Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/32**

Paper 3 A Level Structured Questions **March 2019**

MARK SCHEME

Maximum Mark: 150

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	Income and expenditure account for year ended 30 June 2018	**7**

	$	$	
Subscription fee ($544 000 + ($3400 + $8200) **(1)** – ($7000 + $2400) **(1)**)		546 200	
Restaurant profit ($12 600 – $3300)		9 300	**(1)**
		555 500	
Depreciation clubhouse $300 000 × 4%	12 000		**(1)**
Depreciation equipment ($140 000 – $64 000) × 15%	11 400		**(1)**
Club operating expenses	192 000		
Club staff salaries	326 000		
Loan interest $10 000 × 10% × $\frac{6}{12}$	500		**(1)**
		541 900	
Surplus of income over expenditure		13 600	**(1) OF**

Question	Answer	Marks
1(b)	Responses could include: receipts and payments account is a summary of cash book while income and expenditure account is of same nature as an income statement; **(1)** receipts and payments account applies cash basis accounting while income and expenditure account applies accrual accounting; **(1)** receipts and payments account records only cash transactions while income and expenditure also records non-cash transactions such as depreciation; **(1)** receipts and payments account looks for the increase / decrease in cash during the year while income and expenditure account looks for the surplus / deficit; **(1)** the opening balance of receipts and payments account represents cash balance at bank and in hand while there is no opening balance for income and expenditure account. **(1)** **Accept other valid points.** **(1 mark)** × 2 differences	**2**

Question	Answer				Marks
1(c)	Statement of financial position at 30 June 2018				**7**
		$ Cost	$ Accumulated depreciation	$ NBV	
	Non-current assets				
	Clubhouse	300 000	168 000	132 000	**(1) OF**
	Equipment	140 000	75 400	64 600	**(1) OF**
		440 000	243 400	196 600	
	Current assets				
	Inventory		23 400		
	Subscriptions in arrears		8 200		
	Cash and cash equivalents		7 700		
				39 300	**(1)**
	Total assets			235 900	
	Accumulated fund at 1 July 2017			194 000	
	Surplus for the year			13 600	**(1) OF**
	Non-current liability				
	Loan from member			10 000	**(1)**
	Current liabilities				
	Trade payables		12 100		
	Subscriptions in advance		2 400	**(1)**	
	Accrued wages		3 300	**}**	
	Accrued interest		500	**} (1) OF**	
				18 300	
	Total accumulated fund and liabilities			235 900	

Question	Answer	Marks
1(d)		**4**

	$	
Restaurant profit	9 300	
Increase in inventory (23 400 – 15 700)	(7 700)	**(1)**
Decrease in trade payables (12 100 – 13 900)	(1 800)	**(1)**
Increase in accrued wages	3 300	**(1)**
Net cash surplus from restaurant	3 100	**(1) OF**

1(e)	Responses could include: less paper work and procedures (than bank loan) quicker to obtain loan (than bank loan) may not require collateral (vs. bank loan) however: still may have to pay interest still may have to repay the loan already has a loan from a member $10 000; members may refuse to lend more **Accept other valid points.** **(2 marks)** for explaining one reason for obtaining members' loan and **(2 marks)** for explaining one reason against members' loan. **(1 mark)** for decision.	**5**

Question	Answer	Marks
2(a)	Trade receivables turnover = $\frac{137\ 500}{994\ 000} \times 365 = 51$ days **(1)** Inventory turnover ratio = $\frac{220\ 000}{640\ 000}$ **(1)** $\times 365 = 126$ days **(1) OF** Trade payables turnover = $\frac{52\ 100}{680\ 000} \times 365 = 28$ days **(1)** Working capital cycle = 51 + 126 – 28 = 149 days **(1) OF**	**5**
2(b)	The company is receiving payments and making payments within the agreed period. **(1)** Payments are being made before receipt **(1)** so there will be an adverse effect on cash flow. **(1)** Inventory turnover ratio has worsened from the previous year. **(1) OF** Liquidity could be improved by reducing receivable days and inventory turnover ratio whilst increasing payables days. **(1)** **Accept other valid points.**	**5**
2(c)	The ratio has worsened from the previous year **(1)** because a greater proportion of the revenue is being used to fund the working capital cycle. **(1)** The increase in the closing inventory has contributed to this **(1)** and indicates greater inefficiency. **(1)** The fall in trade payables **(1)** and rise in trade receivables **(1)** have also had the same effect. **Accept other valid points.**	**6**

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Question	Answer	Marks
2(d)	The gearing of F Limited is lower which indicates less risk **(1)** although both are low geared companies. **(1)** Earnings per share of C Limited is higher which is better **(1)** indicating greater profits for each share held. **(1)** Dividend cover of C Limited is higher which is better **(1)** indicating that there is a greater proportion of profits available for the payment of dividends. **(1)** Dividend per share of C Limited is higher which is better **(1)** showing that a higher dividend is paid for each share owned. **(1)** From the limited information available, I would advise Blair to invest in C Limited. **(1)** **Accept other valid points.** Award **1 mark** for decision and **max 2 marks** for each ratio.	**9**

Question	Answer		Marks
3(a)	The closing inventory is valued at:		**4**
		$	
	unsold containers $6 \times 7\,200$	43 200 **(1)**	
	shipping expenses $\frac{1}{5} \times 11\,600$	2 320 **(1)**	
	customs charges $\frac{1}{5} \times 7\,800$	1 560 **(1)**	
	closing inventory valuation.	47 080 **(1) OF**	

Question	Answer	Marks
3(b)(i)	Consignment account |	| $ | | | $ | | Goods on consignment | 216 000 **(1)** | Sales | 244 800 **(1)** | | Shipping expenses | 11 600 **(1)** | | | | Commission | 12 240 **(1)** | | | | Customs charges | 7 800 **(1)** | | | | Income statement | 44 240 **(1) OF** | Balance c/d | 47 080 | | | 291 880 | | 291 880 | | Balance b/d | 47 080 **(1) OF** | | |	**7**
3(b)(ii)	Maureen account |	| $ | | | $ | | Consignment a/c -sales | 244 800 **(1)** | | | | | | Consignment a/c-commission | 12 240 **(1) OF** | | | | Bank | 220 320 **(1)** | | | | Consignment a/c- customs | 7 800 **(1)** | | | | Balance c/d | 4 440 | | | 244 800 | | 244 800 | | Balance b/d | 4 440 **(1) OF** | | |	**5**
3(c)	44 240 / 24 **(1)** = $1843.33 **(1) OF**	**2**
3(d)	The debit balance **(1)** on Maureen's account shows the amount payable by Maureen (trade receivable – the consignee) **(1)** to SH Limited (the consignor). **(1)**	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(e)</td><td>
<table>
<tr><td>Consignment</td><td>Joint venture</td></tr>
<tr><td>Long-term trading relation (1)</td><td>Short-term, specific purpose (1)</td></tr>
<tr><td>Profit usually commission (1)</td><td>Joint venture total profit shared (1)</td></tr>
<tr><td>Involves consigner and consignee (1)</td><td>Involves co-venturers (1)</td></tr>
<tr><td>Control exercised by consignor (1)</td><td>Both parties have control over decisions (1)</td></tr>
</table>
Accept other valid points.
Max 4</td><td>4</td></tr>
</table>

Question	Answer	Marks
4(a)(i)	No movement of funds is involved. **(1)**	**1**
4(a)(ii)	Revaluation of non-current asset. **(1)** **Accept other valid points.**	**1**

Question	Answer	Marks
4(b)	T plc Schedule of non-current assets	**9**

	Land and buildings	Machinery	Fixtures and fittings	Total	
	$000	$000	$000	$000	
Cost at 1 January 2018	400	214	82	696	**(1) for row**
Purchases		262	10	272	**(1) for row**
Disposals		(100)		(100)	**(1) for row**
Cost at 31 December 2018	400	376	92	868	
Accumulated depreciation at 1 January 2018	12	112	17	141	**(1) for row**
Charge for the year	4	84	9	97	**(1) for row**
Eliminated on disposals		(70)		(70)	**(2) for row***
Accumulated depreciation at 31 December 2018	16	126	26	168	
NBV at 31 December 2018	384	250	66	700	**(1) OF for row**
NBV at 1 January 2018	388	102	65	555	**(1) for row**

***** depreciation eliminated = 100 + 12 – 42 = 70

(2) for correct answer in correct column
(1) for other answer based on 100 in correct column

Question	Answer	Marks
4(c)	T plc Statement of Changes in Equity for the year ended 31 December 2018	**9**

	Share capital	Share premium	Retained earnings		General reserve	Total	
	$000	$000	$000		$000	$000	
Balance at 1 January 2018	500		105		40	645	**(1) for row**
Share issue	400 **(1)**	80 **(1)**				480	
Profit for the year			167	**(3)*W1**		167	
Dividend paid			(80)	**(1)**		(80)	
Transfer			(10)		10	0	**(1) for row**
Balance at 31 December 2018	900	80	182		50	1212	**(1) OF for row**
W1 profit for the year = 288 – 21 **(1)** interest – 100 **(1)** tax = 167 **(1) OF**							

Question	Answer	Marks
4(d)	The directors should continue with the statement of cash flows. **(1)** A statement of cash flows is a requirement of IAS 1. **(1)** It shows how cash has been acquired and applied. **(1)** It is a link between two statements of financial position. **(1)** A cash budget is a management tool. **(1)** It deals with the future, not historical data. **(1)** If published, it could be of use to competitors. **(1)** **Accept other valid points.** **(1)** for decision + **(Max 2)** for comments on statement of cash flows at **(1)** mark each and **(Max 2)** for comments on cash budgets.	**5**

Question	Answer	Marks
5(a)	Premier / Standard $ / $ Direct materials 80 / 50 **}** Direct labour 90 / 50 **}(1) for all** Fixed overheads 36 / 24 **(1) for both** Cost per unit 206 / 124 **(1) OF for both** Fixed overhead per unit $\frac{\$480\,000}{40\,000} = \$12$	**3**
5(b)	Cost driver is the factor that causes the change **(1)** in the cost of an activity. **(1)**	**2**

Question	Answer	Marks
5(c)	Advantages ABC provides more reliable information for product costing, i.e. it is based on activity cost driver. **(1)** ABC facilitates pricing decision. **(1)** Disadvantages It is time consuming to implement ABC. **(1)** Determining the cost driver may be difficult. **(1)** Measuring the quantity of each cost driver consumed may be difficult. **(1)** It is costly because it may be necessary to employ a specialist to implement the ABC system. **(1)** **Accept other valid points.** **Max 2 for advantages, Max 3 for disadvantages**	**5**

Question	Answer	Marks
5(d)		**8**

	Premier		Standard	
	$		$	
Direct materials	80		50	**}**
Direct labour	90		50	**} (1) OF for all**
Fixed overheads	28		36	
Cost per unit	198	**(1) OF**	136	**(1) OF**

	Premier		Standard	
	$		$	
Materials requisition				
2 × $1200*	2 400			**)**
6 × $1200			7 200	**)(1)**
Machine setup				
2 × $4000*	8 000			**)**
3 × $4000			12 000	**)(1)**
Inspection				
120 × $30*	3 600			**)**
320 × $30			9 600	**)(1)**
Total for June 2019	14 000		28 800	
Units produced	÷ 500		÷ 800	
Per unit	$28	**(1) OF**	$36	**(1) OF**

$* \frac{\$90000}{75} = \$1200$ per requisition

$* \frac{\$240\,000}{60} = \$4000$ per setup

$* \frac{150\,000}{5000} = \$30$ per inspection hour

Question	Answer	Marks
5(e)(i)		**4**

	Premier		Standard	
	$		$	
Absorption costing method				
Cost per unit	206.00		124.00	
Cost plus 40%	82.40		49.60	
Unit selling price	288.40	**(1) OF**	173.60	**(1) OF**

Question	Answer	Marks
5(e)(ii)		

	Premier		Standard	
	$		$	
ABC costing method				
Cost per unit	198.00		136.00	
Cost plus 40%	79.20		54.40	
Unit selling price	277.20	**(1) OF**	190.40	**(1) OF**

Question	Answer	Marks
5(e)(iii)	Difference in price of Premier ($288.40 – $277.20) = $11.20 Difference in price of Standard ($173.60 – $190.40) = $16.80 The difference in selling price is caused by the fixed overhead charged to each product **(1)** For Premier ($36 – $28) × 140% = $11.20 **(1) OF** For Standard ($36 – $24) × 140% = $16.80 **(1) OF**	**3**

Question	Answer	Marks
6(a)(i)		**2**

		Material price		
			$	
standard	2800 kilos	× $6	16 800	
actual			17 350	
			$550 **(1)**	A **(1)**

Question	Answer	Marks
6(a)(ii)	Material usage standard 5900 units × 0.5 kilos 2 950 actual 2 800 150 kilos × $6 $900 **(1)** F **(1)**	**2**
6(a)(iii)	Labour rate $ standard 9500 hours × $4.50 42 750 actual 42 275 $475 **(1)** F **(1)**	**2**
6(a)(iv)	Labour efficiency standard 5900 units × 1.5 hours 8 850 actual 9 500 650 hours × $4.50 $2 925 **(1)** A **(1)** **1 mark for calculation plus 1 mark for direction**	**2**

Question	Answer	Marks
6(b)	Material price variance – adverse Unexpected price increase. Loss of previous discount from supplier. Better quality materials purchased. **(1 mark)** × any 1 reason **OF** Material usage variance – favourable Less wastage due to better quality material. Less wastage due to better skilled/experienced workforce. **(1 mark)** × any 1 reason **OF** Labour rate – favourable A planned pay increase was not given. Use of lower skilled labour. Greater supply of labour. **(1 mark)** × any 1 reason **OF**	**4**

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Question	Answer	Marks
6(b)	Labour efficiency - adverse Use of lower quality material. Use of lower skilled labour. More idle time than budgeted. Poor supervision **(1 mark)** × any 1 reason **OF** **Accept other valid points.**	
6(c)(i)	Fixed overhead expenditure $$\begin{array}{lll} & & \$ \\ \text{standard} & 6500 \text{ units} \times 1.5 \text{ hours} \times \$5 & 48\,750 \\ \text{actual} & & 52\,100 \\ & & \$3\,350 \end{array}$$ **(1)** A **(1)**	**2**
6(c)(ii)	Fixed overhead volume $$\begin{array}{llll} \text{standard} & \text{units} & & 6\,500 \\ \text{actual} & \text{units} & & 5\,900 \\ & & & 600 \text{ units} \\ \text{Standard OAR} & 1.5 \text{ hours} \times \$5 & \times & \$7.50 \\ & & & \$4\,500 \end{array}$$ **(1)** A **(1)**	**2**

Question	Answer	Marks
6(d)	The fixed overhead volume variance is the difference between the actual and budgeted production and can be broken down further (to show what caused this difference) into the fixed overhead efficiency **(1)** and fixed overhead capacity. **(1)** If Jack calculated the fixed overhead efficiency he would know how much of the volume variance was due to the efficiency of his workforce. **(1)** As the volume variance was adverse for Jack this could mean the workforce worked more slowly than expected **(1)** due to lack of skills, poor material quality. **(1)** If Jack calculated the fixed overhead capacity he would know how much of the *volume* variance was due to number of hours worked. **(1)** As the *volume* variance was adverse for Jack this could mean the workforce worked fewer hours than expected **(1)** due to strikes, machine breakdown or shortage of labour. **(1)** **Accept other valid points.** **Max 5**	**5**

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Question	Answer	Marks
6(e)	Advantages Acting as a control device in variance analysis **(1)** Assisting in budget setting **(1)** Evaluating managers performance **(1)** Predicting future costs to aid decision making **(1)** Providing targets to motivate staff **(1)** Suggesting ways to improve efficiency **(1)** Enabling more accurate inventory valuation **(1)** Disadvantages Time consuming to collect data **(1)** Standards based on estimates **(1)** Unrealistic standards can demotivate staff **(1)** Factors causing variances are outside his control **(1)** **Max 2** marks for advantages and **Max 2** marks for disadvantages **Accept other valid points.**	**4**

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