Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING **9706/32**

Paper 3 A Level Structured Questions **March 2018**

MARK SCHEME

Maximum Mark: 150

Published

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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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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>
Manufacturing Account for Marco for year ended 31 January 2018
<table>
<tr><th></th><th>$</th><th>$</th><th></th></tr>
<tr><td>Opening inventory of raw materials</td><td></td><td>40 000</td><td></td></tr>
<tr><td>Purchases of raw materials</td><td>568 000</td><td></td><td></td></tr>
<tr><td>Carriage inwards</td><td>12 000</td><td></td><td>(1)</td></tr>
<tr><td>Returns outward</td><td>(23 000)</td><td></td><td>(1)</td></tr>
<tr><td>Net purchases</td><td></td><td>557 000</td><td></td></tr>
<tr><td></td><td></td><td>597 000</td><td></td></tr>
<tr><td>Closing inventory of raw materials</td><td></td><td>(42 000)</td><td>(1) both</td></tr>
<tr><td>Cost of raw materials consumed</td><td></td><td>555 000</td><td></td></tr>
<tr><td>Direct factory wages</td><td></td><td>265 000</td><td>(1)</td></tr>
<tr><td>Prime cost</td><td></td><td>820 000</td><td>(1) OF</td></tr>
<tr><td>Factory overheads</td><td></td><td></td><td></td></tr>
<tr><td>Indirect factory wages</td><td>159 000</td><td></td><td>(1)</td></tr>
<tr><td>Heating and lighting</td><td>56 000</td><td></td><td>(1)</td></tr>
<tr><td>Machinery depreciation</td><td>66 000</td><td></td><td>(1)</td></tr>
<tr><td>Rent and rates</td><td>72 000</td><td>353 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td>1 173 000</td><td></td></tr>
<tr><td>Opening work in progress</td><td>60 000</td><td></td><td></td></tr>
<tr><td>Closing work in progress</td><td>(80 000)</td><td>(20 000)</td><td>(1) both</td></tr>
<tr><td>Cost of production</td><td></td><td>1 153 000</td><td></td></tr>
<tr><td>Factory profit</td><td></td><td>288 250</td><td>(1) OF</td></tr>
<tr><td>Transfer price</td><td></td><td>1 441 250</td><td>(1) OF</td></tr>
</table>
</td><td>12</td></tr>
<tr><td>1(b)</td><td>
Extract from statement of Financial Position for Marco at 31 January 2018
<table>
<tr><th>Current assets (1)</th><th>$</th><th>$</th><th></th></tr>
<tr><td>Inventories</td><td></td><td></td><td></td></tr>
<tr><td>Raw materials</td><td></td><td>42 000</td><td></td></tr>
<tr><td>Work in progress</td><td></td><td>80 000</td><td></td></tr>
<tr><td>Finished goods</td><td>150 000</td><td></td><td></td></tr>
<tr><td>Less provision for unrealised profit</td><td>(30 000)</td><td>120 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td>242 000</td><td>(1) OF</td></tr>
</table>
</td><td>3</td></tr>
</table>

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Question	Answer	Marks
1(c)	Realisation concept **(1)** Prudence concept **(1)**	**2**
1(d)(i)	It is important that Marco creates a provision for unrealised profit because: IAS2 states that inventory is valued at the lower of cost and net realisable value, so unrealised profit should be removed from the inventory valuation otherwise profits **(1)** and current assets **(1)** will be overvalued. Realisation concept states that revenue should only be recorded in the business books of account when the goods have been sold for credit or cash**(1)** and prudence concept states that losses should be provided for as soon as they are anticipated but profits are not recorded until realised **(1)**	**4**
1(d)(ii)	Profit will be greater by $30 000 **(1)** if there is no provision for unrealised profit. However this profit is overstated **(1)** as the inventories have not been adjusted for unrealised profit. **(1)** Any decision based on these levels of profit would be based on expectations of a higher profit which may not be achieved **(1)**	**4**

Question	Answer	Marks
2(a)	$ Sales (1850 + 340) 2 190 **(1)** Purchases (900 + 200 – 60) (1 040) **(1)** Repairs (160 + 120) (280) **(1)** Carriage (90 + 50) (140) **(1)** Rental (100) * Advertising (70) ***(1) both*** Profit 560 **(1) OF**	**6**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Raj's books
Joint venture with John account
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Purchases</td><td>900</td><td></td><td>Sales</td><td>2 190</td><td>(1)</td></tr>
<tr><td>Repairs</td><td>280</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Carriage</td><td>90</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Share of profit</td><td>280</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td>Cash to John</td><td>500</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Cash in settlement to John</td><td>140</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>2 190</td><td></td><td></td><td>2 190</td><td></td></tr>
</table>
</td><td>5</td></tr>
<tr><td></td><td>
John's books
Joint venture with Raj account
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Rental</td><td>100</td><td>*(1)</td><td>Cash in settlement from Raj</td><td>140</td><td>(1) OF in both ac</td></tr>
<tr><td>Advertising</td><td>70</td><td>*</td><td>Bicycle for daughter</td><td>60</td><td>(1)</td></tr>
<tr><td>Purchases</td><td>200</td><td>(1)</td><td>Cash from Raj</td><td>500</td><td>(1)</td></tr>
<tr><td>Carriage</td><td>50</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Share of profit</td><td>280</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td>700</td><td></td><td></td><td>700</td><td></td></tr>
</table>
</td><td>7</td></tr>
<tr><td>2(c)</td><td>In a joint venture one person may have the skills and another the contacts. (1) In this instance Raj has the selling contacts and can repair bicycles, whereas John is able to pay the overheads. (1)</td><td>2</td></tr>
<tr><td>2(d)</td><td>Raj appears to be doing most of the work repairing and selling the bicycles. (1) The bicycles purchased by John were not as profitable as the ones he purchased. (1) Raj purchased bicycles for $990 plus repairs of $160 = $1150 but sold for $1850 so profit of $700 / 12 = $58.33 each (1) whereas the bicycles John purchased only made a profit of $30 ($250 +$120= $370 but sold for $400). This is $30 / 4 = $7.50 each (1).
It may be more beneficial for Raj to work on his own rather than enter into a partnership with John (1)
Decision (1) plus 4 marks</td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)(i)</td><td>
<table>
<tr><td></td><td>R Limited
$</td><td></td><td>Joe Tu
$</td><td></td></tr>
<tr><td>Sales revenue</td><td>1 500 000</td><td></td><td>250 000</td><td></td></tr>
<tr><td>Gross profit 50% / 45%</td><td>750 000</td><td>(1)</td><td>112 500</td><td>(1)</td></tr>
<tr><td>Profit for the year</td><td>132 000</td><td></td><td>19 800</td><td></td></tr>
<tr><td>Operating expenses</td><td>618 000</td><td>(1) OF</td><td>92 700</td><td>(1) OF</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>3(a)(ii)</td><td>
<table>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Sales revenue
($1 500 000 + $250 000) × 120%</td><td>2 100 000</td><td></td><td></td></tr>
<tr><td>Gross profit</td><td>1 050 000</td><td>1 050 000</td><td></td></tr>
<tr><td>Original gross profit ($750 000 + $112 500)</td><td>862 500</td><td>(862 500)</td><td></td></tr>
<tr><td>Increase in gross profit</td><td></td><td>187 500</td><td>(1) OF</td></tr>
<tr><td>Decrease in operating expenses
($558 000 + $92 700) × 30%</td><td></td><td>195 210</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td>382 710</td><td></td></tr>
<tr><td>Director’s fee</td><td></td><td>(30 000)</td><td>(1)</td></tr>
<tr><td></td><td></td><td>352 710</td><td>(1) OF</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>3(b)</td><td>To reward the owner with the benefits of the increase in value over time of the assets. (1)

The fair value of assets (1) forms the base of calculating the purchase consideration. (1)
Max 1</td><td>1</td></tr>
</table>

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Question	Answer	Marks
3(c)	R Limited Statement of financial position after acquisition	**11**

	$	
Non-current assets		
Land and buildings **(W1)**	621 000	**(3)**
Plant and equipment	308 000	*
Goodwill **(W2)**	18 000	**(2)**
	947 000	
Current assets		
Inventory	138 000	* **(1)**
Trade receivables	159 000	**
Cash and cash equivalents	58 000	** **(1)**
	355 000	
Total assets	1 302 000	
Equity and liabilities		
Equity		
Ordinary shares of $1 each	950 000	**(1)**
Share premium	30 000	**(1)**
Revaluation reserve	28 000	**(1)**
Retained earnings	132 000	**(1)**
	1 140 000	
Current liabilities		
Trade payables	162 000	
Total equity and liabilities	1 302 000	

W1: $454 000 **(1)** + $139 000 **(1)** + $28 000 **(1)** = $621 000

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>W2
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Land and buildings</td><td>139 000</td><td></td></tr>
<tr><td>Plant and equipment</td><td>14 000</td><td></td></tr>
<tr><td>Inventory</td><td>40 000</td><td></td></tr>
<tr><td>Trade receivables</td><td>36 000</td><td></td></tr>
<tr><td>Trade payables</td><td>(67 000)</td><td></td></tr>
<tr><td></td><td>162 000</td><td>(1)</td></tr>
<tr><td>Purchase consideration</td><td>180 000</td><td>(1)</td></tr>
<tr><td>Goodwill</td><td>18 000</td><td></td></tr>
</table></td><td></td></tr>
<tr><td>3(d)</td><td>Responses could include:

For the purchase:

• Joe Tu’s expertise / knowledge / experience brought to the business
• Issuing shares to Joe Tu so that his personal interest is linked with the business
• Synergy effect which has long-term benefit
• Economy of scale

Max 2

Against the purchase:

• Control is diluted
• Interest in the company is diluted
• May be friction between the directors
Accept any reasonable alternative

Max 2 and 1 Decision</td><td>5</td></tr>
</table>

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Question	Answer	Marks
4(a)	Responses could include: Shareholders — Directors Principal — Agent Master — Steward Owners of the company — Management of the company Entrust responsibilities to directors — Accountable to shareholders Do not interfere with the daily operations of the company — Conduct daily operations of the company Making decisions in general meeting relating to e.g. appointment of auditor — Making daily operating, financing and investing decisions (**1 mark**) × 4 valid points **Max 2 for each**	**4**
4(b)	Responses could include: • It is not required by law • Sole proprietor is the one who contributes capital and manages the business Accept any reasonable alternative (**1 mark**) × one valid reason	**1**
4(c)	Original profit: $ 78 000 Less : Inventory overvalued (16 000) **(1)** Add : Cash dividend 75 000 **(1)** Proposed dividend 82 500 **(1)** Less : Rent undercharged (21 000) **(2)** Adjusted profit 198 500 **(1) OF** Working Inventory overvalued $120 000 – $104 000 = $16 000 Rent undercharged ($21 000 × 6) – $105 000 **(1)** = $21 000 **(1)**	**6**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(d)</td><td>Responses could include:

Stock valuation
• Both FIFO and AVCO are permitted by IAS 2
• Adoption of either method is an accounting policy
• Accounting policy should be consistently applied
• Accounting policy should not be changed for the sole purpose of increasing current year profit.

Dividend
• Dividend paid is distribution of profit, not expenses.
• Dividend paid should be accounted for in the Statement of Changes in Equity
• Proposed dividend is not regarded as liability
(1 mark) × 6 valid points, 3 marks for each item</td><td>6</td></tr>
<tr><td>4(e)</td><td>Statement of Changes in Equity for the year ended 31 December 2017
<table>
<tr><th></th><th>Share Capital
$</th><th>Share Premium
$</th><th>Retained Earnings
$</th><th></th><th>Total
$</th></tr>
<tr><td>Balance at 1 January 2016</td><td>500 000</td><td>80 000</td><td>94 000</td><td></td><td>674 000</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>198 500</td><td>(1) OF</td><td>198 500</td></tr>
<tr><td>Dividend paid</td><td></td><td></td><td>(75 000)</td><td>(1)</td><td>(75 000)</td></tr>
<tr><td>Bonus shares</td><td>50 000</td><td>(50 000) (1)</td><td></td><td></td><td></td></tr>
<tr><td>Balance at 31 December 2016</td><td>550 000</td><td>30 000</td><td>217 500</td><td>(1)OF</td><td>797 500 000</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>4(f)</td><td>Responses could include:
• True and fair view
• Auditor is independent third party so more dependable
• More credible documents
• The bank may also request for other information, i.e. budgeted financial statements
• Request a business plan
• Bank may require collateral
Accept any reasonable alternative
1 for decision
(1 mark) × 3 valid points</td><td>4</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>Budgetary control is the planning of the use of resources **(1)** including money through the use of budgets **(1)** to achieve an overall objective. **(1) max 2**</td><td>2</td></tr>
<tr><td>5(b)</td><td>Labour budget
<table>
<tr><th></th><th>Casting
$</th><th></th><th>Polishing
$</th><th></th><th>Finishing
$</th><th></th></tr>
<tr><td>Production</td><td>24 000</td><td></td><td>24 000</td><td></td><td>24 000</td><td></td></tr>
<tr><td>Labour hours</td><td>16 000</td><td>**(1)**</td><td>6 000</td><td>**(1)**</td><td>48 000</td><td>**(1)**</td></tr>
<tr><td>Number of employees</td><td>8</td><td>**(1) OF**</td><td>3</td><td>**(1) OF**</td><td>24</td><td>**(1) OF**</td></tr>
<tr><td>Labour cost</td><td>192 000</td><td>**(1) OF**</td><td>48 000</td><td>**(1) OF**</td><td>672 000</td><td>**(1) OF**</td></tr>
</table>
Each employee works 50 × 40 = 2000 hours a year</td><td>9</td></tr>
<tr><td>5(c)</td><td>Hyung Min would find budgetary control beneficial to achieve the target profit because it would control **(1)** resources i.e. staff so correct number of staff **(1)** allocated to correct department **(1)** and not sitting around idle. **(1)**

• Plan **(1)** by allocating the right number of staff as needed **(1)** to keep labour costs down **(1)**
• communicate and coordinate **(1)** between production, sales and human resources **(1)** so right number of staff for the right department **(1)**

May also explain the following reasons:

• Motivation to reach targets
• Performance evaluation
• Aids decision making

(**(1)** for each benefit plus **(1)** for explanation and relevance to Hyung Min) × **3**</td><td>6</td></tr>
</table>

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Question	Answer	Marks
5(d)	With the casting department Hyung Min has an adverse efficiency variance of $57 000. This means the workforce employed were not as efficient and spent more time than expected to produce the 28 500 vases. **(1)** this may be because they were not as skilled as expected **(1)** or the machinery kept breaking down **(1)** or there were other faults in the production line. Finally it could be because the quality of the material was less than expected and so took longer to use **(1) max 3** In both the polishing and finishing departments there are adverse rate variances which means that Hyung Min paid out more money per hour than he expected to do. This may be because he employed employees with more skills in these departments. **(1)** Alternatively there may be a scarcity of labour in the area so more has to be paid to attract the workforce **(1)** **Overall max 4 (1)**	**4**
5(e)	Overall total labour variance was favourable **(1)** by $1500 **(1)**. Therefore it is not a cause of concern **(1)**. However, rate variance in finishing and efficiency in casting are quite high. Therefore take some action to reduce these **(1)**.	**4**

Question	Answer	Marks
6(a)	Net present value uses discounted rates to calculate the present value of future money **(1)** whereas the payback method does not. **(1)** The net present value method considers all **(1)** the cash flows of a capital investment whereas the payback method just considers those cash flows up to the date of payback. **(1)**	**4**
6(b)(i)	Payback is 3 years **(1)** and 2 months **(1)**	**2**
6(b)(ii)	year / net cash flow $ / discount rate / present value $ 0 / (210 000) / 1 / (210 000) 1 / 72 000 **(W1)** / 0.926 / 66 672 **(1) OF** 2 / 72 000 / 0.857 / 61 704 **(1) OF** 3 / 72 000 / 0.794 / 57 168 **(1) OF** 4 / 72 000 / 0.735 / 52 920 **(1) OF** 5 / 72 000 / 0.681 / 49 032 **(1) OF** Net present value 77 496 **(1) OF** **W1** 210 000 / 35 = 6000 **(1)** per month × 12 = 72 000 **(1)** per year	**8**

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Question	Answer	Marks
6(b)(iii)	ARR Machine A 72 000 – 210 000 / 5 = 30 000 profit **(1) OF** Cost of investment 210 000 / 2 = 105 000 **(1)** ARR = 30 000 / 105 000 × 100 = 28.57% **(1) OF** Machine B 51 000 – 161 500 / 4 = 10 625 **(1)** Cost of investment 161 500 / 2 = 80 750 **(1)** ARR 10 625 / 80 750 × 100 = 13.16% **(1) OF**	**6**
6(c)	**Decision (1) plus (4) for justification** Machine A has a greater annual cash flow of $72 000 compared to $51 000. **(1)OF** Machine A has the greater cash flows and expected life **(1)OF**, NPV **(1)OF**, ARR **(1)OF** and quicker payback. **(1)OF** Daniyar should choose machine A **(1)** provided that it can be financed **(1)**. **Max 5**	**5**