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Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2016**

MARK SCHEME

Maximum Mark: 90

Published

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1 (a)

Bayliss Limited
Income statement for the year ended 31 December 2015

	$000		$000	
Revenue			984	
Cost of sales				
Opening inventory	98			
Purchases	480			
Closing inventory	(105)		473	
Gross profit for the year			511	**(1)**
Administrative expenses **W1**	229	**(4)**		
Distribution costs	197		426	
Profit from operations			85	
Finance costs (13 + 1)			14	**(1)**
Profit for the year			71	**(1of)**

W1 205 + 3 **(1)** + 11 **(1)** + 9 **(1)** + 1 **(1)** = 229

If administrative expenses are not shown as one combined figure '0' marks for profit for the year.

[7]

(b)

Bayliss Limited
Statement of changes in equity for the year ended 31 December 2015

	Share capital $000	Share premium $000	Revaluation reserve $000	General reserve $000	Retained earnings $000	Total $000
At 1 January 2015	140	3	–	21	61	225
Bonus shares	7	(3)		(4)		–
Dividends paid					(10)	(10)
Profit for the year					71	71
Revaluation			15			15
At 31 December 2015	147	–	15	17	122	301

Award **1 mark** for bonus share row, dividends, profit (own figure), revaluation and closing rows (own figure).

[5]

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Bayliss Limited
Statement of financial position at 31 December 2015

	$000	$000	
Non-current assets			
Land and buildings (200 – 24)		176	**(1)**
Plant and machinery		99	**(1)**
		275	
Current assets			
Inventory	105		
Trade receivables (109 – 9 **(1)** – 3 **(1)of**)	97		
Other receivables	3	205	
Total assets		480	
Equity and liabilities			
Equity			
Share capital	147		
Revaluation reserve	15		
General reserve	17		
Retained earnings	122	301	
Non-current liabilities			
5% debentures (2017)		80	**(1)**
Current liabilities			
Trade payables	59		
Other payables (7 + 1 **(1)**)	8		
Cash and cash equivalents	32	99	
Total equity and liabilities		480	

[6]

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(d) (i) Ordinary shares

Dividends paid to ordinary shareholders do not affect profit **(1)** they reduce retained earnings **(1)** in the statement of changes in equity **(1)**. Does not appear in the income statement **(1)**.

Debenture
Interest paid to debenture holders is charged to the income statement **(1)** reducing the profit for the year **(1)**.

Max 2 marks for each option. Overall max 4 marks. **[4]**

(ii) Decision **(1)**

Interest on the debentures must be paid whether the company makes a profit or a loss **(1).**

Ordinary share dividends are paid at the discretion of the directors **(1)**.

Debentures are a non-current liability **(1)** and weaken the statement of financial position and increase gearing **(1)** whereas ordinary shares are part of the permanent capital of the company **(1)**.

Reasons Max 2 marks **[3]**

(e) Capital reserves are not normally created by transfer from profits **(1)**. They usually represent gains that have not been realised **(1)**. Capital reserves cannot be used to pay dividends **(1)**.
Max 2 marks

Revenue reserves are created by transfer from profits **(1)**. They may be created for a specific purpose **(1)**, or simply to strengthen the financial position of the company **(1)**. Revenue reserves may be used to pay dividends **(1)**.
Max 2 marks **[4]**

(f) Revaluation reserve, share premium. **[1]**

Max one mark.

[Total: 30]

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2 (a) (i) Current ratio

$$\frac{42+39+2+1}{29+8+10} = 1.79:1$$

(ii) Liquid (acid test) ratio

$$\frac{39+2+1}{29+8+10} = 0.89:1$$

(iii) Trade receivable turnover (days)

(39 / 156) × 365 = 91.25 = 92 days **(1)**

(iv) Trade payable turnover (days)

(29 / 88) × 365 = 120.28 = 121 days **(1)**

(v) Inventory turnover (days)

(((42 + 34) / 2) / 80) × 365 = 173.38 = 174 days **(1)**

[5]

(b) Trade receivables are taking three months to settle accounts owing indicating poor credit control. **[4]**

As a result, the company are taking over four months to pay suppliers, which may lead to supplies being stopped.
Inventory is taking an average of almost six months to be sold.
Whilst the current ratio is acceptable at 1.79:1, much of the current asset figure is made up of inventory, leading to a liquid (acid test) ratio of less than 1 : 1.
Overall, the company's liquidity is cause for concern.

Max 1 mark own figure for each relevant comment to a max of 3 marks, plus 1 mark for conclusion. [4]

(c) Only relevant when comparing like with like **(1)** (same industry, same size business etc.) **(1)**
Uses historical data **(1)**, therefore gives no indication of future performance **(1)**
Only concerned with financial data **(1)**, ignores non-financial aspects such as staff morale, quality of management etc **(1)**
Does not provide causes / reasons for changes **(1)** – therefore must deduce reasons **(1)**
1 mark for stating limitation plus 1 mark for development.

Max 6 marks [6]

[Total: 15]

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3 (a)

Realisation Account

	$			$	
Non-current assets	70 000		Trade payables	26 000	
Current assets	30 000		Land and building	70 000	
Bank trade payables	24 500	**(1)**	Yuan – motor vehicle	3 000	**(1)**
Dissolution costs	1 700	**(1)**	Bank – motor vehicle	3 500	
Share of profit on sale:			Bank – trade receivables	15 000	**(1)**
Wang – capital account	2 200		Bank – inventory	12 000	
Yuan – capital account	1 100	**(1)of**			
	129 500			129 500	

[5]

(b) **[7]**

	W		Y	
Capital accounts	40 000		25 000	**(1) both**
Current accounts	(10 000)	**(1)**	13 000	**(1)**
Share of profit	2 200		1 100	**(1) both OF**
Motor vehicle			(3 000)	**(1)**
Amount due to each partner	32 200	**(1) OF**	36 100	**(1) OF**

[7]

(c) They may have drawn more than the profits earned **(1)**
Partnership may have sustained losses. **(1)** **[2]**

(d) They will need to keep their investments separate to distinguish between individual partners. **(1)**

To calculate interest on capital. **(1)**

Max 1 mark **[1]**

[Total: 15]

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4 **(a)** The answer may be any *one* of the following:
the point at which a product makes neither a profit or a loss
total costs equal total revenue
total contribution equals fixed costs.
Max 1 mark **[1]**

(b)

	$ per unit	
Sales revenue	2.00	
Less variable costs	0.75	
Contribution	1.25	**(1)**

(i)

Fixed costs	$50 000	**(1)**	= 40 000 units **(1of)**
Contribution per unit	$1.25		

(ii) 40 000 × $2 = $80 000 **(1of)** **[4]**

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(c)

Plots for lines:	units 000	$000
Fixed costs	{0	50
	{100	50
Sales revenue	{0	0
	{100	200 (100 units × $2)
Total costs	{0	50 (0 + 50)
	{100	125 (100 units × $0.75 + 50)

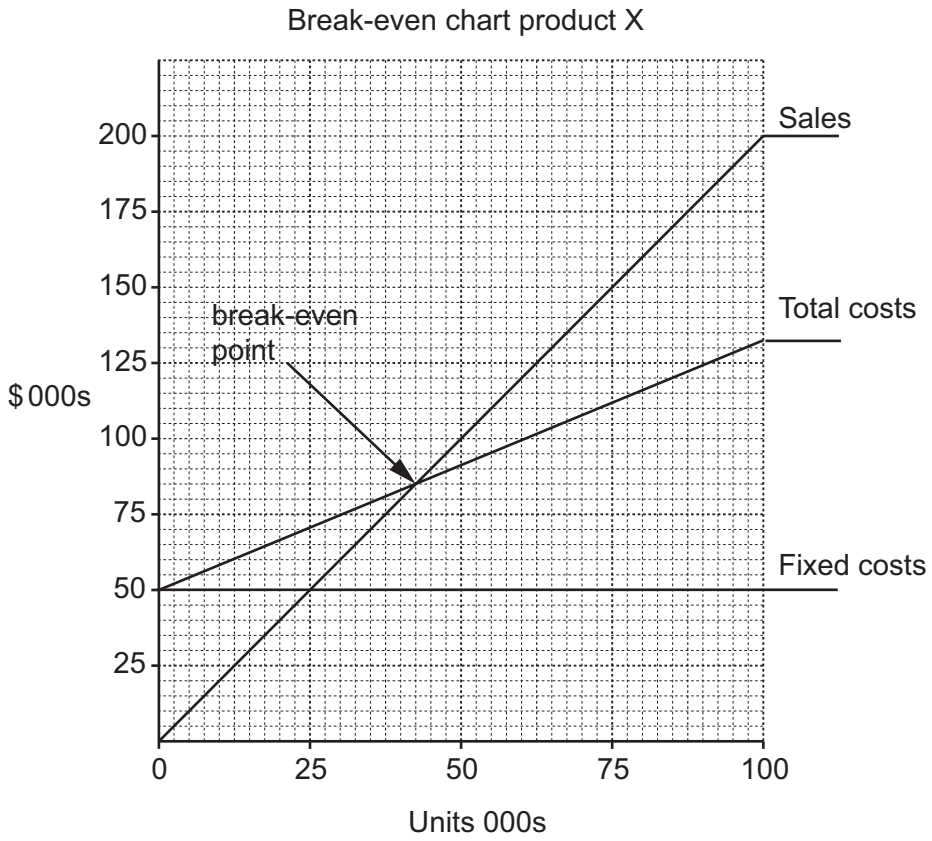

Chart:

Labels on axis and lines **(1 mark)**
Lines drawn correctly **(1 mark)** and labelled correctly **(1 mark)**
Break-even point identified and labelled **(1 mark)** **[4]**

(d) Budgeted units less actual units at break-even point in units

100 000 units – 40 000 units **(1of)** = 60 000 units **(1of)**

Margin of safety (in percentage)

(60 000 **(1of)** /100 000) × 100 = 60% **(1of)** **[4]**

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(e)

	Y		Z	
	$		$	
Selling price	23.00		18.00	
Less variable costs	13.50		10.50	
Contribution	9.50	**(1)**	7.50	**(1)**

[2]

(f) $83 000 – $60 000 = $23 000 **(1of)** **[1]**

(g)

	Y	Z	
Contribution	$9.50	$7.50	
÷ Limiting factor	2hrs	1hr	
Contribution per limiting factor	$4.75	$7.50	**(1) both**
Rank	2	1	**(1) both**

Z is made first.
6000 units of Z and 2000 units of Y can be made in 10 000 labour hours.

Revised profit = ($7.50 × 6000 **(1of)** + $9.50 × 2000 **(1of)**) – $60 000 = $4000 **(1) OF** **[5]**

(h) Overtime

Disadvantages Advantages

Workers may refuse	Will meet demand
Reduce contribution	Rahel knows ability of workers
Possibility of lower quality	Rahel knows quality of work
Additional other costs	

Buy-in

Doesn't know quality / reliability of supplier	Will meet demand
May be more expensive	May obtain better price
May allow competition into market	

1 mark for decision and 4 marks for justification **[5]**

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(i) Advantage

Good for short term decision **(1)** because it only considers variable costs **(1)**
Good for special orders **(1)** enables accurate price to be set **(1)**
Make or buy **(1)** enables comparison **(1)**

(Max 1) (1 mark for stating and 1 for development)

Disadvantage

Inaccurate / harder to calculate / time consuming **(1)** because it is difficult to split costs into fixed and variable **(1)**
Not useful for financial statements **(1)** because the inventory value would be understated **(1)**

Max 1 mark for stating and 1 for development **[4]**

[Total: 30]

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