



**Cambridge International Examinations**  
Cambridge International Advanced Level

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**ACCOUNTING**

**9706/32**

Paper 3 Structured Questions

**May/June 2016**

MARK SCHEME

Maximum Mark: 150

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**Published**

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- 1 (a) Club produces income and expenditure account; company produces income statement. (1)  
 Surplus or deficit versus profit or loss. (1)  
 Accumulated fund versus capital. (1)  
**Max 2** [2]

(b)

The Seagulls Boating Club  
 Trading account for the year ended 31 March 2016

|                     | \$               | \$                   |
|---------------------|------------------|----------------------|
| Revenues            |                  | 25 750               |
| Less cost of sales  |                  |                      |
| Opening inventory   | 3 875            |                      |
| Purchases           | <u>8 971</u> (1) |                      |
| Closing inventory   | <u>(3 423)</u>   | <u>(9 423)</u> (1)of |
| Gross profit        |                  | 16 327 (1)of         |
| Wages               |                  | <u>(9 775)</u> (1)   |
| Profit for the year |                  | <u>6 552</u> (1)of   |

[5]

(c)

Subscriptions account

|                          |                |             |               |
|--------------------------|----------------|-------------|---------------|
| Balance b/d              | 720            | Balance b/d | 320 (1) both  |
| Income & expenditure a/c | 24 800         | Bank/Cash   | 24 480 (1)of  |
| Balance c/d              | <u>240</u> (1) | Balance c/d | <u>960</u>    |
|                          | <u>25 760</u>  |             | <u>25 760</u> |
| Balance b/d              | 960            | Balance b/d | 240 (1) both  |

[4]

(d)

The Seagulls Boating Club  
 Income and expenditure account for the year ended 31 March 2016

|  | \$           |           | \$                  |
|--|--------------|-----------|---------------------|
| Subscriptions                            | 24 800       | (1)of for |                     |
| Cafe profit                              | <u>6 552</u> | both      |                     |
|  |              |           | 31 352              |
| General expenses                         | 2 380 (1)    |           |                     |
| Depreciation                             | 2 250 (1)    |           | <u>(4 630)</u>      |
| Surplus (1) (of income over expenditure) |              |           | <u>26 722</u> (1)of |

[5]

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**(e) Benefits**

Small organisation so may be purchased for relatively low cost. **(1)** Cost saving then continues. **(1)** Time saving **(1)** so can spend more time on other aspects of business. **(1)** Can be used for different aspects (e.g. payroll, invoicing, stock control etc.). **(1)** Integrated system. **(1)** Can use tailor made package. **(1)** Reduces storage space **(1)** as uses less paper. **(1)** Reduced manual input **(1)** so reduced errors. **(1)**. Reduction in staff reducing wages cost **(1)**. Can use IT to advertise the club to gain new members **(1)**. Can use system to pay subscriptions on line **(1)**. Password restricts access to data **(1)**

**Limitations**

Initial cost of the system **(1)**. Computer could crash/virus **(1)** which could lead to loss of information. **(1)** Requirement to back up information. **(1)** Training costs of staff. **(1)** Greater security needed **(1)** to prevent fraud and data loss. **(1)** Cost of updating hardware and software. **(1)** Expensive maintenance and repairs. **(1)**. Workers may be resistant to change or retraining **(1)**. Staff fear for job security **(1)**. System can be hacked and data stolen **(1)**

**Award 1 mark for a decision and max 4 for benefits and max 4 marks for limitations**  
**[9]**

**[Total: 25]**

**2 (a)****Kempes Limited**

Manufacturing account for the year ended 30 September 2015.

|   | \$                               |
|---|----------------------------------|
| Opening inventory of raw materials        | 110 000                          |
| Purchases of raw materials                | 794 750                          |
| Carriage inwards                          | 4 250 <b>(1)</b>                 |
|   | <u>909 000</u>                   |
| Deduct closing inventory of raw materials | <u>(125 000)</u>                 |
| Cost of raw materials used                | 784 000 <b>(1)of</b>             |
| Factory production wages                  | 382 500                          |
| Prime cost <b>(1)</b>                     | <u>1 166 500 <b>(1)of</b></u>    |
| Factory supervisory wages                 | 64 000 <b>(1)</b>                |
| Depreciation – plant and machinery        | 55 000 }                         |
| General expenses                          | 52 000 } <b>(1)for both</b>      |
|   | <u>1 337 500</u>                 |
| Opening work in progress                  | 17 500                           |
| Deduct closing work in progress           | <u>(14 000) <b>(1) both</b></u>  |
| Cost of manufacturing                     | 1 341 000                        |
| Manufacturing profit                      | <u>201 150 <b>(1)of both</b></u> |
| Transfer to trading account               | <u>1 542 150 <b>(1)of</b></u>    |

**[9]**

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(b)

Kempes Limited  
Income statement for the year ended 30 September 2015.

|   | \$               | \$                 |                       |
|---|------------------|--------------------|-----------------------|
| Revenue                                     |                  | 1 845 000          |                       |
| Opening inventory of finished goods         | 19 550           |                    |                       |
| Transfer                                    | 1 542 150        |                    | <b>(1)of</b>          |
|   | <u>1 561 700</u> |                    |                       |
| Deduct closing inv. of finished goods       | <u>(21 505)</u>  | <u>(1 540 195)</u> |                       |
| Gross profit                                |                  | 304 805            | <b>(1)of</b>          |
| Manufacturing profit                        |                  | <u>201 150</u>     | <b>(1)of</b>          |
|   |                  | 505 955            |                       |
| Deduct expenses:                            |                  |                    |                       |
| Administrative wages                        | 115 000          |                    | }                     |
| General expenses                            | 28 000           |                    | } <b>(1)all three</b> |
| Depreciation – fixtures & fittings          | 37 500           |                    | }                     |
| Increase in provision for unrealised profit | <u>255</u>       | <u>(180 755)</u>   |                       |
| Profit for the year                         |                  | <u>325 200</u>     | <b>(1)of</b>          |

**[6]**

- (c) The finished goods at the year-end are valued at cost plus the profit margin. **(1)** Unrealised profit should not be anticipated **(1)** and the profit element should be removed from the inventory by creating a provision for unrealised profit. **(1)**  
IAS 2 **(1)** Lower of cost and net realisable value **(1)** Prudence /Not overstating profits/assets **(1)**. **[3]**

- (d) October other income \$405**(1)** increases profit **(1)**. **[2]**

- (e) The company manufactures because it can produce goods cheaper than buying them for resale **(1)**. This mark-up increases the cost of sales **(1)** and therefore reduces the gross profit **(1)** and is added back in the income statement **(1)** leaving net profit unchanged **(1)**. Since the bought in price has risen, the transfer price accordingly should rise, too **(1)** so the proposal to increase the mark-up to 20% should be adopted **(1)**. Increasing mark-up may lead to staff gaining higher bonus **(1)** and therefore improving morale **(1)** and possibly productivity and profit **(1)**

May not change **(1)** because increase overall cost of manufacture **(1)** which may affect selling price **(1)** which makes goods uncompetitive **(1)** and may result in lost sales/lower profit **(1)**.

**1 for advice/decision + 1 per valid point, max 4**

**[5]****[Total: 25]**

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3 (a) (i)

## Realisation account

|                   | \$             |                        | \$             |
|-------------------|----------------|------------------------|----------------|
| Premises          | 115 000        | Trade payables         | 7 500          |
| Machinery         | 40 000         | Vehicles – Anjali      | 15 000 (1)     |
| Vehicles          | 78 000         | Vehicles – Bailey      | 12 500 (1)     |
| Inventory         | 15 000         | Cash collected         | 3 900 (1)      |
| Trade receivables | 4 000          | Purchase consideration | 255 000 (1)    |
| Trade payables    | 7 100 (1)      |                        |                |
| Dissolution cost  | 3 800 (1)      |                        |                |
| Balance           | 31 000 (1of)   |                        |                |
|                   | <u>293 900</u> |                        | <u>293 900</u> |

[7]

(ii)

## Capital Accounts

|                   | A<br>\$        |          | B<br>\$        |                       | A<br>\$        |          | B<br>\$                  |
|-------------------|----------------|----------|----------------|-----------------------|----------------|----------|--------------------------|
| Vehicles          | 15 000         | (1) both | 12 500         | Balance b/d           | 130 000        | (1) both | 110 000                  |
| Preference shares | 36 000         | (1) both | 24 000         | Profit on realisation | 18 600         | (1)of    | 12 400 (1) of            |
| Ordinary shares   | <u>105 625</u> | (1) both | <u>89 375</u>  | Bank                  | <u>8 025*</u>  |          | <u>3 475* (1)of both</u> |
|                   | <u>156 625</u> |          | <u>125 875</u> |                       | <u>156 625</u> |          | <u>125 875</u>           |

\* for both bank figures

W1  $170\,000 + 30\,000 + 35\,000 + 9\,000 = 244\,000 - 255\,000 = 11\,000$  goodwill (1)  
 $244\,000 + 3\,900 - 7\,100 - 3\,800 + 15\,000 + 12\,500 = 264\,500 - 244\,500 = 20\,000$   
 realisation (1) –  $4\,500 + 3\,900 - 7\,100 - 3\,800 = -11\,500$  (1) bank

[7]

(iii)  $\$255\,000 - 60\,000 = \$195\,000$   
 $195\,000 / 1.25 = 156\,000$  shares (1)  
 $156\,000 \times 0.25 = \$39\,000$  (1)

[2]

(b)

|        | capital balances | profit sharing ratio | difference      |
|--------|------------------|----------------------|-----------------|
| Anjali | 84 500           | 93 600               | + 9100/\$11 375 |
| Bailey | 71 500           | 62 400               | –9100/\$11 375  |

If profit sharing ratio used Anjali would be 9100/\$11 375 (1) better off (1) and Bailey would be 9100/\$11 375 (1) worse off. (1)

Anjali pays \$11 375 (1) less (1) and bailey will pay \$11 375 (1) more (1)

[4]

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- (c) The partnership had an overdraft (1) and had more trade payables than trade receivables. (1) If the value the inventory was sold the partnership had a negative working capital. (1) Given that partnership had unlimited liability and limited companies have limited liability, (1) it seems the prudent action was to form a limited company, in order to protect the partners assets. Each gets preference shares with fixed rate of dividend (1). Have voting rights (1) May raise more capital (1) Shares may gain value (1)

However, may lose control (1), shares may lose value (1) profits may not be enough to pay preference dividend (1)

(1) for decision + 1 per valid point, max 4

[5]

[Total: 25]

- 4 (a) Allows comparison (1) over years/different businesses (1)  
Allows managers to measure their performance (1) by setting targets/benchmark (1)  
Aids decision making (1) by measuring risk, profitability, liquidity, efficiency (1)  
Provides information (1) to users/potential investors (1)

1 + 1 for development

[4]

(b) (i) Return on capital employed  $\frac{\$96\,200}{(\$477\,000 + \$550\,000)} \times 100\% = 9.37\%$  (1)  
(1)

(ii) Gearing  $\frac{\$550\,000}{(\$477\,000 + \$550\,000)} \times 100\% = 53.55\%$  (1)  
(1)

(iii) Income gearing  $\frac{\$66\,000 (1)}{\$96\,200} \times 100\% = 68.61\%$  (1)

(iv)

|   |           |        |
|---|-----------|--------|
| Working capital cycle   | Days      |        |
| Trade Receivables Turnover $\frac{\$132\,400 \times 365}{\$843\,000}$         | 58        | (1)    |
| Inventory Turnover $\frac{1/2(\$88\,800 + \$76\,000) \times 365}{\$425\,800}$ | 71        | (1)    |
|   | 129       | (1)    |
| Less: Trade Payables Turnover $\frac{\$93\,000 \times 365}{\$438\,600 (1)}$   | 78        | (1)    |
|   | <u>51</u> | (1) of |

\*425 800 + 88 800 – 76 000 = 438 600

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(v) Price earnings ratio  $\frac{\$2.6 \text{ (1)}}{\$0.151 \text{ * (1)}} = 17.22 \text{ (1) of}$

\*\$30 200 / (\$400 000 ÷ \$2) = \$0.151

[14]

(c) Responses could include:

- Takie plc      Low proportion of fixed rate loan to capital employed (i.e. 9.76%)  
                     Low geared company
- Low proportion of interest to profit before interest (i.e. 8.38%)
- Financial risk is low
- Interest burden is small
- Corim plc      Higher proportion of fixed rate loan to capital employed (i.e. 53.55%)  
                     Highly geared company
- Higher proportion of interest to profit before interest (i.e. 68.61%)
- Financial risk is high
- Heavy interest burden

**1 mark × 4 valid points. Maximum 2 marks for each company**

[4]

- (d) The loan interest rate of Takie plc is 8%, which is lower than the return on capital employed of 9.32%. Shareholders of Takie plc will benefit.  
 The loan interest rate of Corim plc is 12%, which is higher than the return on capital employed of 9.37%. Shareholders of Corim plc will suffer.  
 Takie plc is less risky than Corim plc  
 Takie plc gives more potential to dividend payments  
 Chen should invest in Takie plc Limited  
 Invest in Corim plc because has higher ROCE

**1 mark for decision + 2 marks for development**

[3]

[Total: 25]

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- 5 (a) Activity based costing is based on the activities required to produce the item. (1) Costs are collected into cost pools (1) and apportioned to products based on cost drivers (1).

Under absorption costing costs are apportioned to cost centres (1) using a suitable basis for apportionment (1), e.g. direct labour hours, machine hours or units (1)

2 marks for each method

[4]

- (b) Total overheads \$44 250  
Total direct labour hours 5875

$$\text{Overhead absorption rate} = \frac{44\,250}{5\,875} = \$7.53 \text{ per hour (1)of}$$

|               | Y                  | Z                  |
|---------------|--------------------|--------------------|
| Raw materials | 5.00               | 7.50 (1) both      |
| Direct labour | 6.00               | 8.00 (1)both       |
| Overheads     | 5.65 (1)of         | 7.53 (1)of         |
|               | <u>16.65 (1)of</u> | <u>23.03 (1)of</u> |

[7]

- (c) Allocation of overheads:

|                                  | Y             | Z              | Total         |
|----------------------------------|---------------|----------------|---------------|
| Machine maintenance overheads    | 4 722         | 3 778 (1)both  | 8 500         |
| Purchasing overheads             | 7 792         | 9 208 (1)both  | 17 000        |
| Selling & distribution overheads | 6 505         | 12 245 (1)both | 18 750        |
|                                  | <u>19 019</u> | <u>25 231</u>  | <u>44 250</u> |

|               | Y                  | Z                  |
|---------------|--------------------|--------------------|
| Raw materials | 5.00               | 7.50               |
| Direct labour | 6.00               | 8.00               |
| Overheads     | 7.61 (1)of         | 6.31 (1)of         |
|               | <u>18.61 (1)of</u> | <u>21.81 (1)of</u> |

[7]

- (d) (i) Total profit using absorption costing

Absorption costing profit:

|   |         |       |                            |
|---|---------|-------|----------------------------|
| Y | \$ 5875 | (1)of | (2.35 (19 – 16.65) × 2500) |
| Z | \$ 7880 | (1)of | (1.97 (25 – 23.03) × 4000) |

Total profit using ABC

|   |           |       |                            |
|---|-----------|-------|----------------------------|
| Y | \$ 975    | (1)of | (0.39 (19 – 18.62) × 2500) |
| Z | \$ 12 760 | (1)of | (3.19 (25 – 21.81) × 4000) |

[4]

- (ii) The results show different levels of profit depending on the overhead costing method used (1).

[1]



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- (e) Since costs are only assigned to the products that require the activity (1) it is more realistic (1) activity based costing should be adopted (1).

Not using ABC (1) – More time consuming (1), requires specialist knowledge (1)

**1 for advice + 1 for justification.**

**[2]**

**[Total: 25]**

- 6 (a) Standard costing is the preparation and use of budgeted, predetermined or expected costs (1) to calculate variances (1), prepare budgets (1). **[2]**

- (b) Variances for the year ended 31 August 2015

|                   | \$                                | \$                 |
|-------------------|-----------------------------------|--------------------|
| (i)               |                                   |                    |
| material price    | $AQ(AP - SP) = 4320(8 - 10)$      | \$8640 (1) fav (1) |
| material usage    | $SP(AQ - SQAP) = 10(4320 - 4050)$ | \$2700 (1) adv (1) |
| (ii)              |                                   |                    |
| labour rate       | $AH(AR - SR) = 2025(12 - 14)$     | \$4050 (1) fav (1) |
| labour efficiency | $SR(AH - SHAP) = 14(2025 - 1350)$ | \$9450 (1) adv (1) |

**[8]**

- (c) Reconciliation statement

|                                     | \$                |
|-------------------------------------|-------------------|
| Budgeted costs $2700 \times (15+7)$ | 59400 (1)         |
| material variances $(8640 - 2700)$  | (5940) (1)of      |
| labour variances $(9450 - 4050)$    | <u>5400</u> (1)of |
| Actual costs $(34\,560 + 24\,300)$  | <u>58860</u> (1)  |

**[4]**

- (d) The cost of materials is cheaper (1) due to a change in supplier but the quality (1) of the materials may not be as good as there has been a greater usage per blanket (1) If the workforce is being less efficient or is less skilled this may also account for the greater usage of materials (1) or more wastage (1). **max 3.**

The labour is paid less per hour than expected (1) but this may be because they are less skilled (1) as they have used more hours (1). Alternatively it may be because there are no longer quality assurance checks so the workforce is producing blankets less carefully and efficiently. (1) which may lead to more wastage (1) **max 3**

overall max 6

**[6]**

|                |  |                 |              |
|----------------|--|-----------------|--------------|
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- (e) If quality assurance checks are stopped then need to employ a workforce with more skills (1) as long as the cost does not exceed the benefit (1). If quality check is stopped, cost saved (1) but may affect product (1) may lead to less sales/profit (1).

Cheaper materials of poorer quality (1) may increase the adverse material variance (1) and labour efficiency (1) and lead to less sales/profit (1). Reputation of the business may also suffer (1). Cheaper supplier reduces costs (1), but quality must be maintained otherwise adverse effect on sales/profit (1)

Keeping the selling price at \$40 will not have a direct effect on costs (1).

**1 mark** for recommendation + max **4 marks** for comments

**[5]**

**[Total: 25]**