Cambridge International AS & A Level	Cambridge International Examinations Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING	**9706/23**
Paper 2 Structured Questions	**May/June 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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **5** printed pages.

CAMBRIDGE
International Examinations

[Turn over

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 <u>400</u> <u>1200</u> **(1)**
	                                               220200
	 Less Interest on capital Ramadhin 18 000
	                              Statham 12 000
	                              Trueman <u>6 000</u> (36000) **(1)**
	
	 Salary Trueman <u>(12000)</u> **(1)**
	                                               172200
	 Share of profit Ramadhin 86 100 **(1) OF**
	                              Statham 57 400 **(1) OF**
	                              Trueman <u>28 700</u> **(1) OF** <u>172200</u>
		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 <u>36 300</u> * **(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)** <u>Financial</u> **(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)** <u>Non-financial</u> **(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	**11**

	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

Question	Answer	Marks
2(b)	<u>Advantages</u> **(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)** <u>Disadvantage</u> 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	<u>54.40</u>	<u>71.20</u>	<u>95.20</u>	
	Contribution	<u>41.60</u> **(1)**	<u>56.80</u> **(1)**	<u>44.80</u> **(1)**	
4(b)		$			**3**
	Exe $41.60· 100	4 160			
	Wye $56.80· 120	6 816			
	Zed $44.80· 60	<u>2 688</u>			
	Contribution	13 664 **(1)OF**			
	Fixed costs	<u>7 000</u> **(1)**			
	Profit	6 664 **(1)OF**			
4(c)	Exe 1· 100	100			**1**
	Wye 2.5· 120	300			
	Zed 5· 60	<u>300</u>			
	Total machine hours	<u>700</u> **(1)**			

Question	Answer	Marks
4(d)	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**	10
4(e)	Decision. **(1)** <u>Advantages</u> **(Maximum 2)** Will enable company to fulfil maximum demand. **(1)** Will enable full utilisation of resources. **(1)** <u>Disadvantages</u> **(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