Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **May/June 2018**

MARK SCHEME

Maximum Mark: 150

Published

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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)	It allows management to assess the performance of the factory. **(1)** It allows for better cost control **(1)** as cost can be identified with specific cost centre. **(1)** It allows for comparison between the cost of manufacturing a product in-house rather than buying it from an outside supplier. **(1)** Factory manager can be rewarded for their specific performance which will motivate. **(1)** **Accept other valid points.** **Max 4**	**4**
1(b)	Manufacturing account for JH Limited for year ended 31 October 2017 |	| \$ | | | | Prime cost | **W1** | 270 000 | **(1)** | | Factory overheads | **W2** | 509 000 | **(1)** | | | | 779 000 | | | Opening work in progress | | 28 000 | **(1) both** | | Closing work in progress | | (32 000) | | | Cost of production of manufactured | | 775 000 | | | Factory profit (20%) | | 155 000 | **(1) OF with label** | | Transfer price | | 930 000 | **(1) OF with label** | **W1** 270 000 + 18 000 **W2** 461 000 + (60 000 + 3 000 + 1 000) × 75%	**5**

Question	Answer			Marks
1(c)	Income statement for JH Limited for year ended 31 October 2017			**9**
		$	$	
	Revenue			
	Opening inventory of finished goods	108 000	1 860 000	
	Transfer price	930 000		
	Closing inventory of finished goods	96 000		
	Cost of goods sold		942 000	**(1) OF**
	Gross profit		918 000	**(1) OF**
	Factory profit	155 000		**(1) OF**
	Decrease in provision for unrealized profit	2 000		**(1) with correct direction**
			157 000	
			1 075 000	
	Distribution costs		198 000	**(1)**
	Administration expenses		368 000	**(1)**
	Operating profit		509 000	**(1) OF with label**
	Finance charges		28 000	**(1)**
	Profit of the year		481 000	**(1) OF with label**

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Question	Answer	Marks
1(d)		**7**

	$ original	$ adjusted
Production cost / transfer price	930 000	968 750
Gross profit	918 000	879 250
Profit for the year	481 000	481 000

Yes they can increase the percentage **(1)** as:

No effect on final profit for the year **(1)**

The increase in percentage will increase the transfer price **(1)**

Gross profit will be affected **(1)**

No they should not increase the percentage **(1)** as:

As selling price is based on production cost plus a mark-up, an increase in production cost will increase the selling price too **(1)**. This may make the product uncompetitive reducing the levels of sales **(1)** and eventually profit **(1)** but depends on the increase in price by the competitors **(1)**. It also depends on the price elasticity of demand of the product **(1)**. The market may not accept an increase in price so by not increasing the mark-up they may gain customers **(1)**.

Accept other valid points.

(1) decision

Max 2 marks for calculations

Max 4 marks for analysis

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>They provide additional information at the end of the financial year within the financial statements (1)

They provide further explanations of specific items within the financial statements. (1)

They explain the accounting methods and principles used to prepare the financial information within the financial statements. (1) e.g. the policy on depreciation.

Accept other valid points.

Max 3 marks</td><td>3</td></tr>
<tr><td>2(b)</td><td>
<table>
<tr><td></td><td>Ordinary shares</td><td></td><td>Share premium</td><td></td><td>Revaluation Reserve</td><td></td><td>General reserve</td><td></td><td>Retained earnings</td><td></td></tr>
<tr><td></td><td>$000</td><td></td><td>$000</td><td></td><td>$000</td><td></td><td>$000</td><td></td><td>$000</td><td>****</td></tr>
<tr><td>At 1 January 2016</td><td>2 000</td><td></td><td>300</td><td></td><td>400</td><td></td><td>100</td><td></td><td>1 500</td><td>(1) row</td></tr>
<tr><td>Interim dividend paid</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>(200)</td><td>)(1)W1</td></tr>
<tr><td>Share issue</td><td>1 000</td><td>(1)</td><td>200</td><td>(1)</td><td></td><td></td><td></td><td></td><td></td><td>W2</td></tr>
<tr><td>Rights issue</td><td>1 200</td><td>(2)</td><td>150</td><td>(1)</td><td></td><td></td><td></td><td></td><td></td><td>W3</td></tr>
<tr><td>Bonus issue</td><td>1 680</td><td>(1) OF</td><td>(650)</td><td>(1)</td><td>(400)</td><td>(1)</td><td>(100)</td><td>(1)</td><td>(530)</td><td>(1) W4</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>363</td><td>(1) W5</td></tr>
<tr><td>Transfer to general reserve</td><td></td><td></td><td></td><td></td><td></td><td></td><td>47</td><td></td><td>(47)</td><td>(1) both</td></tr>
<tr><td>At 31 December 2016</td><td>5 880</td><td></td><td>0</td><td></td><td>0</td><td></td><td>47</td><td></td><td>1 086</td><td>(1) OF row</td></tr>
</table>
</td><td>15</td></tr>
</table>

Question	Answer	Marks
2(b)	**W1** 0.20 × 1 000 000 = $200 000 **(1)** **W2** $2 × 500 000 = 1 000 000 **(1)** $0.40 × 500 000 = 200 000 **(1)** **W3** $\frac{3\,000\,000}{2}$ = 1 500 000 shares × $\frac{2}{5}$ **(1)** = 600 000 shares issued × $2.25 = $1 350 000 cash $1 200 000 **(1)** shares and $150 000 **(1)** share premium **W4** $\frac{4\,200\,000}{2}$ = 2 100 000 shares × $\frac{4}{10}$ = 840 000 × $2 = 1 680 000 **W5** 520 000 – (64 000 – 93 000) = $363 000 **(1)**	
2(c)	The directors did act in the best interests of the shareholders **(1)** because: No interest is being paid on a loan. **(1)** This saves $68 000 over 5 years which would have adversely affected both the cash flow **(1)** and the profitability of the business.**(1)** The drop in profitability may affect shareholder confidence and the market price of the shares. **(1)** The loan would increase the gearing **(1)** The capital repayment would also reduce the cash flow **(1)** and the potential for future dividend payments due to lack of cash. **(1)** Instead the shareholders could receive extra dividends. **(1)** This equates on the share issue and rights issue of an extra $0.06 approximately per share **(1)** The company may not have had enough cash or profit to pay the extra dividend. **(1)** $\frac{4\,200\,000}{2}$ = 2 100 000 shares × 0.50 = $1 050 000 dividend **(1)**	**7**

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Question	Answer	Marks
2(c)	The directors did not act in the interests of the shareholders **(1)** because: There has been a drop in the market price of each share of \$0.30. **(1)** With $\frac{5\,880\,000}{2}$ shares = 2 940 000 shares **(1)** × \$0.30 = \$882 000 **(1)** Although the market value may increase this may take time **(1)** Potential shareholders may question why a loan or a debenture was not taken out to finance the purchase of the factory instead of two share issues. **(1)** There is no future effects on cash flow **(1)** or profitability **(1)** except for the dividend payments **(1)** The money saved by making a bonus issue instead of paying extra dividends can be used on other areas within the business **(1)** The shareholders can sell these shares at a future date once the market price increases. $\frac{1\,680\,000}{2}$ = 840 000 shares × \$2.10 = \$1 764 000 **(1)** which is greater than the dividend suggested by the shareholder **(1)** **Accept other valid points.** **(1)** decision and **0–6** marks for comments on either side.	

Question	Answer	Marks
3(a)	express an opinion **(1)** on true and fair view **(1)** of the financial statements of a limited company	**2**
3(b)	Accounting treatments 1 Cost on training programme should be treated as expenses because it is held regularly **(1)** it is difficult to establish a direct relationship between training programme and future benefits from efficiency; i.e. efficiency can be caused by other reasons such as advance in technology **(1)** accrual concept is applied – $\frac{2}{6}$ of the total costs are expensed **(1)** $30 000 is regarded prepayment, i.e. $70 000 is paid and only $40 000 has been expensed. **(1)** 2 The inventory value needs to be reduced **(1)** to take into account the fact that the damaged items can only be sold at a p rice below their usual selling price. **(1)** This will affect the profit for the year **(1)** and the value of inventory in current assets. **(1)** **3 marks for each to a max of 5 marks**	**5**
3(c)	$$\begin{array}{lrl} & \$ & \\ \text{Profit for 2017} & 98\,000 & \\ \text{Add: amortisation} & 4\,000 & \textbf{(1)} \\ \text{Less: Training expenses } (\$70\,000 + \$50\,000) \times \frac{2}{6} \textbf{ (1)} & (40\,000) & \textbf{(1)} \\ \text{Less: Obsolete inventory } \$12\,000 - (\$12\,000 \times 1.25 \times 50\%) \textbf{ (1)} & (4\,500) & \textbf{(1)} \\ \text{Add: Licence fee } \$60\,000 \times \frac{30}{36} \textbf{ (1)} \text{ prepaid} & 50\,000 & \textbf{(1)} \\ \text{Revised profit} & 107\,500 & \textbf{(1) OF} \end{array}$$	**8**

Question	Answer			Marks
3(d)(i)		$		**2**
	Software license ($60 000 × $\frac{30}{36}$) **(1)**	50 000	**(1)**	
3(d)(ii)	Inventory ($146 000 – $4 500)	141 500	**(1)**	**1**
3(d)(iii)	Retained earnings ($215 000 + $107 500)	322 500	**(1) OF**	**1**
3(d)(iv)	Other payables ($75 000 – $50 000)	25 000	**(1)**	**1**
3(e)	Buying computer software: non-current assets increased as computer software is treated as non-current assets subject to depreciation throughout the estimated useful life of the software. Profit will be reduced by depreciation. more cash outlay as the computer software is acquired computer software can be obsolete after three years Acquiring the right to use a computer software for three years: company does not pay for the outright purchase of the asset and therefore lesser cash outflow profit will be reduced by amortisation over a period of 3 years. more flexible due to advanced technology **Accept other valid points.** **(2 marks)** for discussing buying the computer software and **(2 marks)** for discussing acquiring a right to use for three years. **(1 mark)** for decision.			**5**

Question	Answer	Marks

4(a)

club	limited company operating as a service business
seeks to provide service to members	seeks to make profit
has members	has shareholders
retains any surplus to improve services to members	may distribute any profit to reward investors

Accept other valid points.

Any two differences for **(2)** marks each.
Must be a comparison.

Marks: 4

4(b)

Income and Expenditure Account for the year ended 31 December 2017

		$		$	
Income				26 300	**(1)**
Subscriptions				2 600	**(1)**
Profit on meals				28 900	
Less expenditure					
Loss on trips	**W1**	8 500	**(1)**		
Irrecoverable debts		250	**(1)**		
Depreciation		1 530	**(1)**		
Other running costs		18 300	**(1)**	28 580	
Surplus	**W2**			320	**(1) OF**

W1 Cost of trips $1 000 × 2 × 12 = 24 000
Less: Income 620 × $25 = 15 500
Loss on trips = 8 500

W2 18 100 + 200

Marks: 7

Question	Answer	Marks

4(c) **10**

Statement of Financial Position at 31 December 2017

	$ Cost	$ Acc dep	$ NBV	
Non-current assets				
Premises	100 000		100 000	**}**
Fixtures and fittings	15 300	3 930	11 370	**} (1)**
	115 300	3 930	111 370	
Current assets				
Inventory			250	**(1)**
Subscriptions in arrears			600	
Bank **W1**			3 200	**(5)**
			4 050	
Total assets			115 420	
Accumulated fund at 1 January 2017			114 850	**}**
Surplus for the year			320	**} (1) OF**
Accumulated fund at 31 December 2017			115 170	
Current liabilities				
Other payables			200	**(1)**
Subscriptions in advance			50	**(1) for both subs**
Total liabilities			250	
			115 420	

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Question	Answer	Marks
4(c)	Accept alternative presentation **W1** Calculation of bank balance |	| \$ | | | | Opening balance | 4 700 | **}** | | Subscriptions received | 25 800 | **} (1)** | | Meals (21 500 – 18 900) | 2 600 | **(1)** | | Trips (15 500 – 24 000) | (8 500) | **(1)** | | Other running costs | (18 100) | **(1)** | | Fixtures and fittings | (3 300) | **(1)** | | Closing balance | 3 200 | **}** |	
4(d)	Take up of places on cach trips is already low **(1)** being $\frac{620}{1200}$ seats or little more than 50%. **(1)** An increase in price could further depress demand. **(1)** Analysis of ticket sales should be carried out **(1)** to establish which trip are most popular **(1)** in terms of time of year **(1)** o9r destinations. **(1)** Promotions such as a discount for booking on three trips or more could be offered. **(1)** **Accept other valid points.** **(1)** for decision + **Max 3** for comments at **(1)** mark each	**4**

Question	Answer	Marks
5(a)	Advantages: Compels management to plan for the future. **(1)** Aids coordination **(1)** and encourages communication **(1)**. Promotes responsibility accounting. **(1)** May motivate employees. **(1)** Use of variances to appraise performance **(1)** with possible subsequent remedial action. **(1)** **Max 3** Disadvantages: Not all staff may accept the budget. **(1)** Time consuming **(1)** Specialist staff required which may increase cost **(1)** **Max 2** **Accept other valid points.**	**5**
5(b)	Jan / Feb / Mar / Apr Sales: 3 500 / 4 000 / 4 750 / 3 750 Closing inventory: 400 **(1)** / 450 **(1)** / 375 **(1)** / 425 **(1)** 3 900 / 4 450 / 5 125 / 4 175 Opening inventory: (350) **(1)** / (400) / (450) / (375) Production: 3 550 / 4 050 / 4 675 / 3 800 **(1 for all)**	**6**

Question	Answer	Marks
5(c)	Jan / Feb / Mar / Apr Units 3 550 / 4 050 / 4 675 / 3 800 **(1) OF** Direct materials 3 / 3 / 3 / 3 10 650 / 12 150 / 14 025 / 11 400 **(1) OF** Closing Inventory 200 / 220 / 242 / 242 **(1)** 10 850 / 12 370 / 14 267 / 11 642 Opening Inventory 200 / 200 / 220 / 242 **(1)** Budgeted purchases (kilos) 10 650 / 12 170 / 14 047 / 11 400 **(1)** Cost ($) 2 / 2 / 2 / 2 Budgeted purchases ($) 21 300 / 24 340 / 28 094 / 22 800 **(1) OF**	**6**
5(d)	Closing inventory would now be 475 × 10 = $4 750 **(1)** Difference would be $4 750 – $4 500 **(1)** = $250 The holding cost would increase **(1)** by $250 **(1) OF**	**4**
5(e)	Advantages: The directors may receive a return on investment above market rate of the loan. Maybe able to convert loan to shares in the future. Disadvantages: Risk of not receiving repayment. May not be sufficient funds to pay the directors market rate of interest on the loan. **Max. 2** for advantages + Max 2 for disadvantages **Accept other valid points.**	**4**

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Question	Answer	Marks
6(a)(i)	Alpha: Direct materials $2 000 000; Direct labour $480 000; Overheads $330 000; Total production costs $2 810 000 **(1)** Omega: Direct materials $968 000; Direct labour $48 000; Overheads $66 000 **(1)**; Total production costs $1 082 000 **(1)**	**3**
6(a)(ii)	Cost per unit $140.5 $135.25 **(1)**	**1**
6(b)	Cost per unit $140.50 $135.25 Add 50% $70.25 $67.63 **(1) OF both** SP per unit $210.75 $202.88 **(1) OF both**	**2**
6(c)	It is not possible to attribute all costs to activities. **(1)** It takes additional costs **(1)** as usually specialist employees are required **(1)** or extensive training may be required. **(1)** It is expensive to develop, implement and maintain. **(1)** **2 × 1 mark** for any two valid disadvantages **Accept other valid points.**	**2**
6(d)	Machine set-up: Overhead $90 000; Alpha $54 000; Omega $36 000 Materials handling: Overhead $80 000; Alpha $24 000; Omega $56 000 **(1)** Machine maintenance: Overhead $46 000; Alpha $26 000; Omega $20 000 Product inspection: Overhead $180 000; Alpha $120 000; Omega $60 000 **(1)** Total: Overhead $396 000; Alpha $224 000 **(1) OF**; Omega $172 000 **(1) OF**	**4**

Question	Answer	Marks
6(e)	<table><tr><td></td><td>Alpha $</td><td>Omega $</td><td></td></tr><tr><td>Materials</td><td>2 000 000</td><td>968 000</td><td></td></tr><tr><td>Labour</td><td>480 000</td><td>48 000</td><td></td></tr><tr><td>Overheads</td><td>224 000</td><td>172 000</td><td></td></tr><tr><td>Total cost</td><td>2 704 000</td><td>1 188 000</td><td>**(1) both OF**</td></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td>Cost per unit</td><td>135.20</td><td>148.50</td><td>**(1) both OF**</td></tr><tr><td>Add 50%</td><td>67.60</td><td>74.25</td><td></td></tr><tr><td>SP per unit</td><td>202.80</td><td>222.75</td><td>**(1) both OF**</td></tr></table>	**3**
6(f)	As ABC provides more realistic figures **(1)** the selling prices will reflect a more realistic figure based on costs. **(1)** Using the old method Alpha showed a very high portion of overheads **(1)** and so its costs were too high **(1)** and a true figure is not reflected in the selling price **(1)** Omega bears a disproportionately low amount of overheads **(1)** and so is underpriced **(1)** Costs in the old method are set simply using only one basis. **(1)** The setting of the costs using ABC will enable the company to carefully investigate the basis **(1)** and will result in improved production methods as well as better pricing. **(1)** **3** x **2 marks** each (1 mark for stating the reason and 1 mark for development) **Accept other valid points.**	**6**
6(g)(i)	Alpha profit $135.20 × 60% = 81.12 × 20 000 = $1 622 400 **(1)** Omega profit $148.50 × 30% = 44.55 × 8 000 = $356 400 **(1)**	**2**
6(g)(ii)	The actual total profit will rise from $1 946 000 to $1 978 800 an increase of $32 800 **(1)** The price of Alpha will fall and Omega will rise bringing them both nearer to their previous price **(1)** Fixes higher prices for the product which is higher in demand and needs specialist workforce **(1)** which is justified and lower price for Omega which does not need specialist workforce as the rate of labour is lower **(1)** **Accept other valid points.**	**2**

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