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AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/33

Paper 3 Structured Questions

October/November 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.

<p>GENERIC MARKING PRINCIPLE 1:</p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> 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.
<p>GENERIC MARKING PRINCIPLE 2:</p> <p>Marks awarded are always whole marks (not half marks, or other fractions).</p>
<p>GENERIC MARKING PRINCIPLE 3:</p> <p>Marks must be awarded positively:</p> <ul style="list-style-type: none"> 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.
<p>GENERIC MARKING PRINCIPLE 4:</p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>

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)	$\frac{21}{(126 - 21)} \times 100 = 20\% \text{ (1) OF}$ <p>OR</p> $\frac{16}{(96 - 16)} \times 100 = 20\% \text{ (1) OF}$	3																																	
1(b)	<p style="text-align: center;">CL plc Manufacturing Account for the year ended 31 December 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 5%; text-align: center;">\$</td> <td style="width: 45%;"></td> </tr> <tr> <td>Prime cost</td> <td></td> <td style="text-align: right;">780 000</td> </tr> <tr> <td>Factory overheads</td> <td></td> <td style="text-align: right;">202 000 (1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">982 000</td> </tr> <tr> <td>Work in progress – opening</td> <td></td> <td></td> </tr> <tr> <td>– closing</td> <td></td> <td style="text-align: right;">17 000</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">25 000</td> </tr> <tr> <td>Factory cost of finished goods</td> <td></td> <td style="text-align: right;">(8 000) (1)</td> </tr> <tr> <td>Factory profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">974 000</td> </tr> <tr> <td>Transfer to income statement</td> <td></td> <td style="text-align: right;">194 800 (1) OF</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">1 168 800 (1) OF</td> </tr> </table>		\$		Prime cost		780 000	Factory overheads		202 000 (1)			982 000	Work in progress – opening			– closing		17 000			25 000	Factory cost of finished goods		(8 000) (1)	Factory profit		974 000	Transfer to income statement		194 800 (1) OF			1 168 800 (1) OF	4
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1(d)	<p>Is there a guarantee of supply? (1)</p> <p>Is there a way to control quality? (1)</p> <p>How many costs are fixed and will still have to be paid? (1)</p> <p>If staff are laid off now can they be re-employed later on? (1)</p> <p>Decision (1) Justification (Max 3)</p>	4																																																						

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1(e)(i)	Total of direct costs (1)	1
1(e)(ii)	Any suitable example e.g. purchase of raw materials, carriage on raw materials, machine operators' wages (1)	1
1(e)(iii)	Any suitable example e.g. depreciation of factory machinery, supervisor's salary, factory rent, factory insurance (1)	1

Question	Answer	Marks
2(a)	<p>They provide additional information at the end of the financial statements. (1)</p> <p>They provide further explanation of specific items in the financial statements. (1)</p> <p>They explain the accounting methods and policies used to prepare the accounts. (1)</p> <p>They ensure transparency of financial statement figures. (1)</p> <p>Accept other valid points.</p> <p>Max 3</p>	3
2(b)	<p>Depreciation buildings: $160\,000 \times 5\% = 8000$ (1)</p> <p>Depreciation fixtures and fittings: $95\,000 \times 15\% = 14\,250$ (1)</p> <p>$20\,000 \times 15\% \times \frac{9}{12} = 2250$ (1) OF</p> <p>Total = 14 250 + 2250 = 16 500 (1) OF</p> <p>Depreciation motor vehicles: $30\,000 \times 20\% \times \frac{9}{12} = 4500$ (1)</p> <p>$22\,000 \times 20\% \times \frac{3}{12} = 1100$ (1)</p> <p>Total = 4500 + 1100 = 5600 (1) OF</p>	7

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2(c)	<p data-bbox="215 672 287 1523">Note to the Statement of Financial position at 30 September 2017</p> <p data-bbox="215 1064 247 1131">S plc</p> <p data-bbox="319 1512 351 1915">Property, plant and equipment</p> <table border="1" data-bbox="383 504 1021 1803"> <thead> <tr> <th data-bbox="391 1736 422 1803">Cost</th> <th data-bbox="391 1198 422 1332">Land and buildings</th> <th data-bbox="391 974 422 1153">Fixtures and fittings</th> <th data-bbox="391 806 422 929">Motor vehicles</th> <th data-bbox="391 638 422 716">Total</th> </tr> </thead> <tbody> <tr> <td data-bbox="454 1444 486 1803">Balance at 1 October 2016</td> <td data-bbox="454 1198 486 1332">200 000</td> <td data-bbox="454 974 486 1153">95 000</td> <td data-bbox="454 806 486 929">43 000</td> <td data-bbox="454 638 486 716">338 000 *</td> </tr> <tr> <td data-bbox="502 1657 534 1803">Purchases</td> <td data-bbox="502 1198 534 1332">20 000</td> <td data-bbox="502 974 534 1153"></td> <td data-bbox="502 806 534 929"></td> <td data-bbox="502 638 534 716">20 000 (1)</td> </tr> <tr> <td data-bbox="550 1668 582 1803">Disposals</td> <td data-bbox="550 1198 582 1332"></td> <td data-bbox="550 974 582 1153"></td> <td data-bbox="550 806 582 929">(10 000)</td> <td data-bbox="550 638 582 716">(10 000) (1)</td> </tr> <tr> <td data-bbox="598 1388 630 1803">Balance at 30 September 2017</td> <td data-bbox="598 1198 630 1332"><u>200 000</u></td> <td data-bbox="598 974 630 1153"><u>115 000</u></td> <td data-bbox="598 806 630 929"><u>33 000</u></td> <td data-bbox="598 638 630 716"><u>348 000 (1) OF</u></td> </tr> <tr> <td data-bbox="678 1624 710 1803">Depreciation</td> <td data-bbox="678 1198 710 1332"></td> <td data-bbox="678 974 710 1153"></td> <td data-bbox="678 806 710 929"></td> <td data-bbox="678 638 710 716"></td> </tr> <tr> <td data-bbox="718 1444 750 1803">Balance at 1 October 2016</td> <td data-bbox="718 1198 750 1332">70 000</td> <td data-bbox="718 974 750 1153">28 000</td> <td data-bbox="718 806 750 929">13 000</td> <td data-bbox="718 638 750 716">111 000 *(1)</td> </tr> <tr> <td data-bbox="758 1668 790 1803">Disposals</td> <td data-bbox="758 1198 790 1332"></td> <td data-bbox="758 974 790 1153"></td> <td data-bbox="758 806 790 929">(2 000)</td> <td data-bbox="758 638 790 716">(2 000) (1)</td> </tr> <tr> <td data-bbox="798 1534 829 1803">Charge for the year</td> <td data-bbox="798 1198 829 1332">8 000</td> <td data-bbox="798 974 829 1153">16 500</td> <td data-bbox="798 806 829 929">5 600</td> <td data-bbox="798 638 829 716">30 100 (1) OF</td> </tr> <tr> <td data-bbox="837 1388 869 1803">Balance at 30 September 2017</td> <td data-bbox="837 1198 869 1332"><u>78 000</u></td> <td data-bbox="837 974 869 1153"><u>44 500</u></td> <td data-bbox="837 806 869 929"><u>16 600</u></td> <td data-bbox="837 638 869 716"><u>139 100 (1) OF</u></td> </tr> <tr> <td data-bbox="909 1601 941 1803">Net book value</td> <td data-bbox="909 1198 941 1332"></td> <td data-bbox="909 974 941 1153"></td> <td data-bbox="909 806 941 929"></td> <td data-bbox="909 638 941 716"></td> </tr> <tr> <td data-bbox="949 1444 981 1803">Balance at 30 September 2017</td> <td data-bbox="949 1198 981 1332">122 000</td> <td data-bbox="949 974 981 1153">70 500</td> <td data-bbox="949 806 981 929">16 400</td> <td data-bbox="949 638 981 716">208 900</td> </tr> <tr> <td data-bbox="989 1388 1021 1803">Balance at 30 September 2016</td> <td data-bbox="989 1198 1021 1332">130 000</td> <td data-bbox="989 974 1021 1153">67 000</td> <td data-bbox="989 806 1021 929">30 000</td> <td data-bbox="989 638 1021 716">227 000</td> </tr> <tr> <td data-bbox="1053 1769 1085 1915">* Balances</td> <td data-bbox="1053 1198 1085 1332"></td> <td data-bbox="1053 974 1085 1153"></td> <td data-bbox="1053 806 1085 929"></td> <td data-bbox="1053 638 1085 716">} (1) OF both</td> </tr> </tbody> </table>	Cost	Land and buildings	Fixtures and fittings	Motor vehicles	Total	Balance at 1 October 2016	200 000	95 000	43 000	338 000 *	Purchases	20 000			20 000 (1)	Disposals			(10 000)	(10 000) (1)	Balance at 30 September 2017	<u>200 000</u>	<u>115 000</u>	<u>33 000</u>	<u>348 000 (1) OF</u>	Depreciation					Balance at 1 October 2016	70 000	28 000	13 000	111 000 *(1)	Disposals			(2 000)	(2 000) (1)	Charge for the year	8 000	16 500	5 600	30 100 (1) OF	Balance at 30 September 2017	<u>78 000</u>	<u>44 500</u>	<u>16 600</u>	<u>139 100 (1) OF</u>	Net book value					Balance at 30 September 2017	122 000	70 500	16 400	208 900	Balance at 30 September 2016	130 000	67 000	30 000	227 000	* Balances				} (1) OF both	8
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2(d)	<p>Annual cost to the company would be \$6000 for the preference shares (1) and \$5000 for the debentures. (1) The company could decide whether or not to pay dividends to the ordinary shareholders (1) but control could be lost. (1)</p> <p>The interest paid on the debentures reduces the profit before tax (1) and debentures must be redeemed. (1) Both debentures and preference shares increase the gearing of the company. (1)</p> <p>Since the cost of debentures is less (1) the directors should be advised to issue the debenture. (1)</p> <p>Accept other valid points.</p> <p>Recommendation (1) and Justification Max 6</p>	7

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3(a)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Sales (950 + 840)</td> <td style="text-align: right;">1790 (1)</td> </tr> <tr> <td>Purchase (400 + 120 + 200)</td> <td style="text-align: right;">(720) (1)</td> </tr> <tr> <td>Packaging</td> <td style="text-align: right;">(60) *</td> </tr> <tr> <td>Repairs</td> <td style="text-align: right;">(380) *</td> </tr> <tr> <td>Rental</td> <td style="text-align: right;">(180) *</td> </tr> <tr> <td>Advertising</td> <td style="text-align: right;">(90) * all*(1)</td> </tr> <tr> <td>Profit</td> <td style="text-align: right; border-top: 1px solid black;">360 (1) OF</td> </tr> </table>	Sales (950 + 840)	1790 (1)	Purchase (400 + 120 + 200)	(720) (1)	Packaging	(60) *	Repairs	(380) *	Rental	(180) *	Advertising	(90) * all*(1)	Profit	360 (1) OF	4
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3(c)	<p>Both Kia and Zarina have benefitted from each other's contribution to the business. e.g. Zarina has access to Kia's selling markets</p> <p>Access to greater resources and finance therefore no need to borrow</p> <p>Both have been sharing risks and costs with another person so reducing workload</p> <p>(1) for benefit plus (1) for development</p>	2
3(d)	<p>As Kia has sold all the necklaces presumably she has the sales contacts which Zarina does not have. (1)</p> <p>Both have spent approximately equal amounts Kia \$760 and Zarina \$670 (1)</p> <p>If profits are shared equally then Kia would have received \$180 which is \$36 (1) less than she received in the joint venture. (1)</p> <p>Accept other valid points.</p> <p>Recommendation (1) with justification Max 4 marks</p>	5

Question	Answer	Marks
4(a)	<p>A bonus share issue is free (1) and so the company gets no extra funds, (1) but a rights issue has to be paid for. (1) The shareholder can sell on the right to buy a rights issue. (1)</p> <p>The bonus issue will be made from the company's reserves. (1)</p> <p>Accept other valid points.</p>	3

Question	Answer	Marks																																			
4(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Revenue</td> <td style="width: 50%; text-align: right;">\$ 558 000 (1)</td> </tr> <tr> <td>Cost of sales</td> <td></td> </tr> <tr> <td>Inventory at 1 October 2016</td> <td style="text-align: right;">27 000</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">352 000</td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">4 000 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>383 000</u></td> </tr> <tr> <td>Inventory at 30 September 2016</td> <td style="text-align: right;"><u>(359 000) (1) OF</u></td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">199 000</td> </tr> <tr> <td>Selling and distribution expenses</td> <td style="text-align: right;">74 000 (1) W1</td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;"><u>46 000 (1) W2</u> (120 000)</td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;">79 000</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(1 000) (1)</u></td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>78 000 (1) OF</u></td> </tr> </table> <p>Workings: W1 Selling 64 000 + 10 000 (68 000 – 18 000) × 20% 1 whole calculation correct W2 Admin 27 000 + 1000 + 18 000 (1)</p>	Revenue	\$ 558 000 (1)	Cost of sales		Inventory at 1 October 2016	27 000	Purchases	352 000	Carriage inwards	4 000 (1)		<u>383 000</u>	Inventory at 30 September 2016	<u>(359 000) (1) OF</u>	Gross profit	199 000	Selling and distribution expenses	74 000 (1) W1	Administrative expenses	<u>46 000 (1) W2</u> (120 000)	Finance costs	79 000		<u>(1 000) (1)</u>	Profit for the year	<u>78 000 (1) OF</u>	7									
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5(a)	<p>Helps to compare the actual performance with the planned as budgeted to take corrective action.</p> <p>Communication of targets easier – people setting targets understand them.</p> <p>Motivate managers / increase commitment – setting targets.</p> <p>Realistic targets – set by the person doing the job.</p> <p>Improved co-ordination of budget preparation exercise facilitates master budget.</p> <p>Accept other valid points.</p> <p>(2 marks) × any 2 points (1 mark stating + 1 mark for development)</p>	4

Question	Answer	Marks
5(b)	<p>Units 12 000</p> <p>Sales revenue \$ 244 800 (1)</p> <p>Variable costs</p> <p>Direct materials 36 000 (2) W1</p> <p>Direct labour 60 000 (2) W2</p> <p>Direct expenses 24 000 (1) W3</p> <p>Semi variable costs</p> <p>Production overhead 29 000 (5) W4</p> <p>Fixed costs</p> <p>Administration <u>35 000 (1)</u></p> <p><u>184 000</u></p> <p>Profit for the year <u>60 800 (1) OF</u></p> <p>*Only if there is administration.</p> <p>Workings:</p> <p>W1: Direct materials 2 kg × \$1.50 = \$3 (1) × 12 000 units = \$36 000 (1)</p> <p>W2: Direct labour 0.5 hrs × \$10 = \$5 (1) × 12 000 units = \$60 000 (1)</p> <p>W3: Direct expenses \$2 × 12 000 units = \$24 000 (1)</p> <p>W4: Semi variable costs – using high low method</p> $\frac{\$21\,000 - \$15\,000}{8000\text{ units} - 5000\text{ units}} = \frac{6}{3} = \$2\text{ (1) OF} \times 8000\text{ units (1)} = \$16\,000\text{ VC}$ <p>TC \$21 000</p> <p>– VC \$16 000</p> <p>= FC <u>\$5 000 (1)</u> \$2 × 12 000 units = \$24 000 VC (1) OF</p> <p><u>\$5 000 FC</u></p> <p><u>\$29 000 TC (1) OF</u></p>	13

Question	Answer	Marks
5(c)	<p>Budget is based on standards which are never the same as actual data. (1)</p> <p>Actual material price could be different to standard e.g. discounts, market price increase, scarcity. (1)</p> <p>Actual usage / quantity could be different to standard e.g. quality of materials, skills of workers. (1)</p> <p>Labour rate could be different due to more / less skilled staff. (1)</p> <p>Labour hours could be different due to overtime, quality of materials, skills of workers. (1)</p> <p>Sales revenue could be different to standard due to different demand, different sales price. (1)</p> <p>Accept other valid points.</p> <p>Max 4</p>	4
5(d)	<p>Fixed budget does not reflect what has actually happened as it does not compare like with like. (1)</p> <p>Does not allow for meaningful variance analysis so does not aid performance evaluation. (1)</p> <p>Accept other valid points.</p> <p>(Any 2 disadvantages) (1 mark for stating + 1 for development)</p>	4

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6(b)	<p>Average profit = $\frac{25\,400 - 30\,000 (1)}{5 (1)} = -920$</p> <p>Average investment = 15 000 (1)</p> <p>ARR = $\frac{-920}{15\,000} = -6.13\% (1) \text{ OF}$</p>	4																																																												
6(c)	<p>Average profit = $\frac{50\,800 (1) \text{ OF} - 38\,000 (1)}{5 (1)} = 2\,560$</p> <p>Average investment = 19 000 (1)</p> <p>ARR = $\frac{2\,560}{19\,000} = 13.47\% (1) \text{ OF}$</p>	5																																																												
6(d)(i)	Useful for comparisons / easy to calculate (1)	3																																																												
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6(e)	<p>NPV has not been calculated and would be a better indicator (1)</p> <p>Payback has not been calculated (1)</p> <p>Project is risky as, say, weather could destroy crops (1)</p> <p>Project is loss making in early years (1)</p> <p>Labour / rent / price of seeds may change (1)</p> <p>Selling price is governed by the factors outside Asif's control (1)</p> <p>Accept other valid points.</p> <p>Reasonable comments for (1) each</p> <p>Max 5</p>	5