GradeMax

Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/23**

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.

© UCLES 2023

[Turn over

GradeMax

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.

© UCLES 2023

GradeMax

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.

© UCLES 2023

GradeMax

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.

© UCLES 2023

GradeMax

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

© UCLES 2023

GradeMax

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.

© UCLES 2023

GradeMax

Question	Answer	Marks
1(a)	**Explain, with reference to an accounting concept, how damaged inventory should be valued.** Inventory should be valued at the lower of cost or net realisable value **(1)** in accordance with the prudence concept **(1)**	**2**
1(b)	**Calculate the corrected valuation of inventory at 31 December 2022.** $ Original value 15 330 Damage (960) **(1)** Sales 336 **(1)** Repairs (126) **(1)** 210 14 580 **(1) OF**	**4**

Question	Answer	Marks
1(c)	**Prepare the statement of profit or loss for the year ended 31 December 2022.**	**15**

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

	$	$	
Revenue	299 490		
Less sales returns	(5 460)		
		294 030	**(1)**
Less cost of sales			
Opening inventory	16 780		
Purchases	182 770		
Less goods own use	(550)		**(1)**
Less purchases returns	(4 810)		**(1)**
Add carriage inwards	1 720		**(1)**
	195 910		
Less closing inventory	(14 580)		**(1) OF**
		181 330	
Gross profit		112 700	**(1) OF**
Add discounts received		620	**(1)**
		113 320	
Less discounts allowed	840		**(1)**
Administrative expenses	14 380		
Insurance	4 320		**(1)**
Wages	37 330		
Carriage outwards	3 860		
Rent payable **W1**	20 400		**(1)**
Irrecoverable debt written off	760		**(1)**
Allowance for irrecoverable debts **W2**	885		**(1)**
Depreciation of furniture and equipment **W3**	6 550		**(2)**
		(89 325)	
Profit for the year		23 995	**(1) OF**

W1 Rent: $17 000 + (2/3 × $5100) = $20 400 **(1)**

W2 Allowance for irrecoverable debts: 5% × ($18 460 – $760) = $885 **(1)**

W3 Depreciation: Addition $650 + Original ($20% × $29 500) $5900 **(1)** = $6550 **(1)**

1(d)	**State the double entry required to record goods withdrawn by an owner for personal use.** Debit: drawings **(1)** Credit: purchases **(1)**	**2**

GradeMax

Question	Answer	Marks
1(e)	**Advise Hamza which option he should choose. Justify your answer by considering both financial and non-financial factors.** **Max 3** marks for Option A **Max 3** marks for Option B **Decision** supported by a comment **(1)** Option A **(max 3)** Cost of sales will be reduced leading to improved gross profit **(1)** But: Can larger orders be stored? / cost of storing large orders **(1)** Will goods deteriorate while stored? **(1)** Will new supplier's goods be of the same quality? **(1)** Will supplier be reliable? **(1)** Option B **(max 3)** Will increase gross profit only if demand is maintained **(1)** But: Advertising costs will reduce net profit **(1)** Will advertising be effective? **(1)** Increase in selling price may reduce demand **(1)** **Accept other valid responses.**	**7**

© UCLES 2023

GradeMax

Question	Answer	Marks
2(a)	**State <u>two</u> benefits of preparing trial balances.** Provides a check on **arithmetical** accuracy of double-entry **(1)** Provides a source of information for preparing financial statements **(1)** Provides quick access to information about account balances **(1)** **Max 2** **Accept other valid responses.**	**2**

GradeMax

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Prepare journal entries to correct each of the errors.

Journal

<table>
<tr><td>Account</td><td>Dr</td><td>Cr</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Opal Stores</td><td>740</td><td></td><td rowspan="2">(1)</td></tr>
<tr><td>Opal Wholesale</td><td></td><td>740</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Suspense</td><td>770</td><td></td><td>(1)</td></tr>
<tr><td>Kali /Sales ledger control account</td><td></td><td>770</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Discounts allowed</td><td>530</td><td></td><td rowspan="2">(1)</td></tr>
<tr><td>Discounts received</td><td></td><td>370</td></tr>
<tr><td>Suspense</td><td></td><td>160</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Suspense</td><td>90</td><td></td><td>(1)</td></tr>
<tr><td>W Limited</td><td></td><td>90</td><td>(1)</td></tr>
</table>

</td><td>7</td></tr>
<tr><td>2(c)</td><td>

Prepare the suspense account at 31 March 2023.

Suspense account

	$			$	
Kali/ Sales ledger control account	770	**(1)**	Difference on trial balance	700	**(1)**
Discount received	370		Discount allowed	530	**(1) line**
W Limited	90	**(1)**			
	1 230			1 230	

</td><td>4</td></tr>
<tr><td>2(d)</td><td>

Define the term ‘error of principle’.

Where the correct amount is entered on the correct side **(1)** but in the wrong class of account **(1)**.

Accept other valid responses.

</td><td>2</td></tr>
</table>

© UCLES 2023

GradeMax

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Prepare an extract from the statement of financial position immediately before the bonus issue showing the equity section.

<table>
<tr><td>Equity</td><td>$</td><td></td></tr>
<tr><td>Ordinary shares of $0.50 each W1</td><td>600 000</td><td>(2) OF</td></tr>
<tr><td>Share premium W2</td><td>240 000</td><td>(1) OF</td></tr>
<tr><td>Retained earnings W3</td><td>280 000</td><td>(1) OF</td></tr>
<tr><td>Total equity</td><td>1 120 000</td><td>(1)</td></tr>
</table>

W1 Bonus issue was 2/5 × $1 000 000 = $400 000 (1)
original capital was $600 000 (1) OF
W2 Share premium: 60% × $400 000 = $240 000 (1) OF
W3 Retained earnings: (40% × $400 000) + $120 000 = $280 000 (1) OF</td><td>5</td></tr>
<tr><td>3(b)</td><td>Calculate the change in the amount of dividend received by Hassan comparing the dividend at 31 March 2022 with the dividend at 31 March 2021.

2021 Dividend: 20% × $3600 (1) = $720 (1)
2022 Dividend: 12 000 shares (1) × $0.05 = $600 (1)
Decrease of $120 (1) OF</td><td>5</td></tr>
<tr><td>3(c)</td><td>State <u>two</u> differences between capital reserves and revenue reserves.

Capital reserves arise from non-trading activities; revenue reserves arise from trading activities (1)
Capital reserves cannot be used to finance cash dividends; revenue reserves can be used to finance cash dividends (1)

Max 2
Accept other valid responses.</td><td>2</td></tr>
<tr><td>3(d)</td><td>State <u>three</u> reasons why the directors of a company might reduce the total dividends payable.

Fall in profits (1)
Lack of liquid funds to pay dividends (1)
Liquid funds required for other commitments (1)

Max 3
Accept other valid responses.</td><td>3</td></tr>
</table>

© UCLES 2023

GradeMax

Question	Answer	Marks
4(a)	**Define:** **marginal cost** **contribution** **break-even point** marginal cost: the costs incurred when producing one additional unit **(1)** contribution: difference between selling price and variable costs which helps cover fixed costs **(1)** break-even point: the level of output at which neither a profit nor loss is made **(1)** **Accept other valid responses.**	**3**
4(b)(i)	**Calculate the break-even point:** **in units** Break-even point = $36 900/18 **(1)** = 2050 units **(1)**	**2**
4(b)(ii)	**Calculate the break-even point:** **in sales value.** Break-even point = 2050 × $52 = $106 600 **(1) OF**	**1**

GradeMax

Question	Answer	Marks
4(c)	**Calculate the increase in the <u>monthly</u> margin of safety <u>in units</u> assuming all production is sold.** Current margin of safety is: 2500 – 2050 units = 450 units **(1)** New factory capacity: 2500 × 115% = 2875 units **(1)** New contribution = \$18 + \$1 = \$19 **(1)** New fixed costs per month = \$36 900 + \$1200 + \$400 = \$38 500 **(1)** New break-even point = \$38 500/19 = 2027 units **(1) OF** New margin of safety = 2875 – 2027 units = 848 units **(1) OF** Margin of safety increases by 398 units **(1) OF**	**7**
4(d)(i)	**Calculate the profit per month to be made under each option.** Option A Production is 85% × 18 000 = 15 300 units Total contribution is 15 300 × 8 = \$122 400 Profit is \$122 400 less FC \$52 000 = \$70 400 **(1)**	**1**
4(d)(ii)	**Calculate the profit per month to be made under each option.** Option B \$ Contribution Existing contribution: 13 800 × \$8 110 400 **(1)** New customer contribution: 4200 × \$5.50 **(1)** 23 100 **(1) OF** 133 500 Less fixed costs 53 000 **(1)** Profit 80 500 **(1) OF**	**5**

GradeMax

Question	Answer	Marks
4(e)	**Advise the directors which option they should choose. Justify your answer by considering both financial and non-financial factors.** **Max 3** marks for Option A **Max 4** marks for Option B **Overall max 6 marks in total** for comments **Decision** supported by a comment **(1)** Option A **(max 3)** For: regular customers receive their usual order **(1)** no change in fixed costs **(1)** Against: less profit ($10 100) **(1) OF** Option B **(max 4)** For: may be long-term increase in profits if new customer makes regular order **(1)** operates at full capacity **(1)** Against: regular customers may switch to alternative supplier **(1)** regular customers may expect to pay the same price as new customer **(1)** fixed costs are increased in the long-term even if new customer only makes one order **(1)** **Accept other valid responses.**	**7**

© UCLES 2023

GradeMax

Question	Answer	Marks
4(f)	**Explain <u>two</u> advantages to a business of using absorption costing.** Absorption costing is useful for setting selling prices **(1)** as the cost of a unit includes an element of fixed costs **(1).** Inventories are valued on total costs **(1)** so the data is acceptable for preparing financial statements **(1)**. Absorption costing conforms to the matching concept **(1)** because it enables costs to be compared with revenues for a financial period **(1)** Absorption costing avoids the separation of fixed costs and variables costs **(1)** which can lead to incorrect data when using marginal costing **(1)** **Max 2 advantages (each advantage 1 mark for identifying and 1 mark for development)** **Accept other valid responses.**	**4**

© UCLES 2023