CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/23**

Paper 2 Fundamentals of Accounting **May/June 2025**

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 2025 series for most Cambridge IGCSE, Cambridge International A and AS Level 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 guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
✓	Correct and relevant point made in answering the question.
✗	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repetition
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)	**Prepare the statement of profit or loss for the year ended 31 December 2024.**	**14**

Bilal
Statement of profit or loss for the year ended 31 December 2024

	$	$	
Revenue **W1**		108 530	**(1)**
Add other income			
Rent receivable **W2**	4 400		**(1)**
Decrease in allowance for irrecoverable debts **W3**	52		**(3) OF**
		4 452	
		112 982	
Less expenses			
Depreciation of non-current assets **W4**	9 800		**(3)**
Loss on disposal of motor vehicle **W5**	1 652		**(2) OF**
Advertising campaign **W6**	600		**(1)**
Electricity charges **W7**	2 850		**(2)**
General expenses	880		
Motor vehicle running costs	1 320		
Wages and salaries	31 600		
		48 702	
Profit for the year		64 280	**(1) OF**

Workings:

W1 Cash fees $78 440 + credit fees ($34 290 – $4 200) = $108 530 **(1)**

W2 Rent receivable: $550 × 8 = $4 400 **(1)**

W3 Original allowance: $632/$15 800% = 4% **(1)**
New allowance: 5% × 11 600 = $580 **(1)**
Decrease in allowance: $632 – $580 = $52 **(1) OF**

W4 Business premises: 2% × $120 000 = $2 400 **(1)**
Motor vehicle: 20% × $26 000 = $5 200 **(1)**
Furniture and equipment: $22 000 × 10% = $2 200 **(1)**

Question	Answer	Marks
1(a)	**W5** Carrying value at time of sale: End of 2021: $21 000 × 80% = $16 800 End of 2022: $16 800 × 80% = $13 440 End of 2023: $13 440 × 80% = $10 752 Loss on disposal: $10 752 **(1)** – $9 100 = $1 652 **(1) OF** **W6** $4 500 × 2/15 = $600 **(1)** **W7** $3 610 – $270 **(1) –** $490 **(1)**= $2 850	
1(b)	**Prepare an extract from the statement of financial position at 31 December 2024 showing the assets section only.**	7

Statement of financial position (extract) at 31 December 2024

	$	
Assets		
Non-current assets		
Business premises ($120 000 – $9 600)	110 400	**(1)**
Motor vehicle ($26 000 – 5 200)	20 800	
Furniture and equipment ($22 000 – 8 800)	13 200	**(1)**
	144 400	**(1)**
Current assets		
Trade receivables ($11 600 – $580)	11 020	**(1)**
Other receivables **W1**	4 390	**(2)OF**
Cash at bank	8 950	
	24 360	
Total assets	168 760	**(1)OF**

W1 Advertising campaign $3 900 **(1)** + electricity charges $490**(1)** = $4 390

Question	Answer	Marks
1(c)(i)	**Explain, with reference to an accounting concept, why Bilal:** **maintains an allowance for irrecoverable debts.** Prudence concept **(1)** Avoid overstating profit for the year / trade receivables **(1)** **OR** Matching/Accruals concept **(1)** Costs and revenues are matched to the same accounting period. **(1)** **Accept other valid responses.**	2
1(c)(ii)	**Explain, with reference to an accounting concept, why Bilal:** **always uses the same method of depreciation for each class of non-current asset.** Consistency concept **(1)** Enables results to be compared from year to year **(1)** **Accept other valid responses.**	2
1(d)	**Advise Bilal which option he should choose. Justify your choice by discussing both options.** **Option A (max 2)** • Retains ownership of potentially valuable non-current asset **(1)** • Rent received will help finance cost of lease of new premises **(1)** • Less permanent arrangement, offering future flexibility **(1)** **Option B (max 2)** • Will gain a potentially more valuable non-current asset **(1)** • Will lose current rental income **(1)** • Will incur costs in selling current premises and purchasing new premises **(1)** • Will incur interest costs on bank loan **(1)** **Decision supported with a comment (1)** **Accept other valid responses**	5

Question	Answer	Marks
2(a)	**Explain <u>two</u> benefits of trading as a limited company rather than as a partnership.** • Shareholders have benefit of limited liability for the debts of the company **(1)** which means their personal assets are not at risk. **(1)**. • A limited company can have access to more finance **(1)** and will find it easier to borrow from banks **(1)**. • Limited company has separate legal identity **(1)** so can sue and be sued in its own name. **(1)** • Tax efficiency **(1)** greater flexibility for limited companies and often tax rates are lower. **(1)** • Professional status **(1)** seen as more stable and credible so may attract more customers than a partnership. **(1)** **Max 2 benefits × 2 marks each (1 mark for identifying the benefit plus 1 mark for developing it)** **Accept other valid responses.**	4
2(b)	**Calculate the amount received from the issue of shares on 30 June 2024.** 200 000 × \$2.40 = \$480 000 **(1)**	1
2(c)	**Calculate the total of the interim dividend paid on 31 March 2024.** \$0.05 × 600 000 **(1)** = \$30 000 **(1) OF**	2
2(d)	**Calculate the profit from operations for the year ended 31 December 2024.**	4

	\$	
Profit for the year	285 000	
Add: taxation	22 000	**(1)**
debenture interest (8% × \$120 000)	9 600	**(1)**
loan interest (10% × ¼ × \$50 000)	1 250	**(1)**
Profit from operations	317 850	**(1) CF**

Question	Answer	Marks
2(e)	**Prepare the retained earnings account for the year ended 31 December 2024.**	4

Retained earnings account

2024		$		2024		$	
March 31	Bank (interim dividend)	30 000	**(1) OF**	Jan 1	Balance b/d	38 000	**(1) OF**
Dec 31	General reserve	50 000	**(1)**	Dec 31	Statement of profit or loss	285 000	**(1)**
31	Balance c/d	243 000					
		323 000				323 000	
				2025 Jan 1	Balance b/d	243 000	

Question	Answer	Marks
3(a)	**State the formula for calculating <u>each</u> of the following ratios.**	2

Gross profit margin	$\frac{\text{Gross profit}}{\text{Revenue}} \times 100$	**(1)**
Profit margin	$\frac{\text{Profit for the year (after interest)}}{\text{Revenue}} \times 100$ Or $\frac{\text{Profit for the year}}{\text{Revenue}} \times 100$	**(1)**

Question	Answer	Marks
3(b)	**Suggest <u>two</u> reasons which could explain the increase in the gross profit margin comparing 2024 with 2023.** Selling prices were increased **(1)** Cost of sales was reduced **(1)**	2
3(c)	**Suggest <u>two</u> reasons which could explain the decrease in profit margin comparing 2024 with 2023 despite the increase in the gross profit margin.** Other income was reduced **(1)** Reduced efficiency controlling expenses **(1)**	2

Question	Answer	Marks
3(d)	**Explain with reasons whether or not you agree with Khaled's view of his business's liquidity position. Justify your answer by commenting on both ratios.** **Agree (max 2)** • Despite being less than averages for similar businesses, the current ratio has improved meaning that it will be easier to pay short-term debts **(1)** • Despite the decline in the acid test ratio liquid assets are being used more efficiently and it is now operating at nearer the average for this type of business **(1)** **Disagree (max 2)** • The current ratio remains below the average for similar businesses indicating that it may continue to have difficulty paying short-term debts **(1)** • The acid test ratio remains above the average for similar businesses indicating that liquid resources are not being used efficiently **(1)** **Max 4** **Accept other valid responses.** **Decision supported with a comment (1)**	**5**
3(e)	**Explain two other reasons why Khaled may find it difficult to make valid comparisons with similar businesses.** • Financial reports for other businesses may not be immediately available or unavailable **(1)** and circumstances could change considerably during this delay **(1).** • Businesses may have used different accounting methods/policies/classifications **(1)** so that comparisons cannot be made on a 'like-for-like' basis **(1).** • Businesses may have quite different asset structures **(1)** making comparisons of certain ratios invalid **(1)**. • Businesses may have used window dressing/income smoothing **(1)** which would give those businesses an overly favourable impression **(1).** **Max 4** **Accept other valid responses**	**4**

Question	Answer	Marks
4(a)(i)	**Define the following terms:** **cost centre** a department/service location/activity to which costs can be attributed **(1)**	**1**
4(a)(ii)	**Define the following terms:** **fixed cost** A cost that remains unchanged within a certain level of activity / output (1)	**1**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(iii)</td><td>Define the following terms:

indirect labour

costs of employees whose work cannot be directly identified with the finished product (1)</td><td>1</td></tr>
<tr><td>4(b)</td><td>Complete the table to show the total overheads for each department and the reapportionment of service department overheads.
<table>
<tr><td rowspan="2"></td><td rowspan="2">Total
$</td><td colspan="2">Production departments</td><td colspan="2">Service departments</td><td></td></tr>
<tr><td>Processing
$</td><td>Assembly
$</td><td>Maintenance
$</td><td>Stores</td><td></td></tr>
<tr><td>Overheads allocated</td><td>570 760</td><td>256 480</td><td>193 980</td><td>65 720</td><td>54 580</td><td></td></tr>
<tr><td>Rent</td><td>63 000</td><td>29 400</td><td>17 850</td><td>6 930</td><td>8 820</td><td>(1)</td></tr>
<tr><td>Depreciation</td><td>45 000</td><td>30 000</td><td>9 000</td><td>5 000</td><td>1 000</td><td>(1)</td></tr>
<tr><td>Subtotal</td><td>678 760</td><td>315 880</td><td>220 830</td><td>77 650</td><td>64 400</td><td></td></tr>
<tr><td>Reapportion Stores</td><td>–</td><td>22 080</td><td>34 040</td><td>8 280</td><td>(64 400)</td><td>(1)</td></tr>
<tr><td>Subtotal</td><td>–</td><td>337 960</td><td>254 870</td><td>85 930</td><td>–</td><td></td></tr>
<tr><td>Reapportion Maintenance</td><td>–</td><td>60 151</td><td>25 779</td><td>(85 930)</td><td></td><td>(1)OF</td></tr>
<tr><td>Total overheads</td><td></td><td>398 111</td><td>280 649</td><td>–</td><td>–</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">(1) OF</td><td></td><td></td><td></td></tr>
</table></td><td>5</td></tr>
<tr><td>4(c)</td><td>Calculate, to <u>two</u> decimal places, an overhead absorption rate for each production department using a suitable basis.
<table>
<tr><td>Processing department</td><td>$\frac{\$398\,111}{11\,760}$ = $33.85 (1) OF per machine hour (1)</td></tr>
<tr><td>Assembly department</td><td>$\frac{\$280\,649}{8\,940}$ = $31.39 (1) OF per labour hour (1)</td></tr>
</table></td><td>4</td></tr>
<tr><td>4(d)</td><td>State <u>two</u> reasons why overheads may be under-absorbed.

Under absorption of overheads occurs when either actual expenditure is more than budgeted expenditure (1) and/or production is less than planned (1).</td><td>2</td></tr>
</table>

Question	Answer	Marks
4(e)	**Calculate the amount saved per unit by paying experienced labour at a higher rate.** Lower rate: $9.60 per hour / 24 units = $0.40 per unit **(1)** Higher rate: $10.50 per hour/30 units = $0.35 per unit **(1)** The amount saved is $0.05 per unit **(1) OF**	**3**

Question	Answer	Marks
4(f)	**Prepare a statement to show the total selling price for the customer's order.**	8

		$	
Direct materials	300 × 1.8 × $4.80	2 592.00	**(1)**
Direct labour			
Processing department	300 × $9.60 × 2.25	6 480.00	**(1)**
Assembly department	300 × $12.20 × 1.75	6 405.00	**(1)**
Other overheads			
Processing department	300 × 1.80 × $33.85	18 279.00	**(1) OF**
Assembly department	300 × 1.75 × $31.39	16 479.75	**(1) OF**
Total cost		50 235.75	**(1) OF**
Profit **W1**		75 353.63	**(1) OF**
Selling price		125 589.38	**(1) OF**

W1 Profit = 1.5 × cost $50 235.75

OR

		$	
Direct materials	1.8 × $4.80	8.64	**(1)**
Direct labour			
Processing department	$9.60 × 2.25	21.60	**(1)**
Assembly department	$12.20 × 1.75	21.35	**(1)**
Other overheads			
Processing department	1.80 × $33.85	60.93	**(1) OF**
Assembly department	1.75 × $31.39	54.93	**(1) OF**
Total cost per unit		167.45	**(1) OF**
Profit **W1**		251.18	**(1) OF**
Selling price 418.63 × 300		125 589.00	**(1) OF**

Question	Answer	Marks
4(g)	**Advise Ameerah whether or not she should use marginal costing rather than absorption costing. Justify your advice.** **For the change (max 2)** Marginal costing will enable prices to be set more flexibly **(1)** enabling the business to be more competitive Will be useful for other short-term decision making situations (such as limiting factor decisions as well as special order pricing) **(1)** Avoids some problems associated with absorption costing (such as arbitrary apportionment of overheads) **(1)** **Against the change (max 2)** Risk that fixed costs may not be covered **(1)** May be difficulties in establishing the marginal cost where some costs have both fixed and variable elements **(1)** Ignores the fact that in the long run all costs are variable **(1)** **Max 4** **Accept other valid responses** **Decision supported with a comment (1)**	**5**