Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **May/June 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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

CAMBRIDGE International Examinations

Question	Answer	Marks
1(a)	Provide information about the financial position **(1)** and financial performance **(1)**, and cash flows **(1)** of an entity. Useful to a wide range or users in making economic decisions. **(1)** **Max 2**	**2**
1(b)	XY plc – Income Statement for year ended 31 January 2017	**15**

		$	
Revenue		985 000	
Cost of sales	W1	448 600	**(3)**
Gross profit		536 400	
Distribution costs	W2	201 200	**(5)**
Administrative expenses	W3	390 428	**(4)**
Loss from operations		(55 228)	**(1)OF**
Finance cost		5 000	**(1)**
Loss for the year		(60 228)	**(1)OF**

Question	Answer	Marks
	Workings	
	W1 Cost of sales	

Workings

W1 Cost of sales

	$	
Opening inventory	37 100	
Purchases	428 000	
Closing inventory 100 × $65 + $36 000	42 500	**(1)**
	422 600	
Machine depreciation	10 000	**(1)**
Depreciation on buildings	16 000	**(1)**
	448 600	

W2 Distribution costs

Per original	144 000	
Depreciation motor vehicles*	29 200	
Loss on disposal of motor vehicle 20 000 – 48 000	28 000	**(1)**
	201 200	

*Motor vehicle at cost 230 000 + 60 000 – 75 000	215 000	**(1)**
Accumulated depreciation $96 000 – $27 000	69 000	**(1)**
	146 000	**(1) OF**
20% depreciation thereof	29 200	**(1) OF**

W3 Administrative expenses

	$	
Per original	346 000	
Depreciation equipment 320 000 × 20%	64 000	**(1)**
Irrecoverable debt	8 800	**(1)**
Provision for doubtful debts (102 000 – 8800) × 4% – 2100	1 628	**(1)**
Less: cost of machine	(30 000)	
	390 428	**(1)**

Question	Answer	Marks
1(c)	XY plc Statement of Changes in Equity for year ended 31 January 2017 | | Share $ | | Share $ | | Retained $ | | Balance at start of year | 500 000 | | 120 000 | | 125 000 | | Loss for the year | | | | | (60 228) | **(1) OF** | Dividend paid | | | | | (20 000) | **(1)** | Bonus shares | 50 000 | **(1)** | (50 000) | **(1)** | | | Balance at end of year | 550 000 | | 70 000 | | 44 772 | |	**4**
1(d)	Responses may include: Bonus issue Shareholders may be expecting a cash bonus each year. Stop giving return to shareholders may be a negative signal about the performance of the company Company retains cash for other investment opportunities The interest of shareholders is not diluted by receiving the proportionate number of bonus shares Transfer from reserves Cash dividend Company maintains the practice of giving out cash returns to shareholders constantly Company may have liquidity problem in paying out cash dividend Short term benefit (cash) vs long term benefit (shares value increase). Accept any reasonable alternatives Advice **1 mark** and **3 max** for relevant points For each valid point, **1 mark** for basic explanation and **2 marks** for developed explanation	**4**
	Total:	**25**

Question	Answer	Marks
2(a)	G Limited Revised statement of financial position at 31 December 2016	10

	$	
Non-current assets	642 000	
Current assets		
Inventory	78 000	
Trade receivables	179 400	**(2)**
Other receivables	63 000	**(3)**
Cash and cash equivalents	54 000	
	374 400	
Total assets	1 016 400	
Equity and liabilities		
Equity		
Ordinary shares of $1 each	550 000	
Retained earnings	258 400	**(4)**
	808 400	
Current liabilities		
Trade payables	171 000	
Other payables	37 000	**(1)**
	208 000	
Total equity and liabilities	1 016 400	

Working

Trade receivables	$189 000 – ($12 000 **(1)** × 80% **(1)**) = $179 400
Other receivables	$3000 + $20 000 **(1)** + $40 000 **(1)** = $63 000 **(1)**
Other payables	$10 000 + $27 000 = $37 000 **(1)**
Retained earnings	$235 000 – $9600**(1)** – $27 000**(1)** + $20 000**(1)** + $40 000 **(1)** = $258 400

Question	Answer	Marks
2(b)	Rental deposit paid which is refundable at the end of the lease period should be treated as current asset, i.e. realised within 12 months **(1)** Prepaid rent $40 000 ($200 000 × 2 / 10) should be treated as current assets (i.e. realised within 12 months) and only $160 000 is recognised as expense of the year – accrual concept **(1)** The company has breached the law (present obligation arising from past events) and the penalty to be paid is regarded as a liability. **(1)** A provision for penalty $27 000 should be charged to income statement with the creation of liability at the same time – IAS 37 **(1)** $47 000 expected to be incurred to rebuild the fire exists is not a present obligation. **(1)**. Accrual or disclosure of this amount is not required.	**5**
2(c)	Auditor provides reassurance to shareholders that the accounts are true records of the business activities Auditor expresses his / her opinion whether the financial statements give a true and fair view carry out checks to ensure that the directors have acted in the best interest of the shareholders. To prevent fraud 1mark for each valid point + 1 mark for development. **Max 4 marks**	**4**
2(d)	Auditor is appointed by shareholders, not directors The auditor is accountable to shareholders **1 mark for each valid point. Max 2**	**2**

Question	Answer	Marks
2(e)	Responses could include: • FIFO and AVCO are accounting methods in costing inventories permitted by the international accounting standard (IAS 2); to adopt which method is the accounting policy of the business • Business should select and apply its accounting policies consistently • Financial statements should contain relevant and reliable information • Business shall change an accounting policy only if the change **(1)** is required by the accounting standards; or **(2)** results in the financial statements providing reliable and more relevant information about the effects of transactions. • The cost of goods has an increasing trend. FIFO method attracts a higher inventory value and therefore a higher gross profit. • The directors cannot change the method if its purpose is only to improve the profitability. Accept any reasonable alternative **(1 mark)** for recommendation **(1 mark)** × 3 valid reasons	**4**
	Total:	**25**

Question	Answer	Marks
3(a)	Separate from own business **(2)**. Identify share of profit for each **(2)**. Shared responsibility **(2)**. Flexibility **(2)**. **Identification 1 + development 1. Max. 2 benefits.**	**4**
3(b)	| | $ | | $ | | Sales income | | | 35 000 | Cost of goods | 25 000 **(1)** | | Expenses | 1 700 **(1)** | | Commission | 3 500 **(1)** | (30 200) | Profit | | 4 800 **(1) OF** Split: Greaves | | 3 200 **(1) OF** Hurst | | 1 600 **(1) OF**	**6**
3(c)(i)	Greaves account | $ | | $ J.V – goods 15 000 **(1)** | Sales 35 000 **(1)** J.V – expenses 900 **(1)** J.V – Comm 3 500 **(1)** J.V – Profit 3 200 **(1)** J.V – cash 12 400 35 000 | 35 000	**5**
3(c)(ii)	Hurst account | $ | | $ J.V – goods 10 000 **(1)** J.V – expenses 800 **(1)** J.V – Profit 1 600 **(1) OF** | J.V – cash 12 400 **(1) OF BOTH** 12 400 | 12 400	**4**

Question	Answer	Marks
3(d)	**Advice (1)** **Justification (5)** Benefits of partnership Continuity **(1)** Long-term relationship **(1)** Formalised agreement **(1)** Easier to raise finance **(1)** **Max 3** Disadvantages of partnership Unlimited liability Decision making is more difficult Partners bound by agreement Partners jointly responsible for debts Short-term **Max 2**	**6**
	Total:	**25**

Question	Answer	Marks
4(a)	LM plc AB plc	4
4(a)(i)	$\frac{125\,000 - 4000}{600\,000} = \$0.20$ $\frac{175\,000 - 6000}{500\,000} = \$0.34$	
4(a)(ii)	$\frac{1.80}{0.20} = 9.00$ (times) $\frac{2.20}{0.34} = 6.47$ (times) **(1)OF**	
4(a)(iii)	$\frac{0.10}{1.80} \times 100\% = 5.56\%$ $\frac{0.10}{2.20} \times 100\% = 4.55\%$ **(1)**	
4(a)(iv)	$\frac{125\,000 - 4000}{60\,000} = 2.02$ times $\frac{175\,000 - 6000}{50\,000} = 3.38$ times	
4(b)	Portion of profit available to shareholders of AB plc is larger. **(1)** AB plc is better. **(1)** The current market price compared to earnings per share of LM plc is higher. **(1)** LM plc is better. **(1)** Dividend expressed as a percentage of the market value. It is higher for LM plc **(1)** LM plc is better. **(1)** The number of times that dividends may be paid out of available profits is higher for AB plc. **(1)** AB plc is better. **(1)**	8
4(c)(i)	Gearing is the proportion of long term debt **(1)** to equity and long term debt **(1)** expressed as a percentage. **Max 2**	2

Question	Answer	Marks
4(c)(ii)	LM plc $\frac{250\,000}{725\,000} \times 100\% = 34.48\%$ **(1)** AB plc $\frac{200\,000}{1\,000\,000} \times 100\% = 20\%$ **(1)** OR OR $\frac{250\,000}{725\,000 - (4000 + 60\,000)} = 37.82\%$ $\frac{200\,000}{1\,000\,000 - (6000 + 50\,000)} = 21.19\%$	**2**
4(c)(iii)	LM plc is above the industry average **(1)** whilst AB plc is below the industry average. **(1)** Both are low geared companies **(1)** and the industry average suggests that competitors are also low geared **(1)** as the average is below 50%. **(1)** James could therefore expect to receive future dividends provided that the companies continue to be profitable. **(1)** **Max 5**	**5**
4(d)	The ratios give mixed messages. **(1)OF** LM plc is favourable for price earnings and dividend yield **(1)of** but AB plc is favourable for earnings per share and dividend cover. **(1)OF** James may be concerned that the market value of LM has fallen in the past year. **(1)** AB plc is more lowly geared **(1)** and James may feel this to be a safer investment. **(1)OF** I would advise James to invest in AB plc. **(1)OF** **Other valid points** **Max 3 + Decision 1**	**4**
	Total:	**25**

Question	Answer	Marks
5(a)	Because the actual level of production is different from the budget. **(1)** So that meaningful comparisons can be made. **(1)**	**2**
5(b)	EF plc Budgeted profit for March |	$	| Revenue 120 000 **(1)** Direct material 19 200 **(1)** Direct labour 48 000 **(1)** Variable overhead 9 600 **(1)** Fixed overhead 14 000 **(1)** Profit 29 200 **(1)OF**	**6**
5(c)(i)	Direct labour rate variance $1024 favourable **(2)**	**2**
5(c)(ii)	Direct labour efficiency variance $3200 adverse **(2)**	**2**
5(c)(iii)	Total direct labour variance $2176 adverse **(1)OF**	**1**
	Note: one mark for amount and second for direction on each variance	
5(d)(i)	Actual hours = $\frac{\$1620}{0.2\ \mathbf{(1)}}$ = 8100 **(1)OF**	**2**
5(d)(ii)	Standard hours = 8100 **(1of)** – $\frac{\$18\,000}{\$10\ \mathbf{(1)}}$ = 6300 **(1)OF** Number of units = $\frac{\$6300}{\$6\ \mathbf{(1)}}$ = 1050 **(1)OF**	**5**
5(e)	Machine breakdown Lack of staff training Lower grade of staff Problems with materials Poor motivation Any **two** reasons for **(1)** each	**2**

Question	Answer	Marks
5(f)	Resistance Training costs Loss in production while training May not help if real cause of variances is not found **Max 3**	**3**
	Total:	**25**

Question	Answer	Marks
6(a)	Calculate the cost driver rates	**10**

		Machine hrs
Product X 10 000 units × 2.5hrs	=	25 000
Product Y 14 000 units × 0.5 hrs	=	7 000
		32 000

Overhead costs

Machine maintenance costs	$\frac{\$264\,000}{32\,000}$	= \$8.25	Per machine hour	**(1)OF**
Ordering costs	$\frac{\$54\,000}{80}$	= \$675	Per order	**(1)**
Production run costs	$\frac{\$24\,000}{48}$	= \$500	Per set up	**(1)**

Allocate overheads to products

		Product X			Product Y	
		\$			\$	
Machine hrs	25 000 × \$8.25	206 250		7000 × \$8.25	57 750	**(1) OF both**
Orders	20 × \$675	13 500		60 × \$675	40 500	**(1) OF both**
Production runs	12 × \$500	6 000		36 × \$500	18 000	**(1) OF both**
		225 750			116 250	
	Units	÷ 10 000		Units	÷ 14 000	
		\$			\$	
	Overhead cost	22.58	**(1of)**	Overhead cost	8.30	**(1)OF**
	Direct cost +	100.00		Direct cost +	50.00	
	Full cost per unit	122.58		Full cost per unit	58.30	**(1) OF both**

Question	Answer	Marks
6(b)	Direct labour hour basis / Direct labour hours: $\frac{\$342\,000}{28\,500\ \mathbf{(1)}}$ = \$12 / hr × 0.75 → Product X: \$ 9.00 **(1) OF** × 1.50 → Product Y: \$ 18.00 **(1)OF**	**3**
6(c)	If he uses ABC • The cost of X increases. **}** • The cost of Y decreases. **(1) both** Direct labour hours • Based on direct labour hours. Product Y has 2 times more hours per unit than product X. Therefore two times more share of overhead costs. **(1)** ABC • X has less set ups and orders than Y so takes less share of overhead costs **(1)** • X has more machine hours than Y so takes larger portion of machine based overheads **(1)** • The largest overhead costs are machine maintenance costs. The cost driver is machine hours, X has five times more hours per unit than Y so gets the largest portion. **(1)** **Max 3**	**4**

Question	Answer	Marks
6(d)	| | ABC $ unit | | |---|---|---| Full cost | 122.58 | | Mark-up 40% | 49.03 | | Selling price | 171.61 | **(1)OF** | X 50 units | | | Order price | $8580.50 | **(1)OF** | Advice • Ahmed should reject the offer as the offer price ($8450) is less than his required price. **(1)** • Ahmed still makes profit **(1)** • May be able to build relationship with customer / further orders **(1)** • Ensures work force is not idle / spare capacity **(1)** 1 mark for advice and max 3 for discussion points. Other relevant points acceptable.	**6**
6(e)	Fairer / more accurate / meaningful allocation of overhead costs. Provides good understanding of what drives the cost. Uses multiple cost drivers so recognises complexity of manufacturing. Useful for decision making (profitability / pricing / discontinue lines). Accurate and reliable cost information. **(1 mark)** × any two reasons. **Max 2**	**2**
	Total:	**25**