

Cambridge International AS & A Level Cambridge International Examinations Cambridge International Advanced Subsidiary and Advanced Level

## ACCOUNTING

9706/23 May/June 2016

Paper 2 Structured Questions MARK SCHEME Maximum Mark: 90

Published

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International Examinations

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				0777898626

#### 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)	<u>473</u>	
Gross profit for the year		511	(1)
Administrative expenses W1	229 <b>(4)</b>		
Distribution costs	<u>197</u>	<u>426</u>	
Profit from operations		85	
Finance costs (13 + 1)		<u>14</u>	(1)
Profit for the year		<u>71</u>	(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]

				<b></b>	
age 3	Mark Scheme	I – May/ June 2016	S	yllabus	Paper 23
	Cambridge International AS/A Leve	1 – May/Julie 2010		9700	25
(c)	<b>-</b>				
	Bayliss Lin Statement of financial po	nited	or 2015		
	Statement of mancial po	Silion at 51 Decembe	1 2010		
		\$000	\$000		
1	Non-current assets				
L	₋and and buildings (200 – 24)		176	(1)	
F	Plant and machinery		<u>99</u>	(1)	
			275		
(	Current assets				
		105			
	I rade receivables $(109 - 9 (1) - 3 (1) of)$	97	005		
( -	Jther receivables	<u>3</u>	<u>205</u>		
	Iotal assets		<u>480</u>		
E	Equity and liabilities				
E	Equity				
S	Share capital	147			
F	Revaluation reserve	15			
(	General reserve	17			
F	Retained earnings	<u>122</u>	301		
١	Non-current liabilities				
5	5% debentures (2017)		80	(1)	
(	Current liabilities				
٦	Frade payables	59			
(	Other payables (7 + 1 <b>(1)</b> )	8			
(	Cash and cash equivalents	<u>32</u>	99		
٦	Fotal equity and liabilities		480		
					-
					[

Page 4	Mark Scheme	Syllabus	Paper	PLATINU
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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.

(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**

(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.

Max one mark.

[Total: 30]

[1]

[4]

[3]



Paper

23

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)

 $(39 / 156) \times 365 = 91.25 = 92$  days (1)

(iv) Trade payable turnover (days)

 $(29 / 88) \times 365 = 120.28 = 121$  days (1)

(v) Inventory turnover (days)

$$(((42 + 34) / 2) / 80) \times 365 = 173.38 = 174$$
 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]

P	age 6	6	Mark Sche	eme			Svllabus	Paper	PLATINUM
	<u> </u>	Cambridge Internation	onal AS/A	Level	– May/June 20	16	9706	23	BUSINESS ACADEMY
3	(a)								0777858828
			Realisa	ition Ac	count				
			\$				9	6	
		Non-current assets	70000		I rade payable	S	260	000	
		Current assets	30000	(4)	Land and build	ling	700	000	
		Bank trade payables	24 500	(1)	Yuan – motor	vehicle	30	000 (1)	
			1700	(1)	Bank – motor	vehicle	35	500 500	
		Share of profit on sale:			Bank – trade r	eceivables	s 150	000 <b>(1</b> )	
		Wang – capital account	2200		Bank – invento	ory	120	000	
		Yuan – capital account	<u>1100</u> 129500	(1)0f			1295	500	
								[	5]
	(b)							[	7]
			W		Y				
		Capital accounts	4000	0	25000	(1) both			
		Current accounts	(1000	0) <b>(1)</b>	13000	(1)			
		Share of profit	220	0	1 100	(1) both OF			
		Motor vehicle			(3000)	(1)			
		Amount due to each partner	3220	0 (1)	<b>OF</b> 36100	(1) OF			
								[	7]
	(c)	They may have drawn more t Partnership may have sustair	han the pr led losses	ofits ea . <b>(1)</b>	rned <b>(1)</b>			[	2]
	(d)	They will need to keep their in partners. (1)	nvestment	s separ	ate to distinguis	sh betweer	n individual		
		To calculate interest on capita	al. <b>(1)</b>						
		Max 1 mark						Γ	1]

[Total: 15]

Page	7 Mark Sche Cambridge International AS/A	Syllabus 016 9706	Paper         PLATINUM           23         0777898626	
4 (a)	The answer may be any <i>one</i> of the follo the point at which a product makes neit total costs equal total revenue total contribution equals fixed costs. <b>Max 1 mark</b>	wing: her a profit or a loss		[1]
(b)				
		\$ per unit		
	Sales revenue	2.00		
	Less variable costs	<u>0.75</u>		
	Contribution	<u>1.25</u> (1)		
	(i)			
	Fixed costs Contribution per unit	<u>\$50 000</u> <b>(1)</b> \$1.25	= 40 000 units <b>(1of)</b>	
	(ii) 40000 × \$2 = \$80000 (1of)			[4]

(e) Plots for lines: units 000 \$000 Fixed costs (0 50 (100 50) Sales revenue (0 0 0 Total costs (0 50 (100 units $\times$ \$2) Total costs (0 50 (0 + 50) (100 125 (100 units $\times$ \$0.75 + 50) Break-even chart product X $ \begin{array}{c} 0 & 0 & 0 & 0 \\ 100 & 125 (100 units \times $0.75 + 50) \end{array} $ Break-even chart product X $ \begin{array}{c} 0 & 0 & 0 & 0 \\ 100 & 125 (100 units \times $0.75 + 50) \end{array} $ Break-even chart product X $ \begin{array}{c} 0 & 0 & 0 & 0 \\ 100 & 125 (100 units \times $0.75 + 50) \end{array} $ Break-even chart product X $ \begin{array}{c} 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 \\ \end{array} $ Break-even chart product X $ \begin{array}{c} 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 &$	eve       mark scheme       yuladus       Paper         cambridge International AS/A Level - May/June 2016       3706       23         e)       Plots for lines:       units 000       \$000         Fixed costs       (0       50         Sales revenue       (0       0         (100       100       100 units × \$2)         Total costs       (100       125 (100 units × \$2)         Total costs       (100       125 (100 units × \$0.75 + 50)         Break-even chart product X         0       0       50         100       125 (100 units × \$0.75 + 50)         Break-even chart product X         0       0       50         100       125 (100 units × \$0.75 + 50)         December of the second se				Maule Calaria		C. II.	Darra	
(c) Plots for lines: units 000 \$000 Fixed costs $(0   50   100   0)$ Sales revenue $(100   200 (100 units \times $2))$ Total costs $(0   50   610   125 (100 units \times $2))$ Total costs $(0   50   610   50)$ $(100   125 (100 units \times $0.75 + 50)$ Break-even chart product X 0   0   50   610   50   610   50   610   50   610   50   610   50   610   50   610   50   610   50   610   50   610   50   610   50   610   50   610	e) Plots for lines: units 000 \$000 Fixed costs $(0   50   50   50)$ Sales revenue $(100   200 (100 units \times $2))$ Total costs $(0   50   50)   50   50   50)$ Total costs $(0   50   50   50)   50   50)$ Break-even chart product X $\int_{100}^{200   125 (100 units \times $0.75 + 50)}$ Break-even chart product X $\int_{100}^{200   125 (100 units \times $0.75 + 50)}$ Break-even chart product X $\int_{100}^{200   125 (100 units \times $0.75 + 50)}$ Break-even chart product X $\int_{100   125 (100 units \times $0.75 + 50)$ Discover the product of t	geð	Camb	ridae Interna	tional AS/A Level	– May/June 2016	Syllabus	Paper 23	PLATINUI BUSINESS ACADE
<pre>(c) Put for lines: units 000 \$000 Fixed costs [100 50 Sales revenue [0 0 0 [100 20 (100 units × \$2)] Total costs [0 50 (0 + 50) [100 125 (100 units × \$2.)] Total costs [0 50 (0 + 50) [100 125 (100 units × \$0.75 + 50]) </pre> Break-even chart product X $ \begin{array}{c}                                     $	c) Plots for lines: units 000 \$000 Exed costs (100 50 Sales revenue (0 0 0) Total costs (0 50 (0 + 50) (100 125 (100 units × \$2). Total costs (0 50 (0 + 50) (100 125 (100 units × \$0.75 + 50)) $Break-even chart product X$ $\int_{0}^{0} \int_{0}^{1} \int_{0}^{$		Camb	nuge interna			5700	25	0777898626
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(10) 125 (100 units × \$0.75 + 50) Break-even chart product X	(100  (100	Tat	al agata		{100	200 (100  units)	< \$Z)		
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$\int_{1}^{20} \int_{1}^{1} \int_{$	$\int_{d_1}^{d_2} \int_{d_1}^{d_2} $			Break	-even chart product	t X			
$\frac{20}{10} \int_{10}^{10} \int_{10}$	$\int_{1}^{2} \int_{1}^{2} \int_{1$		 						
<pre>int int int int int int int int int int</pre>	$\int_{1}^{1} \int_{0}^{1} \int_{0$		200-			Sales			
$\int_{10}^{10} \int_{10}^{10} \int_{1$	$\int_{10}^{10} \int_{10}^{10} \int_{1$		470						
$\int_{10}^{10} \int_{10}^{10} \int_{1$	$\int_{1}^{10} \int_{1}^{10} \int_{1}^{1} \int_{1}^{10} \int_{1}^{1} \int_{1$		1/5-						
$\int_{10}^{10} \frac{1}{10} \frac{1}{10$	$\int_{1}^{1} \int_{1}^{1} \int_{1$		150-						
$\int_{100}^{100} \int_{100}^{100} $	$\int_{1}^{1} \int_{0}^{1} \int_{0$			break-even	/	Total cos	sts		
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$u_{1} = \frac{1}{2} \int_{0}^{1} \int_{0}^{1$	$u_{ij} = \frac{1}{2} \int_{0}^{0} \int_{0}^{$		50				515		
$2^{5} - \frac{1}{2^{5}} - \frac{1}{2^{5}} - \frac{1}{2^{5}} - \frac{1}{2^{5}} - \frac{1}{2^{5}} - \frac{1}{100}$ Units 000s 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] 4) 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]	$25 - \frac{1}{25} - \frac{1}{25} - \frac{1}{50} - \frac{1}{75} - \frac{1}{100}$ Units 000s 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] 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]		0.5						
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Units 000s         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)	Units 000s         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)		0	25	50 7	5 100			
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Endoc drawn control (1 mark)[4]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]	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]	Lab Line	eis on axi es drawn c	s and lines (1 i correctly <b>(1 ma</b>	<b>mark)</b> <b>rk)</b> and labelled co	rrectly (1 mark)			
<ul> <li>d) Budgeted units less actual units at break-even point in units</li> <li>100 000 units – 40 000 units (1of) = 60 000 units (1of)</li> <li>Margin of safety (in percentage)</li> <li>(60 000 (1of) /100 000) × 100 = 60% (1of)</li> </ul>	<ul> <li>d) Budgeted units less actual units at break-even point in units</li> <li>100 000 units – 40 000 units (1of) = 60 000 units (1of)</li> <li>Margin of safety (in percentage)</li> <li>(60 000 (1of) /100 000) × 100 = 60% (1of) [4]</li> </ul>	Brea	ak-even p	oint identified a	and labelled (1 mai	rk)		[	4]
<ul> <li>d) Budgeted units less actual units at break-even point in units</li> <li>100 000 units – 40 000 units (1of) = 60 000 units (1of)</li> <li>Margin of safety (in percentage)</li> <li>(60 000 (1of) /100 000) × 100 = 60% (1of)</li> </ul>	<ul> <li>d) Budgeted units less actual units at break-even point in units</li> <li>100 000 units – 40 000 units (1of) = 60 000 units (1of)</li> <li>Margin of safety (in percentage)</li> <li>(60 000 (1of) /100 000) × 100 = 60% (1of) [4]</li> </ul>								
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		(00)	000 (1 <b>01)</b>	/100000) × 10	u – 00% (1 <b>01)</b>			L	4]

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Cambridge International AS/	A Level – I	May/June 2016	9706	0777898626
Y \$ Selling price 23.00 Less variable costs <u>13.50</u> Contribution <u>9.50</u> <b>(1)</b>	Z \$ 18.00 <u>10.50</u> <u>7.50</u>	(1)		[2]
\$83 000 – \$60 000 = \$23 000 <b>(1of)</b>				[1]
Y		Z		
Contribution\$9.5÷ Limiting factor2hrsContribution per limiting factor\$4.7Rank2	0 5	\$7.50 1hr \$7.50 1	(1) both (1) both	
Z is made first. 6000 units of Z and 2000 units of Y ca	n be made	in 10 000 labou	ur hours.	NE (E)
Overtime	\$9.50 × 20	00 (1 <b>01)</b> ) – \$60	000 = \$4000 (1) <b>C</b>	יר נסן
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Buy-in				
Doesn't know quality / reliability of sup May be more expensive May allow competition into market	plier	Will meet dema May obtain bett	and ter price	
1 mark for decision and 4 marks for	r justificati	on		[5]
	Y \$Selling price23.00 Less variable costs $13.50$ $9.50$ (1)\$83 000 - \$60 000 = \$23 000 (1of)\$83 000 - \$60 000 = \$23 000 (1of)YContribution\$9.5 + Limiting factorcontribution per limiting factor\$4.7 Rank2Z is made first. 6000 units of Z and 2000 units of Y cat Revised profit = (\$7.50 × 6000 (1of) +OvertimeDisadvantages AdvantagesWorkers may refuse Reduce contribution Possibility of lower quality Additional other costsBuy-inDoesn't know quality / reliability of sup May be more expensive May allow competition into market1 mark for decision and 4 marks for	YZSelling price $23.00$ $18.00$ Less variable costs $13.50$ $10.50$ Contribution $9.50$ $(1)$ $7.50$ \$83 000 - \$60 000 = \$23 000 (1of)\$83 000 - \$60 000 = \$23 000 (1of)YContribution\$9.50+ Limiting factor2hrsContribution per limiting factor\$4.75Rank2Z is made first.6000 units of Z and 2000 units of Y can be madeRevised profit = (\$7.50 × 6000 (1of) + \$9.50 × 20)OvertimeDisadvantages AdvantagesWorkers may refuseReduce contributionPossibility of lower qualityAdditional other costsBuy-inDoesn't know quality / reliability of supplierMay be more expensiveMay allow competition into market1 mark for decision and 4 marks for justificati	YZSelling price23.0018.00Less variable costs $13.50$ $10.50$ Contribution $9.50$ $11$ $7.50$ $11$ $7.50$ $83 000 - $60 000 = $23 000 (1of)12 3000 - $60 000 = $23 000 (1of) = $7.50 + $7.50 + $1000 (2000 mits of Y can be made in 10 000 labouRevised first.6000 units of Z and 2000 units of Y can be made in 10 000 labouRevised profit = ($7.50 × 6000 (1of) + $9.50 × 2000 (1of)) - $600OvertimeDisadvantages AdvantagesWorkers may refuseWorkers may refuseReduce contributionRahel knows abPossibility of lower qualityAdditional other costsBuy-inDoesn't know quality / reliability of supplierMay obtain betMay allow competition into market1 mark for decision and 4 marks for justification$	YZSelling price23.0018.00Less variable costs $23.00$ 18.00Contribution $3.50$ $10.50$ 9.50(1) $7.50$ \$83 000 - \$60 000 = \$23 000 (1of)YZContribution $* 23.00$ $10 f$ YZContribution $* 23.00$ $10 f$ YZContribution er limiting factor $* 175$ $$7.50$ (1) bothRankZ1 (1) bothZContribution per limiting factor $$4.75$ $$7.50$ (1) bothZZZContribution for 2Rank2Z(1) bothZZContribution for 2Sign colspan="2">Contribution for 2Volspan="2">Vill meet demand Rahel knows ability of workers Rahel knows quality of workContribution for costsBuy-inDoesn't know quality / reliability of supplier May be more expensive May allow competition into marketTWill meet demand May obtain better priceMark for decision and 4 marks for justification

Page 10	Mark Scheme	Syllabus	Paper	PLATINUM
	Cambridge International AS/A Level – May/June 2016	9706	23	0777809626
				0777898626

## (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

[Total: 30]

[4]