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**ACCOUNTING**

**9706/23**

Paper 2 Structured Questions

**October/November 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.

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

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE<sup>®</sup>, Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer					Marks																														
1(a)	Share issue holding account					<b>10</b>																														
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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. <b>(1)</b>            The debt of the business will increase in relation to the equity if debentures are issued. <b>(1)</b> This will increase the perceived risk as debenture interest will have to be paid each year. <b>(1)</b> A risky business will send a negative signal to suppliers.. <b>(1)</b></p> <p>Rights issue is made to existing shareholders. If they are confident about the future they will take up all the shares. <b>(1)</b>            However, if they have any doubt rights issue will not be fully taken up. <b>(1)</b> If the directors can prove that the return on the investment will exceed the rate of interest, existing shareholders can benefit from this investment. <b>(1)</b></p> <p><b>Max 3 marks for reasons + 1 mark for justified decision.</b>  <b>Accept other valid points.</b></p>	<b>4</b>																																																
1(e)	<p>Revenue expenditure is money spent: on the day-to-day running expenses of the business; <b>(1)</b> on resources that will generally be used up within one year. <b>(1)</b></p>	<b>2</b>																																																

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

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4(c)	<p><b>Advantages:</b>            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><b>Disadvantages:</b>            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><b>1 for decision, 3 for advantages and 3 for disadvantages.</b></p>	<b>7</b>
4(d)	<p>Margin of safety is the difference between a given volume of sales <b>(1)</b> and break-even point <b>(1)</b>. It can be expressed in units or as a percentage of sales <b>(1)</b>.</p> <p><b>Max 2</b></p>	<b>2</b>
4(e)	<p>Margin of safety provides an assessment of risk <b>(1)</b> by indicating the extent to which expected output can fall <b>(1)</b> before a loss is made <b>(1)</b>. It shows the ability to withstand adverse trading conditions <b>(1)</b>.</p>	<b>4</b>