Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **May/June 2019**

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.

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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.

Question	Answer	Marks
1(a)(i)	item 1 – matching / accrual **(1)**	**1**
1(a)(ii)	item 2 – prudence **(1)**	**1**
1(b)	Statement showing the revised profit for the year ended 31 December 2018 | | | $ | | Profit for the year: 152 000 Add: prepaid insurance $7500 \times \frac{5}{6}$: 6 250 **(1)** Less: Irrecoverable debt: (2 000) **(1)** Less: Provision for doubtful debts (126 000 – 2000) × 3%: (3 720) **(2) OF** Less: Depreciation on building (400 000 – 150 000) × 4%: (10 000) **(1)** Less: Depreciation on plant and machinery (248 000 × 10%): (24 800) **(1)** Add: Gain on disposal of motor vehicle 13 000 – (20 000 – 9760): 2 760 **(1)** Less: Depreciation on motor vehicle [(153 000 – 20 000 + 25 000) – (84 800 – 9760)] × 20%: (16 592) **(1)** Revised profit for the year: 103 898 **(1) OF**	**9**
1(c)	$ Cost 1 January 2018: 153 000 Addition: 25 000 Disposal: (20 000) 158 000 **(1)** Accumulated depreciation 1 January 2018: 84 800 Charge for the year: 16 592 **(1) OF** Disposal: (9 760) 91 632 **(1) OF** Net book value at 31 December 2018: 66 368 **(1) OF**	**4**

Question	Answer					Marks
1(d)	Statement of financial position at 31 December 2018					**10**
		$		$		
	Non-current assets					
	Land and building	440 000	**(1) OF**			
	Plant and machinery	101 600	**(1) OF**			
	Motor vehicles	66 368	**(1) OF**	607 968		
	Current assets					
	Inventory			94 100		
	Trade and other receivables **W1**			139 030	**(3)**	
	Cash and cash equivalents			80 300		
				313 430		
	Total assets			921 398		
	Equity and Liabilities					
	Capital and reserves					
	Ordinary shares of $1 each			500 000		
	Revaluation reserve			90 000	**(1)**	
	Retained earnings (94 300 + 103 898)			198 198	**(1) OF**	
				788 198		
	Current liabilities					
	Trade and other payables **W2** (108 000 + 13 200 + 12 000)			133 200	**(2)**	
	Total equity and liabilities			921 398		

Question	Answer	Marks
1(d)	**W1** Trade receivables (126 000 – 2000) 124 000 **(1)** Less: Provision for doubtful debt (3 720) **(1) OF** 120 280 Other receivables (12 500 + 6250) 18 750 **(1)** **W2** Trade and other payables 108 000 + 13 200 + 12 000 **(1)** = 133 200 **(1) OF**	

Question	Answer	Marks
2(a)	Capital Account – Jenny	**8**

Capital Account – Jenny

	$			$	
Cash	9 750		Balance b/d	170 000	
Partnership	173 875	**(1) OF**	Revaluation	13 625	**(3) W1**
	183 625			183 625	

Revaluation
W1 15 000 **(1)** – 500 – 875 **(1)** = 13 625 **(1) OF**

Capital Account – Thomas

	$			$	
Cash	3 750		Balance b/d	100 000	
Partnership	103 925	**(1) OF**	Revaluation	7 675	**(3) W2**
	107 675			107 675	

Revaluation
W2 9000 **(1)** – 1000 – 325 **(1)** = 7675 **(1) OF**

Question	Answer	Marks
2(b)	Jenny $240 000 – $173 875 = $66 125 **(1) OF** Thomas $120 000 – $103 925 = $16 075 **(1) OF**	**2**

Question	Answer	Marks
2(c)	Statement of Financial Position at 1 April 2019	6

	$	
Assets		
Non-current assets	264 000	**(1)**
Current assets		
Inventory	37 000	**(1)**
Trade receivables	22 800	**(1)**
Cash and cash equivalents	82 200	**(1) OF**
	142 000	
Total assets	406 000	
Capital and liabilities		
Capital accounts		
Jenny	240 000	
Thomas	120 000	
	360 000	**(1)**
Current liabilities		
Trade payables	46 000	**(1)**
Total capital and liabilities	406 000	

Question	Answer	Marks
2(d)(i)	Jenny's share of expected profit will be (48 600 – 20 000) = 28 600 × $\frac{2}{3}$ = \$19 067 **(1)** + \$10 000 **(1)** = \$29 067 **(1) OF**	**3**
2(d)(ii)	Advantages Economies of scale **(1)** Greater pool of knowledge **(1)** **Max. 1** **Accept other valid points.** Disadvantages Jenny is worse off **(1)** as it results in less than average earnings. **(1)** Other factors may affect analysis – e.g. will profits decrease over time. **(1)** **Max. 1** **Accept other valid points.**	**2**

Question	Answer	Marks
2(e)	Advantages Speed **(1)** Accuracy **(1)** Automatic document production **(1)** Availability of information **(1)** Legibility **(1)** Efficiency **(1)** Staff motivation **(1)** **Max. 2** **Accept other valid points** Disadvantages Hardware costs **(1)** Software costs **(1)** Staff training **(1)** Opposition from staff **(1)** Inputting errors **(1)** **Max. 2** **Accept other valid points**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Cost = $80 therefore selling price = $100 (1)

Goods sent on consignment at 100 – (100 × 10%) = $90 (1) OF</td><td>2</td></tr>
<tr><td>3(b)(i)</td><td>Bank account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Balance b/d</td><td>55 000</td><td></td><td>Consignment – transportation</td><td>1 000</td><td>(1)</td></tr>
<tr><td>Rohan</td><td>40 000</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>Balance c/d</td><td>94 000</td><td></td></tr>
<tr><td></td><td>95 000</td><td></td><td></td><td>95 000</td><td></td></tr>
<tr><td>Balance b/d</td><td>94 000</td><td>(1)</td><td></td><td></td><td></td></tr>
</table></td><td>3</td></tr>
<tr><td>3(b)(ii)</td><td>Consignment account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Goods on consignment</td><td>45 000</td><td>(1) OF</td><td>Rohan - sales</td><td>72 000</td><td>(1) OF</td></tr>
<tr><td>Bank – transportation</td><td>1 000</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Rohan – customs duty</td><td>2 250</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td>Rohan – commission</td><td>3 600</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td>Income statement (1)</td><td>20 150</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td>72 000</td><td></td><td></td><td>72 000</td><td></td></tr>
</table></td><td>7</td></tr>
<tr><td>3(b)(iii)</td><td>Rohan account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Consignment – sales</td><td>72 000</td><td>(1) OF</td><td>Consignment – customs duty</td><td>2 250</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Consignment- commission</td><td>3 600</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Bank</td><td>40 000</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Balance c/d</td><td>26 150</td><td></td></tr>
<tr><td></td><td>72 000</td><td></td><td></td><td>72 000</td><td></td></tr>
<tr><td>Balance b/d</td><td>26 150</td><td>(1) OF</td><td></td><td></td><td></td></tr>
</table></td><td>5</td></tr>
</table>

Question	Answer	Marks
3(c)	Profit per screen in the home market is \$20 or \$10 000 in total. **(1)** Profit per screen from the consignment is \$40.30 or \$20 150. **(1) OF** Consignment gives an extra profit of \$20.30 or \$10 150 **(1) OF** The transfer price profit increases Ahmed's profit by \$10 or \$5 000 **(1) OF** A profit has been made on the consignment **(1)** Ahmed has built trust with Rohan **(1)** Rohan's knowledge of the overseas market can be used **(1)** Ahmed may be able negotiate a lower commission **(1)** or reallocate transportation costs **(1)** Exchange rate / political stability in India **(1)** Demand may not continue to increase in the long term Decision **(1)** **Accept other valid points.** Award **1 mark** for decision, **3 marks** for calculation and **4 marks** for justification.	**8**

Question	Answer	Marks
4(a)	Market price = $\frac{\text{Dividend per share}}{\text{Dividend yield}} = \frac{0.08}{0.05}$ **(1)** = \$1.60 **(1) OF**	2
4(b)(i)	Earnings per share = $\frac{180\,000}{1000\,000}$ = \$0.18 **(1)**	3
4(b)(ii)	Price earnings ratio = $\frac{1.60}{0.18}$ = 8.89 times **(1) OF**	
4(b)(iii)	Dividend cover = $\frac{180}{80}$ = 2.25 times **(1)**	
4(c)	Gross margin of M plc is better **(1)**. Due to higher selling price and / or lower cost of sales. **(1)** Profit margin of V plc is better. **(1)** V plc has better control of its expenses. **(1)** ROCE of V plc is better **(1)**. Due to generating profits more efficiently from invested capital. **(1)** **Accept other valid points.** **Max. 6**	6
4(d)	Both companies have low gearing **(1)**. M has no long term debt **(1)**. Both are low risk **(1)**. The earnings per share of V plc is better **(1)**. The net income from each share is higher **(1)**. The price earnings ratio of V plc is better **(1)**. Investors are prepared to pay more in relation to earnings / have more confidence in V plc **(1)**. The dividend cover of V plc is better **(1)**. Greater share of profits are available to pay dividends **(1)**. **Accept other valid points.**	9

Question	Answer		Marks
4(e)	Advise Pepe to invest in V plc **(1)**. All of the investment ratios except are better **(1) OF**. There will be less risk **(1)** as ROCE is higher so investment should be used more efficiently to generate future profits **(1)**. Future dividend income is more secure as cover is higher **(1)**. As only one year's information is provided there is uncertainty **(1)**. **Accept other valid points.** **1 mark** for advice and **max. 4** for justification.		**5**
5(a)	Direct materials ($7800 \times 3 \times \$5$) Direct labour ($7800 \times 2 \times \$20$) Fixed overhead ($7800 \times 2 \times \$8$*) Total budgeted production costs * $\dfrac{\$128\,000}{(8000 \times 2)} = \$8$	\$ 117 000 **(1)** 312 000 **(1)** 124 800 **(1)** 553 800 **(1) OF**	**4**
5(b)(i)	Material price	$117 936 – (21 840 × $5) = 8736 **(1)** (A) **(1)**	**12**
5(b)(ii)	Material usage	(21 840 – 7800 × 3) × $5 = 7800 **(1)** (F) **(1)**	
5(b)(iii)	Labour rate	($33 5790 – 16 380 × $20) = 8190 **(1)** (A) **(1)**	
5(b)(iv)	Labour efficiency	(16 380 – 7800 × 2) × $20 = $15 600 **(1)** (A) **(1)**	
5(b)(v)	Fixed overhead expenditure	($131 040 – $128 000) = 3040 **(1)** (A) **(1)**	
5(b)(vi)	Fixed overhead volume	($128 000 – $124 800) = $3200 **(1)** (A) **(1)**	

Question	Answer	Marks
5(c)	It arises when there is a difference between the actual hours worked **(1)** (labour hours or machine hours which are the overhead absorption basis) and the hours absorbed. **(1)**	**2**
5(d)	Statement reconciling the budgeted production costs with the actual production costs	**5**

	$ F	$ A		$	
Budgeted production costs				553 800	**(1) OF**
Material price variance		8 736			
Material usage variance	7 800		**(1) OF**		
Labour rate variance		8 190			
Labour efficiency variance		15 600	**(1) OF**		
Fixed overhead expenditure variance		3 040			
Fixed overhead volume variance		3 200	**(1) OF**		
	7 800	38 766		30 966	
Actual production costs				584 766	**(1)**

Question	Answer	Marks
5(e)	The responses may include: Mechanisation **(1)** which reduces the labour force **(1)** Increase selling price **(1)** which may be difficult **(1)** Improve operational efficiency **(1)** reduce wastage **(1)** **Accept other valid points.** **Max 2**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(a)</td><td>
<table>
<tr><td></td><td>Cash inflows
$</td><td>Cash outflows
$</td><td>Net cash flows
$</td></tr>
<tr><td>Year 1</td><td>640 000</td><td>240 000</td><td>400 000</td></tr>
<tr><td>Year 2</td><td>660 000</td><td>260 000</td><td>400 000</td></tr>
<tr><td>Year 3</td><td>400 000</td><td>200 000</td><td>200 000</td></tr>
<tr><td>Year 4</td><td>300 000</td><td>200 000</td><td>100 000</td></tr>
<tr><td></td><td>2 000 000</td><td>900 000</td><td></td></tr>
</table>
$2 000 000 – $900 000=$1 100 000 (1)
$1 100 000 – $950 000 = $150 000 (1)
$\frac{\$150\,000}{4}$ = $37 500 (1) OF
$\frac{\$37\,500}{\$475\,000}$ (1) OF = 7.89% (1) OF
</td><td>5</td></tr>
<tr><td>6(b)</td><td>2 years (1) + $\frac{(\$950\,000 - \$800\,000)\ \mathbf{(1)}}{\$200\,000} \times 12$ = 2 years 9 months (1)</td><td>3</td></tr>
<tr><td>6(c)</td><td>Advantages

Easy (1)
Uses cash not profit (1)

Accept other valid points.

Disadvantages

No account of time value of money (1)
Does not take account of whole life of project (1)

Accept other valid points.</td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(d)</td><td>

	Net cash flows $	8% discount rate	Present value $	
Year 0	(950 000)	1	(950 000)	**(1)**
Year 1	400 000	0.926	370 400	
Year 2	400 000	0.857	342 800	
Year 3	200 000	0.794	158 800	
Year 4	100 000	0.735	73 500	**(1) OF**
		NPV	(4 500)	**(1) OF**

</td><td>3</td></tr>
<tr><td>6(e)</td><td>

	Net cash flows $	7% discount rate	Present value $	
Year 0	(950 000)	1	(950 000)	
Year 1	400 000	0.935	374 000	
Year 2	400 000	0.873	349 200	
Year 3	200 000	0.816	163 200	
Year 4	100 000	0.763	76 300	**(1) OF**
			12 700	**(1) OF**

7% **(1)** + $\dfrac{12700}{(12700+4500)}$ **(1)** **OF** X 1 = 7.74% **(1) OF**

</td><td>5</td></tr>
<tr><td>6(f)</td><td>Should buy Machine B (1) because of positive NPV (1) OF / higher ARR (1) OF

However because of limited cash, emphasis should be on early recovery of cash. (1) The earlier the investment is recouped, the business can use the cash for other purpose, i.e. repayment of loan. (1)

Payback may be better criterion to use for decision (1)

1 mark for decision + Max. 4 for advice.</td><td>5</td></tr>
</table>