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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/21**

Paper 2 Fundamentals of Accounting **October/November 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 October/November 2023 series for most Cambridge IGCSE, Cambridge International A and 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.

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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).

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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.

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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

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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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Question	Answer	Marks
1(a)	**Calculate the value of closing inventory at 30 September 2023.** $15 270 **(3) W1** **W1** 14 400 + 2 720 **(1)** – 1 850 **(1)** = $15 270 **(1)OF**	**3**

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Question	Answer	Marks
1(b)	**Prepare the statement of profit or loss for the year ended 30 September 2023.**	**8**

Laila
Statement of profit or loss for the year ended 30 September 2023

	$		$	
Revenue **W1**			54 500	**(2)**
Cost of sales				
Opening inventory	12 030			
Purchases	46 840	**(1)OF**		
Closing inventory	(15 270)	**(1)OF**	43 600	**(1)**
Gross profit			10 900	**(1)OF**
Insurance	2 720			
Light and heat	3 880			
Loss on disposal	120			
Depreciation	2 120		8 840	**(1)**
Profit for the year			2 060	**(1)OF**

Workings

W1 55 390 – 4 540 **(1)** + 3 650 **(1)** = 54 500

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1(c) **Prepare the statement of financial position at 30 September 2023.** **12**

Laila
Statement of financial position at 31 September 2023

	$	$	
Non-current assets		19 080	**(1)**
Current assets			
Inventory	15 270		**(1)OF**
Trade receivables	3 650		**(1)**
Other receivables	320		**(1)**
		19 240	
Total assets		38 320	**(1)OF**
Equity			
Opening balance	33 960		**(1)**
Profit for the year	2 060		**(1)OF**
Drawings	(3 850)		**(1)**
Total equity		32 170	
Current liabilities			
Bank	1 170		**(1)**
Trade payables	4 400		**(1)**

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Question	Answer	Marks
1(c)	<table><tr><td>Other payables</td><td>580</td><td></td><td>**(1)**</td></tr><tr><td></td><td></td><td>6 150</td><td></td></tr><tr><td>Total equity and liabilities</td><td></td><td>38 320</td><td>**(1)OF**</td></tr></table>	
1(d)	**State <u>four</u> provisions of the Partnership Act 1890 that would apply in the absence of a partnership agreement.** • Profits and losses are shared equally. **(1)** • No interest is charged on drawings. **(1)** • No interest is allowed on capital. (**1)** • Interest of 5% is allowed on partners' loans. **(1)** **Accept other valid responses.**	**4**
1(e)	**State <u>three</u> possible disadvantages to a business of maintaining a full set of accounting records.** • The business owner may lack the experience or skills to maintain a full set of accounting records **(1)** • The owner may have to employ someone to maintain the records **(1)** • There may be an increase in costs resulting in a decrease in profits **(1)** **Accept other valid responses.**	**3**

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Question	Answer	Marks
2(a)	**Explain <u>one</u> difference between a capital reserve and a revenue reserve.** Capital reserves are created as a result of non-trading activities **(1)** whereas revenue reserves are created by transfer from profits **(1)** **OR** Capital reserves are not distributable to shareholders by dividend payment **(1)** whereas revenue reserves are available to distributable to shareholders **(1).** **Max 2** **Accept other valid responses**	**2**

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Question	Answer	Marks
2(b)	**Prepare the statement of changes in equity for the year ended 30 June 2023.**	**8**

Q Limited
Statement of changes in equity for the year ended 30 June 2023

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $	
At 1 July 2022	30 000	4 500	6 000	50 240	90 740	**(1)**
Bonus issue	5 000	(4 500)		(500)	–	**(1)**
Final dividend				(2 800)	(2 800)	**(1)**
Rights issue	10 000	3 000			13 000	**(1)**
Interim dividend				(1 800)	(1 800)	**(1)**
Revaluation			(6 000)	(5 000)	(11 000)	**(1)**
Profit for the year				43 600	43 600	**(1)**
At 30 June 2023	45 000	3 000	–	83 740	131 740	**(1)OF**

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Question	Answer	Marks
2(c)	**Advise the directors which option, if either, they should choose. Justify your decision.** **Option 1 – rights issue** • Rights issue is a permanent source of capital **(1)** • Dividend payment is discretionary **(1)** • Will issue be fully subscribed? **(1)** **Option 2 – 10% debenture** • Debenture will have to be repaid **(1)** • Interest must be paid whether profits or losses **(1)** • Security may be required **(1)** • Current debenture of $60 000 due for repayment next year **(1)** **Accept other valid responses**. **Max 4 for comments.** **Advice supported with a comment (1)**	**5**

Question	Answer	Marks
3(a)	**State <u>two</u> types of error that <u>will</u> be revealed by a trial balance.** Transposition error **(1)** Arithmetic error **(1)** Partial omission error **(1)** Unequal posting error **(1)** **Max 2**	**2**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)(i)</td><td>Explain the meaning of <u>each</u> of the following types of error.

Error of original entry

An incorrect figure is used when a transaction is first entered in the accounting records (1)</td><td>1</td></tr>
<tr><td>3(b)(ii)</td><td>Error of principle

A transaction is entered in an incorrect class of account (1)</td><td>1</td></tr>
<tr><td>3(b)(iii)</td><td>Error of commission

A transaction is entered in an incorrect account of the same class of account (1)</td><td>1</td></tr>
<tr><td>3(c)</td><td>Prepare the suspense account to show the correction of the errors, clearly identifying the opening balance that was present in the trial balance before the errors were corrected.

Suspense account

<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Balance b/d</td><td>990</td><td>(1)OF</td><td>Sales</td><td>300</td><td>(1)</td></tr>
<tr><td>Carriage inwards</td><td>180</td><td>(1)</td><td>Discounts allowed</td><td>1 660</td><td rowspan="2">(1)</td></tr>
<tr><td>Purchase returns</td><td>2 450</td><td>(1)</td><td>Discounts received</td><td>1 660</td></tr>
<tr><td></td><td>3 620</td><td></td><td></td><td>3 620</td><td></td></tr>
</table>
</td><td>5</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(d)</td><td>Calculate the revised profit for the year <u>after</u> correction of the errors.
<table>
<tr><td></td><td>Increase
$</td><td>Decrease
$</td><td>$</td></tr>
<tr><td>Draft profit for the year</td><td></td><td></td><td>36 165</td></tr>
<tr><td>Error 1</td><td></td><td>300 (1)</td><td></td></tr>
<tr><td>Error 2</td><td>2 450 (1)</td><td></td><td></td></tr>
<tr><td>Error 3</td><td></td><td>3 320 (1)</td><td></td></tr>
<tr><td>Error 4</td><td>180 (1)</td><td></td><td></td></tr>
<tr><td>Revised profit for the year</td><td></td><td></td><td>35 175 (1)</td></tr>
</table></td><td>5</td></tr>
</table>

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Question	Answer	Marks
4(a)	**Prepare a profit statement for <u>each</u> of the months August and September using absorption costing.**	**6**

Javid
Absorption cost profit statement

	August		September	
	$	$	$	$
Revenue		144 000		216 000 **(1) both**
Opening inventory	–		30 000	
Production cost	150 000		150 000	
Closing inventory	(30 000) **(1)**	120 000	–	180 000
		24 000		36 000
Overhead under absorbed		(6 000) **(1)**		(6 000) **(1)**
Profit		18 000 **(1)**		30 000 **(1)**

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Question	Answer	Marks
4(b)	**Prepare a profit statement for <u>each</u> of the months August and September using marginal costing.**	**6**

Javid
Marginal cost profit statement

	August		September	
	$	$	$	$
Revenue		144 000		216 000 **(1) both**
Opening inventory	–		24 000	
Production cost	120 000		120 000	
Closing inventory	(24 000) **(1)**	96 000	–	144 000
Contribution		48 000		72 000 **(1) both**
Fixed overheads		(36 000)		(36 000) **(1) both**
Profit		12 000 **(1)**		36 000 **(1)**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(c)</td><td>Prepare a statement reconciling the absorption cost profit for August with the marginal cost profit for August.
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Absorption cost profit</td><td>18 000</td><td>(1) OF</td></tr>
<tr><td>Closing inventory</td><td>(6 000)</td><td>(1)</td></tr>
<tr><td>Marginal cost profit</td><td>12 000</td><td>(1) OF</td></tr>
</table></td><td>3</td></tr>
</table>

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Question	Answer	Marks
4(d)	**Advise Javid whether or not he should change from absorption costing to marginal costing. Justify your answer.** **Absorption costing** • Gives higher profit when inventory levels increase **(1).** • Useful for long term decision making **(1)** • Can be used for setting selling prices **(1)** • Acceptable under IAS 2 **(1)** • Under absorption and over absorption of overheads can arise. **(1)** • The basis for apportionment may be arbitrary **(1)** **Marginal costing** • Enables optimum allocation of resources **(1).** • Does not include fixed costs in costs of production **(1)** • Not all costs can be split into fixed and variable costs **(1)** • Useful for short term decision making **(1)** • Useful for deciding whether to accept a special order **(1)** • Shows the impact of profit fluctuations in the volume of sales (**1)** • No need to calculate an overhead absorption rate **(1)** • More suitable for businesses that make a single product **(1)** **Max 6 for comments** **Advice supported with a comment (1)** **Accept other valid responses**.	**7**
4(e)	**State <u>two</u> possible causes of over absorption of overheads.** • Actual overheads are less than budgeted overheads **(1)** • Actual production is more than budgeted production **(1)**	**2**

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Question	Answer	Marks
4(f)	**Explain <u>one</u> difference between a cost centre and a cost unit.** A cost centre is a product / service / location where costs are allocated **(1)** whereas a cost unit is a unit of output to which costs can be charged **(1)**	**2**
4(g)(i)	**State how closing inventory is valued using each method of inventory valuation.** **First in first out (FIFO)** Assumes that goods are used in production or sold in the order in which they are received from the supplier **(1).** **Accept other valid responses.**	**1**
4(g)(ii)	**Weighted average cost (AVCO)** the average cost of inventory is recalculated after each purchase **(1).** **Accept other valid responses.**	**1**
4(h)	**Explain a principle of the JIT method of inventory management.** Supplies are received exactly when they are needed in the production process **(1)** and do not need to be stored beforehand **(1)** **Accept other valid responses.**	**2**

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