
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.

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)	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 <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Revenue</td><td></td><td></td><td>800 000</td></tr><tr><td>Finished goods at 1 January 2017</td><td>60 000</td><td>(1)</td><td></td></tr><tr><td>Cost of production (balancing figure)</td><td><u>492 000</u></td><td>(1) OF</td><td></td></tr><tr><td></td><td>552 000</td><td></td><td></td></tr><tr><td>Finished goods at 31 December 2017</td><td><u>72 000</u></td><td>(1)</td><td></td></tr><tr><td>Cost of sales</td><td></td><td></td><td><u>480 000</u></td></tr><tr><td>Gross profit</td><td></td><td></td><td><u>320 000</u></td></tr></table>		\$		\$	Revenue			800 000	Finished goods at 1 January 2017	60 000	(1)		Cost of production (balancing figure)	<u>492 000</u>	(1) OF			552 000			Finished goods at 31 December 2017	<u>72 000</u>	(1)		Cost of sales			<u>480 000</u>	Gross profit			<u>320 000</u>	5
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1(c)	HT Limited Manufacturing Account for the year ended 31 December 2017 <table><tr><td></td><td>\$</td><td></td></tr><tr><td>Prime cost</td><td>250 000</td><td>(1)</td></tr><tr><td>Factory overheads (balancing figure)</td><td>150 000</td><td>(1) OF</td></tr><tr><td></td><td> 400 000</td><td></td></tr><tr><td>Work in progress</td><td>10 000</td><td>(1)</td></tr><tr><td></td><td> </td><td></td></tr><tr><td>Cost of production at cost price</td><td>410 000</td><td>(1) OF</td></tr><tr><td>Factory profit ($\frac{1}{6}$ of total COP)</td><td>82 000</td><td>(1) OF</td></tr><tr><td></td><td> </td><td></td></tr><tr><td>Cost of production at transfer price (from (b))</td><td>492 000</td><td>(1) OF</td></tr></table>		\$		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	6		
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1(e)	The increase in depreciation (1) in the first year would be $(160\,000 - 85\,000) \times 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

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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)	<table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Revenue (3 832 500 – 24 200)</td><td></td><td>3 808 300</td><td>(1)</td></tr><tr><td>Cost of sales W1</td><td></td><td>(2 152 470)</td><td>(3)</td></tr><tr><td>Gross profit</td><td></td><td><u>1 655 830</u></td><td>(1) OF</td></tr><tr><td>Administrative expenses W2</td><td>397 950</td><td></td><td>(2)</td></tr><tr><td>Distribution costs W3</td><td>165 500</td><td>(563 450)</td><td></td></tr><tr><td>Profit from operations</td><td></td><td><u>1 092 380</u></td><td>(1) OF</td></tr><tr><td>Finance costs</td><td></td><td>(10 000)</td><td>(1)</td></tr><tr><td>Profit before tax</td><td></td><td><u>1 082 380</u></td><td>(1) OF</td></tr><tr><td>Taxation</td><td></td><td>(162 600)</td><td></td></tr><tr><td>Profit for the year</td><td></td><td><u><u>919 780</u></u></td><td>(1) OF</td></tr><tr><td colspan="4"> W1 Cost of sales</td></tr><tr><td>Opening inventory</td><td></td><td>426 750</td><td></td></tr><tr><td>Purchases</td><td>2 150 000</td><td></td><td></td></tr><tr><td>Returns outwards</td><td><u>(19 750)</u></td><td></td><td>}(1) both</td></tr><tr><td></td><td>2 130 250</td><td></td><td></td></tr><tr><td>Carriage inwards</td><td><u>6 320</u></td><td></td><td>}</td></tr><tr><td></td><td></td><td><u>2 136 570</u></td><td></td></tr><tr><td></td><td></td><td>2 563 320</td><td></td></tr><tr><td>Closing inventory</td><td></td><td><u>(410 850)</u></td><td>(1)</td></tr><tr><td></td><td></td><td><u>2 152 470</u></td><td>(1) OF*</td></tr></table> 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		\$	\$		Revenue (3 832 500 – 24 200)		3 808 300	(1)	Cost of sales W1		(2 152 470)	(3)	Gross profit		<u>1 655 830</u>	(1) OF	Administrative expenses W2	397 950		(2)	Distribution costs W3	165 500	(563 450)		Profit from operations		<u>1 092 380</u>	(1) OF	Finance costs		(10 000)	(1)	Profit before tax		<u>1 082 380</u>	(1) OF	Taxation		(162 600)		Profit for the year		<u><u>919 780</u></u>	(1) OF	 W1 Cost of sales				Opening inventory		426 750		Purchases	2 150 000			Returns outwards	<u>(19 750)</u>		}(1) both		2 130 250			Carriage inwards	<u>6 320</u>		}			<u>2 136 570</u>				2 563 320		Closing inventory		<u>(410 850)</u>	(1)			<u>2 152 470</u>	(1) OF*	13
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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* $\times 100\% = 3.7$ (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 $\times$ 365 = 49 days (1) Or Trade receivables collection period (2016) = 607 500 / 4 500 000 $\times$ 365 = 50 days (1) Trade receivables collection period (2017) = 617 400 / 3 808 300 $\times$ 365 = 60 days (1) Or Trade receivables collection period (2017) = 630 000 / 3 808 300 $\times$ 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

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3(a)(i)	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><u>4 550</u></td><td></td><td></td><td><u>4 550</u></td><td></td></tr></table>		\$			\$		JV bank	700	(1)	Alice (equipment)	450	(1)	Alice (costs)	900	}	Belinda (sales)	4 100	(1)	Belinda (costs)	850	}(1)				Alice (profit)	1 050	}				Belinda (profit)	1 050	}(1) OF					<u>4 550</u>			<u>4 550</u>		5
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3(b)(i)	Belinda's share of profit \$ <table style="margin-left: auto; margin-right: auto;"> <tr> <td>Sales (4 100 × 2)</td><td style="text-align: right;">8 200</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Materials (900 × 1.5)</td><td style="text-align: right;">1 350</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Selling and distribution</td><td style="text-align: right;">850</td><td style="text-align: right;">}</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">250</td><td style="text-align: right;">} (1)</td></tr> <tr> <td></td><td style="text-align: right; border-top: 1px solid black;">5 750</td><td></td></tr> </table> × 20% = \$1150 (1) OF	Sales (4 100 × 2)	8 200	(1)	Materials (900 × 1.5)	1 350	(1)	Selling and distribution	850	}	Depreciation	250	} (1)		5 750		4
Sales (4 100 × 2)	8 200	(1)															
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	5 750																
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															

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Question	Answer	Marks																														
4(a)	Statement of Changes in Equity for year ended 31 December 2017 <table><thead><tr><th></th><th>Share Capital \$</th><th>General Reserve \$</th><th>Retained Earnings \$</th><th></th></tr></thead><tbody><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><u>800 000</u></td><td><u>50 000</u></td><td><u>72 000</u></td><td>(1) row</td></tr></tbody></table>		Share Capital \$	General Reserve \$	Retained Earnings \$		Balance at 1 January 2017	800 000	–	38 000	(1)	Profit for the year (balance)			132 000	(1) OF	Transfer to general reserve		50 000	(50 000)	(1)	Interim dividend paid			(48 000)	(1)	Balance at 31 December 2017	<u>800 000</u>	<u>50 000</u>	<u>72 000</u>	(1) row	5
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4(b)(i)	Earnings per share $\frac{\$132\,000}{400\,000} = \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{(\\$132\,000(\text{of}) + \\$10\,000(1))}{(\\$922\,000 + \\$100\,000)} = 13.89\%$ (1) OF* *OF Mark only awarded if the denominator is used as shown in the mark scheme.	2																														

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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-g 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

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Question	Answer				Marks
5(a)	Abdul	Product X	Product Y		11
		\$	\$		
	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)	
	Employment ohds by hours	8 000 : 4 800	6 300	(1)	
	Other overheads by units	4 000 : 1 000	33 600	(1)	
	Selling and distribution	19 200	6 400	(1) row	
	Total costs	160 300	92 740		
	Cost per unit	40.08	92.74		
	Proposed selling price (150%)	60.12	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)	
	Employment ohds by hours	8 000 : 4 800	1.58	(1)	
	Other overheads by units	4 000 : 1 000	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	139.11	(1) OF	
	*OF mark only awarded if selling price is expressed in dollars and cents (2 decimal places).				

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Question	Answer						Marks
5(b)	Brian		Product X		Product Y		9
			\$		\$		
	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		<u>157 040</u>		<u>96 000</u>		
	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).							

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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

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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

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Question	Answer	Marks																																																																																																				
6(b)	Stanley Cash budget for July – September <table><thead><tr><th></th><th>July</th><th>August</th><th>September</th><th></th></tr><tr><th></th><th>\$</th><th>\$</th><th>\$</th><th></th></tr></thead><tbody><tr><td colspan="5"><u>Receipts</u></td></tr><tr><td>Cash sales</td><td>10 000</td><td>10 000</td><td>10 000</td><td>(1) all</td></tr><tr><td>Credit sales</td><td>40 000</td><td>40 000</td><td>40 000</td><td>(1) all</td></tr><tr><td>Bank loan</td><td></td><td>30 000</td><td></td><td>(1)</td></tr><tr><td>Rental income</td><td>500</td><td>500</td><td>500</td><td>(1) all</td></tr><tr><td></td><td><u>50 500</u></td><td><u>80 500</u></td><td><u>50 500</u></td><td></td></tr><tr><td colspan="5"><u>Payments</u></td></tr><tr><td>Cash purchases</td><td>5 000</td><td>5 000</td><td>5 000</td><td>(1) all</td></tr><tr><td>Credit purchases</td><td>25 000</td><td>25 000</td><td>25 000</td><td>(1) all</td></tr><tr><td>General expenses</td><td>6 000</td><td>6 300</td><td>6 615</td><td>(1) OF</td></tr><tr><td>Machinery</td><td></td><td>60 000</td><td></td><td>(1)</td></tr><tr><td>Drawings</td><td>7 500</td><td></td><td></td><td>(1)</td></tr><tr><td>Interest</td><td></td><td></td><td>125</td><td>(1)</td></tr><tr><td></td><td><u>43 500</u></td><td><u>96 300</u></td><td><u>36 740</u></td><td></td></tr><tr><td colspan="5">Bank:</td></tr><tr><td>Opening balance</td><td>3 500</td><td>10 500</td><td>(5 300)</td><td>(1) OF all</td></tr><tr><td>Net cash flow</td><td><u>7 000</u></td><td><u>(15 800)</u></td><td><u>13 760</u></td><td></td></tr><tr><td>Closing balance</td><td><u>10 500</u></td><td><u>(5 300)</u></td><td><u>8 460</u></td><td>(1) OF all</td></tr></tbody></table>		July	August	September			\$	\$	\$		<u>Receipts</u>					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		<u>50 500</u>	<u>80 500</u>	<u>50 500</u>		<u>Payments</u>					Cash purchases	5 000	5 000	5 000	(1) all	Credit purchases	25 000	25 000	25 000	(1) all	General expenses	6 000	6 300	6 615	(1) OF	Machinery		60 000		(1)	Drawings	7 500			(1)	Interest			125	(1)		<u>43 500</u>	<u>96 300</u>	<u>36 740</u>		Bank:					Opening balance	3 500	10 500	(5 300)	(1) OF all	Net cash flow	<u>7 000</u>	<u>(15 800)</u>	<u>13 760</u>		Closing balance	<u>10 500</u>	<u>(5 300)</u>	<u>8 460</u>	(1) OF all	14
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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																																																																																																				