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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2020**

MARK SCHEME

Maximum Mark: 90

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & 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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Question	Answer	Marks
1(a)	K Limited Income statement for the year ended 31 October 2019 $ Revenue 542 370 Cost of sales (259 240) Gross profit 283 130 Administrative expenses **(W1)** (103 166) **(3)OF** Distribution costs **(W2)** (130 044) **(5)OF** Profit from operations 49 920 Finance costs **(W3)** (1 400) **(2) OF** Profit for the year 8 520 **(1) OF** Workings: **W1:** Administrative expenses $ Payment 8 490 Directors' fees (4/5 × $41 200) 32 960 **(1)** Staff wages and salaries (2/5 × $140 790) 56 316 **(1)** Furniture and equipment depreciation 5 400 **(1)** 80% × ($45 000 × 15%) Total 103 166 **W2:** Distribution costs: $ Payment 16 500 Advertising prepayment (5/6 × $7 200) (6 000) **(1)** Directors' fees (1/5 × $41 200) 8 240 **(1)** Staff wages and salaries (3/5 × $140 790) 84 474 **(1)** Motor vehicle depreciation (20% × $117 400) 25 480 **(1)** Furniture and equipment depreciation 1 350 **(1)** 20% × ($45 000 × 15%) Total 130 044 **W3:** Finance costs $ Payment 800 Interest for 3 months ($20 000 × ¼ × 8%) 400 **(1)** Interest for final 3 months ($10 000 × ¼ × 8%) 200 **(1)** Total 1 400	**11**

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Question	Answer	Marks
1(b)	Statement of changes in equity for the year ended 31 October 2019 Details | Share capital $ | Share premium $ | Retained Earnings $ | Total $ Balances, 1 November 2018 | 90 000 | 36 000 | 65 600 | 191 600 **(1) for row** Dividends paid | | | (18 000) **(1)** | (18 000) Bonus issue **(W1)** | 60 000 **(1)** | (36 000) **(1)** | (24 000) **(1)** | Profit for year | | | 48 520 **(1)OF** | 48 520 Balances 31 October 2019 | 150 000 | | 72 120 | 222 120 (**1)OF for row** **W1** Bonus issue Number of shares: 90 000 × 2 = 180 000 Bonus issue = 2/3 × 180 000 = 120 000 shares Value of bonus issue = 120 000 × $0.50 = $60 000	**7**
1(c)	• Limited liability for the debts of the business **(1)** • Shareholders enjoy a separate legal identity from the company **(1**) • Shareholders can easily transfer ownership. **(1)** **Max 3** **Accept other valid responses**	**3**
1(d)	General: the ratios show the company's performance has deteriorated over the three-year period **(1)** Non-current assets to turnover ratio: has remained better than the industry average **(1)** indicating a more efficient use of non-current assets than other similar businesses/a larger turnover than other similar businesses **(1).** Return on capital employed: has been worse than the industry average for the last year **(1)**, indicating a less efficient use of capital employed than other similar businesses/a poorer profit than other similar businesses **(1).** **Max 4** **Accept other valid responses.**	**4**

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Question	Answer	Marks
1(e)	The company will no longer pay interest on debentures which will increase profits **(1)** The capital employed will be reduced because debentures no longer included **(1)** The return on capital employed will increase **(1)** Will the company have sufficient liquid funds to repay the debentures? **(1)** Will other forms of borrowing be required to make the repayment possible? **(1)** **Advice (1) comments Max 4** **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)	Rent receivable account | | $ | | $ | | Income statement | 4700 **(1)** | Balance b/d | 700 **(1)** | | Balance c/d | 800 | Bank | 4800 **(1)** | | | 5500 | | 5500 | | | | Balance b/d | 800 **(1)** |	**4**
2(b)	Rent receivable appears in the profit and loss section of the income statement/it follow immediately after gross profit **(1)**	**1**
2(c)	Closing balance will appear in the current liabilities section **(1).**	**1**
2(d)	Calculation of change in the provision for doubtful debts. Rate used: 672/($16 128 + 672, i.e. $16 800)(**1**) = 4% **(1)** $ Old provision 672 New provision = 4%**(OF)** × $15 300 612 **(1) OF** Change in provision 60 **(1) OF** decrease **(1) OF**	**5**
2(e)	Accounting concepts and provisions for doubtful debts Accruals concept (**1**) Prudence concept **(1)**	**2**

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Question	Answer	Marks
2(f)	The business's past experience of irrecoverable debts **(1)** The usual rate applied for businesses of this type **(1)** Analysis of the existing debts and how long they have been outstanding/based on ageing schedule of trade receivables **(1)** **Max 2** **Accept other valid responses**	**2**

Question	Answer	Marks
3(a)	Purchases ledger control account for September 2019 |	$			$	| |---|---|---|---|---|---| | Opening balance	290		Opening balance	27 450	**(1)*** | | Purchases returns	1 430		Purchases	32 480	**(1)**** | | Bank	26 980	**(1)**	Interest charges	470	**(1)** | | Discounts received	1 060	**(1)**			| | Contras	810	**(1)**			| | Closing balance c/d	29 830				| |	60 400			60 400	| |			Balance b/d	29 830	**(1)OF** | *for recording both opening balances correctly ** for recording both purchases and purchases returns correctly	**7**
3(b)	Reasons for preparing purchase ledger control accounts • To check the arithmetical accuracy of the purchases ledger **(1)** • To provide managers with a quick method of finding total trade payables **(1)** • To facilitate the preparation of financial statements **(1)** • To act as a deterrent to fraud **(1)** **Max 3** **Accept other valid responses.**	**3**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
<table>
<tr><td></td><td>Correction of sales ledger control account balance</td><td>Correction of total of sales ledger balances</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Incorrect figures</td><td>14 850</td><td>15 320</td><td></td></tr>
<tr><td>Error (1)</td><td>160</td><td></td><td></td></tr>
<tr><td>Error (2)</td><td></td><td>150</td><td>(1)</td></tr>
<tr><td>Error (3)</td><td>–</td><td>–</td><td>(1)</td></tr>
<tr><td>Error (4)</td><td>420</td><td>420</td><td>(1)</td></tr>
<tr><td>Error (5</td><td></td><td>(460)</td><td>(1)</td></tr>
<tr><td>Corrected figures</td><td>15 430</td><td>15 430</td><td>(1)OF</td></tr>
</table>
</td><td>5</td></tr>
<tr><td>4(a)</td><td>Advantages of break-even analysis

• Identifies point at which product will make a profit (1)
• Identifies margin of safety (1)
• Helps cost control by showing relative importance of fixed costs and variable costs (1)
• Provides information in a concise/straightforward/easy to understand format (1)

Max 3

Accept other valid responses</td><td>3</td></tr>
<tr><td>4(b)(i)</td><td>Break-even point
$66 000 / ($75 – $60) (1) = 4400 units (1)</td><td>2</td></tr>
<tr><td>4(b)(ii)</td><td>Break-even point
4400 units × $75 = $330 000 (1)OF</td><td>1</td></tr>
<tr><td>4(c)</td><td>Forecast profit per month

5800 – 4400 = 1400 (1of) × $15 = $21 000 (1)OF</td><td>2</td></tr>
<tr><td>4(d)</td><td>Margin of safety

Is the difference between maximum possible production/sales and break-even point (1)/the range of production which will ensure a profit is made (1)/the amount of sales which can be lost before a making a loss (1).

Max 1</td><td>1</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(e)</td><td>
<table>
<tr><td colspan="4">Marginal costing statement for one month</td><td></td></tr>
<tr><td></td><td>Workings</td><td>$</td><td>$</td><td></td></tr>
<tr><td>Revenue</td><td>8120 units (W1) (1) × $82</td><td></td><td>665 840</td><td>(1)OF</td></tr>
<tr><td>Less Variable costs</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Direct materials</td><td>2.2 kg × $15, i.e.
$33 (1) × 8120 units OF</td><td>267 960</td><td></td><td>(1)OF</td></tr>
<tr><td>Direct labour</td><td>Normal working:
7 500 units × 3.5 hr × $10,
i.e. $262 500 (1)</td><td rowspan="2">289 625</td><td></td><td>(1)OF</td></tr>
<tr><td></td><td>Overtime working:
[8120 (of) – 7500) =
620 units × 3.5 hr × $12.50,
i.e. $27 125</td><td></td><td>(1)OF</td></tr>
<tr><td></td><td></td><td></td><td>557 585</td><td></td></tr>
<tr><td>Contribution</td><td></td><td></td><td>108 255</td><td>(1)OF</td></tr>
<tr><td>Less fixed costs</td><td>$66 000 + depreciation of new machinery ($24 000/5 = $4800/12) i.e. $400</td><td></td><td>66 400</td><td>(1)</td></tr>
<tr><td>Profit per month</td><td></td><td></td><td>41 855</td><td>(1)OF</td></tr>
</table>
W1 New demand: 5800 × 140% = 8120
</td><td>10</td></tr>
<tr><td>4(f)</td><td>
<table>
<tr><td></td><td>Product A</td><td>Product B</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Direct labour</td><td>9</td><td>6</td><td>(1)</td></tr>
<tr><td>Total variable cost</td><td>14</td><td>20</td><td>(1)</td></tr>
<tr><td>Contribution per unit</td><td>6</td><td>5</td><td>(1)OF</td></tr>
<tr><td>Contribution per labour hour</td><td>8</td><td>10</td><td>(1)OF</td></tr>
</table>
Priority 1: Product B (1) 200 units produced (taking 100 labour hours)
Priority 2: Product A 246 (1) units produced (taking remaining 185 hours)
</td><td>6</td></tr>
</table>

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Question	Answer	Marks
4(g)	Reasons for agreeing • The plan will ensure the factory makes the optimum profit **(1).** • This is because Product B has the higher contribution per $1 of direct labour **(1).** Reasons for disagreeing • The company risks losing regular customers for Product A **(1).** • As a result in the longer term the profits of the company may be reduced **(1)** if regular customers cannot be won back. • Regular customers for Product A may also cancel their orders for Product B **(1).** • The directors need to consider how the suppliers of direct materials for Product A will react to a reduction in orders **(1)**. • Will it be possible to continue to make usual orders with these suppliers when the problem is overcome? **(1).** • Trade discounts for ordering in bulk may be lost causing a decrease in the profitability of this unit **(1).** **Advice (1)** **Max 4 marks for comments** **Accept other valid responses.**	**5**

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