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**ACCOUNTING**

**9706/33**

Paper 3 Structured Questions

**May/June 2018**

MARK SCHEME

Maximum Mark: 150

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**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.

Cambridge International is publishing the mark schemes for the May/June 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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**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.

Question	Answer	Marks																																				
1(a)	<p>It allows management to assess the performance of the factory. (1)</p> <p>It allows for better cost control (1) as cost can be identified with specific cost centre. (1)</p> <p>It allows for comparison between the cost of manufacturing a product in-house rather than buying it from an outside supplier. (1)</p> <p>Factory manager can be rewarded for their specific performance which will motivate. (1)</p> <p><b>Accept other valid points.</b></p> <p><b>Max 4</b></p>	4																																				
1(b)	<p style="text-align: center;">Manufacturing account for JH Limited for year ended 31 October 2017</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td></td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Prime cost</td> <td style="text-align: right;"><b>W1</b></td> <td style="text-align: right;">270 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Factory overheads</td> <td style="text-align: right;"><b>W2</b></td> <td style="text-align: right;">509 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>779 000</u></td> <td></td> </tr> <tr> <td>Opening work in progress</td> <td></td> <td style="text-align: right;">28 000</td> <td style="text-align: right;">(1) both</td> </tr> <tr> <td>Closing work in progress</td> <td></td> <td style="text-align: right;"><u>(32 000)</u></td> <td></td> </tr> <tr> <td>Cost of production of manufactured</td> <td></td> <td style="text-align: right;">775 000</td> <td></td> </tr> <tr> <td>Factory profit (20%)</td> <td></td> <td style="text-align: right;"><u>155 000</u></td> <td style="text-align: right;">(1) OF with label</td> </tr> <tr> <td>Transfer price</td> <td></td> <td style="text-align: right;"><u>930 000</u></td> <td style="text-align: right;">(1) OF with label</td> </tr> </table> <p><b>W1</b> 270 000 + 18 000  <b>W2</b> 461 000 + (60 000 + 3 000 + 1 000) × 75%</p>			\$		Prime cost	<b>W1</b>	270 000	(1)	Factory overheads	<b>W2</b>	509 000	(1)			<u>779 000</u>		Opening work in progress		28 000	(1) both	Closing work in progress		<u>(32 000)</u>		Cost of production of manufactured		775 000		Factory profit (20%)		<u>155 000</u>	(1) OF with label	Transfer price		<u>930 000</u>	(1) OF with label	5
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2(b)	<p><b>W1</b> <math>0.20 \times 1\,000\,000 = \\$200\,000</math> (1)</p> <p><b>W2</b> <math>\\$2 \times 500\,000 = 1\,000\,000</math> (1)  <math>\\$0.40 \times 500\,000 = 200\,000</math> (1)</p> <p><b>W3</b> <math>\frac{3\,000\,000}{2} = 1\,500\,000</math> shares <math>\times \frac{2}{5}</math> (1) = 600 000 shares issued <math>\times \\$2.25 = \\$1\,350\,000</math> cash  <math>\\$1\,200\,000</math> (1) shares and <math>\\$150\,000</math> (1) share premium</p> <p><b>W4</b> <math>\frac{4\,200\,000}{2} = 2\,100\,000</math> shares <math>\times \frac{4}{10} = 840\,000 \times \\$2 = 1\,680\,000</math></p> <p><b>W5</b> <math>520\,000 - (64\,000 - 93\,000) = \\$363\,000</math> (1)</p>	
2(c)	<p>The directors did act in the best interests of the shareholders (1) because:</p> <p>No interest is being paid on a loan. (1)</p> <p>This saves \$68 000 over 5 years which would have adversely affected both the cash flow (1) and the profitability of the business.(1) The drop in profitability may affect shareholder confidence and the market price of the shares. (1)</p> <p>The loan would increase the gearing (1)</p> <p>The capital repayment would also reduce the cash flow (1) and the potential for future dividend payments due to lack of cash. (1)</p> <p>Instead the shareholders could receive extra dividends. (1) This equates on the share issue and rights issue of an extra \$0.06 approximately per share (1)</p> <p>The company may not have had enough cash or profit to pay the extra dividend. (1)</p> <p><math>\frac{4\,200\,000}{2} = 2\,100\,000</math> shares <math>\times 0.50 = \\$1\,050\,000</math> dividend (1)</p>	7



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<b>Question</b>	<b>Answer</b>	<b>Marks</b>
2(c)	<p>The directors did not act in the interests of the shareholders <b>(1)</b> because:</p> <p>There has been a drop in the market price of each share of \$0.30. <b>(1)</b> With <math>\frac{5880000}{2}</math> shares = 2 940 000 shares <b>(1)</b> × \$0.30 = \$882 000 <b>(1)</b></p> <p>Although the market value may increase this may take time <b>(1)</b></p> <p>Potential shareholders may question why a loan or a debenture was not taken out to finance the purchase of the factory instead of two share issues. <b>(1)</b></p> <p>There is no future effects on cash flow <b>(1)</b> or profitability <b>(1)</b> except for the dividend payments <b>(1)</b></p> <p>The money saved by making a bonus issue instead of paying extra dividends can be used on other areas within the business <b>(1)</b></p> <p>The shareholders can sell these shares at a future date once the market price increases.</p> <p><math>\frac{1680000}{2} = 840\,000</math> shares × \$2.10 = \$1 764 000 <b>(1)</b> which is greater than the dividend suggested by the shareholder <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p><b>(1)</b> decision and <b>0–6</b> marks for comments on either side.</p>	

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3(a)	express an opinion <b>(1)</b> on true and fair view <b>(1)</b> of the financial statements of a limited company	<b>2</b>																					
3(b)	<p>Accounting treatments</p> <p>1 Cost on training programme should be treated as expenses because it is held regularly <b>(1)</b></p> <p>it is difficult to establish a direct relationship between training programme and future benefits from efficiency; i.e. efficiency can be caused by other reasons such as advance in technology <b>(1)</b></p> <p>accrual concept is applied – <math>\frac{2}{6}</math> of the total costs are expensed <b>(1)</b></p> <p>\$30 000 is regarded prepayment, i.e. \$70 000 is paid and only \$40 000 has been expensed. <b>(1)</b></p> <p>2 The inventory value needs to be reduced <b>(1)</b> to take into account the fact that the damaged items can only be sold at a price below their usual selling price. <b>(1)</b> This will affect the profit for the year <b>(1)</b> and the value of inventory in current assets. <b>(1)</b></p> <p><b>3 marks for each to a max of 5 marks</b></p>	<b>5</b>																					
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Less: Obsolete inventory $\$12\,000 - (\$12\,000 \times 1.25 \times 50\%)$ <b>(1)</b>	(4 500)	<b>(1)</b>																					
Add: Licence fee $\$60\,000 \times \frac{30}{36}$ <b>(1)</b> prepaid	50 000	<b>(1)</b>																					
Revised profit	107 500	<b>(1) OF</b>																					

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Question	Answer	Marks
3(d)(i)	<p style="text-align: center;">\$</p> <p>Software license (<math>\\$60\,000 \times \frac{30}{36}</math>) (1)      50 000      (1)</p>	<b>2</b>
3(d)(ii)	Inventory (\$146 000 – \$4 500)      141 500      (1)	<b>1</b>
3(d)(iii)	Retained earnings (\$215 000 + \$107 500)      322 500      (1) <b>OF</b>	<b>1</b>
3(d)(iv)	Other payables (\$75 000 – \$50 000)      25 000      (1)	<b>1</b>
3(e)	<p>Buying computer software:</p> <p>non-current assets increased as computer software is treated as non-current assets subject to depreciation throughout the estimated useful life of the software.</p> <p>Profit will be reduced by depreciation.</p> <p>more cash outlay as the computer software is acquired</p> <p>computer software can be obsolete after three years</p> <p>Acquiring the right to use a computer software for three years:</p> <p>company does not pay for the outright purchase of the asset and therefore lesser cash outflow</p> <p>profit will be reduced by amortisation over a period of 3 years.</p> <p>more flexible due to advanced technology</p> <p><b>Accept other valid points.</b>  <b>(2 marks)</b> for discussing buying the computer software and <b>(2 marks)</b> for discussing acquiring a right to use for three years.  <b>(1 mark)</b> for decision.</p>	<b>5</b>

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4(a)	<table border="1" data-bbox="542 220 1749 488"> <tr> <td data-bbox="542 220 1146 300">club</td> <td data-bbox="1146 220 1749 300">limited company operating as a service business</td> </tr> <tr> <td data-bbox="542 300 1146 352">seeks to provide service to members</td> <td data-bbox="1146 300 1749 352">seeks to make profit</td> </tr> <tr> <td data-bbox="542 352 1146 405">has members</td> <td data-bbox="1146 352 1749 405">has shareholders</td> </tr> <tr> <td data-bbox="542 405 1146 488">retains any surplus to improve services to members</td> <td data-bbox="1146 405 1749 488">may distribute any profit to reward investors</td> </tr> </table> <p data-bbox="322 523 685 555"><b>Accept other valid points.</b></p> <p data-bbox="322 592 835 655">Any two differences for <b>(2)</b> marks each. Must be a comparison.</p>	club	limited company operating as a service business	seeks to provide service to members	seeks to make profit	has members	has shareholders	retains any surplus to improve services to members	may distribute any profit to reward investors	<b>4</b>																																								
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4(d)	<p>Take up of places on each trips is already low <b>(1)</b> being <math>\frac{620}{1200}</math> seats or little more than 50%. <b>(1)</b></p> <p>An increase in price could further depress demand. <b>(1)</b></p> <p>Analysis of ticket sales should be carried out <b>(1)</b> to establish which trip are most popular <b>(1)</b> in terms of time of year <b>(1)</b> or destinations. <b>(1)</b></p> <p>Promotions such as a discount for booking on three trips or more could be offered. <b>(1)</b></p> <p><b>Accept other valid points.</b>  <b>(1)</b> for decision + <b>Max 3</b> for comments at <b>(1)</b> mark each</p>	<b>4</b>																								

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5(a)	<p>Advantages:</p> <p>Compels management to plan for the future. <b>(1)</b>  Aids coordination <b>(1)</b> and encourages communication <b>(1)</b>.  Promotes responsibility accounting. <b>(1)</b>  May motivate employees. <b>(1)</b>  Use of variances to appraise performance <b>(1)</b> with possible subsequent remedial action. <b>(1)</b></p> <p><b>Max 3</b></p> <p>Disadvantages:</p> <p>Not all staff may accept the budget. <b>(1)</b>  Time consuming <b>(1)</b>  Specialist staff required which may increase cost <b>(1)</b></p> <p><b>Max 2</b>  <b>Accept other valid points.</b></p>	<b>5</b>																																				
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5(e)	<p>Advantages:</p> <p>The directors may receive a return on investment above market rate of the loan.  Maybe able to convert loan to shares in the future.</p> <p>Disadvantages:</p> <p>Risk of not receiving repayment.  May not be sufficient funds to pay the directors market rate of interest on the loan.</p> <p><b>Max. 2</b> for advantages + <b>Max 2</b> for disadvantages  <b>Accept other valid points.</b></p>	<b>4</b>																																																												



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6(f)	<p>As ABC provides more realistic figures <b>(1)</b> the selling prices will reflect a more realistic figure based on costs. <b>(1)</b></p> <p>Using the old method Alpha showed a very high portion of overheads <b>(1)</b> and so its costs were too high <b>(1)</b> and a true figure is not reflected in the selling price <b>(1)</b></p> <p>Omega bears a disproportionately low amount of overheads <b>(1)</b> and so is underpriced <b>(1)</b></p> <p>Costs in the old method are set simply using only one basis. <b>(1)</b> The setting of the costs using ABC will enable the company to carefully investigate the basis <b>(1)</b> and will result in improved production methods as well as better pricing. <b>(1)</b></p> <p><b>3 x 2 marks</b> each (1 mark for stating the reason and 1 mark for development)</p> <p><b>Accept other valid points.</b></p>	<b>6</b>																																
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6(g)(ii)	<p>The actual total profit will rise from \$1 946 000 to \$1 978 800 an increase of \$32 800 <b>(1)</b></p> <p>The price of Alpha will fall and Omega will rise bringing them both nearer to their previous price <b>(1)</b></p> <p>Fixes higher prices for the product which is higher in demand and needs specialist workforce <b>(1)</b> which is justified and lower price for Omega which does not need specialist workforce as the rate of labour is lower <b>(1)</b></p> <p><b>Accept other valid points.</b></p>	<b>2</b>																																