

ACCOUNTING**9706/23**

Paper 2 Structured Questions

May/June 2017

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE[®], Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

© IGCSE is a registered trademark.

This document consists of **5** printed pages.

Question	Answer	Marks																																																				
1(a)	Adjusted net profit: 232 000–4000 (1) –9000 (3) =219 000 Workings: 15 000×2=30 000 (1) ×20%=6000 (1) OF 15 000–6000=9000 (1) OF	4																																																				
1(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Adjusted Net Profit</td> <td style="width: 30%;"></td> <td style="width: 20%;"></td> <td style="width: 20%; text-align: right;">219000</td> </tr> <tr> <td>Add Interest on drawings</td> <td>Ramadhin</td> <td style="text-align: right;">400</td> <td></td> </tr> <tr> <td></td> <td>Statham</td> <td style="text-align: right;">400</td> <td></td> </tr> <tr> <td></td> <td>Trueman</td> <td style="text-align: right;"><u>400</u></td> <td style="text-align: right;"><u>1200 (1)</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">220200</td> </tr> <tr> <td>Less Interest on capital</td> <td>Ramadhin</td> <td style="text-align: right;">18 000</td> <td></td> </tr> <tr> <td></td> <td>Statham</td> <td style="text-align: right;">12 000</td> <td></td> </tr> <tr> <td></td> <td>Trueman</td> <td style="text-align: right;"><u>6 000</u></td> <td style="text-align: right;">(36000) (1)</td> </tr> <tr> <td>Salary</td> <td>Trueman</td> <td></td> <td style="text-align: right;"><u>(12000) (1)</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">172200</td> </tr> <tr> <td>Share of profit</td> <td>Ramadhin</td> <td style="text-align: right;">86 100 (1) OF</td> <td></td> </tr> <tr> <td></td> <td>Statham</td> <td style="text-align: right;">57 400 (1) OF</td> <td></td> </tr> <tr> <td></td> <td>Trueman</td> <td style="text-align: right;"><u>28 700 (1) OF</u></td> <td style="text-align: right;"><u>172200</u></td> </tr> </table>	Adjusted Net Profit			219000	Add Interest on drawings	Ramadhin	400			Statham	400			Trueman	<u>400</u>	<u>1200 (1)</u>				220200	Less Interest on capital	Ramadhin	18 000			Statham	12 000			Trueman	<u>6 000</u>	(36000) (1)	Salary	Trueman		<u>(12000) (1)</u>				172200	Share of profit	Ramadhin	86 100 (1) OF			Statham	57 400 (1) OF			Trueman	<u>28 700 (1) OF</u>	<u>172200</u>	6
Adjusted Net Profit			219000																																																			
Add Interest on drawings	Ramadhin	400																																																				
	Statham	400																																																				
	Trueman	<u>400</u>	<u>1200 (1)</u>																																																			
			220200																																																			
Less Interest on capital	Ramadhin	18 000																																																				
	Statham	12 000																																																				
	Trueman	<u>6 000</u>	(36000) (1)																																																			
Salary	Trueman		<u>(12000) (1)</u>																																																			
			172200																																																			
Share of profit	Ramadhin	86 100 (1) OF																																																				
	Statham	57 400 (1) OF																																																				
	Trueman	<u>28 700 (1) OF</u>	<u>172200</u>																																																			
1(c)	Fair value of assets may be greater than book value. (1) Partners are rewarded for their efforts in building up the business. (1) It is only fair that the retiring partner is compensated in this way. (1)	3																																																				
1(d)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Capital</td> <td style="width: 30%; text-align: right;">100 000</td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td>Goodwill to Trueman</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Revaluation loss</td> <td style="text-align: right;">(1 250)</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Current account</td> <td style="text-align: right;"><u>36 300 *</u></td> <td style="text-align: right;">(5)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">137 050</td> <td></td> <td></td> </tr> <tr> <td>× 60%</td> <td style="text-align: right;">82 230</td> <td style="text-align: right;">(1)OF</td> <td></td> </tr> </table> <p>*28 700 (1) OF + 6000 (1) OF + 12 000 (1) OF – 400 (1) OF – 10 000 (1)</p>	Capital	100 000			Goodwill to Trueman	2 000	(1)		Revaluation loss	(1 250)	(1)		Current account	<u>36 300 *</u>	(5)			137 050			× 60%	82 230	(1)OF		8																												
Capital	100 000																																																					
Goodwill to Trueman	2 000	(1)																																																				
Revaluation loss	(1 250)	(1)																																																				
Current account	<u>36 300 *</u>	(5)																																																				
	137 050																																																					
× 60%	82 230	(1)OF																																																				
1(e)	<p>Decision. (1)</p> <p><u>Financial (Maximum 3)</u> Trueman would receive more / less income. (1)OF Interest will be earned on the loan. (1) The decision may be affected by the interest rate which could be obtained externally on the capital invested. (1)</p> <p><u>Non-financial (Maximum 3)</u> Level of risk. (1) Degree of responsibility / decision making. (1) Security of employment. (1)</p> <p>1 mark for decision plus maximum 4 marks for justification</p>	5																																																				

Question	Answer	Marks
1(f)	Decision. (1) Partnership may not have funds available. (1) It may be able to take a loan to repay at a lower interest thereby increasing the profit of the remaining partners. (1) Taking a loan will increase the risk to the business. (1) Loan may require a security. (1) 1 mark for decision plus maximum 3 marks for justification	4
	Total:	30

Question	Answer	Marks																																																
2(a)	<p style="text-align: center;">WX Limited Statement of Changes in equity for the year ended 28 February 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Share capital \$</th> <th style="text-align: center;">Share premium \$</th> <th style="text-align: center;">Retained earnings \$</th> <th style="text-align: center;">Revaluation reserve \$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Balance b/d</td> <td style="text-align: right;">150 000</td> <td style="text-align: right;">60 000</td> <td style="text-align: right;">40 000</td> <td style="text-align: center;">–</td> <td></td> </tr> <tr> <td>Revaluation</td> <td></td> <td></td> <td></td> <td style="text-align: right;">50 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Bonus issue</td> <td style="text-align: right;">45 000 (1)</td> <td style="text-align: right;">(45 000) (1)OF</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rights issue</td> <td style="text-align: right;">24 375 (1)OF</td> <td style="text-align: right;">14 625 (1)OF</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dividends paid</td> <td></td> <td></td> <td style="text-align: right;">(17 550) (1)OF</td> <td></td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right;"><u>50 500</u></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>219 375</u></td> <td style="text-align: right;"><u>29 625</u></td> <td style="text-align: right;"><u>72 950</u></td> <td style="text-align: right;"><u>50 000</u></td> <td style="text-align: right;">(1)OF</td> </tr> </tbody> </table> <p>Workings:</p> <p>Bonus issue: $150\,000 / 0.5 = 300\,000$ (1) / $10 \times 3 = 90\,000 \times \\$0.50 = 45\,000$ Rights issue: $300\,000 + 90\,000 = 390\,000$ (1)OF $8 = 48\,750$ $48\,750 \times \\$0.50 = 24\,375$ $48\,750 \times \\$0.30 = 14\,625$ Dividends $300\,000 + 90\,000 + 48\,750 = 438\,750$ (1)OF $\times \\$0.04 = 17\,550$</p>		Share capital \$	Share premium \$	Retained earnings \$	Revaluation reserve \$		Balance b/d	150 000	60 000	40 000	–		Revaluation				50 000	(1)	Bonus issue	45 000 (1)	(45 000) (1)OF				Rights issue	24 375 (1)OF	14 625 (1)OF				Dividends paid			(17 550) (1)OF			Profit for the year			<u>50 500</u>		(1)	Balance c/d	<u>219 375</u>	<u>29 625</u>	<u>72 950</u>	<u>50 000</u>	(1)OF	11
	Share capital \$	Share premium \$	Retained earnings \$	Revaluation reserve \$																																														
Balance b/d	150 000	60 000	40 000	–																																														
Revaluation				50 000	(1)																																													
Bonus issue	45 000 (1)	(45 000) (1)OF																																																
Rights issue	24 375 (1)OF	14 625 (1)OF																																																
Dividends paid			(17 550) (1)OF																																															
Profit for the year			<u>50 500</u>		(1)																																													
Balance c/d	<u>219 375</u>	<u>29 625</u>	<u>72 950</u>	<u>50 000</u>	(1)OF																																													
2(b)	<p>Advantages (Maximum 3)</p> <p>Can be issued instead of paying dividends and so cash flow is not reduced. (1) Keeps existing shareholders satisfied as there is no dilution of ownership. (1) Retains cash in the business for reinvestment. (1) Gives a positive sign to potential shareholders. (1) Enables company to release its capital reserves. (1)</p> <p>Disadvantage</p> <p>No cash raised from selling the shares. (1 mark for a valid point up to a maximum of 4 marks)</p>	4																																																
	Total:	15																																																

Question	Answer	Marks
3(a)	Trade receivables / credit sales \times 365 (1) $16\,500/167\,175 \times 365 = 37$ days (1)OF Credit sales: $37\,150 \times 100/20 = 185\,750$ (1) – $18\,575 = 167\,175$ (1)OF	4
3(b)	Cost of goods sold: $37\,150 \times 80/20$ (1) = $148\,600$ (1)OF Cost of goods sold / average inventory $148\,600 / (25\,200 + \text{closing inventory}) / 2$ (1)OF = 5 Closing inventory: $148\,600 / 5 \times 2 - 25\,200 = 34\,240$ (1)OF	4
3(c)	Trade payables / credit purchases \times 365 (1) Credit purchases = $148\,600 + (34\,240 - 25\,200) = 157\,640$ (1)OF $(9500/157\,640)$ (1)OF $\times 365 = 22$ days (1)OF	4
3(d)	Shows trend / previous years. (1) Helps to compare with competitors. (1) Help to compare with industry averages. (1) Set targets for the next period. (1) (1 mark for a valid point up to 3 marks maximum)	3
	Total:	15

Question	Answer	Marks																
4(a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Exe</th> <th style="text-align: center;">Wye</th> <th style="text-align: center;">Zed</th> </tr> </thead> <tbody> <tr> <td>Selling price</td> <td style="text-align: right;">96.00</td> <td style="text-align: right;">128.00</td> <td style="text-align: right;">140.00</td> </tr> <tr> <td>Variable costs</td> <td style="text-align: right;"><u>54.40</u></td> <td style="text-align: right;"><u>71.20</u></td> <td style="text-align: right;"><u>95.20</u></td> </tr> <tr> <td>Contribution</td> <td style="text-align: right;"><u>41.60</u> (1)</td> <td style="text-align: right;"><u>56.80</u> (1)</td> <td style="text-align: right;"><u>44.80</u> (1)</td> </tr> </tbody> </table>		Exe	Wye	Zed	Selling price	96.00	128.00	140.00	Variable costs	<u>54.40</u>	<u>71.20</u>	<u>95.20</u>	Contribution	<u>41.60</u> (1)	<u>56.80</u> (1)	<u>44.80</u> (1)	3
	Exe	Wye	Zed															
Selling price	96.00	128.00	140.00															
Variable costs	<u>54.40</u>	<u>71.20</u>	<u>95.20</u>															
Contribution	<u>41.60</u> (1)	<u>56.80</u> (1)	<u>44.80</u> (1)															
4(b)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Exe</td> <td style="text-align: right;">$\\$41.60 \times 100$</td> </tr> <tr> <td>Wye</td> <td style="text-align: right;">$\\$56.80 \times 120$</td> </tr> <tr> <td>Zed</td> <td style="text-align: right;">$\\$44.80 \times 60$</td> </tr> <tr> <td>Contribution</td> <td style="text-align: right;"><u>13\,664</u> (1)OF</td> </tr> <tr> <td>Fixed costs</td> <td style="text-align: right;"><u>7\,000</u> (1)</td> </tr> <tr> <td>Profit</td> <td style="text-align: right;"><u>6\,664</u> (1)OF</td> </tr> </tbody> </table>		\$	Exe	$\$41.60 \times 100$	Wye	$\$56.80 \times 120$	Zed	$\$44.80 \times 60$	Contribution	<u>13\,664</u> (1)OF	Fixed costs	<u>7\,000</u> (1)	Profit	<u>6\,664</u> (1)OF	3		
	\$																	
Exe	$\$41.60 \times 100$																	
Wye	$\$56.80 \times 120$																	
Zed	$\$44.80 \times 60$																	
Contribution	<u>13\,664</u> (1)OF																	
Fixed costs	<u>7\,000</u> (1)																	
Profit	<u>6\,664</u> (1)OF																	
4(c)	<table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td>Exe</td> <td style="text-align: right;">1×100</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Wye</td> <td style="text-align: right;">2.5×120</td> <td style="text-align: right;">300</td> </tr> <tr> <td>Zed</td> <td style="text-align: right;">5×60</td> <td style="text-align: right;"><u>300</u></td> </tr> <tr> <td>Total machine hours</td> <td></td> <td style="text-align: right;"><u>700</u> (1)</td> </tr> </tbody> </table>	Exe	1×100	100	Wye	2.5×120	300	Zed	5×60	<u>300</u>	Total machine hours		<u>700</u> (1)	1				
Exe	1×100	100																
Wye	2.5×120	300																
Zed	5×60	<u>300</u>																
Total machine hours		<u>700</u> (1)																

Question	Answer	Marks																																																																																					
4(d)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: center;">Exe</td> <td style="text-align: center;">Wye</td> <td style="text-align: center;">Zed</td> <td></td> </tr> <tr> <td>Unit contribution</td> <td style="text-align: right;">41.60</td> <td style="text-align: right;">56.80</td> <td style="text-align: right;">44.80</td> <td></td> </tr> <tr> <td>Machine hours</td> <td style="text-align: right;">1</td> <td style="text-align: right;">2.5</td> <td style="text-align: right;">5</td> <td></td> </tr> <tr> <td>Contribution per machine hour</td> <td style="text-align: right;">41.60</td> <td style="text-align: right;">22.72</td> <td style="text-align: right;">8.96</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Ranking</td> <td style="text-align: right;">1</td> <td style="text-align: right;">2</td> <td style="text-align: right;">3</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td colspan="5">Production plan</td> </tr> <tr> <td>Exe × 100 (1OF)</td> <td colspan="4">100 hours</td> </tr> <tr> <td>Wye × 120 (1OF)</td> <td colspan="4">300 hours</td> </tr> <tr> <td>Zed × 20 (1OF)</td> <td colspan="4"><u>100</u> hours</td> </tr> <tr> <td>Total</td> <td colspan="4"><u>500</u> hours</td> </tr> <tr> <td colspan="5" style="text-align: center;">\$</td> </tr> <tr> <td>Exe \$41.60×100</td> <td colspan="4" style="text-align: right;">4 160 (1)OF</td> </tr> <tr> <td>Wye \$56.80×120</td> <td colspan="4" style="text-align: right;">6 816 (1)OF</td> </tr> <tr> <td>Zed \$44.80×20</td> <td colspan="4" style="text-align: right;"><u>896</u> (1)OF</td> </tr> <tr> <td>Contribution</td> <td colspan="4" style="text-align: right;">11 872 (1)OF</td> </tr> <tr> <td>Fixed costs</td> <td colspan="4" style="text-align: right;"><u>7 000</u></td> </tr> <tr> <td>Profit</td> <td colspan="4" style="text-align: right;"><u>4 872</u> (1)OF</td> </tr> </table>		Exe	Wye	Zed		Unit contribution	41.60	56.80	44.80		Machine hours	1	2.5	5		Contribution per machine hour	41.60	22.72	8.96	(1)OF	Ranking	1	2	3	(1)OF	Production plan					Exe × 100 (1OF)	100 hours				Wye × 120 (1OF)	300 hours				Zed × 20 (1OF)	<u>100</u> hours				Total	<u>500</u> hours				\$					Exe \$41.60×100	4 160 (1)OF				Wye \$56.80×120	6 816 (1)OF				Zed \$44.80×20	<u>896</u> (1)OF				Contribution	11 872 (1)OF				Fixed costs	<u>7 000</u>				Profit	<u>4 872</u> (1)OF				10
	Exe	Wye	Zed																																																																																				
Unit contribution	41.60	56.80	44.80																																																																																				
Machine hours	1	2.5	5																																																																																				
Contribution per machine hour	41.60	22.72	8.96	(1)OF																																																																																			
Ranking	1	2	3	(1)OF																																																																																			
Production plan																																																																																							
Exe × 100 (1OF)	100 hours																																																																																						
Wye × 120 (1OF)	300 hours																																																																																						
Zed × 20 (1OF)	<u>100</u> hours																																																																																						
Total	<u>500</u> hours																																																																																						
\$																																																																																							
Exe \$41.60×100	4 160 (1)OF																																																																																						
Wye \$56.80×120	6 816 (1)OF																																																																																						
Zed \$44.80×20	<u>896</u> (1)OF																																																																																						
Contribution	11 872 (1)OF																																																																																						
Fixed costs	<u>7 000</u>																																																																																						
Profit	<u>4 872</u> (1)OF																																																																																						
4(e)	<p>Decision. (1)</p> <p><u>Advantages (Maximum 2)</u> Will enable company to fulfil maximum demand. (1) Will enable full utilisation of resources. (1)</p> <p><u>Disadvantages (Maximum 2)</u> Will reduce profit. (1) Forecast maximum demand may not be achieved thus reducing profit even further. (1)</p> <p>1 mark for decision plus maximum 3 marks for justification</p>	4																																																																																					
4(f)	<p>Make or buy decisions. (1) Special order decisions. (1) Decide whether or not to cease manufacturing of a product. (1) Decide whether to close a department. (1) Maximum 3 marks</p>	3																																																																																					
4(g)	<p>Department 1: 560 000/140 000=\$4.00 per labour hour (1) Department 2: 304 000/160 000=\$1.90 per machine hour (1)</p>	2																																																																																					
4(h)	<p>Department 1: (124 000×\$4.00)=496 000–533 000=\$37 000 (1)OF under absorbed (1)OF Department 2: (151 000×\$1.90)=286 900–294 000=\$7100 (1)OF under absorbed (1)OF</p>	4																																																																																					
	Total:	30																																																																																					