Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2020**

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.

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This document consists of **7** printed pages.

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.

Question	Answer	Marks
1(a)	G Limited Income statement for the year ended 30 September 2020 $ Revenue 498 430 Cost of sales (232 711) **(1)** Gross profit 265 719 **(1)OF** Administrative expenses **W1** (139 998) **(4)** Distribution costs **W2** (67 803) **(3)** Profit from operations 57 918 **(1)OF** Finance costs (250) **(1)** Profit for the year 57 668 **(1)OF** **W1** 117 528 + 18 000 **(1)** + 620 **(1)** + 3850 **(1)** = 139 998 **(1)OF** **W2** 60 263 + 9000 **(1)** – 1460 **(1)** = 67 803 **(1)OF**	**12**
1(b)	G Limited Statement of financial position at 30 September 2020 Assets $ Non-current assets Property, plant and equipment 190 500 **(1)OF** Current assets Inventories 91 368 Trade and other receivables **W1** 70 912 **(2)** 162 280 Total assets 352 780 Equity and liabilities Equity Share capital 200 000 Share premium 20 000 Retained earnings 92 240 **(1)OF** Total equity 312 240 Current liabilities Trade and other payables **W2** 30 224 **(2)** Bank overdraft 10 316 Total liabilities 40 540 Total equity and liabilities 352 780 **(1)OF both** **W1** (71 600 – 2148) = 69 452 **(1)** + 1460 **(1)** = 70 912 **W2** 26 124 **(1)** + 4100 **(1)** = 30 224	**7**
1(c)	Ordinary shares provide variable dividends whereas preference shares pay fixed dividends **(1)**. Holders of preference shares receive dividend payments before those made to holders of ordinary shares **(1)**. Ordinary shares usually have voting rights whereas preference shares do not **(1)**. **Max. 2** **Accept other valid responses.**	**2**

Question	Answer	Marks
1(d)(i)	Capital reserves are created from capital profits and not trading profits **(1)**.	**1**
1(d)(ii)	Used for special purposes (e.g. bonus share issue) **(1)**	**1**
1(e)	**Issue debenture (Max 2)** Has to be repaid **(1)** Will result in interest being paid which will reduce profits **(1)** Will have no effect on control **(1)** May require security **(1)** **Rights issue (Max 2)** Permanent capital **(1)** Will not dilute ownership **(1).** Will current investors be willing to invest further funds **(1)** Dividends are discretionary **(1)** **New share issue (Max 2)** Permanent capital **(1)** Will raise $110 000 **(1)** Company will have an additional $10 000 working capital available **(1)**. Dividends are discretionary **(1)** Decision **(1)**. **Accept other valid responses.**	**7**

Question	Answer	Marks
2(a)	Some errors (e.g. omission, commission, principle, original entry, reversal, compensating) will not show in the trial balance **(1)** as a result the trial balance will still balance despite errors being present **(1)**.	**2**
2(b)	see below	**4**

	$	$	
Purchases returns	5 600		
Sales returns	5 600		
Suspense		11 200	**(1)**
Motor vehicles – cost	15 000		
Motor expenses		15 000	**(1)**
Suspense	750		
Discount received		750	**(1)**
Insurance	300		
Suspense		300	**(1)**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(c)</td><td>
<table>
<tr><td></td><td>+</td><td>-</td><td>$</td></tr>
<tr><td>Draft profit for the year</td><td></td><td></td><td>47 835</td></tr>
<tr><td>Sales returns</td><td></td><td>11 200 (1)</td><td></td></tr>
<tr><td>Motor vehicle</td><td>15 000 (1)</td><td></td><td></td></tr>
<tr><td>Depreciation</td><td></td><td>1 250 (1)</td><td></td></tr>
<tr><td>Discount received</td><td>750 (1)</td><td></td><td></td></tr>
<tr><td>Insurance</td><td></td><td>300 (1)</td><td></td></tr>
<tr><td></td><td>15 750</td><td>12 750</td><td></td></tr>
<tr><td></td><td></td><td></td><td>3 000</td></tr>
<tr><td>Revised profit for the year</td><td></td><td></td><td>50 835 (1)OF</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>2(d)</td><td>To record:
opening or closing entries (1)
the purchase or sale of a non-current asset (1)
non-cash drawings (1)
depreciation (1)
provision for doubtful debts (1)
non-cash capital contributions (1)
transfer of profit or loss to capital account (1)

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

Question	Answer	Marks
3(a)	Inventory turnover = Cost of sales / Average inventory Average inventory = 37 625 **(1)** Cost of sales = 8 × 37 625 = 301 000 **(1)OF** Sales = 301 000 / 70 × 100 **(1)** = $430 000 **(1)OF**	**4**
3(b)	Trade receivables turnover = Trade receivables / credit sales × 365 Trade receivables = 38 000 – 2000 = 36 000 **(1)** – 1260 = 34 740 **(1)** Trade receivables turnover = 34 740 / 430 000 X 365 **(1)OF** = 30 days **(1)OF**	**4**
3(c)	Trade payables turnover = Trade payables / credit purchases × 365 Credit purchases = 301 000 + (40 250 – 35 000) **(1)** = $306 250 **(1)OF** Trade payables turnover = 22 000 / 306 250 × 365 **(1)OF** = 27 days **(1)OF**	**4**
3(d)	The receivables turnover period is greater than the payables turnover period **(1)OF**. This results in them paying suppliers before receiving settlement from customers **(1)**. This will have an adverse effect on liquidity **(1)** **Accept other valid responses**	**3**

Question	Answer	Marks
4(a)	Contribution is the amount remaining after all variable costs have been subtracted from revenue **(1)**. This amount is available to service the fixed costs **(1)**. The amount remaining after this is the profit **(1)**. **Accept other valid responses.**	**3**
4(b)	A / B / C Selling Price: 15.00 / 20.00 / 25.00 Variable costs: (11.50) / (14.00) / (16.00) Contribution: 3.50 **(1)** / 6.00 **(1)** / 9.00 **(1)**	**3**
4(c)	A 12 000 × 3.50 = 42 000 B 12 000 × 6.00 = 72 000 C 12 000 × 9.00 = 108 000 Contribution 222 000 **(1)OF** Fixed costs (100 000) **(1)** Profit 122 000 **(1)OF**	**3**
4(d)(i)	Contribution per machine hour: A / B / C 3.50/2 / 6.00/4 / 9.00/4 1.75 / 1.50 / 2.25 **(1)OF** Ranking: 2 / 3 / 1 **(1)OF** Hours required: 24 000 / 48 000 / 48 000 Optimum Production Plan Hours available 78 000 C 12 000 **(1)OF** (48 000) A 12 000 **(1)OF** (24 000) B 1 500 **(1)OF** (6 000)	**5**
4(d)(ii)	C 12 000 × 9.00 108 000 A 12 000 × 3.50 42 000 B 1 500 × 6.00 9 000 159 000 **(1)OF** Fixed costs (100 000) **(1)** Profit 59 000 **(1)OF**	**3**
4(e)	Reduction in profit 122 000 – 59 000 = 63 000 **(1) OF** On a financial basis Connie will be worse off by $2000 **(1)**. Consider loss of goodwill of customers **(1)**. Would customers who normally buy non-available products go elsewhere even for those available? **(1)**. Would Connie be able to resume full production in the future if she reduced output now? **(1)**. Are there staffing implications? **(1)**. Decision **(1)**. **Max. 6 for comments.** **Accept other valid responses.**	**7**

Question	Answer	Marks
4(f)(i)	Those costs which vary in direct proportion to production **(1).**	**1**
4(f)(ii)	Those costs which are partially fixed and partially variable **(1)**.	**1**
4(f)(iii)	Those costs which remain the same at all levels of production **(1)**.	**1**
4(g)	Costs can be split into fixed and variable costs **(1)**. Fixed costs are unchanged at all levels of production **(1)**. Variable cost is constant per unit at all levels of production **(1)**. All production is sold **(1)** Selling price remains constant **(1)** Sales mix should be constant **(1)** **Accept other valid responses.**	**3**