Cambridge International AS & A Level

**Cambridge Assessment International Education**
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING** **9706/31**

Paper 3 Structured Questions **October/November 2017**

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.

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®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is a registered trademark.



© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 1(a) | Responses could include:<br><br>• Better control of manufacturing cost.<br>• Transferred price is compared with market price.<br>• Manufacturing department is a profit centre.<br>• Better way to measure the performance of the manufacturing department.<br><br>**1 mark** for each valid point, max 3. | **3** |

| Question | Answer | Marks |
|---|---|---|
| 1(b) | Ted Manufacturing account for year ended 31 December 2016 | **10** |

| | | $ | $ | |
|---|---|---|---|---|
| Opening inventory of raw materials | | | 52 000 | |
| Purchases | | | 484 000 | |
| Carriage inwards | | | 21 000 | **(1)** |
| | | | 557 000 | |
| Closing inventory of raw materials | | | 67 000 | |
| Cost of raw materials consumed | | | 490 000 | **(1) OF** |
| Direct expenses | | | 120 000 | |
| Direct wages | | | 626 000 | |
| Prime cost | | | 1 236 000 | **(1) OF** |
| Indirect wages | | | 132 000 | |
| Factory overheads | | | 510 900 | |
| Depreciation of factory machinery | **W1** | | 8 100 | **(1)** |
| Rent | **W2** | | 360 000 | **(1)** |
| Heat and light | **W3** | | 133 500 | **(1)** |
| Insurance and rates | **W4** | | 64 500 | **(1)** |
| | | | 2 445 000 | |
| Opening work in progress | | 97 000 | | |
| Closing work in progress | | 102 000 | (5 000) | **(1)** |
| Cost of production | | | 2 440 000 | |
| Add : 20% mark-up | | | 488 000 | **(1) OF** |
| Transferred to the trading section of Income Statement | | | 2 928 000 | **(1) OF** |

**W1** Depreciation of factory machinery ($330 000 – $276 000) × 15% = $8100
**W2** Rent ($440 000 + $40 000) × 3 / 4 = $360 000
**W3** Heat and light $178 000 × 3 / 4 = $133 500
**W4** Insurance and rates ($92 000 – $6000) × 3 / 4 = $64 500

| Question | Answer | Marks |
|---|---|---|
| 1(c) | Ted Income Statement (trading section) for the year ended 31 December 2016<br><br>\| | \$ \| \$ \|<br>\| Revenue \| \| 4 268 000 \|<br>\| Opening inventory of finished goods \| 146 400 **(1)** \| \|<br>\| Cost of production transferred \| 2 928 000 **(1) OF** \| \|<br>\| \| 3 074 400 \| \|<br>\| Closing inventory of finished goods **W1** \| 241 440 **(3)** \| \|<br>\| Cost of goods sold \| \| 2 832 960 \|<br>\| Gross profit \| \| 1 435 040 **(1) OF** \|<br><br>**W1** Opening inventory \$122 000 × 120% **(1)** = \$146 400<br>Closing inventory<br>Unrealised profit \$122 000 × 20% + \$15 840 **(1)** = \$40 240 **(1)**<br>\$40 240 × 120 / 20 = \$241 440 **(1)OF** | **6** |
| 1(d) | Finished goods 241 440 **(1) OF**<br>Less : Unrealised profit 40 240 201 200 **(1) OF** | **2** |
| 1(e) | Responses could include:<br><br>Ted should consider accepting the extra order **(1)** as his production unit cost \$30.50 is higher than the unit cost \$28 demanded by the external supplier. **(1)**<br>Unit production cost is \$2 440 000 **(OF)** / 80 000 = \$30.50 **(1)**<br><br>Accepting the order can also maintain the goodwill with the customer. **(1)**<br>However, he should also consider whether the product quality can be maintained. **(1)**<br><br>**1 mark** for the decision and **max 3 marks** for relevant points. | **4** |

| Question | Answer | Marks |
|---|---|---|
| 2(a) | The capital of a sole trader is his own investment **(1)** The accumulated fund is the surplus funds gained by the club from the members. **(1)**<br>The capital is increased by profits. **(1)** The fund is increased by surpluses. **(1)**<br>Capital is reduced by losses or drawings. **(1)** The fund is decreased by deficits. **(1)**<br><br>**Max 2** | **2** |
| 2(b) | The EF Tennis Club shop income statement for the year ended 31 December 2016<br><br>\| | \$ | \$ | |<br>\| Sales | | 8 960 | |<br>\| Inventory at 1 Jan 2016 | 975 | | |<br>\| Purchases **W1** | 5 960 | | **(2)** |<br>\| Inventory at 31 Dec 2016 | (826) | 6 109 | |<br>\| | | 2 851 | |<br>\| Shop staff wages | | 2 200 | **(1)** |<br>\| Shop profit | | 651 | **(1) OF**<br><br>**W1** Purchases 5720 – 1210 **(1)** + 1450 **(1)** = 5960 | **4** |

| Question | Answer | Marks |
|---|---|---|
| 2(c) | EF Tennis Club<br>Income and expenditure account for the year ended 31 December 2016<br><br>Subscriptions **W1** 3 610 **(4)**<br>Shop profit 651 **(1) OF**<br>Caterer's rent **W2** 2 400 **(1)**<br>Match ticket sales 2 740 — 9 401<br><br>Depreciation **W3** 1 426 **(1)**<br>Printing 3 765<br>Groundsmen's wages 4 210<br>Bad debts 54 **(1)**<br>Loss on sale of equp. 149 **(1)** — 9 595<br><br>Deficit for the year — (194) **(1) OF**<br><br>**W1** Subscriptions 3600 + 180**(1)** + 90**(1)** – 260**(1)** = 3610 **(1) OF**<br>**W2** Rent 2600 – 200<br>**W3** Depreciation 14 760 + 1400 – 1900 = 14 260 × 10% | **10** |
| 2(d) | Statement of Financial Position (Extract) at 31 December 2016<br><br>Current assets<br>Shop inventory 826<br>Subscriptions in arrears 90 **(1)**<br>Bank and cash 8 911 **(1)** — 9 827<br><br>Current liabilities<br>Trade payables 1 450<br>Subscriptions in advance 260 **(1)**<br>Rents in advance 200 **(1)** — 1910<br>7917 | **4** |

| Question | Answer | Marks |
|---|---|---|
| 2(e) | Yes **(1)**<br>The donation was for a specific purpose **(1)** and so should not be paid into the current account **(1)** in case it is not used for that purpose.<br>It is for future use **(1)** and so can be used to earn interest in the interval. **(1)**<br>It will ensure that the members appreciate the amount of funds available for current running costs **(1)** and what are reserved for a special purpose. **(1)**<br>Any payments made for the purpose of expanding the facilities will be paid from this account **(1)** and so ensuring members know about any ongoing developments. **(1)**<br>**Decision (1)**, **Justification Max 4** | **5** |

© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 3(a) | Provides comparison with previous years. **(1)**<br>Provides comparison with competitors. **(1)**<br>Highlights issues of performance that can be investigated. **(1)**<br>**Max 2** | **2** |
| 3(b)(i) | $\frac{550\,000 - 12\,000}{900\,000}$ = \$0.60 **(1)** | **5** |
| 3(b)(ii) | $\frac{1.75}{0.60}$ = 2.92 or 2.93 (times) **(1)OF** | |
| 3(b)(iii) | $\frac{0.08}{1.75} \times 100\%$ = 4.57% **(1)** | |
| 3(b)(iv) | $\frac{550\,000 - 12\,000}{72\,000}$ = 7.47 times **(1)**<br>All answers to 2 decimal places **(1) OF** | |
| 3(c) | $\frac{500\,000 - 12\,000}{600\,000}$ = \$0.81 **(1)**<br>$\frac{1.50}{0.81}$ = 1.85 (times) **(1)**<br>$\frac{0.10}{1.50} \times 100\%$ = 6.67% **(1)**<br>$\frac{500\,000 - 12\,000}{600\,000}$ = 8.13 times **(1)** | **4** |

© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 3(d)(i) | There has been a fall of 26.25% in the EPS. **(1)**<br>This indicates a poorer outcome for the shareholder. **(1)**<br>As the profit has risen the fall is due to the share issue. **(1)**<br><br>There has been a rise of 57.84% in the PE ratio. **(1)**<br>This is a positive result. **(1)**<br>This is due to the increase in price combined with the fall in earnings per share. **(1)**<br><br>There has been a fall of 31.48% in the dividend yield. **(1)**<br>This is a negative outcome. **(1)**<br>This is due to the decreased dividend paid and increased market price. **(1)**<br><br>There has been a fall of 8.13% in the dividend cover. **(1)**<br>This is a negative result. **(1)**<br>This is due to the increased total dividend not being matched by the available profits. **(1)**<br><br>Overall the trend is not good **(1)** but as the price earnings ratio did improve - this indicates confidence. **(1)**<br>There are only 2 years results to analyse – more would be beneficial. **(1)**<br>Also beneficial to analyse alongside another similar company. **(1)**<br>There may be other factors which have affected the results. **(1)**<br><br>**Max. 2 for each ratio – 1 for rise/fall – 1 for better/worse and/or explanation.**<br>**Max. 2 for other comments.**<br>**Max. 8** | **8** |
| 3(d)(ii) | The issue of the debentures will increase the gearing. **(1)**<br>A greater proportion of profits will be paid to these holders lowering availability to Bevin. **(1)**<br>Bevin may not receive dividends in years of low profits. **(1)**<br>The market value, however, has risen and this may continue. **(1)**<br>Interest payment and capital repayment on the debenture has to be paid regardless of the level of profits. **(1)** This could affect possible dividend payment to Bevin. **(1)**<br>Bevin should not invest **(1)** without further information. **(1)**<br>**Max. 5 + 1 decision.** | **6** |

© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 4(a) | The account which records the introduction **(1)** or withdrawal **(1)** of funds/assets of a person into the business. | **2** |
| 4(b) | Capital account – Armfield<br>Cash 4 000 **}(1)**<br>Reveal 7 000<br>Balance c/d 89 000 **(1) OF**<br>100 000<br>Balance b/d 100 000<br>Balance b/d 89 000<br><br>Capital account – Bonetti<br>Cash 5 000 **}(1)**<br>Reveal<br>Balance c/d 153 000 ***(1) OF**<br>158 000<br>Balance b/d 150 000 **(1)**<br>8 000 **} (1)**<br>158 000<br>Balance b/d 153 000<br><br>* Transfer to new partnership capital accounts | **6** |
| 4(c) | Partnership Capital accounts<br><br>Details \| Armfield $ \| Bonetti $ \|<br>Cash 28 000 **(1)of**<br>Balance c/d 125 000 125 000<br>125 000 153 000<br><br>Details \| Armfield $ \| Bonetti $ \|<br>Balance b/d 89 000 153 000<br>Cash 36 000 **(1)of**<br>125 000 153 000<br>Balance b/d 125 000 125 000 **(1)** | **3** |

| Question | Answer | Marks |
|---|---|---|
| 4(d) | Armfield and Bonetti<br>Statement of Financial Position at 1 January 2017<br><br>Non-current assets: $225 000 **(1)**<br>Current assets<br>Inventories $18 000 **}(1)**<br>Trade receivables $13 000 **}**<br>Cash and cash equivalents $8 000 **(1) OF** $39 000<br>Total assets $264 000<br><br>Capital accounts:<br>Armfield $125 000<br>Bonetti $125 000 **(1) both** $250 000<br>Current liabilities<br>$14 000 **(1)**<br>Trade payables $264 000 | **5** |
| 4(e) | Based purely on profitability, Armfield benefits by $20 000 **(1)** – Bonetti is worse off by $20 000. **(1)**<br>Only one year's results available, so difficult to form opinion. **(1)**<br>Disadvantages include sharing of profits, possible disagreements and therefore delays to decision making process. **(1)**<br>Advantages include more capital, more expertise. **(1)** | **5** |
| 4(f) | There would be limited liability / separate legal entity. **(1)** Possibility of raising more capital. **(1)**<br>Ownership is transferable. **(1)**<br>More legal formalities. **(1)** Greater expense to maintain. **(1)**<br>Since the partners are close to retirement it is advisable to incorporate. **(1)**<br><br>**Max 2 advantages x 2 marks each (1 mark for identifying, 1 mark for development.)** | **4** |

© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 5(a)(i) | Direct Material costs – quantity discounts **(1)** / savings on carriage inwards **(1)** | **4** |
| 5(a)(ii) | Direct labour – more hours worked leading to overtime rates **(1)** / shortage of labour leading to higher wage rates. **(1)** | |
| 5(b)(i) | (90 – 20.4 – 30) – 33 **(1)** = $6.60 **(1)**<br>× 1000 units = $6600 **(1of)** | **3** |
| 5(b)(ii) | (80 – 20.08 – 36) – 22 **(1)** = $1.92 **(1)**<br>1500 units = $2880 **(1of)** | **3** |
| 5(b)(iii) | 6600 – 2880 = $3720 decrease **(1)** | **1** |
| 5(c)(i) | 15 000 A **(2)** = (90 – 80) × 1500 | **8** |
| 5(c)(ii) | 45 000 F **(2)** = (500 × 90)(1500 – 1000) × 90 | |
| 5(c)(iii) | 480 F **(2)** = (5.10 – 5.02) = 0.08 × (4 × 1500) | |
| 5(c)(iv) | 9000 A **(2)** = (10 – 12) × (3 × 1500)<br><br>**Where two marks are given, one is for amount and one for direction.** | |
| 5(d) | Variance analysis reconciles between a flexed budget and actual, **(1)** not between a master budget and actual. **(1)** Only the sales volume variance takes into account the differences from the master budget. **(1)** | **3** |
| 5(e) | Profit decreases **(1)OF**<br>Other reservations **(1)**<br><br>**Decision (1)OF + Max 2 for justification** | **3** |

© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 6(a) | | **3** |

| | Product A | | Product B | | Total |
|---|---|---|---|---|---|
| | $ | | $ | | $ |
| Sales value | 240 000 | **(1)** | 360 000 | **(1)** | 600 000 |
| Overheads | 120 000 | | 180 000 | **(1) for both** | 300 000 |

| 6(b) | | | | | | | **5** |
|---|---|---|---|---|---|---|---|
| | | Product A | | | Product B | | |
| | | $ | | | $ | | |
| Direct cost | (3.2 + 1.8) | 5 | | (4.9 + 2.1) | 7 | **(1) for both** | |
| Overheads | (120 / 20) | 6 | **(1)OF** | (180 / 18) | 10 | **(1)OF** | |
| Total | | 11 | | | 17 | | |
| Selling price | | 12 | | 20 | 20 | | |
| Profit | | 1 | **(1)OF** | | 3 | **(1)OF** | |

| 6(c) | | | | | **5** |
|---|---|---|---|---|---|
| | A | B | | Total | |
| | $ | $ | | $ | |
| Delivery (100+) | 510 | 690 | **(1) for both** | | |
| Delivery (small) | 13 280 | 8 920 | **(1) for both** | | |
| | 13 790 | 9 610 | | | |
| Order processing | 17 025 | 11 725 | **(1) for both** | | |
| | 30 185 | 21 335 | | 52 150 | |
| Other overheads | 130 447 | 117 403 | **(1)OF for both** | 247 850 | |
| Total | 161 262 | 138 738 | **(1)OF for both** | 300 000 | |

| 6(d) | | | | | | | **5** |
|---|---|---|---|---|---|---|---|
| | | A | | | B | | |
| | | $ | | | $ | | |
| Direct cost | | 5 | | | 7 | **(1) for both** | |
| Overheads | (161.2 / 20) | 8.06 | **(1)OF** | (138.7 / 18) | 7.71 | **(1)OF** | |
| Total | | 13.06 | | | 14.71 | | |
| Selling price | | 12.00 | | | 20.00 | | |
| Profit | | (1.06) | **(1)OF** | | 5.29 | **(1)OF** | |

© UCLES 2017

| Question | Answer | Marks |
|---|---|---|
| 6(e) | Profit per unit for A is now negative **(1)** although A still has a positive contribution towards fixed costs. **(1)** Profit per unit for B has increased. **(1)**<br><br>The directors should consider increasing the selling price of A. **(1)** Perhaps delivery charges could be charged separately as an addition to the unit price. **(1)**<br><br>Advantage/disadvantage of change of method. **(1)**<br>Motivation/behavioural aspects. **(1)**<br><br>**[1 mark for decision + 1 max method + 1 max non-financial + 2 max for comparison A versus B]** | **5** |
| 6(f) | Cost driver – the separate activities of each department. **(1)**<br>Cost pool – an account collecting the cost of each activity. **(1)** | **2** |

© UCLES 2017