Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING	**9706/32**
Paper 3 Structured Questions	**October/November 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.

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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)	Possible answers: It enables the total cost of manufacture/cost of goods produced to be known. **(1)** It enables factory profit to be calculated as a profit centre. **(1)** It enables the cost of 'buying-in'/market price to be compared with the cost of manufacture. **(1)** It helps to identify factory and office costs. **(1)** It identifies the factory as a responsibility / cost centre for performance evaluation. **(1)** It helps in setting prices. **(1)** Max 3 for **(1) mark** each.	**3**
1(b)	HT Limited Income Statement for the year ended 31 December 2017	**5**

	$		$	
Revenue			800 000	
Finished goods at 1 January 2017	60 000	**(1)**		
Cost of production (balancing figure)	492 000	**(1) OF**		
	552 000			
Finished goods at 31 December 2017	72 000	**(1)**		
Cost of sales			480 000	**(1)**
Gross profit			320 000	**(1)**

Question	Answer					Marks
1(c)	HT Limited Manufacturing Account for the year ended 31 December 2017					6
				$		
	Prime cost			250 000	(1)	
	Factory overheads (balancing figure)			150 000	(1) OF	
				400 000		
	Work in progress			10 000	(1)	
	Cost of production at cost price			410 000	(1) OF	
	Factory profit ($\frac{1}{6}$ of total COP)			82 000	(1) OF	
	Cost of production at transfer price (from **(b)**)			492 000	(1) OF	
1(d)		$		$		6
	Gross profit (from **(b)**)			320 000	(1) OF	
	Factory profit (from **(c)**)			82 000	(1) OF	
	Increase in provision for unrealised profit	2 000	(1)			
	Administrative expenses	148 000	(1)			
	Distribution costs	72 000	(1)	222 000		
	Profit for the year			180 000	(1) OF	

Question	Answer	Marks
1(e)	The increase in depreciation **(1)** in the first year would be (160 000 – 85 000) · 0.25 = $18 750 **(1)** which is more **(1)** than the decrease in labour costs. In future years the increase in depreciation will become smaller **(1)** and so in future years the savings in labour costs might be more than the increase in depreciation. **(1)** The directors may need to consider financing if there is insufficient cash **(1)** and interest payable could be an additional cost. **(1)** The new equipment could be more reliable/efficient/productive **(1)** leading to a reduction in the cost of repairs/less wastage. **(1)** Staff training might need to be paid for. **(1)** **Accept other valid points.** **1 mark** for advice **+ Max 4 marks** for comments	**5**

Question	Answer	Marks
2(a)	A non-adjusting event is an event that occurs after the period end **(1)** where the conditions did not exist at the period end. **(1)** It is usually shown by a note to the final financial statements. **(1)** **Max 2**	**2**
2(b)	(see below)	**13**

	$		$	
Revenue (3 832 500 – 24 200)			3 808 300	**(1)**
Cost of sales **W1**			(2 152 470)	**(3)**
Gross profit			1 655 830	**(1) OF**
Administrative expenses **W2**	397 950	**(2)**		
Distribution costs **W3**	165 500	**(2)**	(563 450)	
Profit from operations			1 092 380	**(1) OF**
Finance costs			(10 000)	**(1)**
Profit before tax			1 082 380	**(1) OF**
Taxation			(162 600)	
Profit for the year			919 780	**(1) OF**

W1 Cost of sales

Opening inventory			426 750	
Purchases	2 150 000			
Returns outwards	(19 750)	}**(1) both**		
	2 130 250			
Carriage inwards	6 320	**}**	2 136 570	
			2 563 320	
Closing inventory			(410 850)	**(1)**
			2 152 470	**(1) OF***

Max 3 marks awarded only with the correct 'cost of sales' label.
*Opening inventory must be included for OF mark.

W2 Administrative expenses = 397 500 **(1)** + 450 = 397 950 **(1)**
W3 Distribution costs = 156 850 **(1)** + 8650 **(1)** =165 500

Question	Answer	Marks
2(c)	Change in trade receivables = 630 000 – 607 500 = $22 500 **(1)** Percentage change = $\frac{22\,500}{607\,500}$ **(1) OF*** · 100% = 3.7 **(1) OF** ***OF mark only awarded where the denominator equals the 2016 trade receivables figure.**	**3**
2(d)(i)	Trade receivables collection period (2016) = 595 350 / 4 500 000 · 365 = 49 days **(1)** **Or** Trade receivables collection period (2016) = 607 500 / 4 500 000 · 365 = 50 days **(1)** Trade receivables collection period (2017) = 617 400 / 3 808 300 · 365 = 60 days **(1)** **Or** Trade receivables collection period (2017) = 630 000 / 3 808 300 · 365 = 61 days **(1)**	**2**
2(d)(ii)	The directors are advised that their credit control procedures are not satisfactory. **(1) OF** The collection period has increased during 2017. **(1) OF** The collection period(s) are greater than the industry average. **(1) OF** May cause cash flow problems **(1)** and an increase in irrecoverable debts. **(1)** **Accept other valid points.** **1 mark** for advice **+ Max 4 marks** for comments	**5**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)(i)</td><td>
Joint venture account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>JV bank</td><td>700</td><td>(1)</td><td>Alice (equipment)</td><td>450</td><td>(1)</td></tr>
<tr><td>Alice (costs)</td><td>900</td><td>}</td><td>Belinda (sales)</td><td>4 100</td><td>(1)</td></tr>
<tr><td>Belinda (costs)</td><td>850</td><td>}(1)</td><td></td><td></td><td></td></tr>
<tr><td>Alice (profit)</td><td>1 050</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Belinda (profit)</td><td>1 050</td><td>}(1) OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td>4 550</td><td></td><td></td><td>4 550</td><td></td></tr>
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<tr><td>3(a)(ii)</td><td>
Alice account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>JV account</td><td>450</td><td>(1)</td><td>JV bank</td><td>500</td><td>}</td></tr>
<tr><td>JV bank</td><td>2 000</td><td>(1)OF</td><td>JV account (costs)</td><td>900</td><td>}(1)</td></tr>
<tr><td></td><td></td><td></td><td>JV account (profit)</td><td>1 050</td><td>(1) OF</td></tr>
<tr><td></td><td>2 450</td><td></td><td></td><td>2 450</td><td></td></tr>
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</td><td>4</td></tr>
<tr><td>3(a)(iii)</td><td>
Belinda account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>JV account (sales)</td><td>4 100</td><td>(1)</td><td>JV bank</td><td>500</td><td>}</td></tr>
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<tr><td></td><td></td><td></td><td>JV bank</td><td>1 700</td><td>(1)OF*</td></tr>
<tr><td></td><td></td><td></td><td>JV account (profit)</td><td>1 050</td><td></td></tr>
<tr><td></td><td>4 100</td><td></td><td></td><td>4 100</td><td></td></tr>
</table>
* OF mark for $1700 JV bank awarded only if profit figure is present.
</td><td>3</td></tr>
<tr><td>3(a)(iv)</td><td>
Joint venture bank account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Alice</td><td>500</td><td>}</td><td>JV account</td><td>700</td><td>(1)</td></tr>
<tr><td>Belinda</td><td>500</td><td>}(1)</td><td>Alice</td><td>2 000</td><td>(1)OF</td></tr>
<tr><td>Belinda</td><td>1 700</td><td>(1)OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td>2 700</td><td></td><td></td><td>2 700</td><td></td></tr>
</table>
</td><td>4</td></tr>
</table>

Question	Answer	Marks
3(b)(i)	Belinda's share of profit $ Sales (4 100 · 2) 8 200 **(1)** Materials (900 · 1.5) 1 350 **(1)** Selling and distribution 850 **}** Depreciation 250 **} (1)** 5 750 · 20% = $1150 **(1) OF**	**4**
3(b)(ii)	Doubling the price is likely to adversely affect demand. **(1)** Selling and distribution costs may rise if more effort is needed to sell. **(1)** The JV with Alice is 'tried and tested' so less risky. **(1)** There is only a small increase in profit. **(1)** The share of profit has decreased to 20%. **(1)** The figures for Veena are based on assumptions that may not be realised. **(1)** **1 mark** for advice **+ Max 4 marks** for comments **Accept other valid points.** **Note: Comments on the increase/decrease in profit relate to own figures in 3(a).**	**5**

Question	Answer	Marks
4(a)	Statement of Changes in Equity for year ended 31 December 2017 <table><tr><td></td><td>Share Capital $</td><td>General Reserve $</td><td>Retained Earnings $</td><td></td></tr><tr><td>Balance at 1 January 2017</td><td>800 000</td><td>–</td><td>38 000</td><td>**(1)**</td></tr><tr><td>Profit for the year (balance)</td><td></td><td></td><td>132 000</td><td>**(1) OF**</td></tr><tr><td>Transfer to general reserve</td><td></td><td>50 000</td><td>(50 000)</td><td>**(1)**</td></tr><tr><td>Interim dividend paid</td><td></td><td></td><td>(48 000)</td><td>**(1)**</td></tr><tr><td>Balance at 31 December 2017</td><td>800 000</td><td>50 000</td><td>72 000</td><td>**(1) row**</td></tr></table>	**5**
4(b)(i)	Earnings per share $\frac{\$132000}{400000}$ = $0.33 **(1)OF** or 33 cents	**1**
4(b)(ii)	Price earnings ratio $\frac{\$3}{\$0.33}$ = 9.09 **(1)OF**	**1**
4(b)(iii)	Dividend yield $\frac{(\$0.12+\$0.03)}{\$3}$ = 5% **(1)**	**1**
4(b)(iv)	Dividend cover $\frac{\$0.33}{\$0.12}$ = 2.75 **(1)OF**	**1**
4(b)(v)	Return on capital employed $\frac{(\$132000\textbf{(of)}+\$10000\textbf{(1)})}{(\$922000+\$100000)}$ = 13.89% **(1) OF*** ***OF Mark only awarded if the denominator is used as shown in the mark scheme.**	**2**

Question	Answer	Marks
4(c)	The PE ratio of J plc is higher than the industry average.**(1)**. This suggests that the market is more confident **(1)** about the future of J plc. EPS for J plc is higher than the industry average. **(1)** This suggests that J plc is making more profit <u>per share</u> **(1)**. Dividend cover of J plc is higher than the industry average. **(1)** This suggests that J plc has retained more profit than other companies in the industry **(1)** or has paid lower dividends. **(1)** Return on capital employed of J plc is higher than the industry average. **(1)** This suggests that J plc is more efficient in utilizing its capital to generate profit. **(1)** **Accept other valid points.**	**9**
4(d)	The gearing/business risk has increased **(1)** The company is still low-geared after the borrowing **(1)** ROCE of the project is 26.67% ($80 000/$300 000) **(1)** ROCE of the company is 16.79% ($142 000 + $80 000) / ($922 000 + $100 000 + $300 000) after the project. **(1)OF** The project will improve the overall ROCE **(1)** The interest charge will reduce the profit **(1)** The company may need to provide security for the loan **(1)** **1 mark** for advice **+ Max 4 marks** for comments **Accept other valid points.**	**5**

Question	Answer	Marks
5(a)	see below	11

Abdul

		Product X		Product Y	
		$		$	
Direct labour cost		64 000		48 000	**(1) row**
Direct material cost		30 000		24 000	**(1) row**
Purchasing ohds by kilos	20 000 : 6 000	7 200	**(1)**	2 160	**(1)**
Employment ohds by hours	8 000 : 4 800	6 300	**(1)**	3 780	**(1)**
Other overheads by units	4 000 : 1 000	33 600	**(1)**	8 400	**(1)**
Selling and distribution		19 200		6 400	**(1) row**
Total costs		160 300		92 740	
Cost per unit	4 000 : 1 000	40.08		92.74	
Proposed selling price (150%)		60.12	**(1)OF**	139.11	**(1) OF**

Alternative presentation by unit:

Abdul

		Product X		Product Y	
		$		$	
Direct labour cost		16.00		48.00	**(1) row**
Direct material cost		7.50		24.00	**(1) row**
Purchasing ohds by kilos	20 000 : 6 000	1.80	**(1)**	2.16	**(1)**
Employment ohds by hours	8 000 : 4 800	1.58	**(1)**	3.78	**(1)**
Other overheads by units	4 000 : 1 000	8.40	**(1)**	8.40	**(1)**
Selling and distribution		4.80		6.40	**(1) row**
Total cost per unit		40.08		92.74	
Proposed selling price (150%)		60.12	**(1)OF**	139.11	**(1) OF**

***OF mark only awarded if selling price is expressed in dollars and cents (2 decimal places).**

Question	Answer	Marks
5(b)	see below	9

Brian

		Product X		Product Y	
		$		$	
Direct labour cost		64 000		48 000	**}**
Direct material cost		30 000		24 000	**}(1)OF all**
Purchasing ohds by orders	5 : 4	5 200	**(1)**	4 160	**(1)**
Employment ohds by staff nos	40 : 40	5 040	**(1)**	5 040	**(1)**
Other overheads by units		33 600		8 400	**(1)OF row**
Selling and distribution		19 200		6 400	**(1) row**
Total costs		157 040		96 000	
Cost per unit		39.26		96.00	
Proposed selling price (150%)		58.89	**(1)OF***	144.00	**(1)OF***

Alternative presentation by unit:

Brian

		Product X		Product Y	
		$		$	
Direct labour cost		16.00		48.00	**}**
Direct material cost		7.50		24.00	**}(1)OF all**
Purchasing ohds by orders	5 : 4	1.30	**(1)**	4.16	**(1)**
Employment ohds by staff nos	40 : 40	1.26	**(1)**	5. 04	**(1)**
Other overheads by units		8.40		8.40	**(1)OF row**
Selling and distribution		4.80		6.40	**(1) row**
Cost per unit		39.26		96.00	
Proposed selling price (150%)		58.89	**(1)OF***	144.00	**(1) OF***

***OF mark only awarded if selling price is expressed in dollars and cents (2 decimal places).**

Question	Answer	Marks
5(c)	Use the pricing as calculated by Abdul / Brian **(1)** Brian's calculations have been made using activity-based costing **(1)** and are therefore on a more realistic basis. **(1)** Abdul has used absorption costing for his calculations. **(1)** Price setting should be done in comparison with the market rates for these products. **(1)** Some market research could be done **(1)** to see what customers would be prepared to pay. **(1)** To enable market penetration a lower mark-up could be applied at first. **(1)** **Max 4** **Accept other valid points.**	**4**
5(d)	The goods are unsold and therefore selling and distribution costs have not been incurred **(1)** Selling and distribution costs are not included in cost of sales / are an expense in the income statement **(1)** Contravenes IAS 2. **(1)** **Max 1** **Accept other valid points.**	**1**

Question	Answer	Marks
6(a)	Helps cashflow planning and control **(1)** to ensure targets are met **(1)** Identifies cash surplus **(1)** so that funds may be invested / used appropriately **(1)** Identifies cash deficit **(1)** to identify external funding requirements **(1)**. Motivates / incentivises staff **(1)** by setting cash targets **(1)** Can link to other budgets **(1)** to facilitate strategic planning with other departments **(1)** Max 3 advantages (**1** mark for comment + **1** for development) **Accept other valid points.**	**6**

Question	Answer	Marks
6(b)	Stanley Cash budget for July – September	14

	July $		August $		September $	
Receipts						
Cash sales	10 000		10 000		10 000	**(1) all**
Credit sales	40 000		40 000		40 000	**(1) all**
Bank loan			30 000	**(1)**		
Rental income	500		500		500	**(1) all**
	50 500		80 500		50 500	
Payments						
Cash purchases	5 000		5 000		5 000	**(1) all**
Credit purchases	25 000		25 000		25 000	**(1) all**
General expenses	6 000	**(1)**	6 300	**(1)**	6 615	**(1) OF**
Machinery			60 000	**(1)**		
Drawings	7 500	**(1)**				
Interest					125	**(1)**
	43 500		96 300		36 740	
Bank:						
Opening balance	3 500		10 500		(5 300)	**(1) OF all**
Net cash flow	7 000		(15 800)		13 760	
Closing balance	10 500		(5 300)		8 460	**(1) OF all**

Question	Answer	Marks
6(c)	NPV considers the time value of money / discount factor **(1)** whereas the payback method may not **(1)** NPV considers all cash flows for the life of the project **(1)** whereas the payback method only considers cash flows until the initial investment is recovered **(1)** NPV is complex to calculate **(1)** whereas the payback method is simpler **(1)** **Max 5** **Accept other valid points.**	5