CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/23**

Paper 2 Fundamentals of Accounting **May/June 2024**

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 May/June 2024 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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 descriptions 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.

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.

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

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.

Question	Answer	Marks
1(a)	**Explain the accounting concept which is applied to the valuation of damaged inventory.** Prudence concept **(1)**: Inventory should be valued at the lower of cost and net realisable value **(1)** Avoid overstating profit / assets (**1).** **Max 2 marks**	**2**

Question	Answer	Marks
1(b)	**Calculate the revised gross profit for the year ended 31 December 2023.**	**5**

$346 200 **(5) W1**

W1

	$	
Draft gross profit	377 500	**(1)**
Opening inventory	(14 000)	**(1)**
Sales returns	(17 200)	**(1)**
Closing inventory	(100)	**(1)**
Revised gross profit	346 200	**(1)**

Alternative approach

	$	
Revenue	861 900	**(1)**
Cost of sales **W1**	515 700	**(3)**
Revised gross profit	346 200	**(1)**

W1

$493 000 + $8 600 **(1)** + $14 000 **(1)** + $100 **(1)** = $515 700

Question	Answer	Marks
1(c)	**Prepare the statement of profit or loss for the year ended 31 December 2023. Start the statement with the revised figure for gross profit from (b).**	8

K Limited
Statement of profit or loss for the year ended 31 December 2023

	$	
Gross profit	346 200	**(1) OF**
Distribution costs	(97 900)	**(1)**
Administrative expenses	(132 400)	**(1)**
Profit from operations	115 900	**(1) OF**
Finance costs	(18 000)	**(1)**
Profit before tax	97 900	**(1) OF**
Tax	(11 300)	**(1)**
Profit for the year	86 600	**(1) OF**

Accept alternative treatment of revaluation reserve

Question	Answer	Marks
1(d)	**Prepare an extract from the statement of financial position at 31 December 2023 to show the equity and liabilities section only.**	8

Statement of financial position at 31 December 2023 (Extract)

	$	
Equity and liabilities		
Equity		
Ordinary share capital ($900 000 + $540 000)	1 440 000	**(1)**
Share premium ($55 000 + $216 000)	271 000	**(1)**
Retained earnings **W1**	143 600	**(1)**
Total equity	1 854 600	**(1) OF**
Liabilities		
Current liabilities		
6% Debentures (2024)	300 000	**(1)**
Tax	11 300	**(1)**
Trade and other payables ($38 000 + $9000)	47 000	
Total liabilities	358 300	**(1)**
Total equity and liabilities	2 212 900	**(1) OF**

W1 Retained earnings: $132 000 – revaluation reserve $30 000 add profit $86 600
less dividends paid $45 000 = $143 600 **(1)**

Accept alternative treatment of revaluation reserve

Question	Answer	Marks
1(e)	**Advise the directors which option they should choose. Justify your choice by discussing <u>both</u> options.**	**7**

Option A (debenture issue) Max 3)	**Option B (share issue) Max 3)**
Allow once only for one mark (Max 1 for each row)	
Liability requiring repayment	Permanent capital **(1) row**
May require security	No security required **(1) row**
Allow individual comments for one mark each	
May have difficulty raising the finance **(1)**	May not be fully subscribed **(1)**
No voting rights **(1)**	May lead to dilution of ownership **(1)**
Fixed interest payable each year **(1)**	Dividend payments are discretionary **(1)**
Interest payments will reduce profit **(1)**	Dividend payments have no effect on profits **(1)**

Advice supported with a comment **(1)**

Accept other valid responses

Question	Answer	Marks
2(a)	**State <u>three</u> benefits of maintaining control accounts.** Checks arithmetical accuracy (of purchases ledger and sales ledger) **(1)** Provides total trade payables and total trade receivables **(1)** for use in financial statements **(1)** Helps prevent fraud **(1)** **Max 3 marks** **Accept other valid responses**	**3**
2(b)	**Complete the following statements to correct the accounting records for trade payables.**	**4**

Correction of purchases ledger control account		
	$	
Incorrect balance	28 540	
Purchases journal error	3 250	**(1)**
Error of original entry	(990)	**(1)**
Corrected balance	30 800	**(1) OF both**

Correction of total of purchases ledger balances		
	$	
Incorrect total	31 790	
Error of original entry	(990)	**(1)**
Corrected total	30 800	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(c)</td><td>Complete the following statements to correct the accounting records for trade receivables.

<table>
<tr><td colspan="2">Correction of sales ledger control account</td><td></td></tr>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Incorrect balance</td><td>35 790</td><td></td></tr>
<tr><td>Sales returns</td><td>(490)</td><td>(1)</td></tr>
<tr><td>Dishonoured cheque</td><td>760</td><td>(1)</td></tr>
<tr><td>Corrected balance</td><td>36 060</td><td>(1) OF</td></tr>
</table>

<table>
<tr><td colspan="2">Correction of total of sales ledger balances</td><td></td></tr>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Incorrect total</td><td>36 410</td><td></td></tr>
<tr><td>Sales returns</td><td>(490)</td><td>(1)</td></tr>
<tr><td>Interest</td><td>140</td><td>(1)</td></tr>
<tr><td>Corrected total</td><td>36 060</td><td>(1) OF</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>2(d)</td><td>Explain why contra entries may be made in control accounts.

A contra entry occurs when a business’s credit supplier who is also a credit customer (1) owe each other money and one balance is set off against the other (1)

Accept other valid responses</td><td>2</td></tr>
</table>

Question	Answer	Marks
3(a)	**Explain two accounting concepts which are applied when making an allowance for irrecoverable debts.** Matching/accruals concept **(1)** requires the sales revenue for a period to be matched against costs for the same period **(1).** Prudence concept **(1)** requires that current assets / trade receivables and /or profit for the year are not overstated. **(1).** **Accept other valid responses**	**4**
3(b)	**State two factors which should be considered when deciding the percentage that should be used for an allowance for irrecoverable debts.** Past experience of irrecoverable debts **(1)** General economic trends **(1)** Age of debts **(1)** **Max 2 marks** **Accept other valid responses**	**2**

Question	Answer	Marks
3(c)	**Prepare the allowance for irrecoverable debts account for the years 2022 and 2023.**	5

Allowance for irrecoverable debts account

			$					$	
2022					2022				
Dec	31	Statement of profit or loss	36	**(1)**	Jan	1	Balance b/d	728	**(1)**
		Balance c/d	692						
			728					728	
2023					2023				
Dec	31	Balance c/d	784		Jan	1	Balance b/d	692	**(1) OF**
					Dec	31	Statement of profit or loss	92	**(1) OF**
			784					784	
					2024				
					Jan	1	Balance b/d	784	**(1) OF**

Question	Answer	Marks
3(d)	**State the double-entry necessary to record the following transactions:** **Writing off the account on 5 January 2024** <table><tr><th>Debit</th><th>$</th><th>Credit</th><th>$</th></tr><tr><td>Irrecoverable debts</td><td>3470 **(1)**</td><td>T Limited</td><td>3470 **(1)**</td></tr></table> **The settlement of the amount due on 29 March 2024** <table><tr><th>Debit</th><th>$</th><th>Credit</th><th>$</th></tr><tr><td>Bank</td><td>3470 **(1)**</td><td>Irrecoverable debts **recovered**</td><td>3470 **(1)**</td></tr></table>	**4**

Question	Answer	Marks
4(a)(i)	**Explain <u>each</u> of the following terms used in absorption costing.** Allocation: overhead expenses are **directly (1)** attributed to a **specific** cost centre **(1)**	**2**
4(a)(ii)	**Explain <u>each</u> of the following terms used in absorption costing.** Apportionment: overhead expenses are shared between **different** departments **(1)** by using a **suitable basis (1)**	**2**
4(b)	**Complete the table to show the apportionment of the budgeted overheads for the year ended 31 March 2024.**	**6**

		Production departments		Service departments		
	Total	Preparation	Finishing	Stores	Canteen	
	$	$	$	$	$	
Overheads allocated	272 120	184 100	60 800	10 960	16 260	
Electricity	63 000	48 000	12 000	600	2400	**(1) row**
Rent	44 000	24 000	18 000	500	1500	**(1) row**
Total overheads	379 120	256 100	90 800	12 060	20 160	
Apportion canteen		11 520	7 200	1440	(20 160)	**(1) OF row**
Subtotal		267 620	98 000	13 500		
Apportion stores		9529	3971	(13 500)		**(1) OF row**
Subtotal		277 149 **(1) OF**	101 971 **(1) OF**			

Question	Answer	Marks
4(c)	**Calculate, to <u>two</u> decimal places, the overhead absorption rate for <u>each</u> production department for the year ended 31 March 2024.** Preparation department $\frac{\$277\,149}{17\,500}$ = \$15.84 **(1) OF** per machine hour **(1)** Finishing department $\frac{\$101\,971}{20\,300}$ = \$5.02 **(1) OF** per labour hour **(1)**	**4**
4(d)	**Calculate the over absorption or under absorption of overheads for the preparation department for the year ended 31 March 2024.** (17 500 – 16 920) i.e. 580 **(1)** × \$15.84 = \$9187.20 **(1) OF** under absorbed **(1)** **OR** ((16 920 × \$15.84) – \$277 149) **(1)** = \$9136.20 **(1) OF** under absorbed **(1)**	**3**

Question	Answer	Marks
4(e)		6

		$	
Direct materials		800.00	
Direct labour			
Preparation department	52 × $12,20	634.40	**(1) fb**
Finishing department	90 × $14.50	1305.00	
Overheads			
Preparation department	140 × $15.84	2217.60	**(1) OF**
Finishing department	90 × $5.02	451.80	**(1) OF**
Total costs		5408.80	**(1) OF**
Profit		5408.80	**(1) OF**
Selling price	2 × cost	10 817.60	**(1) OF**

Calculate the selling price for the order.

$10 817.60 **(6) W**

Working

Question	Answer	Marks
4(f)	**Advice the directors whether or not they should switch to a JIT method of inventory control. Justify your answer by considering <u>both</u> financial and non-financial factors.** **For the proposal** (**max 3)** • Improved cash flow as less money tied up in inventory (**1)** • Reduced storage costs **(1)** • Less chance of wastage/damaged goods/out of date items **(1)** **Against the proposal (max 3)** • May need new suppliers / over reliance on a supplier **(1)** • Risk of stock-outs if any delays in delivery **(1)** • Risk of interruptions to production if delivery delays **(1)** • Possible loss of trade discounts because of smaller orders **(1)** • Increase in delivery costs because of increased number of deliveries **(1)** • Increased costs of receiving / inspection of deliveries **(1)** **Advice** supported with a comment **(1)** **Accept other valid responses**	**7**