
ACCOUNTING

9706/32

Paper 3 Structured Questions

May/June 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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This document consists of **17** printed pages.

PUBLISHED**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.

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Question	Answer	Marks
1(a)(i)	12 000 units · \$80 = \$960 000 (1)	1
1(a)(ii)	12 000 units · \$50 = \$600 000 (1)	1
1(a)(iii)	\$80 000 · 1.5 = \$120 000 (1)	1
1(a)(iv)	Opening inventory = 1500 units · \$50 = \$75 000 (1) Closing inventory = 3500 units · \$50 = \$175 000 (1) Average = \$125 000 (1) OF	3
1(b)	It calculates the number of days between paying for goods purchased (1) and receiving the money for goods sold (1) . Or: The number of days to convert the net current assets (1) into cash (1)	2
1(c)	Inventory turnover = $\frac{125\,000}{600\,000}$ (1) OF · 365 = 76.04 days / 77 days (1) OF Trade receivables collection = $\frac{120\,000}{960\,000}$ (1) OF · 365 = 45.63 days / 46 days (1) OF Trade payables payment = $\frac{62\,000}{700\,000}$ (1) · 365 = 32.33 days / 33 days (1) Working capital cycle = 77 + 46 – 33 = 90 days (1) OF	7
1(d)	New revenue = 12 000 at \$90 = \$1 080 000 (1) New trade receivables = \$90 000 (1) New trade receivables collection = $\frac{90\,000}{1\,080\,000}$ (1) OF · 365 = 30.42 days / 31 days (1) OF New working capital cycle = 77 + 31 – 33 = 75 days (1) OF or 90 – 46 + 31 = 75 days (1) OF	5

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Question	Answer	Marks
1(e)	<p>Strategy would reduce/improve the working capital cycle (1) OF by 15 days (1) OF</p> <p>The liquidity of the business has improved (1)</p> <p>The strategy would reduce the overdraft (1)</p> <p>The business would benefit from a lower working capital cycle (1)</p> <p>Profitability would increase (1)</p> <p>May not be realistic to expect no change in demand (1)</p> <p>Not all customers may take the discount (1)</p> <p>Accept other valid points.</p> <p>Decision (1) and max 4 marks for discussion.</p>	5

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Question	Answer	Marks																																																																																
2(a)	<p style="text-align: center;">N plc Income Statement for the year ended 31 December 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">2 348 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">241 000</td> <td style="text-align: right;">)</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">1 322 000</td> <td style="text-align: right;">)(1)</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>(259 200)</u></td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">1 303 800 (1) OF</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;"><u>1 044 200</u></td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Distribution costs</td> <td></td> <td style="text-align: right;">(296 000)</td> <td></td> </tr> <tr> <td>Administrative expenses (W1)</td> <td></td> <td style="text-align: right;"><u>(711 000)</u></td> <td style="text-align: right;">(7)</td> </tr> <tr> <td>Profit from operations</td> <td></td> <td style="text-align: right;">37 200</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Finance charge</td> <td></td> <td style="text-align: right;"><u>(12 000)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u><u>25 200</u></u></td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td colspan="4"> </td> </tr> <tr> <td colspan="4">W1 Administrative expenses</td> </tr> <tr> <td>Per trial balance</td> <td></td> <td style="text-align: right;">674 000</td> <td></td> </tr> <tr> <td>Dividend paid</td> <td></td> <td style="text-align: right;">(30 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation on building (\$720 000 · 1/3 (1)) / 16 years (1)</td> <td></td> <td style="text-align: right;">15 000</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Depreciation on equipment (\$278 000 + \$10 000 – \$40 000) (1) · 25%</td> <td></td> <td style="text-align: right;">62 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit on disposal of equipment</td> <td></td> <td style="text-align: right;"><u>(10 000)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u><u>711 000</u></u></td> <td></td> </tr> </tbody> </table>		\$	\$		Revenue		2 348 000	(1)	Cost of sales				Opening inventory	241 000)		Purchases	1 322 000)(1)		Closing inventory	<u>(259 200)</u>	(1)	1 303 800 (1) OF	Gross profit		<u>1 044 200</u>	(1) OF	Distribution costs		(296 000)		Administrative expenses (W1)		<u>(711 000)</u>	(7)	Profit from operations		37 200	(1) OF	Finance charge		<u>(12 000)</u>	(1)	Profit for the year		<u><u>25 200</u></u>	(1) OF	 				W1 Administrative expenses				Per trial balance		674 000		Dividend paid		(30 000)	(1)	Depreciation on building (\$720 000 · 1/3 (1)) / 16 years (1)		15 000	(1)OF	Depreciation on equipment (\$278 000 + \$10 000 – \$40 000) (1) · 25%		62 000	(1)	Profit on disposal of equipment		<u>(10 000)</u>	(1)			<u><u>711 000</u></u>		15
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2(c)	<p>2017 financial statements</p> <p>non-adjusting event IAS 10 disclosure only/included as a note</p> <p>2018 financial statements</p> <p>write off/decrease the value of the asset</p> <p>1 mark for each valid point but max 2 for 2017 comments</p>	3																																							
2(d)	An impairment loss is the amount by which the carrying amount (1) of an asset exceeds its recoverable amount (1)	2																																							

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Question	Answer				Marks
3(b)	Consignment account				13
		\$		\$	
	Goods sent on consignment	175 000	(1)	Cash sales 480 · \$257.5	123 600)
	Bank			Credit sales 320 · \$270	86 400)(1)
	Freight	15 400)	Balance c/d (W1)	36 720 (4) OF
	Insurance	3 200)(1)		
	Mahood				
	Carriage inwards	2 800)		
	Import duty	1 600)(1)		
	Advertising	9 700)		
	Carriage outwards	3 300)(1)		
	Bad debt 16 · \$270	4 320	(1)		
	Commission (W2)	10 000	(2)		
	Income statement	21 400	(1) OF		
		246 720			246 720
				\$	
	W1 Closing inventory				
	(1 000 – 480 – 320 – 60) = 140 (1) · \$198 (1) OF			27 720	
	60 · \$150			9 000 (1)	
				36 720 (1) OF	
	W2 Commission				
	Total sales \$123 600 + \$86 400 = \$210 000 (1)				
	a = 5% · (\$210 000 – a)				
	a = \$10 000 (1)				

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3(c)	<p style="text-align: center;">The consignee – Mahood</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 50%;"></td> <td style="width: 10%; text-align: center;">\$</td> </tr> <tr> <td>Cash sales</td> <td style="text-align: right;">123 600</td> <td>)</td> <td></td> </tr> <tr> <td>Credit sales</td> <td style="text-align: right;">86 400</td> <td>)(1) OF</td> <td>Bank – Advance payment</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">55 000 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Import duty</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">1 600</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Carriage inwards</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">2 800</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Advertising</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">9 700</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Carriage outwards</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">3 300</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Bad debt</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">4 320 (1) OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Commission</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">10 000 (1) OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Bank to Y Limited (balance)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">123 280 (1) OF</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">210 000</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">210 000</td> </tr> </table>		\$		\$	Cash sales	123 600)		Credit sales	86 400)(1) OF	Bank – Advance payment				55 000 (1)				Import duty				1 600				Carriage inwards				2 800				Advertising				9 700				Carriage outwards				3 300				Bad debt				4 320 (1) OF				Commission				10 000 (1) OF				Bank to Y Limited (balance)				123 280 (1) OF		210 000		210 000	5
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3(d)	<p>Consigning goods to Mahood</p> <p>can test the overseas market before investing heavily</p> <p>there would be no initial set up costs of a branch</p> <p>the current consignment arrangements are profitable</p> <p>existing customer base/reputation/knowledge of existing market is already established</p> <p>less risk in terms of overseas economic, political, cultural and social environment</p> <p>Opening a branch overseas</p> <p>would have complete control of the business activities, i.e. marketing strategy</p> <p>there would be a saving of commission to Mahood</p> <p>allows expansion overseas if local market is saturated.</p> <p>(Max 2 marks) for discussing consigning goods and (Max 2 marks) for discussing overseas branch; (1 mark) for recommendation.</p>	5																																																																												

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4(a)	<p style="text-align: center;">Ephraim and Fikriyah Statement of financial position at 1 October 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td></td> <td style="text-align: right;">170 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Inventories</td> <td style="text-align: right;">18 500</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td style="padding-left: 20px;">Trade receivables</td> <td style="text-align: right;">24 500</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Cash and cash equivalents</td> <td style="text-align: right;">7 500</td> <td style="text-align: right;">50 500</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Total assets</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">220 500</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Capital and liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Capital accounts (W1):</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Ephraim</td> <td style="text-align: right;">72 500</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Fikriyah</td> <td style="text-align: right;">122 000</td> <td style="text-align: right;">194 500</td> <td style="text-align: right;">(8)</td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Trade payables</td> <td></td> <td style="text-align: right;">26 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Total equity and liabilities</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">220 500</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">W1</td> <td style="text-align: center;">Capital accounts</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">Ephraim</td> <td style="text-align: center;">Fikriyah</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">60 000</td> <td style="text-align: right;">120 000</td> <td style="text-align: right;">(1) both</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">10 000</td> <td style="text-align: right;">6 000</td> <td style="text-align: right;">(1) both</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">(8 000)</td> <td style="text-align: right;">(8 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Non-current assets</td> <td style="text-align: right;">10 000</td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">(1) both</td> </tr> <tr> <td>Inventories</td> <td style="text-align: right;">500</td> <td style="text-align: right;">(1 000)</td> <td style="text-align: right;">(1) both</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">72 500</td> <td style="text-align: right; border-top: 1px solid black;">122 000</td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table>		\$	\$		Non-current assets		170 000	(1)	Current assets				Inventories	18 500		(1)	Trade receivables	24 500			Cash and cash equivalents	7 500	50 500	(1)	Total assets		220 500	(1) OF	Capital and liabilities				Capital accounts (W1) :				Ephraim	72 500			Fikriyah	122 000	194 500	(8)	Current liabilities				Trade payables		26 000	(1)	Total equity and liabilities		220 500		W1	Capital accounts				Ephraim	Fikriyah			\$	\$		Balance b/d	60 000	120 000	(1) both	Goodwill	10 000	6 000	(1) both	Goodwill	(8 000)	(8 000)	(1)	Non-current assets	10 000	5 000	(1) both	Inventories	500	(1 000)	(1) both		72 500	122 000	(1) OF	13
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4(b)	<p>As profits are shared equally both Ephraim and Fikriyah would receive \$50 000 in the first year. (1)</p> <p>Second year profits are \$90 000 (1), third year \$81 000 (1) and fourth year \$72 900. (1)</p> <p>Ephraim is worse off (throughout the period). (1)</p> <p>Fikriyah is better off for years one, two and three (1) but is also worse off in year four. (1)</p> <p>Fikriyah is contributing significantly more capital but only receiving half the profit (1) OF</p> <p>The profits may not have been maintained by the sole traders for this four-year period (1)</p> <p>It would appear that the merger is beneficial for Fikriyah/not for Ephraim. (1)</p> <p>The partners should take action to reverse the trend in falling profit (1)</p> <p>The synergies from partnership will make it more efficient (1)</p> <p>Accept other valid points.</p>	12

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5(c)	<p>Both positive and negative NPVs are small in relation to the outlay.</p> <p>Decision would depend on how risk-averse Jason is.</p> <p>The project pays back even at the lower sales value.</p> <p>There are a lot of assumptions being made even without the final sales proceeds.</p> <p>Jason may get more for the building if he sold the flats individually rather than as a block.</p> <p>Accept other valid points.</p> <p>(1) for decision and (max 4) for comments</p>	5
5(d)	<p>Payback ignores the time value of money</p> <p>Payback ignores the length of a project</p> <p>Payback ignores cash flows arising after the payback period</p> <p>Projects with the same NPVs could have different patterns of cash movements and hence have different payback periods.</p> <p>Accept other valid points.</p> <p>Any two for (1) mark each</p>	2

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6(a)	<p>Responses could include:</p> <p>the setting of standards is time consuming/costly e.g. needs a specialist</p> <p>standards need to be updated regularly as business conditions change rapidly</p> <p>too high a standard may have a demotivating effect on staff</p> <p>setting standards involves prediction which has an element of uncertainty/inaccurate</p> <p>(1 mark) · 2 limitations</p>	2
6(b)(i)	<p>Direct materials price variance</p> <p>(15 360 · \$80) – \$1 190 400</p> <p style="text-align: right;">\$ 38 400 (F)</p>	2
6(b)(ii)	<p>Direct materials usage variance</p> <p>(15 360 – 4800 · 3) · \$80</p> <p style="text-align: right;">76 800 (A)</p>	2
6(b)(iii)	<p>Direct labour rate variance</p> <p>(55 200 · \$30) – \$1 766 400</p> <p style="text-align: right;">110 400 (A)</p>	2
6(b)(iv)	<p>Direct labour efficiency variance</p> <p>(55 200 – 4800 · 12) · \$30</p> <p style="text-align: right;">72 000 (F)</p>	2
6(b)(v)	<p>Fixed overhead expenditure variance</p> <p>\$600 000 – \$579 600</p> <p style="text-align: right;">20 400 (F)</p>	2
6(b)(vi)	<p>Fixed overhead volume variance</p> <p>\$600 000 – \$576 000</p> <p style="text-align: right;">24 000 (A)</p>	2

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6(d)	<p>Increasing selling price may lose existing customers</p> <p>May gain new customers looking for high quality product</p> <p>Higher quality product will enhance the reputation of the business</p> <p>Will adversely affect the material price variance</p> <p>May improve material usage variance/less wastage</p> <p>May further improve labour efficiency variance with the use of high quality materials</p> <p>Accept other valid points.</p> <p>(2) marks for justification and (1) mark for decision.</p>	3