Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 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.

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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)(i)	12 000 units · $80 = $960 000 **(1)**	**1**
1(a)(ii)	12 000 units · $50 = $600 000 **(1)**	**1**
1(a)(iii)	$80 000 · 1.5 = $120 000 **(1)**	**1**
1(a)(iv)	Opening inventory = 1500 units · $50 = $75 000 **(1)** Closing inventory = 3500 units · $50 = $175 000 **(1)** Average = $125 000 **(1) OF**	**3**
1(b)	It calculates the number of days between paying for goods purchased **(1)** and receiving the money for goods sold **(1)**. **Or:** The number of days to convert the net current assets **(1)** into cash **(1)**	**2**
1(c)	Inventory turnover = $\frac{125\,000}{600\,000}$ **(1) OF** · 365 = 76.04 days / 77 days **(1) OF** Trade receivables collection = $\frac{120\,000}{960\,000}$ **(1) OF** · 365 = 45.63 days / 46 days **(1) OF** Trade payables payment = $\frac{62\,000}{700\,000}$ **(1)** · 365 = 32.33 days / 33 days **(1)** Working capital cycle =77 + 46 – 33 = 90 days **(1) OF**	**7**
1(d)	New revenue = 12 000 at $90 = $1 080 000 **(1)** New trade receivables = $90 000 **(1)** New trade receivables collection = $\frac{90\,000}{1\,080\,000}$ **(1) OF** · 365 = 30.42 days / 31 days **(1) OF** New working capital cycle =77 + 31 – 33 = 75 days **(1) OF** **or** 90 – 46 +31 = 75 days **(1) OF**	**5**

Question	Answer	Marks
1(e)	Strategy would reduce/improve the working capital cycle **(1) OF** by 15 days **(1) OF** The liquidity of the business has improved **(1)** The strategy would reduce the overdraft **(1)** The business would benefit from a lower working capital cycle **(1)** Profitability would increase **(1)** May not be realistic to expect no change in demand **(1)** Not all customers may take the discount **(1)** **Accept other valid points.** Decision **(1) and max 4 marks** for discussion.	**5**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
N plc
Income Statement for the year ended 31 December 2017
<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Revenue</td><td></td><td></td><td>2 348 000</td><td>(1)</td></tr>
<tr><td>Cost of sales</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Opening inventory</td><td>241 000</td><td>)</td><td></td><td></td></tr>
<tr><td>Purchases</td><td>1 322 000</td><td>)(1)</td><td></td><td></td></tr>
<tr><td>Closing inventory</td><td>(259 200)</td><td>(1)</td><td>1 303 800</td><td>(1) OF</td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>1 044 200</td><td>(1) OF</td></tr>
<tr><td>Distribution costs</td><td></td><td></td><td>(296 000)</td><td></td></tr>
<tr><td>Administrative expenses (W1)</td><td></td><td></td><td>(711 000)</td><td>(7)</td></tr>
<tr><td>Profit from operations</td><td></td><td></td><td>37 200</td><td>(1) OF</td></tr>
<tr><td>Finance charge</td><td></td><td></td><td>(12 000)</td><td>(1)</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>25 200</td><td>(1) OF</td></tr>
</table>
W1 Administrative expenses
<table>
<tr><td>Per trial balance</td><td>674 000</td><td></td></tr>
<tr><td>Dividend paid</td><td>(30 000)</td><td>(1)</td></tr>
<tr><td>Depreciation on building ($720 000 · 1/3 (1)) / 16 years (1)</td><td>15 000</td><td>(1)OF</td></tr>
<tr><td>Depreciation on equipment ($278 000 + $10 000 – $40 000) (1) · 25%</td><td>62 000</td><td>(1)</td></tr>
<tr><td>Profit on disposal of equipment</td><td>(10 000)</td><td>(1)</td></tr>
<tr><td></td><td>711 000</td><td></td></tr>
</table>
</td><td>15</td></tr>
</table>

Question	Answer	Marks
2(b)	| | $ | $ | Land and buildings – revalued amount | | 720 000 (1) Land and buildings – original cost | 600 000 (1) | Accumulated depreciation at 1 January 2017 | (72 000) (1) | | | 528 000 (1) Revaluation reserve at 1 January 2017 | | 192 000 (1) **OF** **Or – alternative presentation** | | $ | $ | Land and buildings – revalued amount | 720 000 (1) | Less: land and buildings – original cost | (600 000) (1) | | | 120 000 (1) Add: accumulated depreciation at 1 January 2017 | | 72 000 (1) Revaluation reserve at 1 January 2017 | | 192 000 (1) **OF**	**5**
2(c)	2017 financial statements non-adjusting event IAS 10 disclosure only/included as a note 2018 financial statements write off/decrease the value of the asset **1 mark** for each valid point but **max 2** for 2017 comments	**3**
2(d)	An impairment loss is the amount by which the carrying amount **(1)** of an asset exceeds its recoverable amount **(1)**	**2**

Question	Answer	Marks
3(a)	\$ Purchase cost 175 000 Freight 15 400 Insurance 3 200 Import duty 1 600 Carriage inwards 2 800 198 000 **(1)** Cost per unit = $\frac{198\,000}{1000}$ = \$198 **(1) OF**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Consignment account
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Goods sent on consignment</td><td>175 000</td><td>(1)</td><td>Cash sales 480 · $257.5</td><td>123 600</td><td>)</td></tr>
<tr><td>Bank</td><td></td><td></td><td>Credit sales 320 · $270</td><td>86 400</td><td>)(1)</td></tr>
<tr><td>Freight</td><td>15 400</td><td>)</td><td>Balance c/d (W1)</td><td>36 720</td><td>(4) OF</td></tr>
<tr><td>Insurance</td><td>3 200</td><td>)(1)</td><td></td><td></td><td></td></tr>
<tr><td>Mahood</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Carriage inwards</td><td>2 800</td><td>)</td><td></td><td></td><td></td></tr>
<tr><td>Import duty</td><td>1 600</td><td>)(1)</td><td></td><td></td><td></td></tr>
<tr><td>Advertising</td><td>9 700</td><td>)</td><td></td><td></td><td></td></tr>
<tr><td>Carriage outwards</td><td>3 300</td><td>)(1)</td><td></td><td></td><td></td></tr>
<tr><td>Bad debt 16 · $270</td><td>4 320</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Commission (W2)</td><td>10 000</td><td>(2)</td><td></td><td></td><td></td></tr>
<tr><td>Income statement</td><td>21 400</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td>246 720</td><td></td><td></td><td>246 720</td><td></td></tr>
</table>

W1 Closing inventory
<table>
<tr><th></th><th>$</th><th></th></tr>
<tr><td>(1 000 – 480 – 320 – 60) = 140 (1) · $198 (1) OF</td><td>27 720</td><td></td></tr>
<tr><td>60 · $150</td><td>9 000</td><td>(1)</td></tr>
<tr><td></td><td>36 720</td><td>(1) OF</td></tr>
</table>

W2 Commission
Total sales $123 600 + $86 400 = $210 000 (1)
a = 5% · ($210 000 – a)
a = $10 000 (1)
</td><td>13</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
The consignee – Mahood
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Cash sales</td><td>123 600</td><td>)</td><td></td><td></td><td></td></tr>
<tr><td>Credit sales</td><td>86 400</td><td>)(1) OF</td><td>Bank – Advance payment</td><td>55 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Import duty</td><td>1 600</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Carriage inwards</td><td>2 800</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Advertising</td><td>9 700</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Carriage outwards</td><td>3 300</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Bad debt</td><td>4 320</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Commission</td><td>10 000</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Bank to Y Limited (balance)</td><td>123 280</td><td>(1) OF</td></tr>
<tr><td></td><td>210 000</td><td></td><td></td><td>210 000</td><td></td></tr>
</table>
</td><td>5</td></tr>
<tr><td>3(d)</td><td>
Consigning goods to Mahood
can test the overseas market before investing heavily
there would be no initial set up costs of a branch
the current consignment arrangements are profitable
existing customer base/reputation/knowledge of existing market is already established
less risk in terms of overseas economic, political, cultural and social environment
Opening a branch overseas
would have complete control of the business activities, i.e. marketing strategy
there would be a saving of commission to Mahood
allows expansion overseas if local market is saturated.
(Max 2 marks) for discussing consigning goods and (Max 2 marks) for discussing overseas branch;
(1 mark) for recommendation.
</td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>
Ephraim and Fikriyah
Statement of financial position at 1 October 2017
<table>
<tr><th></th><th>$</th><th></th><th>$</th><th></th></tr>
<tr><td>Non-current assets</td><td></td><td></td><td>170 000</td><td>(1)</td></tr>
<tr><td>Current assets</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Inventories</td><td>18 500</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Trade receivables</td><td>24 500</td><td></td><td></td><td></td></tr>
<tr><td>Cash and cash equivalents</td><td>7 500</td><td></td><td>50 500</td><td>(1)</td></tr>
<tr><td>Total assets</td><td></td><td></td><td>220 500</td><td>(1) OF</td></tr>
<tr><td>Capital and liabilities</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Capital accounts (W1):</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Ephraim</td><td>72 500</td><td></td><td></td><td></td></tr>
<tr><td>Fikriyah</td><td>122 000</td><td></td><td>194 500</td><td>(8)</td></tr>
<tr><td>Current liabilities</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Trade payables</td><td></td><td></td><td>26 000</td><td>(1)</td></tr>
<tr><td>Total equity and liabilities</td><td></td><td></td><td>220 500</td><td></td></tr>
</table>
<table>
<tr><th>W1</th><th>Capital accounts
Ephraim
$</th><th></th><th>Fikriyah
$</th><th></th></tr>
<tr><td>Balance b/d</td><td>60 000</td><td></td><td>120 000</td><td>(1) both</td></tr>
<tr><td>Goodwill</td><td>10 000</td><td></td><td>6 000</td><td>(1) both</td></tr>
<tr><td>Goodwill</td><td>(8 000)</td><td>(1)</td><td>(8 000)</td><td>(1)</td></tr>
<tr><td>Non-current assets</td><td>10 000</td><td></td><td>5 000</td><td>(1) both</td></tr>
<tr><td>Inventories</td><td>500</td><td></td><td>(1 000)</td><td>(1) both</td></tr>
<tr><td></td><td>72 500</td><td>(1) OF</td><td>122 000</td><td>(1) OF</td></tr>
</table>
</td><td>13</td></tr>
</table>

Question	Answer	Marks
4(b)	As profits are shared equally both Ephraim and Fikriyah would receive $50 000 in the first year. **(1)** Second year profits are $90 000 **(1)**, third year $81 000 **(1)** and fourth year $72 900. **(1)** Ephraim is worse off (throughout the period). **(1)** Fikriyah is better off for years one, two and three **(1)** but is also worse off in year four. **(1)** Fikriyah is contributing significantly more capital but only receiving half the profit **(1) OF** The profits may not have been maintained by the sole traders for this four-year period **(1)** It would appear that the merger is beneficial for Fikriyah/not for Ephraim. **(1)** The partners should take action to reverse the trend in falling profit **(1)** The synergies from partnership will make it more efficient **(1)** **Accept other valid points.**	**12**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)(i)</td><td>
<table>
<tr><th>Year</th><th>Inflows</th><th></th><th>Outflows</th><th></th><th>Net cash flow</th><th>Discount factor</th><th>Discounted cash flows</th><th></th></tr>
<tr><td>0</td><td></td><td></td><td>100 000</td><td></td><td>(100 000)</td><td></td><td>(100 000)</td><td>(1)</td></tr>
<tr><td>1</td><td></td><td></td><td>180 000</td><td>(1)</td><td>(180 000)</td><td>0.909</td><td>(163 620)</td><td>(1) OF</td></tr>
<tr><td>2</td><td>35 000</td><td>}</td><td>15 500</td><td>(1)</td><td>19 500</td><td>0.826</td><td>16 107</td><td>(1) OF</td></tr>
<tr><td>3</td><td>40 000</td><td>} (1)</td><td>16 000</td><td>(1)</td><td>24 000</td><td>0.751</td><td>18 024</td><td>(1) OF</td></tr>
<tr><td>4</td><td>50 000</td><td></td><td>17 000</td><td>(1)</td><td>33 000</td><td>0.683</td><td><u>22 539</u></td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>(206 950)</td><td></td></tr>
<tr><td>4</td><td>290 000</td><td></td><td></td><td></td><td></td><td>0.683</td><td><u>198 070</u></td><td>(1)</td></tr>
<tr><td>NPV</td><td></td><td></td><td></td><td></td><td></td><td></td><td><u>(8 880)</u></td><td>(1) OF</td></tr>
</table>
</td><td>12</td></tr>
<tr><td>5(a)(ii)</td><td>
<table>
<tr><th>Year</th><th>Inflows</th><th>Outflows</th><th>Net cash flow</th><th>Discount factor</th><th>Discounted cash flows</th><th></th></tr>
<tr><td colspan="5">Discounted cash flows before sales proceeds</td><td>(206 950)</td><td>(1) OF</td></tr>
<tr><td>4</td><td>315 000</td><td></td><td></td><td>0.683</td><td><u>215 145</u></td><td>(1)</td></tr>
<tr><td>NPV</td><td></td><td></td><td></td><td></td><td><u>8 195</u></td><td>(1) OF</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>5(b)</td><td>$\frac{206\,950}{0.683}$ (1) OF (1) = $303 001 (1) OF</td><td>3</td></tr>
</table>

Question	Answer	Marks
5(c)	Both positive and negative NPVs are small in relation to the outlay. Decision would depend on how risk-averse Jason is. The project pays back even at the lower sales value. There are a lot of assumptions being made even without the final sales proceeds. Jason may get more for the building if he sold the flats individually rather than as a block. **Accept other valid points.** **(1)** for decision and **(max 4)** for comments	**5**
5(d)	Payback ignores the time value of money Payback ignores the length of a project Payback ignores cash flows arising after the payback period Projects with the same NPVs could have different patterns of cash movements and hence have different payback periods. **Accept other valid points.** Any two for **(1)** mark each	**2**

Question	Answer	Marks
6(a)	Responses could include: the setting of standards is time consuming/costly e.g. needs a specialist standards need to be updated regularly as business conditions change rapidly too high a standard may have a demotivating effect on staff setting standards involves prediction which has an element of uncertainty/inaccurate **(1 mark)** · 2 limitations	**2**
6(b)(i)	Direct materials price variance $ (15 360 · $80) – $1 190 400 38 400 (F)	**2**
6(b)(ii)	Direct materials usage variance (15 360 – 4800 · 3) · $80 76 800 (A)	**2**
6(b)(iii)	Direct labour rate variance (55 200 · $30) – $1 766 400 110 400 (A)	**2**
6(b)(iv)	Direct labour efficiency variance (55 200 – 4800 · 12) · $30 72 000 (F)	**2**
6(b)(v)	Fixed overhead expenditure variance $600 000 – $579 600 20 400 (F)	**2**
6(b)(vi)	Fixed overhead volume variance $600 000 – $576 000 24 000 (A)	**2**

Question	Answer	Marks
6(b)	For reference: $ Direct materials 3 · $80 240 Direct labour 12 · $30 360 Production overhead 12 · $10 120 Unit production cost 720 Static budget $ Direct materials 5 000 · $240 1 200 000 Direct labour 5 000 · $360 1 800 000 Production overhead 5 000 · $120 600 000 Production cost for 5 000 units 3 600 000	
6(c)	$ Budgeted cost **W1** 3 456 000 **(4) OF** Direct material price variance (38 400) **} (1) OF** Direct material usage variance 76 800 **}** Direct labour rate variance 110 400 **} (1) OF** Direct labour efficiency variance (72 000) **}** Fixed OH expenditure variance (20 400) **} (1) OF** Fixed OH volume variance 24 000 **}** Production cost 3 536 400 **(1)** **W1** Flexed budget $ Direct materials 4 800 · $240 1 152 000 **(1)** Direct labour 4 800 · $360 1 728 000 **(1)** Production overhead 4 800 · $120 576 000 **(1)** Production cost for 4 800 units 3 456 000 **(1) OF**	**8**

Question	Answer	Marks
6(d)	Increasing selling price may lose existing customers May gain new customers looking for high quality product Higher quality product will enhance the reputation of the business Will adversely affect the material price variance May improve material usage variance/less wastage May further improve labour efficiency variance with the use of high quality materials **Accept other valid points.** **(2) marks** for justification and **(1) mark** for decision.	**3**