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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/21**

Paper 2 Fundamentals of Accounting **May/June 2023**

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 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U 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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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.

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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.

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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.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Calculate the profit or loss made on the disposal of Vehicle A.

Depreciation to date: 3 × 25% × $28 000 = $21 000
Net book value at time of sale: $28 000 – $21 000 = $7000 (1)
$7000 – proceeds $5200 = $1800 (1) OF Loss (1)</td><td>3</td></tr>
<tr><td>1(b)</td><td>Calculate the total depreciation charge on delivery vehicles for the year ended 31 December 2022.

$30 000 × 25% = $7500 (1)
$32 000 × 25% × ½ = $4000 (1)
Total $11 500 (1) OF</td><td>3</td></tr>
<tr><td>1(c)</td><td>Prepare the statement of profit or loss for the year ended 31 December 2022.

Mima Supplies
Statement of profit or loss for the year ended 31 December 2022

<table>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Revenue</td><td>726 310</td><td></td><td></td></tr>
<tr><td>Less returns inwards</td><td>4 420</td><td></td><td></td></tr>
<tr><td></td><td></td><td>721 890</td><td>(1)</td></tr>
<tr><td>Cost of sales W1</td><td></td><td>478 960</td><td>(1)</td></tr>
<tr><td>Gross profit</td><td></td><td>242 930</td><td>(1) OF</td></tr>
<tr><td>Interest receivable W2</td><td></td><td>2 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td>244 930</td><td>(1) OF</td></tr>
<tr><td>Less expenses</td><td></td><td></td><td></td></tr>
<tr><td>Advertising W3</td><td>5 180</td><td></td><td>(1)</td></tr>
<tr><td>Insurance</td><td>7 380</td><td></td><td></td></tr>
<tr><td>Rent of warehouse</td><td>33 480</td><td></td><td></td></tr>
<tr><td>Vehicle running costs</td><td>8 580</td><td></td><td></td></tr>
<tr><td>Wages W4</td><td>65100</td><td></td><td>(1)</td></tr>
<tr><td>Increase in allowance for irrecoverable debts W5</td><td>175</td><td></td><td>(1)</td></tr>
<tr><td>Loss on disposal of motor vehicle</td><td>1 800</td><td></td><td>(1) OF</td></tr>
<tr><td>Depreciation</td><td></td><td></td><td></td></tr>
<tr><td>Motor vehicles</td><td>11 500</td><td></td><td>(1) OF</td></tr>
<tr><td>Furniture and equipment W6</td><td>2 790</td><td></td><td>(1)</td></tr>
<tr><td></td><td></td><td>135 985</td><td>(1) OF</td></tr>
<tr><td>Profit for the year</td><td></td><td>108 945</td><td>(1) OF</td></tr>
</table>

W1 Cost of sales: $483 900 – understated inventory $4940 = $478 960(1)
W2 Interest received: 10% × $24 000 × 10/12 = $2000 (1)
W3 Advertising: $6 580 – (1/3 × $4200) = $5180(1)
W4 Wages $63 480 + $1620 = $65 100 (1)
W5 Increase in allowance for irrecoverable debts:
(5% × $31 300, i.e. $1565 – $1390 = $175 (1)
W6 Depreciation of furniture and equipment
($36 800 – $18 200) × 15% = $2790 (1)</td><td>13</td></tr>
</table>

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Question	Answer	Marks
1(d)	**Explain the importance of making an allowance for irrecoverable debts in a business's financial statements.** To ensure that profits are not overstated **(1)** and asset values are not overstated **(1)** to comply with the prudence concept. **Max 2** **Accept other valid responses.**	**2**
1(e)	**Identify <u>two</u> ratios which could be used to assess a business's liquidity.** Current ratio **(1)** Acid test ratio **(1)**	**2**
1(f)	**Advise Mima which option she should choose. Justify your choice by considering <u>both</u> options.** **Max 3** marks for Option A **Max 3** marks for Option B **Decision** supported with a comment **(1)** **Option A (max 3)** Will improve the ratio **(1)** But may result in stock outs **(1)** May reduce customer choice **(1)** Could result in lost sales and a loss of profits **(1)** **Option B (max 3)** May improve ratio if demand increases **(1)** Profits could decrease because of cost of advertising **(1)** Will increase in demand compensate for loss of revenue on each sale **(1)** Will advertising campaign be effective? **(1)** **Accept other valid responses.**	**7**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Prepare the sales ledger control account for April 2023. Dates are <u>not</u> required.

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>14 890</td><td></td><td>Balance b/d</td><td>610</td><td></td></tr>
<tr><td>Sales (journal)</td><td>153 480</td><td>(1) }**</td><td>Returns inwards (journal)</td><td>2 790</td><td>}**</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Bank/Returned cheques</td><td rowspan="2">880</td><td rowspan="2">(1)}*</td><td>Cash book/Discounts allowed*</td><td>4 830</td><td>}*</td></tr>
<tr><td>Bank*</td><td>148 200</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Journal/Interest charges</td><td>540</td><td>(1)</td><td>Journal/Irrecoverable debts</td><td>1 830</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Journal/Contras</td><td>1 850</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Balance c/d</td><td>9 680</td><td></td></tr>
<tr><td></td><td>169 790</td><td></td><td></td><td>169 790</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Balance b/d</td><td>9 680</td><td>(1) OF</td><td></td><td></td><td></td></tr>
</table>
Notes:
* 1 mark for the three transfers from the cash book (bank, discounts allowed, returned cheques)
** 1 mark for both sales and returns inwards entries</td><td>6</td></tr>
<tr><td>2(b)(i)</td><td>Identify the books of prime entry for <u>each</u> of the following:

(i) discounts allowed

Cash book (1)</td><td>1</td></tr>
<tr><td>2(b)(ii)</td><td>Identify the books of prime entry for <u>each</u> of the following:

(ii) irrecoverable debts written off.

General journal (1)</td><td>1</td></tr>
</table>

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Question	Answer	Marks
2(c)	**State <u>three</u> benefits of maintaining control accounts.** Provides a check on the arithmetical accuracy of the purchases and sales ledgers **(1)** Can help to reduce the chance of fraud **(1)** Provides details of total trade payables and total trade receivables / easier to prepare financial statements **(1)** **Max 3** **Accept other valid responses.**	**3**
2(d)	**Calculate the revised sales ledger control account balance at 30 April 2023.** |	\$	| | Control account balance at 30 November	9 680	**(1) OF** | | Add: sales invoice omitted	820	**(1)** | | Less: understated returns inwards	(470)	**(1)** | | Revised control account balance	10 030	**(1) OF**		**4**

Question	Answer	Marks
3(a)	**State <u>two</u> features of revenue reserves which do <u>not</u> apply to capital reserves.** Revenue reserves can be used to finance dividend payments **(1)** Revenue reserves arise from the everyday activities of a business **(1)** **Max 2** **Accept other valid responses.**	**2**
3(b)	**Calculate the amount raised by the rights issue of shares.** There were 2 400 000 shares **(1)** So the rights issue is of 1 600 000 shares **(1)** Amount raised 1 600 000 × \$0.35 = \$560 000 **(1)**	**3**
3(c)	**Identify two reasons why the directors of J Limited might prefer to raise additional finance through a rights issue rather than by issuing debentures.** A share issue is a permanent source of finance/a debenture issue would be a temporary source of finance **(1)** Payment of dividends is discretionary and will not affect the profit of the company/a debenture issue will lead to finance charges reducing annual profits **(1)** **Max 2** **Accept other valid responses.**	**2**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(d)</td><td>Calculate the <u>total</u> amount of the interim dividend.

4 000 000 (1) × $0.12 = $480 000 (1) OF</td><td>2</td></tr>
<tr><td>3(e)</td><td>Prepare the statement of changes in equity for the year ended 31 December 2022.

J Limited
Statement of changes in equity at 31 December 2022

<table>
<tr><th></th><th>Share capital
$</th><th>Share premium
$</th><th>Retained earnings
$</th><th>Total
$</th><th></th></tr>
<tr><td>Balances at 1 January 2022</td><td>600 000</td><td>175 000</td><td>54 000</td><td>829 000</td><td>(1) for row</td></tr>
<tr><td>Rights issue</td><td>400 000
(1)OF</td><td>160 000
(1)OF</td><td></td><td>560 000</td><td></td></tr>
<tr><td>Profit for year</td><td></td><td></td><td>535 000
(1)</td><td>535 000</td><td></td></tr>
<tr><td>Dividend paid</td><td></td><td></td><td>(480 000)
(1)</td><td>(480 000)</td><td></td></tr>
<tr><td>Balances at 31 December 2022</td><td>1 000 000</td><td>335 000</td><td>109 000</td><td>1 444 000</td><td>(1) OF for row</td></tr>
</table>
</td><td>6</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>Complete the following table to show the apportionment of factory overheads and the reapportionment of service department overheads.
<table>
<tr><td></td><td colspan="2">Production departments</td><td colspan="2">Service departments</td><td></td></tr>
<tr><td></td><td>Cutting
$</td><td>Assembly
$</td><td>Maintenance
$</td><td>Canteen
$</td><td></td></tr>
<tr><td>Factory overheads</td><td>223 480</td><td>217 980</td><td>45 270</td><td>36 260</td><td></td></tr>
<tr><td>Depreciation of machinery</td><td>24 000</td><td>17 600</td><td>4 800</td><td>1 600</td><td>(1)</td></tr>
<tr><td>Power</td><td>20 100</td><td>16 750</td><td>1 117</td><td>2 233</td><td>(1)</td></tr>
<tr><td>Total overheads</td><td>267 580</td><td>252 330</td><td>51 187</td><td>40 093</td><td></td></tr>
<tr><td>Reapportionment</td><td>21 650</td><td>14 434</td><td>4 009</td><td>(40 093)</td><td>(1) OF</td></tr>
<tr><td>Subtotal</td><td>289 230</td><td>266 764</td><td>55 196</td><td>–</td><td></td></tr>
<tr><td>Reapportionment</td><td>33 906</td><td>21 290</td><td>(55 196)</td><td></td><td>(1) OF</td></tr>
<tr><td>Total overheads</td><td>323 136</td><td>288 054</td><td>–</td><td></td><td>(1) OF</td></tr>
</table></td><td>5</td></tr>
<tr><td>4(b)</td><td>Calculate, to <u>two</u> decimal places, an overhead absorption rate for <u>each</u> production department, using a suitable basis.

Cutting = 323 136 / 40 000 = $8.08 per machine hour (1)
Assembly = 288 054 / 62500 = $4.61 per labour hour (1)</td><td>2</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(c)</td><td>Calculate the selling price to be quoted for this order of 40 units.

<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Direct materials</td><td>40 × $6.95</td><td>278.00</td><td></td></tr>
<tr><td>Direct labour</td><td></td><td></td><td></td></tr>
<tr><td>Cutting</td><td>40 × 3 × $10.90</td><td>1 308.00</td><td rowspan="2">(1)</td></tr>
<tr><td>Assembly</td><td>40 × 4 × $8.20</td><td>1 312.00</td></tr>
<tr><td>Overheads</td><td></td><td></td><td></td></tr>
<tr><td>Cutting</td><td>40 × 8 × $8.08</td><td>2 585.60</td><td>(1) OF</td></tr>
<tr><td>Assembly</td><td>40 × 4 × $4.61</td><td>737.60</td><td>(1) OF</td></tr>
<tr><td>Total costs</td><td></td><td>6 221.20</td><td></td></tr>
<tr><td>Profit</td><td>1/3 × costs</td><td>2073.73</td><td>(1) OF</td></tr>
<tr><td>Selling price</td><td></td><td>8 294.93</td><td>(1) OF</td></tr>
</table></td><td>5</td></tr>
<tr><td>4(d)</td><td>State <u>two</u> causes of under absorption of overheads.

Actual overheads exceed budgeted overheads (1)
Actual production is less than planned production (1)</td><td>2</td></tr>
<tr><td>4(e)</td><td>Calculate the profit made each year from Product Exe.

Current labour hours used: 80% × 28 000 = 22 400 (1)
Units produced: 22 400/2.5 = 8960 (1)
Contribution: 8960 × $13 = $116 480 (1)
Profit: $116 480 – Fixed costs $96 000 = $20 480 (1) OF</td><td>4</td></tr>
<tr><td>4(f)</td><td>Calculate the <u>total</u> profit from both products which will be made in the first year if this plan is put into operation.

Contribution from Product Wye: 10 000 × $8 = $80 000 (1)

Contribution from Product Exe:
Units produced = (28 000 – 15 000)/2.5 = 5200 units (1)
Contribution is 5200 × $13 = $67 600 (1)

Total profit is: total contribution $147 600 – fixed costs ($96 000 + $7200 depreciation + $1000 loan interest, i.e. 104 200 (1)) = $43 400 (1) OF</td><td>5</td></tr>
</table>

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Question	Answer	Marks
4(g)	**Advise the directors whether this plan should be put into operation. Justify your answer by considering <u>both</u> financial and non-financial factors.** **Max 2** marks for 'For' **Max 4** marks for 'Against' **Decision** supported with a comment **(1)** For (**max 2**) More/double the annual profit **(1)** All direct labour required so no risk of losing skilled labour while factory operates at less than full capacity **(1)** If overtime can be used the loss of regular customers might be avoided **(1)** Against (**max 4**) Can a repeat order from the customer be guaranteed? **(1)** Will any customers be lost if their regular orders cannot be fully completed due to the fall in reduction of the original product? **(1)** If the customer does not repeat the order, fixed costs will be increased for the next few years leading to a long-term fall in profits **(1)** Will there be any retraining costs? **(1)** Will the company be able to obtain the loan? **(1)** **Accept other valid responses.**	**7**

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