Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/31**

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.

Cambridge International will not enter into discussions about these mark schemes.

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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.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Possible answers:

The receipts and payments account is used as a summary of all of the cash transactions (1) for a period of time (1), in a similar manner to a cash book. (1)
Gives opening / closing bank balance (1).
Aids preparation of financial statements (1).

Max 2 marks</td><td>2</td></tr>
<tr><td>1(b)</td><td>Income and expenditure account for year ended 31 December 2017

<table>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Subscriptions</td><td></td><td>21 840</td><td>(1)</td></tr>
<tr><td>Marathon profit (2500–80)</td><td></td><td>2 420</td><td>(1)</td></tr>
<tr><td>Profit on sale of sportswear</td><td></td><td>240</td><td>(1)</td></tr>
<tr><td></td><td></td><td>24 500</td><td></td></tr>
<tr><td>Rent</td><td>4 600</td><td></td><td>(1)</td></tr>
<tr><td>Wages</td><td>8 000</td><td></td><td>(1)</td></tr>
<tr><td>Repairs and maintenance</td><td>4 100</td><td></td><td></td></tr>
<tr><td>Club overheads</td><td>8 780</td><td></td><td></td></tr>
<tr><td>Depreciation</td><td>2 500</td><td></td><td>(2) W1</td></tr>
<tr><td></td><td></td><td>27 980</td><td></td></tr>
<tr><td>Deficit of income over expenditure</td><td></td><td>3 480</td><td>(1) OF</td></tr>
</table>

W1 (15 625 × 80%) × 20% (1) = 2500 (1)</td><td>8</td></tr>
</table>

Question	Answer	Marks
1(c)	Statement of financial position at 31 December 2017	6

	$	$	
Non-current assets			
Gym equipment		10 000	**(1) OF**
Current assets			
Inventory	665		
Rent prepaid	1 400		
Subscriptions in arrears	1 440		
		3 505	**(1)**
Total assets		13 505	
Accumulated fund	15 245		**(1)**
Donation	600		**(1)**
Less deficit	3 480		**(1) OF**
		12 365	
Current liabilities			
Bank overdraft	100		
Subscriptions in advance	240		
Wages in arrears	800		
		1 140	**(1)**
Total liabilities		13 505	

Question	Answer	Marks
1(d)	Possible answers: The life membership should be spread over the years the member uses the organisations facilities. **(1)** Matching concept. **(1)** To avoid overstatement of surplus **(1)**. Prudence concept **(1)**. This is impossible to judge accurately **(1)** but 5 years is quite common. **(1)** **Max 3**	3

Question	Answer	Marks
1(e)(i)	For the year ended 31 December 2016 | | $ | | Original surplus 23 400 } Full life membership (19 000) } **(1) both** Add: $19\,000 \times \frac{1}{5}$ <u>3 800</u> **(1)** Revised surplus <u>8 200</u> **(1) OF**	**3**
1(e)(ii)	For the year ended December 2017 $ Deficit for the year (3 480) **(1) OF** Add: $19\,000 \times \frac{1}{5}$ <u>3 800</u> **(1)** Revised surplus <u>320</u> **(1) OF**	**3**

Question	Answer	Marks
2(a)	To reflect the fair value **(1)** of assets and liabilities for the purpose of ascertaining the purchase consideration **(1)**. To ensure partners are treated fairly for changes **(1)**. **Max 1**	**1**

Question	Answer	Marks
2(b)(i)	$ Land and buildings 350 000 } Plant and machinery 170 000 } Inventory 110 000 } Trade receivables 125 000 } **(1)** Goodwill 30 000 **(1) W1** 785 000 Trade payables 153 000 Purchase consideration 632 000 **(1) OF** **W1** Goodwill 2 × 1/2 ($13 000 + $17 000) = $30 000	**3**
2(b)(ii)	$ Purchase consideration 632 000 Ordinary shares 600 000 **(1)** Cash 32 000 **(1) OF**	**2**

Question	Answer			Marks
2(c)	Statement of financial position at 1 January 2018			**10**
		$		
	Non-current assets			
	Land and buildings	975 000	**(1)**	
	Plant and machinery	424 000	**(1)**	
	Goodwill	30 000	**(1) OF**	
		1 429 000		
	Current assets			
	Inventory	252 000	**(1)**	
	Trade receivables	376 000	**(1)**	
	Cash and cash equivalents ($92 000 – $32 000)	60 000	**(1) OF**	
		688 000		
	Total assets	2 117 000		
	Equity and liabilities			
	Equity and reserves			
	Ordinary shares of $5 each	1 500 000	**(1)**	
	Share premium	100 000	**(1)**	
	Retained earnings	194 000	**(1)**	
		1 794 000		
	Current liabilities			
	Trade payables	323 000	**(1)**	
	Total equity and liabilities	2 117 000		

Question	Answer	Marks
2(d)	Capital accounts <table><tr><td></td><td>Alfie</td><td>Bob</td><td></td><td></td><td>Alfie</td><td></td><td>Bob</td><td></td></tr><tr><td>Ordinary shares</td><td>360 000</td><td>240 000</td><td>**(1)**</td><td>Balance b/d</td><td>285 000</td><td></td><td>274 000</td><td></td></tr><tr><td>Cash / Bank</td><td></td><td>52 800</td><td></td><td>Profit on realisation</td><td>28 200</td><td>**(1)**</td><td>18 800</td><td>**(1)**</td></tr><tr><td></td><td></td><td></td><td></td><td>Cash/Bank</td><td>46 800</td><td>**(1) OF both**</td><td></td><td></td></tr><tr><td></td><td>360 000</td><td>292 800</td><td></td><td></td><td>360 000</td><td></td><td>292 800</td><td></td></tr></table>	**4**
2(e)	The 2017 ROCE of G Limited is 5.78% ($69 000 / $1 194 000). **(1)** After acquiring the partnership business, there is an increase in profit **(1)** of $31 000 ($100 000 – $69 000). As G Limited paid $632 000 to acquire the partnership business, the additional profit represents a return of 4.91% ($31 000 / $632 000) from the investment. **(1)OF** Comparing 5.78% with 4.91%, the additional investment will dilute the ROCE **(1)** in 2017, assuming G Limited can still make 5.78% ROCE without acquiring the partnership business in 2017. Therefore, the acquisition of the partnership business does not increase the profitability in 2017. **(1)** However, as G Limited has paid $30 000 for the goodwill, it means that the acquisition will bring benefits to G Limited in the long run. **(1)** Decision **(1)**, max **4 marks** for comments	**5**

Question	Answer	Marks
3(a)(i)	To aid decision making as to whether to continue as a shareholder **(1)** as audited financial statements ensure that the stewardship function of directors are carried out properly **(1)** **Accept other valid answers.**	**2**
3(a)(ii)	To make decision whether to invest or not **(1)** as they can be assured that the assets of the business are fairly valued. **(1)** **Accept other valid answers.**	**2**
3(a)(iii)	To make decision whether or not to grant loan **(1)** as the bank can be assured that the security of the loan is fairly valued. **(1)** **Accept other valid answers.**	**2**

Question	Answer			Marks
3(b)	Statement to calculate the adjusted profit			9
		$		
	Profit per draft income statement	95 000		
	Less: Additional depreciation on land and building			
	$\$\dfrac{\left(2\,700\,000 \times \frac{1}{3}\right)}{20}$ **(1)** – $\dfrac{\left(2\,400\,000 \times \frac{1}{3}\right)}{25}$ **(1)**	(13 000)		
	Less: Additional depreciation on plant and machinery			
	$\$20\,000 \times 20\%$	(4 000)	**(1)**	
	Less: Irrecoverable debt/discount \$23 500 – \$20 000	(3 500)	**(1)**	
	Less: Additional depreciation on part-exchange of motor vehicle			
	$\$30\,000 \times 20\%$	(6 000)	**(1)**	
	Less: Loss on disposal of motor vehicles			
	(\$75 000 – \$27 000) **(1)** – \$30 000 **(1)**	(18 000)		
	Add: Depreciation on disposed motor vehicle			
	$(\$75\,000 - \$27\,000) \times 20\%$	9 600	**(1)**	
	Adjusted profit for the year	60 100	**(1) OF**	

Question	Answer	Marks
3(c)	Motor Vehicles | | $ | | |---|---|---| | Cost | | | | At 1 July 2016 | 240 000 | | | Additions | 110 000 | **(1)** | | Disposal | (75 000) | **(1)** | | At 30 June 2017 | 275 000 | | | Accumulated depreciation | | | | At 1 July 2016 | 150 000 | | | Disposal | (27 000) | **(1)** | | Charge for the year | 30 400 | **(1) OF** | | At 30 June 2017 | 153 400 | | | Net book value | | | | At 30 June 2017 | 121 600 | **(1) OF** | | At 30 June 2016 | 90 000 | **(1)** |	**6**
3(d)	Responses could include: Business is allowed to adopt revaluation model under IAS16 **(1)** Revaluation is required for the whole class of non-current assets, i.e. all the land and buildings **(1)**. Plot Y is impaired IAS 36 **(1)** Directors cannot only revalue Plot X but not Plot Y.(Decision) **(1 mark)** × 3 valid points and **(1 mark)** for recommendation. **Accept other valid answers.**	**4**

Question	Answer	Marks
4(a)	Open the books of account on the system to check correct data entry. **(1)** Carry out a bank reconciliation / reconcile all the control accounts / trade receivables and trade payables. **(1)** Run reports such as trial balance. **(1)** Ensure staff are adequately trained. **(1)** Run alongside manual system in parallel. **(1)** **Accept other valid answers.** **Max 4**	**4**
4(b)	Ensure data is secure – kept securely **(1)** and password protected. **(1)** Back up the data **(1)**, restrict access to certain parts of the system. **(1)** Anti-virus / firewall **(1)**. **Accept other valid answers.** **Max 4**	**4**
4(c)	Speed **(1)** because less time spent on manual input **(1)**. Accuracy **(1)** because less errors **(1)**. Up to date information **(1)** because real-time immediate updates **(1)**. Saves cost **(1)** because less staff **(1)**. Aids management reporting **(1)** because quick and easy to generate reports **(1)**. Less space **(1)** because less storage required **(1)**. **(1 mark)** × 3 valid points and **(1 mark)** for development. **Accept other valid answers.**	**6**

Question	Answer	Marks
4(d)	Summarised income statement Profit from operations 568 000 Finance costs (45 000) **(2) W1** Profit before tax 523 000 **(1) OF** Tax (104 600) **(1) OF** Profit for the year 418 400 **(1) OF** **W1** Finance costs 40 000 + 5 000 **(1)** = 45 000 **(1) OF**	**5**
4(e)	H Limited will pay a dividend of \$0.167 per share. **(2)** It has more debentures than shares. **(1)** Roy should therefore consider the gearing **(1)** and risk. **(1)** Likely to receive dividend as cover has been 5 times **(1)**. **Workings** \$418 400 × 20% = \$83 680 **(1) OF** / 500 000 = \$0.167 per share **(1) OF** **1 mark** for decision **+ 2** for calculations **Max 3** for justification **Accept other valid answers.**	**6**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>
<table>
<tr><td>Year</td><td>Machine
$</td><td>Revenue
$</td><td>Labour
$</td><td>Material
$</td><td>Fixed costs
$</td><td>Net cash flow
$</td><td></td></tr>
<tr><td>0</td><td>(250 000)</td><td></td><td></td><td></td><td>*</td><td>(250 000)</td><td>(1)</td></tr>
<tr><td>1</td><td></td><td>600 000</td><td>(300 000)</td><td>(165 000)</td><td>(45 000)</td><td>90 000</td><td>(1)</td></tr>
<tr><td>2</td><td></td><td>660 000</td><td>(330 000)</td><td>(181 500)</td><td>(45 000)</td><td>103 500</td><td>(1)</td></tr>
<tr><td>3</td><td></td><td>690 000</td><td>(351 900)</td><td>(189 750)</td><td>(45 000)</td><td>103 350</td><td>(1)</td></tr>
<tr><td>4</td><td></td><td>540 000</td><td>(275 400)</td><td>(148 500)</td><td>(45 000)</td><td>71 100</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>(1) for years 3 and 4</td><td></td><td>(1) for whole column</td><td></td><td></td></tr>
</table>
Working

Depreciation $\frac{\$250\,000}{4 \text{ years}}$ = $62 500 per year

Fixed costs $107 500 – $62 500 = $45 000 per year *
</td><td>7</td></tr>
<tr><td>5(b)</td><td>
<table>
<tr><td>Year</td><td>Net cash flow
$</td><td>10% discount factor
$</td><td>Present value
$</td><td></td></tr>
<tr><td>0</td><td>(250 000)</td><td>1.000</td><td>(250 000)</td><td>(1)</td></tr>
<tr><td>1</td><td>90 000</td><td>0.909</td><td>81 810</td><td>}</td></tr>
<tr><td>2</td><td>103 500</td><td>0.826</td><td>85 491</td><td>} (1) OF</td></tr>
<tr><td>3</td><td>103 350</td><td>0.751</td><td>77 616</td><td>}</td></tr>
<tr><td>4</td><td>71 100</td><td>0.683</td><td>48 561</td><td>}(1) OF</td></tr>
<tr><td></td><td>Net Present Value</td><td></td><td>43 478</td><td>(1) OF</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>5(d)</td><td>Decision (1)

Because the NPV is positive (1) OF.
The ARR is above the ARR of 20% set by Marie (1) OF

Max 2 for justification</td><td>3</td></tr>
</table>

Question	Answer	Marks
5(e)(i)	Year 1 — \$ Revenue — 600 000 Labour costs — (300 000) Material costs — (165 000) Fixed costs — (45 000) Depreciation — (62 500) Profit — 27 500 Sensitivity to sales price $\frac{\text{Profit}}{\text{Revenue}}$ $\frac{27\,500\ \textbf{(1)}}{600\,000}$ $\times 100 = 4.58\%$ **(1) OF**	**4**
5(e)(ii)	Sensitivity to material cost $\frac{\text{Profit}}{\text{Material cost}}$ $\frac{27\,500\ \textbf{(1) OF}}{165\,000}$ $\times 100 = 16.67\%$ **(1) OF**	
5(f)	If the selling price per unit *drops* more than 4.58% **(1) OF** or the material cost per unit *increases* more than 16.67% **(1) OF** then the project will make a loss. **(1)** Marie should focus her attention on the selling price per unit as the profit of the project is most sensitive to this item / the change in selling price per unit (4.58% is a lot less than the % change in materials (16.67%)). **(1)**	**4**

Question	Answer	Marks
6(a)(i)	Material price variance | | | | $ | Standard 26 190 kilos × $3 78 570 Actual 75 951 $2 619 **(1)** F **(1)**	**2**
6(a)(ii)	Material usage variance $ Standard 9 700 units × 2.75 kilos 26 675 Actual 26 190 485 kilos × $3 $1 455 **(1)** F **(1)**	**2**
6(a)(iii)	Labour rate variance $ Standard 12 610 hours × $5 63 050 Actual 65 572 $2 522 **(1)** A **(1)**	**2**
6(a)(iv)	Labour efficiency variance $ Standard 9 700 units × 1.5 hours 14 550 Actual 12 610 1 940 hours × $5 $9 700 **(1)** F **(1)**	**2**

Question	Answer	Marks
6(a)(v)	Fixed production overhead expenditure | | | | $ | | Standard 10 000 units × $3.75 37 500 Actual 39 750 $2 250 **(1)** A **(1)**	**2**
6(a)(vi)	Selling price $ Standard 9 700 units × $27 261 900 Actual 258 375 $3 525 **(1)** A **(1)**	**2**
6(a)(vii)	Sales volume Standard 10 000 Actual 9 700 300 units * Standard profit per unit × $7.50 $2 250 **(1)** A **(1)** Working: Per unit selling price $27.00 total cost $19.50 standard profit $7.50	**2**

Question	Answer	Marks
6(b)	Reconciliation statement	5

	$		$	
Budgeted profit			75 000	**(1)**
Add favourable variances:				
Material price			2 619	**}**
Material usage			1 455	**} (1) OF**
Labour efficiency			9 700	**}**
			88 774	
Deduct adverse variances:				
Fixed production overheads volume	1 125	**(1)**		
Fixed production overheads expenditure	2 250	**}**		
Labour rate	2 522	**}**		
Selling price	3 525	**}**		
Sales volume	2 250	**}(1) OF**	11 672	
Actual profit		**	77 102	**(1)**

Check **	$
Actual sales	258 375
Less direct material	75 951
Direct labour	65 572
Fixed production overheads	39 750
	77 102

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(c)</td><td>The price increase would:

Increase the cost (1) by $5238 (1)

or alternative answer

Change the material price variance from favourable to adverse (1) by $5238. (1)

or alternative answer

Change the material price variance from 2619F (1) to 2619 A. (1)

Working:

<table>
<tr><td></td><td></td><td></td><td>$</td></tr>
<tr><td>Old actual unit price</td><td>26 190 kilos</td><td>× $2.90</td><td>75 951</td></tr>
<tr><td>New actual unit price</td><td>26 190 kilos</td><td>× $3.10</td><td><u>81 189</u></td></tr>
<tr><td>Increase in cost</td><td></td><td></td><td><u>$5 238</u></td></tr>
</table>
OR
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Standard price</td><td>26 190 kilos × $3.00</td><td>78 570</td><td></td></tr>
<tr><td>New actual price</td><td>26 190 kilos × $3.10</td><td><u>81 189</u></td><td></td></tr>
<tr><td>New material price variance</td><td></td><td>2 619</td><td>A</td></tr>
<tr><td>Old material price variance (from (b))</td><td></td><td><u>2 619</u></td><td>F</td></tr>
<tr><td>Increase in cost</td><td></td><td><u>$5 238</u></td><td></td></tr>
</table>

An increase in material price / adverse variance will show a decrease in future profits. (1) Will Tareq increase his price. (1) Possible effect on demand. (1) Standard costs will need to be revised. (1) Will the supplier offer discounts, e.g. for bulk buying.(1) Will the quality change due to the change in price – better or worse. (1) Can a cheaper supplier be found. (1) Will another supplier be reliable, e.g. delivery, quality. (1)

Calculations max 2 Discussion max 4</td><td>6</td></tr>
</table>