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**ACCOUNTING**

**9706/23**

Paper 2 Structured Questions

**May/June 2017**

MARK SCHEME

Maximum Mark: 90

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**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.

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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																																																																	
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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																																																																	
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1(e)	<p>Decision. (1)</p> <p><u>Financial</u> (Maximum 3) 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</u> (Maximum 3) Level of risk. (1) Degree of responsibility / decision making. (1) Security of employment. (1)</p> <p><b>1 mark for decision plus maximum 4 marks for justification</b></p>	5																																																																	

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

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

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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 + 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) <b>(1 mark for a valid point up to 3 marks maximum)</b>	3
	<b>Total:</b>	<b>15</b>

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4(e)	<p>Decision. <b>(1)</b></p> <p><u>Advantages (Maximum 2)</u> Will enable company to fulfil maximum demand. <b>(1)</b> Will enable full utilisation of resources. <b>(1)</b></p> <p><u>Disadvantages (Maximum 2)</u> Will reduce profit. <b>(1)</b> Forecast maximum demand may not be achieved thus reducing profit even further. <b>(1)</b></p> <p><b>1 mark for decision plus maximum 3 marks for justification</b></p>	<b>4</b>																																																																																					
4(f)	<p>Make or buy decisions. <b>(1)</b> Special order decisions. <b>(1)</b> Decide whether or not to cease manufacturing of a product. <b>(1)</b> Decide whether to close a department. <b>(1)</b> <b>Maximum 3 marks</b></p>	<b>3</b>																																																																																					
4(g)	<p>Department 1: 560 000/140 000=\$4.00 per labour hour <b>(1)</b> Department 2: 304 000/160 000=\$1.90 per machine hour <b>(1)</b></p>	<b>2</b>																																																																																					
4(h)	<p>Department 1: (124 000×\$4.00)=496 000–533 000=\$37 000 <b>(1)OF</b> under absorbed <b>(1)OF</b> Department 2: (151 000×\$1.90)=286 900–294 000=\$7100 <b>(1)OF</b> under absorbed <b>(1)OF</b></p>	<b>4</b>																																																																																					
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