Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2019**

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.

Cambridge International is publishing the mark schemes for the October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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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)	T plc Manufacturing account for the year ended 31 December 2018 $ $ Raw materials at 1 January 2018 11 000 Purchases of raw materials 246 000 257 000 Raw materials at 31 December 2018 21 000 Cost of raw materials consumed 236 000 **(1)** Production labour 195 500 **(1)** Prime cost 431 500 **(1) OF** Factory rent 26 000 **}** Factory supervisory salaries 31 100 **} (1)** Depreciation of factory equipment 11 200 **(1)** 68 300 499 800 Decrease in work in progress 200 **(1)** Cost of production at cost price 500 000 Factory profit (25%) 125 000 **(1) OF** Cost of production at transfer price 625 000 **(1) OF**	**8**

Question	Answer	Marks
1(b)	T plc Income statement for the year ended 31 December 2018 Revenue — $658 100 **(1) OF** Finished goods at 1 January 2018 — $10 000 * Cost of production — $625 000 **(1) OF** $635 000 Finished goods at 31 December 2018 — ($12 500) **(1) * both** Cost of sales — $622 500 Gross profit — $35 600 Factory profit — $125 000 **(1) OF** Expenses Distribution costs (51 000 + 7 000) **(1)** — $58 000 **(1) OF** Administrative expenses (81 000 + 3 200) **(1)** — $84 200 **(1) OF** Increase in PUP — $500 **(1)** $142 700 Profit for the year — $17 900 **(1)**	**10**
1(c)	Possible answers: A lot of cash can be tied up in inventory. **(1)** There is a risk of deterioration / pilferage. **(1)** There is a cost for warehousing / insurance. **(1)** Is the necessary space available? **(1)** Is the cost rising because of shortages/is there a risk of running out of RMs in the future? **(1)** If the price stays higher in the long term the selling price could increase. **(1)** Competitors will face the same difficulty and so a higher selling price could be sustained. **(1)** **Accept other valid points.** **Max 5**	**5**

Question	Answer	Marks
1(d)	Possible answers: Prime costs are those costs which can be directly identified with a unit of production / are variable costs. **(1)** They exclude fixed costs which remain unchanged in the short term / across a relevant range. **(1)** They therefore vary in line with the units produced. **(1)** **Accept other valid points.** **Max 2**	**2**

Question	Answer	Marks
2(a)	Joint venture account |	\$			\$	| | Amit	600	**(1)**	Joint venture bank	1 100	**(1)** | Joint venture bank	8 080	**(1)**	Amit	700	**(1)** | Bonnie	1 100	**(1)**	Bonnie	3 300	**(1)** | Joint venture bank	620	**(1)**	Joint venture bank	6 100	**(1)** | Amit (share of profit)	400	**}** | Bonnie (share of profit)	400	**}(1) OF both** |	11 200			11 200		**9**
2(b)	Bonnie account |	\$			\$		**5**	 | Joint venture a/c	3 300	**(1)**	Joint venture bank	850	**(1)** |			Joint venture a/c	1 100	**(1)** |			Joint venture a/c	400	**(1) OF** |			Joint venture bank	950	**(1) OF** |	3 300			3 300		

Question	Answer	Marks
2(c)	$$ Sales 20 200 **(1) OF** At 30% **(1)** 6 060 **(1) OF** Less previous gross profit 2 020 **(1)** Increase in gross profit 4 040 **(1) OF**	**5**
2(d)	Possible answers: The increase in gross profit is greater than the increase in the rent. **(1) OF** However other running costs are also likely to increase. **(1)** How sure are they that sales will double / what is this assumption based on. **(1)** The increase in gross profit may not be achievable. **(1)** There is more risk as rent (fixed cost) increases. **(1)** If there is no increase in sales the increase in rent wipes out the profit completely. **(1)** **Accept other valid points.** Max **(3)** for justification plus **(1)** mark for decision	**4**
2(e)	They have both taken out of the business more than they were entitled to **(1)** or the business has been making a loss. **(1)** They both owe money to the business. **(1)** **Max 2**	**2**

Question	Answer	Marks
3(a)	Debit $000 / Credit $000 Goodwill 23 **W1** Land and buildings 195 **(1)** Equipment 20 **}** Inventory 25 **} (1)** Trade receivables 15 **}** Trade payables 12 **(1)** Bank 56 **(1)** Ordinary share capital 100 **(1)** Share premium 50 **(1)** Debentures 60 **(1)** **W1** 266 **(1)** – (195 + 20 + 25 + 15 – 12) **(1)** = 266 – 243 = 23	**9**
3(b)(i)	Before the acquisition the gearing ratio was $\left.\frac{100}{553}\right\}$ **(1)** × 100 = 18.08% **(1) OF**	**2**
3(b)(ii)	After the acquisition it was $\left.\frac{160}{763}\right\}$ **(1)** × 100 = 20.97% **(1) OF**	**2**
3(c)	Before the acquisition the profit from operations would have been 135 000 × 8% = 10 800 **(1)** for the partnership and 553 000 × 6% = 33 180 **(1)** for the company. Assuming no change the return on capital employed after the acquisition would be $\frac{(10\,800 + 33\,180)\ \textbf{(1)OF}}{763\,000\ \textbf{(1)OF}} \times 100 = 5.76\%$ **(1) OF**	**5**

Question	Answer	Marks
3(d)	Possible answers: Gearing has increased **(1) OF** but is still low. **(1) OF** ROCE is a decrease from the pre-acquisition 6% **(1) OF** but profit could be expected to rise in the future due to economies of scale / synergy / increases in efficiency. **(1)** **Decision (1)** **Justification Max 4**	**5**
3(e)	Possible answers: Income from dividends received without workload **(1)** No liability for debts of the business beyond the original investment **(1)** Possibility of capital gain if share price rises **(1)** May be easier to cash in investment and invest elsewhere rather than having to sell a business **(1)** May avoid conflicts with other partners **(1)** **Accept other valid points.** **Max 2**	**2**

Question	Answer	Marks
4(a)	Possible answer: Stewardship occurs when the owners (shareholders) do not take part in the day-to-day running of the company **(1)** and appoint directors to manage the company affairs on their behalf **(1)**. The directors have the duty of care to manage the business resources to the best of their ability on behalf of the shareholders. **(1)** **Max 2 marks**	**2**
4(b)	Possible answer: To report on whether the financial accounts reflect a true and fair view of the financial position of the business **(1)**. To report to the shareholders **(1)** whether the accounts comply with the companies act and international accounting standards **(1)**. To confirm that the accounts do not contain material errors **(1)** **Accept other valid points.**	**4**
4(c)	Income statement for the six months ended 31 May 2018 |	\$	\$	| | Revenue	318 000		**(1) W1** | | Cost of goods sold	142 200		**(2) W2** | | Gross profit	175 800		**(1) OF** | | Distribution costs	35 100		| | Administrative expenses	60 100		| | Profit from operations	80 600		**(1) OF** | | Finance charges	16 600		| | Profit for the period **-**	64 000		**(1) OF** | **W1** 320 000 - 2000= 318 000 **W2** 143 000 – 1500 **(1)** + 700 **(1)** = 142 200	**6**
4(d)(i)	\$64 000 **(1)OF** × 75% / 800 000 **(1)** = \$0.06 per ordinary share **(1)OF** (subject to using 75%)	**3**

Question	Answer	Marks
4(d)(ii)	Dividend payment The total amount which could be paid to based on the profitability is \$64 000 × 75% = 48 000. **(1)** However, the cash and cash equivalents are only \$45 200. Therefore, there is not enough cash to pay out the dividends in full. **(1)** Based on the cash available the maximum amount of dividend per share would be \$0.0565 **(1)** if the directors wanted to use all their cash resources. **(1)** This would be very unwise as it would leave them without any working capital. **(1)** Bonus issue There would be an issue of $\frac{1}{10} \times 800\,000 = 80\,000$ extra shares.**(1)** At the current market price this is worth 80 000 × 0.55 = \$44 000. **(1)** Unfortunately, the market price of a share usually drops after such an issue. **(1)** However, the shareholders will have more shares to potentially earn greater dividends in the future **(1)** or to sell on the open market. **(1)** Will keep the shareholders happy **(1)** No changes in ownership. **(1)** Preserves cash in the company **(1)** A dividend less than \$0.565 is recommended / A bonus issue of 1 share for every 10 shares currently held for future gains **(1)** **(4)** marks for dividend comments **(6)** marks for bonus issue comments **Accept other valid points for each option.**	**10**

Question	Answer	Marks
5(a)(i)	Material price variance 14 000 × 0.25 = $3500 F **(2)** **1 mark** for amount + **1 mark** for direction	**2**
5(a)(ii)	Material usage variance 500 × 6 = $3000 A **(2)** **1 mark** for amount + **1 mark** for direction	**2**
5(a)(iii)	Labour rate variance 37 000 × 0.50 = $18 500 A **(2)** **1 mark** for amount + **1 mark** for direction	**2**
5(a)(iv)	Labour efficiency variance 3500 × 10 = $35 000 F **(2)** **1 mark** for amount + **1 mark** for direction	**2**
5(b)(i)	Possible answer: The material price variance is favourable so less was paid than standard. **(1)** The quality, therefore, may have been poorer **(1)** so more was used **(1)** resulting in the adverse usage variance. **(1)**	**4**
5(b)(ii)	Possible answer: The labour rate variance is adverse so more was paid than standard. **(1)** The quality of the workforce, therefore, may have been better **(1)** so they achieved a greater output **(1)** resulting in the favourable labour efficiency variance. **(1)**	**4**
5(c)	Possible answer: The fixed overhead volume variance is the difference between the fixed overheads applied and that budgeted. **(1)** It has arisen due to the change in the actual output compared to the standard. **(1)** It can be analysed into the fixed overhead capacity and fixed overhead efficiency variances. **(1)** The efficiency variance shows that the labour has worked less hours than expected **(1)** and are more efficient. **(1)** The capacity variance shows how the factory has been utilised for production. **(1)** **Accept other valid points.** **Max 4**	**4**

Question	Answer	Marks
5(d)	Advantages of standard costing **(Max 2)** Preparation of budgets is easier **(1)** Variances can be easily identified **(1)** Causes of costs can be worked out **(1)** Estimates of costs can be worked out **(1)** Disadvantages of standard costing **(Max 2)** Take time **(1)** Can be costly **(1)** May require specialist knowledge **(1)** Standards needs to be monitored **(1)** **Accept other valid points.** Award **1 mark** for decision	**5**

Question	Answer	Marks
6(a)	Average profit = total net cash flow – depreciation / years $= \frac{[60\,000\,\textbf{(1)} + 68\,000\,\textbf{(1)} + 75\,800\,\textbf{(1)} + 85\,480\,\textbf{(1)} + 57\,600\,\textbf{(1)}] - 225\,000\,\textbf{(1)}}{5\,\textbf{(1)}} = \$24\,376\,\textbf{(1)OF}$ Average investment = $112 500 **(1)** Accounting rate of return = 21.67% **(1) OF**	**10**
6(b)	Year / Net Cash Flow / 10% DF / Present Value 0: (225 000) 1.000 (225 000) **(1)** 1: 60 000 * 0.909 54 540 **}** 2: 68 000 * 0.826 56 168 **}** 3: 75 800 * **(1) OF all** 0.751 56 926 **} (1) OF** 4: 85 480 * 0.683 58 383 **}** 5: 57 600 * 0.621 35 770 **}** Net present value 36 787 **(1) OF**	**4**
6(c)	Possible advantages and disadvantages: Advantages Easy to understand and use **(1)** Business can evaluate which project returns investment first **(1)** Uses cash not profit **(1)** **Max 3** Disadvantages Does not consider the time value of money **(1)** Does not consider cash flows after the payback period **(1)** Different projects may have different patterns of cash flows **(1)** **Max 3** **Accept other valid points.**	**6**

Question	Answer	Marks
6(d)	Possible answers: The payback period of Machine B is shorter and therefore better than Machine A. **(1) OF** The accounting rate of return of Machine B is higher and therefore better than Machine A. **(1) OF** The net present value of Machine A is higher and therefore better than Machine B. **(1) OF** Would advise Ronaldo to purchase Machine A **(1) of** because the net present value is considered the best tool for decision making and is better. **(1) OF** Award **1 mark** for decision and **Max 4 marks** for comments.	**5**