

ACCOUNTING**9706/23**

Paper 2 Structured Questions

October/November 2017

MARK SCHEME

Maximum Mark: 90

Published

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This document consists of **8** printed pages.

Question	Answer					Marks
1(a)	Share issue holding account					10
		\$			\$	
	Bank	7 500	(1)	Bank	32 500	(1)
	Share capital	50 000	(1)	Bank	35 000	(1)
	Share premium	<u>10 000</u>	(1)		—	
		<u>67 500</u>			<u>67 500</u>	
	Bank account					
		\$			\$	
	Share issue holding account	32 500	(1)	Share issue holding account	7500	(1)
	Share issue holding account	35 000	(1)			
	Share capital account					
		\$			\$	
				Share issue holding account	50 000	(1)
	Share premium account					
		\$			\$	
				Share issue holding account	10 000	(1)

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1(b)	<p style="text-align: center;">F Limited Statement of Changes in Equity for the year ended 30 June 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 10%; text-align: center;">Ordinary shares \$000</th> <th style="width: 10%; text-align: center;">Share premium \$000</th> <th style="width: 10%; text-align: center;">Revaluation reserve \$000</th> <th style="width: 10%; text-align: center;">Retained earnings \$000</th> <th style="width: 10%; text-align: center;">Total \$000</th> </tr> </thead> <tbody> <tr> <td>At 1 July 2015</td> <td style="text-align: right;">350</td> <td style="text-align: right;">30</td> <td></td> <td style="text-align: right;">210</td> <td style="text-align: right;">590</td> </tr> <tr> <td>Share issue</td> <td style="text-align: right;">50</td> <td style="text-align: right;">10</td> <td></td> <td></td> <td style="text-align: right;">60</td> </tr> <tr> <td>Final dividend paid</td> <td></td> <td></td> <td></td> <td style="text-align: right;">(7)</td> <td style="text-align: right;">(7)</td> </tr> <tr> <td>Interim dividend paid</td> <td></td> <td></td> <td></td> <td style="text-align: right;">(12)</td> <td style="text-align: right;">(12)</td> </tr> <tr> <td>Revaluation</td> <td></td> <td></td> <td style="text-align: right;">30</td> <td></td> <td style="text-align: right;">30</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td></td> <td style="text-align: right;">65</td> <td style="text-align: right;">65</td> </tr> <tr> <td>At 30 June 2016</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">400</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">40</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">30</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">256</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">726</td> </tr> </tbody> </table>		Ordinary shares \$000	Share premium \$000	Revaluation reserve \$000	Retained earnings \$000	Total \$000	At 1 July 2015	350	30		210	590	Share issue	50	10			60	Final dividend paid				(7)	(7)	Interim dividend paid				(12)	(12)	Revaluation			30		30	Profit for the year				65	65	At 30 June 2016	400	40	30	256	726	8
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1(c)	<p>Debentures are long-term loans (1) on which interest must be paid, whether the company makes a profit or loss. (1) Debenture holders receive a fixed rate of dividend. (1) (Max 1) Ordinary shares are permanent capital (1) on which dividends may or may not be paid at the discretion of the directors. (1) Dividends are variable. (1) (Max 1) Overall max 2</p>	2																																																
1(d)	<p>The directors must consider the feasibility of the rights issue, bearing in mind that there has just been a share issue at \$1.20 that was oversubscribed. (1) The debt of the business will increase in relation to the equity if debentures are issued. (1) This will increase the perceived risk as debenture interest will have to be paid each year. (1) A risky business will send a negative signal to suppliers.. (1)</p> <p>Rights issue is made to existing shareholders. If they are confident about the future they will take up all the shares. (1) However, if they have any doubt rights issue will not be fully taken up. (1) If the directors can prove that the return on the investment will exceed the rate of interest, existing shareholders can benefit from this investment. (1)</p> <p>Max 3 marks for reasons + 1 mark for justified decision. Accept other valid points.</p>	4																																																
1(e)	<p>Revenue expenditure is money spent: on the day-to-day running expenses of the business; (1) on resources that will generally be used up within one year. (1)</p>	2																																																

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Question	Answer	Marks
3(e)	Realisation account: Used to close the books of account (1) on the dissolution of a partnership. Revaluation account: Used to record changes in the value of assets and liabilities on changes in a partnership. (1)	2

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4(c)	<p>Advantages: The company has a better chance of fulfilling customers' orders. If the shortage is only short term there is less chance of losing customers in the long term. Fewer dissatisfied customers. Less chance of idle resources.</p> <p>Disadvantages: Products may be dependent on each other. Customers may cease purchasing some products if some are unavailable. Company makes a budgeted loss if minimum demand is met. If the shortage is long term, the company will always be operating at a loss. Competitors may exploit the material shortage.</p> <p>1 for decision, 3 for advantages and 3 for disadvantages.</p>	7
4(d)	<p>Margin of safety is the difference between a given volume of sales (1) and break-even point (1). It can be expressed in units or as a percentage of sales (1).</p> <p>Max 2</p>	2
4(e)	<p>Margin of safety provides an assessment of risk (1) by indicating the extent to which expected output can fall (1) before a loss is made (1). It shows the ability to withstand adverse trading conditions (1).</p>	4