**Cambridge Assessment International Education**
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING** **9706/31**

Paper 3 Structured Questions **October/November 2017**

MARK SCHEME

Maximum Mark: 150

**Published**

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| Question | Answer | Marks |
|---|---|---|
| 1(a) | Responses could include:<br><br>• Better control of manufacturing cost.<br>• Transferred price is compared with market price.<br>• Manufacturing department is a profit centre.<br>• Better way to measure the performance of the manufacturing department.<br><br>**1 mark** for each valid point, max 3. | **3** |

| Question | Answer | | | | Marks |
|---|---|---|---|---|---|
| 1(b) | Ted Manufacturing account for year ended 31 December 2016 | | | | **10** |
| | | | $ | $ | |
| | Opening inventory of raw materials | | | 52 000 | |
| | Purchases | | | 484 000 | |
| | Carriage inwards | | | 21 000 | **(1)** |
| | | | | 557 000 | |
| | Closing inventory of raw materials | | | 67 000 | |
| | Cost of raw materials consumed | | | 490 000 | **(1) OF** |
| | Direct expenses | | | 120 000 | |
| | Direct wages | | | 626 000 | |
| | Prime cost | | | 1 236 000 | **(1) OF** |
| | Indirect wages | | | 132 000 | |
| | Factory overheads | | | 510 900 | |
| | Depreciation of factory machinery | **W1** | | 8 100 | **(1)** |
| | Rent | **W2** | | 360 000 | **(1)** |
| | Heat and light | **W3** | | 133 500 | **(1)** |
| | Insurance and rates | **W4** | | 64 500 | **(1)** |
| | | | | 2 445 000 | |
| | Opening work in progress | | 97 000 | | |
| | Closing work in progress | | 102 000 | (5 000) | **(1)** |
| | Cost of production | | | 2 440 000 | |
| | Add : 20% mark-up | | | 488 000 | **(1) OF** |
| | Transferred to the trading section of Income Statement | | | 2 928 000 | **(1) OF** |
| | **W1** Depreciation of factory machinery ($330 000 – $276 000) × 15% = $8100 | | | | |
| | **W2** Rent ($440 000 + $40 000) × 3/4 = $360 000 | | | | |
| | **W3** Heat and light $178 000 × 3/4 = $133 500 | | | | |
| | **W4** Insurance and rates ($92 000 – $6000) × 3/4 = $64 500 | | | | |

| Question | Answer | Marks |
|---|---|---|
| 1(c) | Ted Income Statement (trading section) for the year ended 31 December 2016<br><br>\| | \$ | \$ \|<br>\| Revenue | | 4 268 000 \|<br>\| Opening inventory of finished goods | 146 400 **(1)** | \|<br>\| Cost of production transferred | 2 928 000 **(1) OF** | \|<br>\| | 3 074 400 | \|<br>\| Closing inventory of finished goods **W1** | 241 440 **(3)** | \|<br>\| Cost of goods sold | | 2 832 960 \|<br>\| Gross profit | | 1 435 040 **(1) OF** \|<br><br>**W1** Opening inventory \$122 000 × 120% **(1)** = \$146 400<br>Closing inventory<br>Unrealised profit \$122 000 × 20% + \$15 840 **(1)** = \$40 240 **(1)**<br>\$40 240 × 120 / 20 = \$241 440 **(1)OF** | **6** |
| 1(d) | Finished goods 241 440 **(1) OF**<br>Less : Unrealised profit 40 240<br>201 200 **(1) OF** | **2** |
| 1(e) | Responses could include:<br><br>Ted should consider accepting the extra order **(1)** as his production unit cost \$30.50 is higher than the unit cost \$28 demanded by the external supplier. **(1)**<br>Unit production cost is \$2 440 000 **(OF)** / 80 000 = \$30.50 **(1)**<br><br>Accepting the order can also maintain the goodwill with the customer. **(1)**<br>However, he should also consider whether the product quality can be maintained. **(1)**<br><br>**1 mark** for the decision and **max 3 marks** for relevant points. | **4** |

| Question | Answer | Marks |
|---|---|---|
| 2(a) | The capital of a sole trader is his own investment **(1)** The accumulated fund is the surplus funds gained by the club from the members. **(1)**<br>The capital is increased by profits. **(1)** The fund is increased by surpluses. **(1)**<br>Capital is reduced by losses or drawings. **(1)** The fund is decreased by deficits. **(1)**<br><br>**Max 2** | **2** |
| 2(b) | The EF Tennis Club shop income statement for the year ended 31 December 2016<br><br>\| | \$ | \$ | |<br>\| Sales | | 8 960 | |<br>\| Inventory at 1 Jan 2016 | 975 | | |<br>\| Purchases **W1** | 5 960 **(2)** | | |<br>\| Inventory at 31 Dec 2016 | (826) | 6 109 | |<br>\| | | 2 851 | |<br>\| Shop staff wages | | 2 200 | **(1)** |<br>\| Shop profit | | 651 | **(1) OF**<br><br>**W1** Purchases 5720 – 1210 **(1)** + 1450 **(1)** = 5960 | **4** |

| Question | Answer | Marks |
|---|---|---|
| 2(c) | EF Tennis Club<br>Income and expenditure account for the year ended 31 December 2016<br><br>Subscriptions **W1** 3 610 **(4)**<br>Shop profit 651 **(1) OF**<br>Caterer's rent **W2** 2 400 **(1)**<br>Match ticket sales 2 740 — 9 401<br><br>Depreciation **W3** 1 426 **(1)**<br>Printing 3 765<br>Groundsmen's wages 4 210<br>Bad debts 54 **(1)**<br>Loss on sale of equp. 149 **(1)** — 9 595<br><br>Deficit for the year — (194) **(1) OF**<br><br>**W1** Subscriptions 3600 + 180**(1)** + 90**(1)** – 260**(1)** = 3610 **(1) OF**<br>**W2** Rent 2600 – 200<br>**W3** Depreciation 14 760 + 1400 – 1900 = 14 260 × 10% | **10** |
| 2(d) | Statement of Financial Position (Extract) at 31 December 2016<br><br>Current assets<br>Shop inventory 826<br>Subscriptions in arrears 90 **(1)**<br>Bank and cash 8 911 **(1)** — 9 827<br><br>Current liabilities<br>Trade payables 1 450<br>Subscriptions in advance 260 **(1)**<br>Rents in advance 200 **(1)** — 1910<br>7917 | **4** |

| Question | Answer | Marks |
|---|---|---|
| 2(e) | Yes **(1)**<br>The donation was for a specific purpose **(1)** and so should not be paid into the current account **(1)** in case it is not used for that purpose.<br>It is for future use **(1)** and so can be used to earn interest in the interval. **(1)**<br>It will ensure that the members appreciate the amount of funds available for current running costs **(1)** and what are reserved for a special purpose. **(1)**<br>Any payments made for the purpose of expanding the facilities will be paid from this account **(1)** and so ensuring members know about any ongoing developments. **(1)**<br>**Decision (1)**, **Justification Max 4** | **5** |

| Question | Answer | Marks |
|---|---|---|
| 3(a) | Provides comparison with previous years. **(1)**<br>Provides comparison with competitors. **(1)**<br>Highlights issues of performance that can be investigated. **(1)**<br>**Max 2** | **2** |
| 3(b)(i) | $\frac{550\,000 - 12\,000}{900\,000}$ = \$0.60 **(1)** | **5** |
| 3(b)(ii) | $\frac{1.75}{0.60}$ = 2.92 or 2.93 (times) **(1)OF** | |
| 3(b)(iii) | $\frac{0.08}{1.75} \times 100\%$ = 4.57% **(1)** | |
| 3(b)(iv) | $\frac{550\,000 - 12\,000}{72\,000}$ = 7.47 times **(1)**<br>All answers to 2 decimal places **(1) OF** | |
| 3(c) | $\frac{500\,000 - 12\,000}{600\,000}$ = \$0.81 **(1)**<br>$\frac{1.50}{0.81}$ = 1.85 (times) **(1)**<br>$\frac{0.10}{1.50} \times 100\%$ = 6.67% **(1)**<br>$\frac{500\,000 - 12\,000}{600\,000}$ = 8.13 times **(1)** | **4** |

| Question | Answer | Marks |
|---|---|---|
| 3(d)(i) | There has been a fall of 26.25% in the EPS. **(1)**<br>This indicates a poorer outcome for the shareholder. **(1)**<br>As the profit has risen the fall is due to the share issue. **(1)**<br><br>There has been a rise of 57.84% in the PE ratio. **(1)**<br>This is a positive result. **(1)**<br>This is due to the increase in price combined with the fall in earnings per share. **(1)**<br><br>There has been a fall of 31.48% in the dividend yield. **(1)**<br>This is a negative outcome. **(1)**<br>This is due to the decreased dividend paid and increased market price. **(1)**<br><br>There has been a fall of 8.13% in the dividend cover. **(1)**<br>This is a negative result. **(1)**<br>This is due to the increased total dividend not being matched by the available profits. **(1)**<br><br>Overall the trend is not good **(1)** but as the price earnings ratio did improve - this indicates confidence. **(1)**<br>There are only 2 years results to analyse – more would be beneficial. **(1)**<br>Also beneficial to analyse alongside another similar company. **(1)**<br>There may be other factors which have affected the results. **(1)**<br><br>**Max. 2 for each ratio – 1 for rise/fall – 1 for better/worse and/or explanation.**<br>**Max. 2 for other comments.**<br>**Max. 8** | **8** |
| 3(d)(ii) | The issue of the debentures will increase the gearing. **(1)**<br>A greater proportion of profits will be paid to these holders lowering availability to Bevin. **(1)**<br>Bevin may not receive dividends in years of low profits. **(1)**<br>The market value, however, has risen and this may continue. **(1)**<br>Interest payment and capital repayment on the debenture has to be paid regardless of the level of profits. **(1)** This could affect possible dividend payment to Bevin. **(1)**<br>Bevin should not invest **(1)** without further information. **(1)**<br>**Max. 5 + 1 decision.** | **6** |

| Question | Answer | Marks |
|---|---|---|
| 4(a) | The account which records the introduction **(1)** or withdrawal **(1)** of funds/assets of a person into the business. | **2** |
| 4(b) | Capital account – Armfield<br>Cash 4 000 **}(1)** — Balance b/d 100 000<br>Reveal 7 000<br>Balance c/d 89 000 **(1) OF**<br>100 000 — 100 000<br>Balance b/d 89 000<br><br>Capital account – Bonetti<br>Cash 5 000 **}(1)** — Balance b/d 150 000 **(1)**<br>Reveal — 8 000 **} (1)**<br>Balance c/d 153 000 ***(1) OF**<br>158 000 — 158 000<br>Balance b/d 153 000<br><br>* Transfer to new partnership capital accounts | **6** |
| 4(c) | Partnership Capital accounts<br>Details / Armfield $ / Bonetti $ — Details / Armfield $ / Bonetti $<br>Balance b/d 89 000 — 153 000<br>Cash 28 000 **(1)of** — Cash 36 000 **(1)of**<br>Balance c/d 125 000 125 000<br>125 000 153 000 — 125 000 153 000<br>Balance b/d 125 000 — 125 000 **(1)** | **3** |

| Question | Answer | Marks |
|---|---|---|
| 4(d) | Armfield and Bonetti<br>Statement of Financial Position at 1 January 2017<br><br>$ $<br>Non-current assets 225 000 **(1)**<br>Current assets<br>Inventories 18 000 **}(1)**<br>Trade receivables 13 000 **}**<br>Cash and cash equivalents 8 000 **(1) OF** 39 000<br>Total assets 264 000<br><br>Capital accounts:<br>Armfield 125 000<br>Bonetti 125 000 **(1) both** 250 000<br>Current liabilities<br>14 000 **(1)**<br>Trade payables 264 000 | **5** |
| 4(e) | Based purely on profitability, Armfield benefits by $20 000 **(1)** – Bonetti is worse off by $20 000. **(1)**<br>Only one year's results available, so difficult to form opinion. **(1)**<br>Disadvantages include sharing of profits, possible disagreements and therefore delays to decision making process. **(1)**<br>Advantages include more capital, more expertise. **(1)** | **5** |
| 4(f) | There would be limited liability / separate legal entity. **(1)** Possibility of raising more capital. **(1)**<br>Ownership is transferable. **(1)**<br>More legal formalities. **(1)** Greater expense to maintain. **(1)**<br>Since the partners are close to retirement it is advisable to incorporate. **(1)**<br><br>**Max 2 advantages x 2 marks each (1 mark for identifying, 1 mark for development.)** | **4** |

| Question | Answer | Marks |
|---|---|---|
| 5(a)(i) | Direct Material costs – quantity discounts **(1)** /savings on carriage inwards **(1)** | **4** |
| 5(a)(ii) | Direct labour – more hours worked leading to overtime rates **(1)** / shortage of labour leading to higher wage rates. **(1)** | |
| 5(b)(i) | (90 – 20.4 – 30) – 33 **(1)** = $6.60 **(1)**<br>× 1000 units = $6600 **(1of)** | **3** |
| 5(b)(ii) | (80 – 20.08 – 36) – 22 **(1)** = $1.92 **(1)**<br>1500 units = $2880 **(1of)** | **3** |
| 5(b)(iii) | 6600 – 2880 = $3720 decrease **(1)** | **1** |
| 5(c)(i) | 15 000 A **(2)** = (90 – 80) × 1500 | **8** |
| 5(c)(ii) | 45 000 F **(2)** = (500 × 90)(1500 – 1000) × 90 | |
| 5(c)(iii) | 480 F **(2)** = (5.10 – 5.02) = 0.08 × (4 × 1500) | |
| 5(c)(iv) | 9000 A **(2)** = (10 – 12) × (3 × 1500)<br><br>**Where two marks are given, one is for amount and one for direction.** | |
| 5(d) | Variance analysis reconciles between a flexed budget and actual, **(1)** not between a master budget and actual. **(1)** Only the sales volume variance takes into account the differences from the master budget. **(1)** | **3** |
| 5(e) | Profit decreases **(1)OF**<br>Other reservations **(1)**<br><br>**Decision (1)OF + Max 2 for justification** | **3** |

| Question | Answer | Marks |
|---|---|---|
| 6(a) | Product A $: Sales value 240 000 **(1)**; Overheads 120 000<br>Product B $: Sales value 360 000 **(1)**; Overheads 180 000 **(1) for both**<br>Total $: Sales value 600 000; Overheads 300 000 | **3** |
| 6(b) | Product A $: Direct cost (3.2 + 1.8) 5; Overheads (120 / 20) 6 **(1)OF**; Total 11; Selling price 12; Profit 1 **(1)OF**<br>Product B $: Direct cost (4.9 + 2.1) 7 **(1) for both**; Overheads (180 / 18) 10 **(1)OF**; Total 17; Selling price 20; Profit 3 **(1)OF** | **5** |
| 6(c) | A $ / B $ / Total $:<br>Delivery (100+) 510 / 690 **(1) for both**<br>Delivery (small) 13 280 / 8 920 **(1) for both**<br>13 790 / 9 610<br>Order processing 17 025 / 11 725 **(1) for both**<br>30 185 / 21 335 / 52 150<br>Other overheads 130 447 / 117 403 **(1)OF for both** / 247 850<br>Total 161 262 / 138 738 **(1)OF for both** / 300 000 | **5** |
| 6(d) | A $: Direct cost 5; Overheads (161.2 / 20) 8.06 **(1)OF**; Total 13.06; Selling price 12.00; Profit (1.06) **(1)OF**<br>B $: Direct cost 7 **(1) for both**; Overheads (138.7 / 18) 7.71 **(1)OF**; Total 14.71; Selling price 20.00; Profit 5.29 **(1)OF** | **5** |

| Question | Answer | Marks |
|---|---|---|
| 6(e) | Profit per unit for A is now negative **(1)** although A still has a positive contribution towards fixed costs. **(1)** Profit per unit for B has increased. **(1)**<br><br>The directors should consider increasing the selling price of A. **(1)** Perhaps delivery charges could be charged separately as an addition to the unit price. **(1)**<br><br>Advantage/disadvantage of change of method. **(1)**<br>Motivation/behavioural aspects. **(1)**<br><br>**[1 mark for decision + 1 max method + 1 max non-financial + 2 max for comparison A versus B]** | **5** |
| 6(f) | Cost driver – the separate activities of each department. **(1)**<br>Cost pool – an account collecting the cost of each activity. **(1)** | **2** |