Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2018**

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.

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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.

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.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>$\frac{21 \textbf{ (1)}}{(126-21) \textbf{ (1)}} \times 100 = 20\%$ (1) OF

OR

$\frac{16 \textbf{ (1)}}{(96-16) \textbf{ (1)}} \times 100 = 20\%$ (1) OF</td><td>3</td></tr>
<tr><td>1(b)</td><td>CL plc
Manufacturing Account for the year ended 31 December 2017

<table>
<tr><th></th><th>$</th><th>$</th><th></th></tr>
<tr><td>Prime cost</td><td></td><td>780 000</td><td></td></tr>
<tr><td>Factory overheads</td><td></td><td>202 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td>982 000</td><td></td></tr>
<tr><td>Work in progress – opening</td><td>17 000</td><td></td><td></td></tr>
<tr><td>– closing</td><td>25 000</td><td>(8 000)</td><td>(1)</td></tr>
<tr><td>Factory cost of finished goods</td><td></td><td>974 000</td><td></td></tr>
<tr><td>Factory profit</td><td></td><td>194 800</td><td>(1) OF</td></tr>
<tr><td>Transfer to income statement</td><td></td><td>1 168 800</td><td>(1) OF</td></tr>
</table></td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(c)</td><td>
CL plc
Income Statement for the year ended 31 December 2017
<table>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Revenue</td><td></td><td>1 820 000</td><td></td></tr>
<tr><td>Inventory of finished goods – opening</td><td>126 000</td><td></td><td></td></tr>
<tr><td>Transfer from manufacturing</td><td>1 168 800</td><td></td><td>(1) OF</td></tr>
<tr><td></td><td>1 294 800</td><td></td><td></td></tr>
<tr><td>Inventory of finished goods – closing</td><td>96 000</td><td></td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td>1 198 800</td><td>(1) OF</td></tr>
<tr><td>Gross profit</td><td></td><td>621 200</td><td>(1) OF</td></tr>
<tr><td>Distribution costs</td><td></td><td>308 800</td><td>(1)</td></tr>
<tr><td>Administrative expenses</td><td></td><td>268 100</td><td>(1)</td></tr>
<tr><td></td><td></td><td>44 300</td><td></td></tr>
<tr><td>Add factory profit</td><td></td><td>194 800</td><td>(1) OF</td></tr>
<tr><td>Decrease in provision for unrealised profit</td><td></td><td>5 000</td><td>(1)</td></tr>
<tr><td>Profit from operations</td><td></td><td>244 100</td><td>(1) OF</td></tr>
<tr><td>Finance charges</td><td></td><td>47 100</td><td>(1)</td></tr>
<tr><td>Profit before taxation</td><td></td><td>197 000</td><td>(1) OF</td></tr>
<tr><td>Taxation</td><td></td><td>39 400</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td>157 600</td><td>(1) OF</td></tr>
</table>
</td><td>11</td></tr>
<tr><td>1(d)</td><td>
Is there a guarantee of supply? (1)

Is there a way to control quality? (1)

How many costs are fixed and will still have to be paid? (1)

If staff are laid off now can they be re-employed later on? (1)

Decision (1) Justification (Max 3)
</td><td>4</td></tr>
</table>

Question	Answer	Marks
1(e)(i)	Total of direct costs **(1)**	1
1(e)(ii)	Any suitable example e.g. purchase of raw materials, carriage on raw materials, machine operators' wages **(1)**	1
1(e)(iii)	Any suitable example e.g. depreciation of factory machinery, supervisor's salary, factory rent, factory insurance **(1)**	1

Question	Answer	Marks
2(a)	They provide additional information at the end of the financial statements. **(1)** They provide further explanation of specific items in the financial statements. **(1)** They explain the accounting methods and policies used to prepare the accounts. **(1)** They ensure transparency of financial statement figures. **(1)** **Accept other valid points.** **Max 3**	3
2(b)	Depreciation buildings: $160\,000 \times 5\% = 8000$ **(1)** Depreciation fixtures and fittings: $95\,000 \times 15\% = 14\,250$ **(1)** $20\,000 \times 15\% \times \frac{9}{12} = 2250$ **(1) OF** Total = 14 250 + 2250 = 16 500 **(1) OF** Depreciation motor vehicles: $30\,000 \times 20\% \times \frac{9}{12} = 4500$ **(1)** $22\,000 \times 20\% \times \frac{3}{12} = 1100$ **(1)** Total = 4500 + 1100 = 5600 **(1) OF**	7

Question	Answer	Marks
2(c)	S plc Note to the Statement of Financial position at 30 September 2017	8

Property, plant and equipment

	Land and buildings	Fixtures and fittings	Motor vehicles	Total	
Cost					
Balance at 1 October 2016	200 000	95 000	43 000	338 000	*
Purchases		20 000		20 000	**(1)**
Disposals			(10 000)	(10 000)	**(1)**
Balance at 30 September 2017	200 000	115 000	33 000	348 000	**(1) OF**
Depreciation					
Balance at 1 October 2016	70 000	28 000	13 000	111 000	***(1)**
Disposals			(2 000)	(2 000)	**(1)**
Charge for the year	8 000	16 500	5 600	30 100	**(1) OF**
Balance at 30 September 2017	78 000	44 500	16 600	139 100	**(1) OF**
Net book value					
Balance at 30 September 2017	122 000	70 500	16 400	208 900	**(1) OF both**
Balance at 30 September 2016	130 000	67 000	30 000	227 000	

* Balances

Question	Answer	Marks
2(d)	Annual cost to the company would be $6000 for the preference shares **(1)** and $5000 for the debentures. **(1)** The company could decide whether or not to pay dividends to the ordinary shareholders **(1)** but control could be lost. **(1)** The interest paid on the debentures reduces the profit before tax **(1)** and debentures must be redeemed. **(1)** Both debentures and preference shares increase the gearing of the company. **(1)** Since the cost of debentures is less **(1)** the directors should be advised to issue the debenture. **(1)** **Accept other valid points.** **Recommendation (1) and Justification Max 6**	7

Question	Answer			Marks
3(a)	Sales (950 + 840)	1790	**(1)**	4
	Purchase (400 +120 + 200)	(720)	**(1)**	
	Packaging	(60)	*	
	Repairs	(380)	*	
	Rental	(180)	*	
	Advertising	(90)	* **all*(1)**	
	Profit	360	**(1) OF**	

Question	Answer	Marks
3(b)(i)	Zarina's books Joint venture with Kia | | $ | | | $ | | | Rental | 180 | **(1)** | Cash in settlement from Kia | 814 | **(1) OF** | | Advertising | 90 | **(1)** | | | | | Packaging | 60 | **(1)** | | | | | Purchases | 120 | **(1)** | | | | | Repairs | 220 | **(1)** | | | | | Share of profit (40%) | 144 | **(1) OF** | | | | | | 814 | | | 814 | | **(1)** for showing as an account and showing no balance c/f.	**8**
3(b)(ii)	Kia's books Joint venture with Zarina | | $ | | | $ | | | Purchases **W1** | 600 | **(2)** | Sales | 1 790 | **(1)** | | Repairs | 160 | **(1)** | | | | | Share of profits | 216 | **(1)** | | | | | Cash settlement to Zarina | 814 | **(1)** | | | | | | 1 790 | | | 1 790 | | **W1** 400 **(1)** + 200 **(1)**	**6**

Question	Answer	Marks
3(c)	Both Kia and Zarina have benefitted from each other's contribution to the business. e.g. Zarina has access to Kia's selling markets Access to greater resources and finance therefore no need to borrow Both have been sharing risks and costs with another person so reducing workload **(1) for benefit plus (1) for development**	**2**
3(d)	As Kia has sold all the necklaces presumably she has the sales contacts which Zarina does not have. **(1)** Both have spent approximately equal amounts Kia $760 and Zarina $670 **(1)** If profits are shared equally then Kia would have received $180 which is $36 **(1)** less than she received in the joint venture. **(1)** Accept other valid points. **Recommendation (1) with justification Max 4 marks**	**5**

Question	Answer	Marks
4(a)	A bonus share issue is free **(1)** and so the company gets no extra funds, **(1)** but a rights issue has to be paid for. **(1)** The shareholder can sell on the right to buy a rights issue. **(1)** The bonus issue will be made from the company's reserves. **(1)** **Accept other valid points.**	**3**

Question	Answer	Marks
4(b)	(see below)	7

	$		$	
Revenue			558 000	(1)
Cost of sales				
Inventory at 1 October 2016	27 000			
Purchases	352 000			
Carriage inwards	4 000	(1)		
	383 000			
Inventory at 30 September 2016	24 000		(359 000)	(1) OF
Gross profit			199 000	
Selling and distribution expenses	74 000	(1) WI		
Administrative expenses	46 000	(1)W2	(120 000)	
			79 000	
Finance costs			(1 000)	(1)
Profit for the year			78 000	(1) OF

Workings: **W1** Selling 64 000 + 10 000 (68 000 – 18 000) × 20% **1 whole calculation correct**
W2 Admin 27 000 + 1000 + 18 000 **(1)**

Question	Answer	Marks
4(c)	Statement of changes in equity	8

	Ordinary share capital $		Share premium $		General reserve $		Retained earnings $	
Balance b/f	200 000				20 000		28 000	(1)
Share issue	20 000	(1)	4 000	(1)				
Transfer					5 000	(1)	(5 000)	(1)
Interim dividend							(4 000)	(1)
Profit retained for the year							78 000	(1) OF
Balance c/f	220 000		4 000		25 000		97 000	(1) OF

Question	Answer			Marks
4(d)	AH Limited statement of financial position at 30 September 2017			7
		$		
	Assets			
	Non-current assets			
	Freehold land	250 000		
	Vehicles	40 000	**(1)**	
	Office machinery	7 000	**(1)**	
		297 000		
	Current assets			
	Inventories	24 000		
	Trade receivables	34 000		
	Cash and cash equivalents	60 000	**(1)**	
		118 000	**(1)OF**	
	Total assets	415 000		
	Equity and liabilities			
	Equity			
	Ordinary share capital	220 000		
	Share premium	4 000		
	General reserves	25000		
	Retained earnings	97 000		
	Total equity	346 000	**(1)OF**	
	Non-current liabilities			
	5% Debentures	40 000	**(1)**	
	Current liabilities			
	Trade payables	29 000	**(1)**	
	Total equity and liabilities	415 000		

Question	Answer	Marks
5(a)	Helps to compare the actual performance with the planned as budgeted to take corrective action. Communication of targets easier – people setting targets understand them. Motivate managers / increase commitment – setting targets. Realistic targets – set by the person doing the job. Improved co-ordination of budget preparation exercise facilitates master budget. **Accept other valid points.** **(2 marks)** × any 2 points (**1** mark stating + **1** mark for development)	**4**

Question	Answer	Marks
5(b)	Units 12 000	13
	$	
	Sales revenue 244 800 **(1)**	
	Variable costs	
	Direct materials 36 000 **(2) W1**	
	Direct labour 60 000 **(2) W2**	
	Direct expenses 24 000 **(1) W3**	
	Semi variable costs	
	Production overhead 29 000 **(5) W4**	
	Fixed costs	
	Administration 35 000 **(1)**	
	184 000	
	Profit for the year 60 800 **(1) OF**	
	*Only if there is administration.	
	Workings:	
	W1: Direct materials 2 kg × \$1.50 = \$3 **(1)** × 12 000 units = \$36 000 **(1)**	
	W2: Direct labour 0.5 hrs × \$10 = \$5 **(1)** × 12 000 units = \$60 000 **(1)**	
	W3: Direct expenses \$2 × 12 000 units = \$24 000 **(1)**	
	W4: Semi variable costs – using high low method	
	$\frac{\$21\,000 - \$15\,000}{8000 \text{ units} - 5000 \text{ units}} = \frac{6}{3} = \$2$ **(1) OF** $\times$ 8000 units **(1)** $= \$16\,000$ VC	
	TC \$21 000	
	– VC \$16 000	
	= FC \$5 000 **(1)** \$2 × 12 000 units = \$24 000 VC **(1) OF**	
	\$5 000 FC	
	\$29 000 TC **(1) OF**	

Question	Answer	Marks
5(c)	Budget is based on standards which are never the same as actual data. **(1)** Actual material price could be different to standard e.g. discounts, market price increase, scarcity. **(1)** Actual usage / quantity could be different to standard e.g. quality of materials, skills of workers. **(1)** Labour rate could be different due to more / less skilled staff. **(1)** Labour hours could be different due to overtime, quality of materials, skills of workers. **(1)** Sales revenue could be different to standard due to different demand, different sales price. **(1)** **Accept other valid points.** **Max 4**	**4**
5(d)	Fixed budget does not reflect what has actually happened as it does not compare like with like. **(1)** Does not allow for meaningful variance analysis so does not aid performance evaluation. **(1)** **Accept other valid points.** **(Any 2 disadvantages) (1 mark for stating + 1 for development)**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(a)</td><td>
<table>
<tr><th></th><th>Sales
$</th><th>Labour
$</th><th>Rent
$</th><th>Seeds
$</th><th>Net cash flow
$</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>(30 000) (1)</td></tr>
<tr><td>Y1</td><td>4 500 }</td><td>(900) }</td><td>(4 000)</td><td>(1 000)</td><td>(1 400) }</td></tr>
<tr><td>Y2</td><td>9 000 } (1)</td><td>(1 800) } (1) OF</td><td>(4 000)</td><td>(1000)</td><td>2 200 }</td></tr>
<tr><td>Y3</td><td>16 500 }</td><td>(3 300) }</td><td>(4 000)</td><td>(1 000)</td><td>8 200 }</td></tr>
<tr><td>Y4</td><td>16 500 }</td><td>(3 300) }</td><td>(4 000)</td><td>(1 000)</td><td>8 200 }</td></tr>
<tr><td>Y5</td><td>16 500 }(1)</td><td>(3 300) } (1) OF</td><td>(4 000)</td><td>(1 000)</td><td>8 200 } (1) OF</td></tr>
<tr><td></td><td></td><td></td><td>(1)</td><td>(1)</td><td></td></tr>
</table>
</td><td>8</td></tr>
<tr><td>6(b)</td><td>

Average profit = $\dfrac{25\,400 - 30\,000\ \mathbf{(1)}}{5\ \mathbf{(1)}} = -920$

Average investment = 15 000 **(1)**

ARR = $\dfrac{-920}{15\,000} = -6.13\%$ **(1) OF**

</td><td>4</td></tr>
<tr><td>6(c)</td><td>

Average profit = $\dfrac{50\,800\ \mathbf{(1)\,OF} - 38\,000\ \mathbf{(1)}}{5\ \mathbf{(1)}}$ = 2560

Average investment = 19 000 **(1)**

ARR = $\dfrac{2560}{19\,000}$ = 13.47% **(1) OF**

</td><td>5</td></tr>
<tr><td>6(d)(i)</td><td>Useful for comparisons / easy to calculate (1)</td><td rowspan="2">3</td></tr>
<tr><td>6(d)(ii)</td><td>Doesn’t take into account timing of cash flows (1) doesn’t take into account time value of money (1) uses subjective measures (1)

Any two for (1) each</td></tr>
</table>

Question	Answer	Marks
6(e)	NPV has not been calculated and would be a better indicator **(1)** Payback has not been calculated **(1)** Project is risky as, say, weather could destroy crops **(1)** Project is loss making in early years **(1)** Labour / rent / price of seeds may change **(1)** Selling price is governed by the factors outside Asif's control **(1)** **Accept other valid points.** **Reasonable comments for (1) each** **Max 5**	**5**