ACCOUNTING 9706/23
Paper 2 Structured Questions (Core) October/November 2016
MARK SCHEME
Maximum Mark: 90

Published

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a) Maneesh

Income statement for the year ended 31 December 2015

\[
\begin{array}{lcc}
\text{\$} & \text{\$} \\
\text{Revenue} (184\,190 + (W1) 8\,490) & 192\,680 & (1) \\
\text{Cost of sales} & 115\,608 & (1) \\
\text{Gross profit} (must be labelled) & 77\,072 & (1) \\
\text{General expenses} & 14\,160 & \\
\text{Rent} & 24\,600 & \\
\text{Depreciation} \left(\frac{(83\,400 + 5\,200) \times 20\%}{20}\right) & 17\,720 & (1) \\
\text{Irrecoverable debt written off} & 900 & (1) \\
\text{Profit for the year} (must be labelled) & 19\,692 & (1) \\
\end{array}
\]

\textbf{Workings: } W1 \text{ Cash sales: } 7\,450 + 1\,040 = 8\,490 \quad [6]

(b) Maneesh

Statement of financial position at 31 December 2015

\[
\begin{array}{lcc}
\text{\$} & \\
\text{Non-current assets} (83\,400 + 5\,200 - 17\,720) & 70\,880 & (1) \\
\text{Current assets} & \\
\text{Inventory} (W2) & 39\,314 & (1) \\
\text{Trade receivables} (W3) & 29\,000 & (1) \\
\text{Prepayments} (W4) & 4\,400 & (1) \\
\text{Cash in hand} & 180 & \\
\text{Total assets} & 143\,774 & \\
\text{Capital account} & \\
\text{Balance at 1 January 2015} & 106\,710 & \\
\text{Profit for the year} & 19\,692 & (1) \\
\text{Drawings} (14\,120 + 1\,040) & (15\,160) & (1) \\
\text{Current liabilities} & \\
\text{Trade payables} (W5) & 11\,060 & (1) \\
\text{Accruals} & 4\,200 & (1) \\
\text{Cash at bank} & 17\,272 & (1) \\
\text{Total capital and liabilities} & 143\,774 & \\
\end{array}
\]
Workings

W2  Closing inventory
    Opening inventory  18 500
    Purchases  136 422
    Cost of sales\((184\ 190 + 8\ 490) \times 60\%\)  (115 608)
    Closing inventory  39 314  (1of)

W3  Trade receivables
    Balance b/d  22 460
    Credit sales  184 190
    Bank  (176 750)
    Bad debt written off  (900)
    Closing trade receivables  29 000  (1)

W4  Prepayment
    Balance b/d  1 900
    Bank  27 100
    Income statement  (24 600)
    Closing prepayments  4 400  (1)

W5  Trade payables
    Balance b/d  12 770
    Purchases  136 422
    Bank  (138 132)
    Closing trade payables  11 060  (1)

(c) Inventory increased by almost $21 000 (1)
    Trade receivables increased from $22 460 to $29 000 (1)
    Trade payables reduced from $12 770 to $11 060 (1)
    Non-current assets expenditure of $5 200 (1)
    Prepayments increased from $1 900 to $4 400 (1)

Max 4  [4]

(d) Decision (1)

Loan (Max 3)
    Will cost $5 000 in interest over the 5 years
    Means Maneesh will keep all future profit earned
    Loan has to be repaid

Partnership (Max 3)
    Brother may bring in additional expertise
    Will be able to share workload
    Maneesh will lose 10% of profits earned
    Brother will bear 10% of any losses
    Capital does not have to be repaid  [7]
(e) Affect appropriation account
   Interest on capital
   Partners’ salaries
   Interest on drawings

1 mark \times 2

Will not affect appropriation account
   Interest on loans
   Amount of fixed capital
   Annual limit on drawings

1 mark \times 2

[Total: 30]

2 (a) (i) Selling price less cost to completion less selling expenses.

(ii) To give the benefit of the change in value of the business to the existing partners and any partner who may be retiring. (1)

So that the statement of financial position on the entry of the new partner shows a true and fair view. (1)

(iii) On the introduction of a new partner. (1)

On the retirement of an existing partner. (1)

On a change in the profit sharing ratio. (1)

Max 2

(b)

<table>
<thead>
<tr>
<th>Capital accounts</th>
<th>Alice</th>
<th>Eve</th>
<th>Jean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill Old Ratio</td>
<td>12150</td>
<td>8100</td>
<td>76500</td>
</tr>
<tr>
<td>Goodwill New Ratio</td>
<td>14112</td>
<td>7738</td>
<td>19345</td>
</tr>
<tr>
<td>Bank 10f</td>
<td>53168</td>
<td>11607</td>
<td>86625</td>
</tr>
<tr>
<td>Revaluation New Ratio</td>
<td>45318</td>
<td>15212</td>
<td>69075</td>
</tr>
<tr>
<td>Goodwill New Ratio</td>
<td>12150</td>
<td>8100</td>
<td>4050</td>
</tr>
</tbody>
</table>

Marks are for the full line

Workings:

Goodwill old ratio: 20.250 \times 5 / 10, 3 / 10 and 2 / 10 = 10125, 6075 and 4050

Goodwill new ratio: 20.250 \times 3 / 5 and 2 / 5 = 12150 and 8100
Revaluation account

<table>
<thead>
<tr>
<th></th>
<th>Alice</th>
<th>Eve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>19 345</td>
<td>11 607</td>
</tr>
<tr>
<td>Inventory</td>
<td>11 607</td>
<td>7 738</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>19 345</td>
<td>11 607</td>
</tr>
</tbody>
</table>

38 690 38 690


(c) Possible answers could include:

- Reduced cash flow after paying Alice to leave the business in view of the current overdraft (1)
- Having to raise additional finance to pay Alice off (1)
- Impacts on profitability having to raise additional capital (1)
- Lower capital investment in the business (1)
- Difficult to raise additional finance to pay to Alice due to the current overdraft (1)

Max 4 [4]

[Total: 15]

3 (a) Bank account

| Application for shares | $150 000 (1) | $25 000 (1) |
| Application for shares | $137 500 (1) |

Application of shares account

| Bank            | $25 000 (1) | Bank $150 000 (1) |
| Share premium   | $12 500 (1) | Bank $137 500 (1) |
| OSC             | $250 000 (1) |
| Total           | $287 500 |

Share Premium account

| Application for share | $12 500 (1) |

Ordinary Share Capital account

| Balance b/d          | $600 000 |
| Application for shares | $250 000 (1) |

(b) Preference shares: Ordinary shares

- Receive a fixed rate of dividend
- No voting rights
- Not owner of the company
- Priority for dividend
- Dividend varies
- Have voting rights
- Are owners of the company
- Receive dividend after preference shareholders

Any 2 differences 2 marks [4]

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4 (a)  

<table>
<thead>
<tr>
<th>Total production cost centres</th>
<th>Machining</th>
<th>Assembly</th>
<th>Service cost centres</th>
<th>Stores</th>
<th>Canteen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>$8,750</td>
<td>$5,625</td>
<td>$1,875</td>
<td>$750</td>
<td>$500</td>
</tr>
<tr>
<td>Machinery maintenance</td>
<td>$27,000</td>
<td>$22,728</td>
<td>$4,272</td>
<td>$1,875</td>
<td>$750</td>
</tr>
<tr>
<td>Power</td>
<td>$15,370</td>
<td>$7,950</td>
<td>$5,300</td>
<td>$1,590</td>
<td>$530</td>
</tr>
<tr>
<td>Rent of premises</td>
<td>$63,510</td>
<td>$32,850</td>
<td>$21,900</td>
<td>$6,570</td>
<td>$2,190</td>
</tr>
<tr>
<td></td>
<td>$114,630</td>
<td>$69,153</td>
<td>$33,347</td>
<td>$8,910</td>
<td>$3,220</td>
</tr>
<tr>
<td>Re-apportionment of canteen</td>
<td>$0</td>
<td>$1,215</td>
<td>$182</td>
<td>$3,220</td>
<td>(1)</td>
</tr>
<tr>
<td>Re-apportionment of stores</td>
<td>$0</td>
<td>$6,061</td>
<td>$3,031</td>
<td>$9,092</td>
<td>(1)</td>
</tr>
<tr>
<td>Total overhead cost</td>
<td>$114,630</td>
<td>$76,429</td>
<td>(1) of</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b)  

Machining  
Overhead cost $76,429  
Machine hours $14,100 = $5.42 (1 if) per machine hour (1) 

Assembly  
Overhead cost $38,201  
labour hours $13,900 = $2.75 (1 if) per direct labour hour (1) 

(c) Overhead cost calculation:  

<table>
<thead>
<tr>
<th>Product A</th>
<th>Machining</th>
<th>Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5.42</td>
<td>1.5 hrs</td>
<td>0.5 hrs</td>
</tr>
<tr>
<td>$2.75</td>
<td>0.5 hrs</td>
<td>2.0 hrs</td>
</tr>
<tr>
<td>Product B</td>
<td>Machining</td>
<td>Assembly</td>
</tr>
<tr>
<td>$5.42</td>
<td>0.3 hrs</td>
<td>2.0 hrs</td>
</tr>
<tr>
<td>$2.75</td>
<td>2.0 hrs</td>
<td>5.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product A</th>
<th>$ per unit</th>
<th>Product B</th>
<th>$ per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct costs</td>
<td>$5.75</td>
<td>$8.25</td>
<td></td>
</tr>
<tr>
<td>Overhead costs</td>
<td>$9.50</td>
<td>$7.13</td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>$15.25 (1)</td>
<td>$15.38 (1)</td>
<td></td>
</tr>
</tbody>
</table>
(d) Machining

<table>
<thead>
<tr>
<th>Hours</th>
<th>OAR</th>
<th>Actual hrs × OAR</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>16210</td>
<td>$5.42</td>
<td>87,858</td>
<td>12650×$2.75</td>
</tr>
<tr>
<td>Less: actual overhead</td>
<td>76,750</td>
<td>45,675</td>
<td></td>
</tr>
<tr>
<td>Over absorbed</td>
<td>11,108 of</td>
<td>10,887 of</td>
<td></td>
</tr>
</tbody>
</table>

(e) The process of charging whole costs **directly** to a cost unit or cost centre. (1)

(f) Answers may include:

- a cost incurred which cannot be traced directly (1) to a product, service or department (1) an indirect cost (1) (max 2)

(g) So that each unit of production (1) contains a share of total overhead costs. (1)

(h) Decision (1 mark)

Reasons to change to marginal costing: (max 2)

- simple and quick to operate
- no apportionment of fixed costs
- fixed costs are treated as period costs and so remain unchanged at different activity levels
- no over/under absorption of overhead costs to calculate
- no further adjustment needed in the income statement for over/under absorption
- closing inventory is realistically valued at variable production cost
- allows easy calculation of profit when changes in activity occur
- great aid in decision making/pricing/make or buy situation.

Reasons to keep absorption costing: (max 2)

- it shares fixed production costs to units of production, which is fair as these costs are incurred in order to make the output
- it is easier to determine profitability of several products as they include a share of fixed overheads.
- it values closing inventory fairly

[Total: 30]