
ACCOUNTING

9706/33

Paper 3 Structured Questions

October/November 2017

MARK SCHEME

Maximum Mark: 150

Published

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Question	Answer	Marks																																																																												
1(a)	<table><tr><td>Not-for-profit</td><td>Profit-making</td></tr><tr><td>Subscriptions</td><td>Sales revenue</td></tr><tr><td>Income and expenditure account</td><td>Income statement</td></tr><tr><td>Accumulated fund</td><td>Capital / Equity</td></tr><tr><td>Receipts and payments account</td><td>Bank account</td></tr><tr><td>Surplus of income over expenditure</td><td>Profit</td></tr><tr><td>Excess of expenditure over income</td><td>Loss</td></tr></table> (1 mark) × four differences	Not-for-profit	Profit-making	Subscriptions	Sales revenue	Income and expenditure account	Income statement	Accumulated fund	Capital / Equity	Receipts and payments account	Bank account	Surplus of income over expenditure	Profit	Excess of expenditure over income	Loss	4																																																														
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1(b)	<table><tr><td colspan="4">RS Rowing Club</td></tr><tr><td colspan="4">Income and Expenditure Account for the year ended 31 March 2017</td></tr><tr><td></td><td>\$</td><td>\$</td><td>\$</td></tr><tr><td>Members' subscriptions</td><td>W1</td><td></td><td>10 150 (3)</td></tr><tr><td>Profit on sale of sports equipment</td><td>W2</td><td></td><td>291 (2)</td></tr><tr><td>Regatta</td><td></td><td></td><td></td></tr><tr><td> Entry fees</td><td></td><td>4 200</td><td></td></tr><tr><td> Regatta expenses</td><td>2 456</td><td></td><td></td></tr><tr><td> Prizes</td><td><u>325</u></td><td></td><td></td></tr><tr><td></td><td></td><td><u>(2 781)</u></td><td></td></tr><tr><td></td><td></td><td></td><td><u>1 419 (1)</u></td></tr><tr><td></td><td></td><td></td><td>11 860</td></tr><tr><td>Less expenses</td><td></td><td></td><td></td></tr><tr><td> Rent</td><td></td><td>2 800</td><td></td></tr><tr><td> General expenses</td><td></td><td>1 379</td><td></td></tr><tr><td> Wages of boatman</td><td></td><td>3 500</td><td></td></tr><tr><td> Depreciation of boats and equipment</td><td></td><td><u>1 280 (1)</u></td><td></td></tr><tr><td></td><td></td><td></td><td><u>(8 959)</u></td></tr><tr><td>Surplus of income over expenditure</td><td></td><td></td><td><u>2 901 (1) (OF)</u></td></tr></table> W1: Members' subscriptions 10 300 + (350 + 650) (1) – (700 + 450) (1) = 10 150 (1) (OF)	RS Rowing Club				Income and Expenditure Account for the year ended 31 March 2017					\$	\$	\$	Members' subscriptions	W1		10 150 (3)	Profit on sale of sports equipment	W2		291 (2)	Regatta				Entry fees		4 200		Regatta expenses	2 456			Prizes	<u>325</u>					<u>(2 781)</u>					<u>1 419 (1)</u>				11 860	Less expenses				Rent		2 800		General expenses		1 379		Wages of boatman		3 500		Depreciation of boats and equipment		<u>1 280 (1)</u>					<u>(8 959)</u>	Surplus of income over expenditure			<u>2 901 (1) (OF)</u>	8
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1(b)	W2 Sale of sports equipment <table> <tr> <td></td><td>\$</td><td>\$</td></tr> <tr> <td>Sales</td><td></td><td>1 850</td></tr> <tr> <td>Opening inventory</td><td>364</td><td></td></tr> <tr> <td>Purchases</td><td>1 624</td><td></td></tr> <tr> <td>Closing inventory</td><td><u>(429)</u></td><td></td></tr> <tr> <td></td><td></td><td>(1 559) (1)</td></tr> <tr> <td>Profit transferred to income and expenditure account</td><td></td><td><u>291</u> (1)OF</td></tr> </table>		\$	\$	Sales		1 850	Opening inventory	364		Purchases	1 624		Closing inventory	<u>(429)</u>				(1 559) (1)	Profit transferred to income and expenditure account		<u>291</u> (1)OF	
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1(c)	RS Rowing Club Extract from statement of financial position at 31 March 2017 <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Accumulated fund at 1 April 2016</td><td>40 614</td><td></td></tr> <tr> <td>Surplus of income over expenditure</td><td><u>2 901</u></td><td>(1)OF</td></tr> <tr> <td>Accumulated fund at 31 March 2017</td><td><u>43 515</u></td><td>(1)OF</td></tr> </table>		\$		Accumulated fund at 1 April 2016	40 614		Surplus of income over expenditure	<u>2 901</u>	(1)OF	Accumulated fund at 31 March 2017	<u>43 515</u>	(1)OF	2									
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1(d)	The club will receive one-off payments from members, however in accordance with the matching concept, this should not be credited in full to the income and expenditure account as it is not earned in the period received. The income should therefore be spread over an appropriate period to match funds received with the benefits provided to members. The payments received will be represented as a credit in the statement of financial position as deferred income. The club should transfer amounts to the income and expenditure account from the deferred income account in equal instalments over a period it can determine as reasonable. This may depend on the profile of the members and expected use, but should not be for a lengthy period of time. As the lifetime fee is \$400 and the normal annual membership is \$50, it might seem appropriate to transfer the amounts in equal instalments over 8 years. (1 mark) for each valid point to a max of 4 marks.	4																					

Question	Answer	Marks
1(e)	Investment at fixed interest rate – annual income \$2625. (1) Build a boat-house – annual rental income \$1250, rent saved on old premises \$2 800, total extra income \$4050 (2) However, if the investment at fixed interest rate is chosen, after 3 years the funds will be available for other investments which may be more attractive. Building a property is a long term commitment which cannot be changed and may incur other costs, such as maintenance. On purely financial grounds, the club should use the funds to build the new boat-house. (3 marks for calculations, 3 marks for reasons, 1 for recommendation).	7

Question	Answer	Marks																																																
2(a)	A revaluation reserve arises when non-current assets are revalued at an amount greater than their current net book value.	1																																																
2(b)	Wembo and Bob capital accounts <table><thead><tr><th></th><th>W</th><th></th><th>B</th><th></th><th>W</th><th></th><th>B</th></tr></thead><tbody><tr><td>Vehicles</td><td>11 000</td><td>(1) both</td><td>12 500</td><td>Balance b/d</td><td>100 000</td><td>(1) both</td><td>60 000</td></tr><tr><td>Preference shares</td><td>36 000</td><td>(1)</td><td>24 000</td><td>Bank W3</td><td>2 475</td><td>(1)OF</td><td>9 525</td></tr><tr><td>Ordinary shares</td><td>59 375</td><td>(1)</td><td>35 625</td><td>Goodwill W1</td><td>7 500</td><td>(1)*</td><td>5 000</td></tr><tr><td>Loss in realisation W2</td><td>3 600</td><td>(1)*</td><td>2 400</td><td></td><td></td><td></td><td>(1)*</td></tr><tr><td></td><td><u>109 975</u></td><td></td><td><u>74 525</u></td><td></td><td><u>109 975</u></td><td></td><td><u>74 525</u></td></tr></tbody></table> W1 90 000 + 36 000 + 3 500 + 13 000 = 142 500 – 155 000 = 12 500 (1) goodwill W2 142 500 + 4 900 – 8 100 – 3 800 + 11 000 + 12 500 = 159 000 – 165 000 (1) = 6 000 (1) loss on realisation * if the loss and goodwill are combined as a single entry, the figures will be 3 900 (2) and 2 600 (2), both on the credit side. W3 –5 000 + 4 900 – 8 100 – 3 800 = –12 000 bank (1)		W		B		W		B	Vehicles	11 000	(1) both	12 500	Balance b/d	100 000	(1) both	60 000	Preference shares	36 000	(1)	24 000	Bank W3	2 475	(1)OF	9 525	Ordinary shares	59 375	(1)	35 625	Goodwill W1	7 500	(1)*	5 000	Loss in realisation W2	3 600	(1)*	2 400				(1)*		<u>109 975</u>		<u>74 525</u>		<u>109 975</u>		<u>74 525</u>	16
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2(c)	Extract from the statement of financial position for Chantelle Limited at 31 March 2018 \$ <table> <tr> <td>Equity and reserves</td><td></td><td></td></tr> <tr> <td>ordinary shares (300 000 + 76 000)</td><td>376 000</td><td>(1)</td></tr> <tr> <td>preference shares</td><td>60 000</td><td>(1)</td></tr> <tr> <td>Share premium (19 000 + 75 000)</td><td>94 000</td><td>(1)</td></tr> <tr> <td>Revaluation reserve</td><td>25 000</td><td>(1) both</td></tr> <tr> <td>Retained earnings</td><td>40 000</td><td>*</td></tr> <tr> <td>Total equity</td><td><u>595 000</u></td><td></td></tr> </table>	Equity and reserves			ordinary shares (300 000 + 76 000)	376 000	(1)	preference shares	60 000	(1)	Share premium (19 000 + 75 000)	94 000	(1)	Revaluation reserve	25 000	(1) both	Retained earnings	40 000	*	Total equity	<u>595 000</u>		4
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2(d)(i)	Ordinary shares The dividend on ordinary shares is variable and dependent on the levels of profit (1) so has greater reward when the profits are high. (1) Possible involvement of Wembo and Bob in managing the company through voting rights (1) Max 2	4																					
2(d)(ii)	Preference shares Whereas cumulative preference shares have a fixed dividend of \$4 200 per year, (1) which if profits are low one year will be paid the next. (1) So limited risk. (1) Max 2																						

Question	Answer	Marks														
3(a)(i)	Aleksander Goods on consignment account <table><tr><td>2017</td><td></td><td>\$</td><td>2017</td><td></td><td>\$</td></tr><tr><td>Jun 30</td><td>Income statement</td><td><u>20 000</u></td><td>(1)</td><td>Apr 2</td><td>Consignment account</td><td><u>20 000</u></td><td>(1)</td></tr></table>	2017		\$	2017		\$	Jun 30	Income statement	<u>20 000</u>	(1)	Apr 2	Consignment account	<u>20 000</u>	(1)	2
2017		\$	2017		\$											
Jun 30	Income statement	<u>20 000</u>	(1)	Apr 2	Consignment account	<u>20 000</u>	(1)									

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3(b)	Profit per container had been 2 240 / 160 = \$14. (1)OF Now there is a loss per container of \$6. (1)OF Could Aleksander find a cheaper means of freight? (1) Could Benji's commission be reduced? (1) If commission could fall from \$17 per container to below \$11 per container then the consignment would be profitable again. (1)OF Could the selling price be increased? (1) Are there other selling opportunities? (1) [max 4]	4																																																															

Question	Answer	Marks
3(c)	Advertising is not a purchase/production cost. (1) Advertising is not part of bringing a product to its existing location or condition. (1) Its inclusion would contravene IAS 2. (1) [max 2]	2

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4(a)	A share premium arises when a share is sold for more than its nominal value (1) . The difference between the selling price and the nominal value is called the share premium (1) .	2																																																															
4(b)	400 000 × 60% = 240 000 shareholders. (1) 240 000 × 1.75 = \$420 000 (1) \$550 000 – \$420 000 = \$130 000 (1)OF	3																																																															
4(c)(i)	<table><tr><td></td><td>Ordinary share capital</td><td></td><td>Share premium</td><td></td><td>Revaluation reserve</td><td></td><td>Retained earnings</td><td></td></tr><tr><td></td><td>\$000s</td><td></td><td>\$000s</td><td></td><td>\$000s</td><td></td><td>\$000s</td><td></td></tr><tr><td>At 1 April 2016</td><td>400</td><td></td><td>50</td><td></td><td>150</td><td></td><td>350</td><td>(1) row</td></tr><tr><td>Rights issue</td><td>240</td><td>(1)OF</td><td>180</td><td>(1)</td><td></td><td></td><td></td><td></td></tr><tr><td>Profit for the year</td><td></td><td></td><td></td><td></td><td></td><td></td><td>138.7</td><td>W1 (4)</td></tr><tr><td>Dividend paid</td><td></td><td></td><td></td><td></td><td></td><td></td><td>(8) W2</td><td>(1)OF row*</td></tr><tr><td>At 31 March 2017</td><td><u>640</u></td><td></td><td><u>230</u></td><td></td><td><u>150</u></td><td></td><td><u>480.7</u></td><td>(1) row</td></tr></table> must not include proposed dividend or the debenture W1 (245 000 – 70 000 (1)) – (130 000 × 0.05 × 3/12) (1)of = 173 375 – (173 375 × 0.2) (1) = 138 700 (1OF) W2 ordinary interim div 0.02 × 400 000 = 8 000 (1OF)		Ordinary share capital		Share premium		Revaluation reserve		Retained earnings			\$000s		\$000s		\$000s		\$000s		At 1 April 2016	400		50		150		350	(1) row	Rights issue	240	(1)OF	180	(1)					Profit for the year							138.7	W1 (4)	Dividend paid							(8) W2	(1)OF row*	At 31 March 2017	<u>640</u>		<u>230</u>		<u>150</u>		<u>480.7</u>	(1) row	9
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4(c)(ii)	Note: \$25 600 (1) OF Ordinary share dividends proposed at the year-end. (1) W4 640 000 × 0.04 = 25 600	2																																																															

Question	Answer	Marks
4(d)	EPS 1 For current year profit after tax / number of ordinary shares $138\,700 / 640\,000 = \\$0.2167$ \$(0.22) (1)OF 2 Assuming profits similar amount to previous years $138\,700 / 400\,000 = \\$0.347$ (1)OF so shareholder is correct (1) that EPS has fallen, as there has not been a corresponding increase in profit to the level of increase in the number of shares. (1) If profits increase by 20% in the next year $166\,440 / 640\,000 = \\$0.26006$ (1)OF. EPS will increase but will still not reach the level it was before the rights issue. (1) Any future issue of ordinary shares will decrease EPS further, unless there is a significant increase in profits (1). Profits have to reach \$222 080 to achieve an EPS of \$0.347 with the current amount of shares (1). Max 4 marks on rights issue. A loan will be a long term liability (1) which will affect cash and profits. Cash will be reduced as the loan and interest is repaid (1) and profits will be reduced by the interest. (1) Gearing will also increase as long term liabilities increase. (1) The higher the rate of interest, the lower profits will be and so EPS will reduce. (1) Max 4 marks on loans. Recommendation based on the above comments. (1)	9

Question	Answer					Marks
5(a)	Direct materials (liquid)16 000 × 0.25 × \$1560 000 (1) Direct materials (packaging)16 000 × \$0.8012 800 (1) Direct labour1 600 × \$914 400 (1) Fixed overheads1 600 × 17.50 (1)28 000 (1) Total standard cost115 200 (10F)					6
Accept alternative approaches.						
5(b)	Direct materials (liquid)62 875 } Direct materials (packaging)12 800 } (1) Direct labour16 320 } Fixed overheads31 375 (1) Total actual cost123 370 (1)					3
5(c)	Direct labour rate variance1 020 Adv (2) Direct labour efficiency variance900 Adv (2) Fixed overhead expenditure variance5 125 Adv (2) Fixed overhead volume variance1 750 Fav (2)					8
1 for correct figure and 1 for direction.						
5(d)	\$ Standard cost of actual production Fav Direct materials (liquids) price variance Direct materials (liquids) usage variance4 125 Direct labour rate variance Direct labour efficiency variance Fixed overhead expenditure variance Fixed overhead volume variance1 750 (1) 5 875 Actual cost of actual production \$ Adverse 7 000 } }(1) 1 020 } 900 }(1) 5 125 } 14 045 \$ 115 200 8 170 123 370 (10F)					4

Question	Answer	Marks
5(e)	Both methods represent the basis of production. (1) Will a change of method allow managers to control production more efficiently or set selling prices more accurately? (1) Production is not labour intensive and all units produced are identical. (1) Therefore either method would be acceptable. (1) Decision (1) Justification Max 3	4

Question	Answer	Marks																																																																																											
6(a)	Response may include: Plan ahead if there is any cash deficit. Plan ahead if there is any cash surplus. Accept any reasonable alternative. (1 mark) × 2 valid benefits.	2																																																																																											
6(b)	<table><tr><td></td><td>\$</td><td></td><td>\$</td><td></td><td>\$</td><td></td></tr><tr><td>Receipts</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Capital introduced</td><td>150 000</td><td>(1)</td><td></td><td></td><td></td><td></td></tr><tr><td>Receipts from customers</td><td><u>63 040</u></td><td>(1)</td><td><u>196 864</u></td><td>(1)</td><td><u>364 032</u></td><td>(1)</td></tr><tr><td></td><td><u>213 040</u></td><td></td><td><u>196 864</u></td><td></td><td><u>364 032</u></td><td></td></tr><tr><td>Payments</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Payments to suppliers</td><td>0</td><td></td><td>360 000</td><td>(1)</td><td>240 000</td><td>(1)</td></tr><tr><td>Equipment</td><td>48 000</td><td>(1)</td><td></td><td></td><td></td><td></td></tr><tr><td>Operating expenses</td><td><u>42 200</u></td><td>)</td><td><u>42 200</u></td><td>)</td><td><u>42 200</u></td><td>) (1) row</td></tr><tr><td></td><td><u>90 200</u></td><td></td><td><u>402 200</u></td><td></td><td><u>282 200</u></td><td></td></tr><tr><td>Net cash flow</td><td>122 840</td><td></td><td>(205 336)</td><td></td><td>81 832</td><td></td></tr><tr><td>Opening balance</td><td><u>0</u></td><td></td><td><u>122 840</u></td><td></td><td><u>(82 496)</u></td><td></td></tr><tr><td>Closing balance</td><td><u>122 840</u></td><td>(1)OF</td><td><u>(82 496)</u></td><td>(1)OF</td><td><u>(664)</u></td><td>(1)OF</td></tr></table>		\$		\$		\$		Receipts							Capital introduced	150 000	(1)					Receipts from customers	<u>63 040</u>	(1)	<u>196 864</u>	(1)	<u>364 032</u>	(1)		<u>213 040</u>		<u>196 864</u>		<u>364 032</u>		Payments							Payments to suppliers	0		360 000	(1)	240 000	(1)	Equipment	48 000	(1)					Operating expenses	<u>42 200</u>	)	<u>42 200</u>	)	<u>42 200</u>	) (1) row		<u>90 200</u>		<u>402 200</u>		<u>282 200</u>		Net cash flow	122 840		(205 336)		81 832		Opening balance	<u>0</u>		<u>122 840</u>		<u>(82 496)</u>		Closing balance	<u>122 840</u>	(1)OF	<u>(82 496)</u>	(1)OF	<u>(664)</u>	(1)OF	11
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Question	Answer				Marks	
6(b)	Working					
		April	May	June		July
	Sales (in unit)	<u>5 000</u>	<u>8 000</u>	<u>4 000</u>		<u>3 000</u>
	Unit sold	5 000	8 000	4 000		3 000
	Closing inventory	4 000	2 000	1 500		2 000
	Opening inventory	<u>0</u>	<u>4 000</u>	<u>2 000</u>		<u>1 500</u>
	Purchases (in unit)	<u>9 000</u>	<u>6 000</u>	<u>3 500</u>		<u>3 500</u>
		\$	\$	\$		\$
	Sales (\$64 each)	320 000	512 000	256 000		1 088 000
	Purchases (\$40 each)	360 000	240 000	140 000		740 000
	April sales	63 040	96 000	160 000		
	May sales		100 864	153 600		
	June sales			50 432		
	July sales	<u>63 040</u>	<u>196 864</u>	<u>364 032</u>		
	Operating expenses \$43 000 – (\$84 000 / 60) = \$42 200					

Question	Answer	Marks																																								
6(c)	Responses may include: Cash flow not bad, i.e. has net operating cash inflow; cash received from customers \$994 560 (\$63 040 + \$196 864 + \$364 032 + \$370 624) is greater than operating cash outflows \$908 800 (\$360 000 + \$240 000 + \$140 000 + \$42 200 × 4) Cash deficit in May and June, should plan ahead. Sales not evenly distributed, i.e. seasonal trade, and this will affect the regularity of cash inflow. Not many trade receivables take the advantage of cash discount, Luke may consider to increase the cash discount. More than 50% of trade receivables pay 2 months after sale, Luke should consider to tighten its credit policy. Maybe the business is a new business and Luke has only one supplier. It appears that Luke does not have much bargaining power, as he has to pay within one month following the purchases and is not allowed any cash discount. Keeping too much inventory may have negative impact on cash flow. Accept other valid responses. (1 mark) for each valid point.	6																																								
6(d)	<table><tr><td>Revenue</td><td></td><td>1 088 000</td><td>(1)</td></tr><tr><td>Cost of sales</td><td></td><td></td><td></td></tr><tr><td>Opening inventory</td><td>0</td><td></td><td></td></tr><tr><td>Purchases</td><td>740 000</td><td>(1)</td><td></td></tr><tr><td>Closing inventory</td><td><u>60 000</u></td><td>(1)</td><td></td></tr><tr><td></td><td></td><td><u>680 000</u></td><td></td></tr><tr><td>Gross profit</td><td></td><td>408 000</td><td>(1)OF</td></tr><tr><td>Operating expenses</td><td></td><td>129 000</td><td></td></tr><tr><td>Discount allowed</td><td>W1</td><td><u>3 264</u></td><td>(1)</td></tr><tr><td>Profit for the period</td><td></td><td><u>275 736</u></td><td>(1)OF</td></tr></table> W1: 960 + 1536 + 768 = 3264	Revenue		1 088 000	(1)	Cost of sales				Opening inventory	0			Purchases	740 000	(1)		Closing inventory	<u>60 000</u>	(1)				<u>680 000</u>		Gross profit		408 000	(1)OF	Operating expenses		129 000		Discount allowed	W1	<u>3 264</u>	(1)	Profit for the period		<u>275 736</u>	(1)OF	6
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