will the product quality remain the same if temporary labour is used / do they have the necessary skills for hand painted pots? Will the morale of the existing workforce go down if temporary labour is employed? 1 mark for decision Accept other valid points.	5

Question	Answer	Marks
4(f)	Benefits (Max 2) Aids short-term decision making. Identifies break-even point/margin of safety/project profit. Accept other valid points. Limitations (Max 3) It assumes that total fixed costs are constant. It assumes variable costs per unit are the same. It assumes the selling price per unit remains the same. It assumes sales and production levels are the same. It assumes product mix remains constant. It ignores uncertainty in estimates of fixed costs and variable costs. Some costs are difficult to classify as fixed or variable. Accept other valid points.	5