Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/32**

Paper 3 A Level Structured Questions **March 2017**

MARK SCHEME

Maximum Mark: 150

Published

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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CAMBRIDGE International Examinations

Question	Answer	Marks
1(a)	An intangible asset is an identifiable non-monetary asset **(1)** without physical substance **(1)** from which future benefits are expected. **(1)**	3
1(b)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>Revenue</td><td>680 000</td><td></td></tr><tr><td>Cost of sales **W1**</td><td>(401 714)</td><td>**(2)of**</td></tr><tr><td>Gross profit</td><td>278 286</td><td>**(1)of**</td></tr><tr><td>Distribution costs **W2**</td><td>(66 607)</td><td>**(3)of**</td></tr><tr><td>Administrative expenses **W3**</td><td>(147 837)</td><td>**(3)of**</td></tr><tr><td>Profit from operations</td><td>63 842</td><td>**(1)of**</td></tr><tr><td>Finance costs</td><td>(4 500)</td><td>**(1)**</td></tr><tr><td>Profit before tax</td><td>59 342</td><td></td></tr><tr><td>Tax</td><td>(12 385)</td><td>**(1)**</td></tr><tr><td>Profit for the year</td><td>46 957</td><td>**(1)of**</td></tr></table> **W1** Cost of sales: 117 257 + 378 000 – (108 543 – 15 000 **(1)**) = 401 714 **(1)of** **W2** <table><tr><td></td><td>$</td><td></td></tr><tr><td>Distribution costs:</td><td></td><td></td></tr><tr><td>TB</td><td>70 152</td><td></td></tr><tr><td>Provision</td><td>90</td><td>**(1)**</td></tr><tr><td>Prepayment</td><td>(3 635)</td><td>**(1)**</td></tr><tr><td></td><td>66 607</td><td>**(1)of**</td></tr></table> **W3** <table><tr><td>Administrative expenses:</td><td></td><td></td></tr><tr><td>TB</td><td>145 267</td><td></td></tr><tr><td>Accrual</td><td>2 480</td><td>**(1)**</td></tr><tr><td>Provision</td><td>90</td><td>**(1)**</td></tr><tr><td></td><td>147 837</td><td>**(1)of**</td></tr></table>	13

Question	Answer	Marks
1(c)	Trade receivables turnover $= \frac{87\,450}{680\,000} \cdot 365 = 47$ days **(1)of** Inventory turnover ratio $= \frac{105\,400}{401\,714} \cdot 365 = 95.77$ days **(1)of** Trade payables turnover $= \frac{26\,550}{378\,000} \cdot 365 = 26$ days **(1)of** Working capital cycle = 47 + 96 – 26 = 117 days **(1)OF**	**4**
1(d)	It is taking longer to receive payment from customers than the allowed period. **(1)** There should be a review of the credit control system. **(1)** May consider discounts / incentives to encourage prompt payment. **(1)** Payment to suppliers is being made quicker than the allowed period. **(1)** This maintains a good relationship with the suppliers. **(1)** Future discounts / incentives should be protected. **(1)** Detrimental to cash flow **(1)** as payments are received 21 days after payments are made. **(1)** Inventory turnover of 95.77 days could be reduced to improve liquidity. **(1)** **1 for decision + Max 4 for justification**	**5**
		25

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
<table>
<tr><td>Internal auditor</td><td>External auditor</td></tr>
<tr><td>Internal auditors are employees</td><td>External auditors are external independent persons</td></tr>
<tr><td>Review the business practices and internal control system to prevent mistakes</td><td>Examine the financial statements and give opinion whether the financial statements present a true and fair view and comply with legal requirements</td></tr>
<tr><td>Report to the senior management</td><td>Report to shareholders</td></tr>
</table>

Accept any reasonable alternative.

(2 marks) × 2 explanations</td><td>4</td></tr>
<tr><td>2(b)</td><td>Responses could include:

∞ Proposed dividend – The proposed dividend has to be approved by shareholders at the annual general meeting. It is not regarded as liability at the statement of financial position date. According to IAS 10 Events After The Reporting Period, a proposed dividend should be treated as a non-adjusting event and entered as a note on the financial statements.
∞ Depreciation of printing machine – According to IAS 16 Property, Plant and Equipment, the depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the business. As the consumption of the printing machine is decreasing, reducing balance method should be adopted.
∞ Goodwill – IAS 38 Intangible Assets prohibits the recognition of internal generated goodwill. Therefore do not include this in the financial statements.
∞ Inventory – According to IAS 2 Inventories, inventories should be valued at the lower of cost and net realisable value. Therefore inventory should be valued at $43 400 not $44 500

(2 marks) · 4 explanations

It is not necessary to quote the relevant accounting standards.</td><td>8</td></tr>
</table>

Question	Answer	Marks
2(c)		3

	$	
Original profit for the year	99 800	
Less: Depreciation charge	15 000	**(1)**
Less: Inventory overstated	1 100	**(1)**
Revised profit for the year	83 700	**(1of)**

Question	Answer	Marks
2(d)		4

	Share capital $	Revaluation reserve $	Retained earnings $		Total $
Balance at start of year	1 000 000	100 000	94 600		1 194 600
Profit for the year			83 700	**(of)**	83 700
Dividend paid			(20 000)	**(1)**	(20 000)
Balance at end of year	1 000 000	100 000	158 300		1 258 300
	(1)	**(1)**	**(1of)**		

Question	Answer	Marks
2(e)	Redrafted Statement of Financial Position at 31 December 2015	**3**

	$	
Non-current assets		
Freehold property	700 000	
Machinery and equipment ($457 400 – $15 000)	442 400	**(1of)**
	1 142 400	
Current assets		
Inventories ($44 500 – $1 100)	43 400	**(1of)**
Trade receivables	74 800	
Cash and cash equivalents	36 000	
	154 200	
Total assets	1 296 600	
Equity and liabilities		
Equity		
Share capital	1 000 000	
Revaluation reserve	100 000	
Retained earnings	158 300	**(1of)**
Total equity	1 258 300	
Current liabilities		
Trade payables	38 300	
	38 300	
Total equity and liabilities	1 296 600	

Question	Answer	Marks
2(f)	To prepare true and fair financial statements, it is essential that they are prepared in accordance with applicable accounting standards **(1)**. Euan should voice his concerns and discuss with the directors **(1)** giving them the opportunity to revise the statements **(1)**. If the directors do not reflect the changes, the external auditor can consider issuing a qualified auditor report **(1)**. **Max. 3**	**3**
		25

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Differences:

Surplus of income over expenditure is used instead of profit. (1)
Excess of expenditure over income is used instead of loss. (1)
Accumulated fund is used instead of capital. (1)
An income and expenditure account is prepared instead of an income statement. (1)
Max 3</td><td>3</td></tr>
<tr><td>3(b)</td><td><table>
<tr><th></th><th>$</th><th></th><th>$</th><th></th></tr>
<tr><td>Revenue</td><td></td><td></td><td>52 750</td><td></td></tr>
<tr><td>Deduct cost of sales:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Opening inventory</td><td>260</td><td></td><td></td><td></td></tr>
<tr><td>Purchases W1</td><td>33 910</td><td>(3)</td><td></td><td></td></tr>
<tr><td>Closing inventory</td><td>(156)</td><td>(1)</td><td>(34 014)</td><td>(1)of</td></tr>
<tr><td>Snack bar profit</td><td></td><td></td><td>18 736</td><td>(1)of</td></tr>
</table>
W1: Purchases 33 785 – 460 (1) + 585 (1) = 33 910 (1)of</td><td>6</td></tr>
<tr><td>3(c)</td><td>Subscriptions Account<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Balance b/d</td><td>1 750</td><td>(1)</td><td>Balance b/d</td><td>500</td><td>(1)</td></tr>
<tr><td>Income and Expenditure Account (1)</td><td>77 500</td><td>(1)</td><td>Cash/bank</td><td>76 500</td><td>(1)OF</td></tr>
<tr><td>Balance c/d</td><td>750</td><td></td><td>Balance c/d</td><td>3 000</td><td></td></tr>
<tr><td></td><td>80 000</td><td></td><td></td><td>80 000</td><td></td></tr>
<tr><td>Balance b/d</td><td>3 000</td><td>(1)</td><td>Balance b/d</td><td>750</td><td>(1)</td></tr>
</table></td><td>7</td></tr>
<tr><td>3(d)</td><td>Apply for overdraft. (1)
Seek loan. (1)
Increase membership. (1)
Increase subscription. (1)
Increase prices charged in snack bar. (1)
Introduce other trading activities. (1)
Max 4</td><td>4</td></tr>
</table>

Question	Answer	Marks
3(e)	Advantages Would raise extra funds **(1)** without need for interest / repayment **(1)**. Club may get benefit of association with sponsor. **(1)** Disadvantages Sponsor may withdraw. **(1)** Club may become reliant on sponsors **(1)** Other income sources may suffer. **(1)** Any other valid advantages or disadvantage **Max 5**	**5**
		25

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>
Consignment Account
<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Goods sent on consignment</td><td></td><td></td><td>150 000</td><td>(1)</td><td>Tajid W1</td><td>202 500</td><td>(3)</td></tr>
<tr><td>Tajid – Commission</td><td>20 250</td><td>(1)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Selling</td><td>4 000</td><td>(1)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Import duty</td><td>1 500</td><td>(1)</td><td>25 750</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Bank</td><td></td><td></td><td>3 000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Income statement</td><td></td><td></td><td>23 750</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>202 500</td><td></td><td></td><td>202 500</td><td></td></tr>
</table>
W1: Tajid (sale proceeds): 157 500 (1) + 45 000 (1) = 202 500 (1)of
</td><td>9</td></tr>
<tr><td>4(b)</td><td>
Tajid Account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Consignment account</td><td>202 500</td><td>(1)of</td><td>Consignment account</td><td>25 750</td><td>(1)of</td></tr>
<tr><td></td><td></td><td></td><td>Bank</td><td>176 750</td><td>(1)of</td></tr>
<tr><td></td><td>202 500</td><td></td><td></td><td>202 500</td><td></td></tr>
</table>
</td><td>3</td></tr>
<tr><td>4(c)</td><td>
Goods sent on consignment Account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Trading account</td><td>150 000</td><td>(1)</td><td>Consignment account</td><td>150 000</td><td>(1)</td></tr>
<tr><td></td><td>150 000</td><td></td><td></td><td>150 000</td><td></td></tr>
</table>
</td><td>2</td></tr>
<tr><td>4(d)</td><td>
Sachin Account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Bank (Selling)</td><td>4 000</td><td>(1)</td><td>Bank</td><td>202 500</td><td>(1)</td></tr>
<tr><td>Bank (Import duty)</td><td>1 500</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Commission</td><td>20 250</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Bank (Remittance)</td><td>176 750</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td></td><td>202 500</td><td></td><td></td><td>202 500</td><td></td></tr>
</table>
</td><td>5</td></tr>
<tr><td>4(e)</td><td>Newer version of appliance may be available. (1)
Appliances may be damaged. (1)
There may be competitors selling appliances at a cheaper price. (1)
Max 2</td><td>2</td></tr>
</table>

Question	Answer	Marks
4(f)	There will be a profit of $23 750 (consignment) or $18 000 (home). **(1)** Therefore, based on these figures, Sachin should make the consignment. **(1)of** Tajid may not be able to accept the consignment **(1)** and/or may not be able to maintain the commission rate. **(1)** Overseas selling price may continue to fall. **(1)** There may be further investment opportunities at home as a result of pursuing this project. **(1)** Decision 1 **Max 3 justification**	**4**
		25

Question	Answer	Marks
5(a)(i)	Material usage Experienced labour New machinery Better quality materials (less wastage) **(1 mark)** any one reason, **max 1**	**1**
5(a)(ii)	Labour efficiency Less skilled labour Lower grade materials More idle time than budgeted Poor supervision Machine breakdowns **(1 mark)** any one reason, **max 1**	**1**
5(b)(i)	Material price Std 83 100 kilos · $2 166 200 Actual 182 820 16 620 **(1)** A **(1)**	**2**
5(b)(ii)	Material usage Std 17 500 units · 5 kilo 87 500 Actual 83 100 4 400 Kilos F · $2 $8 800 **(1)** F **(1)**	**2**
5(b)(iii)	Labour rate Std 37 500 hrs · $8 300 000 **(1)** Actual 281 250 18 750 **(1)** F	**2**

Question	Answer	Marks
5(b)(iv)	Labour efficiency Std 17 500 units · 2 hrs 35 000 Actual 37 500 2 500 hrs A · $8 $20 000 **(1)** A **(1)**	**2**
5(b)(v)	Fixed overhead efficiency Actual hours 37 500 Std hours 35 000 hours 2 500 · $4 **(1)** $10 000 **(1)** A **(1)**	**3**
5(b)(vi)	Fixed overhead capacity Actual hours 37 500 Std hours 38 000 hours 500 · $4 **(1)** $2 000 **(1)** A **(1)**	**3**

Question	Answer	Marks
5(c)		4

				$	
Standard cost of actual production			$34 · 17 500	595 000	**(1)**
Variances	Fav	Adv			
	$	$			
Material price		16 620			
Material usage	8 800				
Labour rate	18 750				
Labour efficiency		20 000			
Fixed overhead expenditure	37 000				
Fixed overhead efficiency		10 000			
Fixed overhead capacity		2 000			
	64 550	48 620		15 930	F **(1of)**
Actual cost of production **(1) both**				579 070	**(1)**

Working:

Actual cost of production:

	$
Direct materials	182 820
Direct labour	281 250
Fixed production overheads	115 000
	579 070

Question	Answer	Marks
5(d)	Assist in setting budgets. Evaluate managerial performance. Predict future costs for decision making. Motivate staff by providing targets. Provide ways of improving efficiency. Control device – uses variance analysis. Valuing inventories. Expensive Time consuming to operate Requires specialist knowledge Advice 1 mark 4 for reasons	**5**
		25

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(a)</td><td>Net present value method of capital investment appraisal uses the present value of the net cash flows less the initial investment. (cash inflows less cash outflows (1) using todays prices levels (1) at the company's cost of capital (1)

max (2)

The internal rate of return method of capital investment appraisal also uses the present values of cash flows. (1) However it represents the true interest rate earned by the investment over the course of its economic life (1). This rate will cause the net present value to be returned to zero. (1)
max (2)</td><td>4</td></tr>
<tr><td>6(b)</td><td>NPV at 14%

<table>
<tr><th></th><th>Net cash flow</th><th>DF</th><th>$</th><th></th></tr>
<tr><td>0</td><td>(260 000)</td><td>1</td><td>(260 000)</td><td>1</td></tr>
<tr><td>1</td><td>144 000</td><td>0.877</td><td>126 288</td><td>1of</td></tr>
<tr><td>2</td><td>92 400</td><td>0.769</td><td>71 055.60</td><td>1of</td></tr>
<tr><td>3</td><td>126 000</td><td>0.675</td><td>85 050</td><td>1of</td></tr>
<tr><td></td><td></td><td>NPV</td><td>22 393.60</td><td>1of</td></tr>
</table>

Working:

<table>
<tr><th>Units</th><th></th><th></th><th></th><th></th><th></th><th></th></tr>
<tr><td>1</td><td>36 000</td><td>30</td><td></td><td>26</td><td>144 000</td><td>(1)</td></tr>
<tr><td>2</td><td>42 000</td><td>30</td><td></td><td>27.8</td><td>92 400</td><td>(1)</td></tr>
<tr><td>3</td><td>42 000</td><td>31.5</td><td>(1)</td><td>28.5</td><td>126 000</td><td>(1)</td></tr>
</table>
</td><td>9</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(c)</td><td>lower rate + (different in rate · (low rate npv / low rate npv + high rate npv)
14% (1) + (6% (1) × 22 393.60 (1of) / 22 393.60 + 2 968.40) = 19.3% (1of)

at 20% NPV is

<table>
<tr><td></td><td>Net cash flow</td><td>DF</td><td>$</td><td></td></tr>
<tr><td>0</td><td>(260 000)</td><td>1</td><td>(260 000)</td><td>(1)</td></tr>
<tr><td>1</td><td>144 000</td><td>0.833</td><td>119 952</td><td>*</td></tr>
<tr><td>2</td><td>92 400</td><td>0.694</td><td>64 125.60</td><td>*(1)*</td></tr>
<tr><td>3</td><td>126 000</td><td>0.579</td><td>72 954</td><td>*</td></tr>
<tr><td></td><td></td><td>NPV</td><td>(2 968.40)</td><td>(1)of</td></tr>
</table></td><td>7</td></tr>
<tr><td>6(d)</td><td>The net cash flow generated over the 3 years is $102 400 (1). This cash can be put to other uses within the business (1).
Production levels have increased up to 42 000 from 40 000 (1). This means that the business can increase its market (1) and potentially its profit (1) max
The net present value is positive with a cost of capital at 14%. (1)
The discounted net cash flows exceed the initial cost of the investment (1)
The internal rate of return is larger than the cost of capital (1)
The return of the investment is greater than the cost (1)
Max 5</td><td>5</td></tr>
<tr><td></td><td></td><td>25</td></tr>
</table>