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.

Cambridge International will not enter into discussions about these mark schemes.

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This document consists of **17** printed pages.

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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 = $\dfrac{125\,000}{600\,000}$ **(1) OF** × 365 = 76.04 days / 77 days **(1) OF** Trade receivables collection = $\dfrac{120\,000}{960\,000}$ **(1) OF** × 365 = 45.63 days / 46 days **(1) OF** Trade payables payment = $\dfrac{62\,000}{700\,000}$ **(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 = $\dfrac{90\,000}{1\,080\,000}$ **(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**

Question	Answer	Marks
2(a)	N plc Income Statement for the year ended 31 December 2017	15

	$	$	
Revenue		2 348 000	**(1)**
Cost of sales			
Opening inventory	241 000	**)**	
Purchases	1 322 000	**)(1)**	
Closing inventory	(259 200) **(1)**	1 303 800	**(1) OF**
Gross profit		1 044 200	**(1) OF**
Distribution costs		(296 000)	
Administrative expenses (**W1**)		(711 000)	**(7)**
Profit from operations		37 200	**(1) OF**
Finance charge		(12 000)	**(1)**
Profit for the year		25 200	**(1) OF**

W1 Administrative expenses

Per trial balance	674 000
Dividend paid	(30 000) **(1)**
Depreciation on building ($720 000 × 1/3 **(1)**) / 16 years **(1)**	15 000 **(1)OF**
Depreciation on equipment ($278 000 + $10 000 – $40 000) **(1)** × 25%	62 000 **(1)**
Profit on disposal of equipment	(10 000) **(1)**
	711 000

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)	$$\begin{array}{lr} & \$ \\ \text{Purchase cost} & 175\,000 \\ \text{Freight} & 15\,400 \\ \text{Insurance} & 3\,200 \\ \text{Import duty} & 1\,600 \\ \text{Carriage inwards} & \underline{2\,800} \\ & \underline{198\,000} \textbf{ (1)} \end{array}$$ Cost per unit = $\dfrac{198\,000}{1000}$ = \$198 **(1) OF**	2

Question	Answer	Marks
3(b)	Consignment account	13

	$			$	
Goods sent on consignment	175 000 **(1)**	Cash sales 480 × $257.5	123 600	)
Bank		Credit sales 320 × $270	86 400	)**(1)**
Freight	15 400)	Balance c/d **(W1)**	36 720	**(4) OF**
Insurance	3 200)**(1)**			
Mahood				
Carriage inwards	2 800)			
Import duty	1 600)**(1)**			
Advertising	9 700)			
Carriage outwards	3 300)**(1)**			
Bad debt 16 × $270	4 320 **(1)**			
Commission **(W2)**	10 000 **(2)**			
Income statement	21 400 **(1) OF**			
	246 720		246 720	

W1 Closing inventory $

(1 000 – 480 – 320 – 60) = 140 **(1)** × $198 **(1) OF**   27 720

60 × $150   9 000   **(1)**

                                            36 720   (**1) OF**

W2 Commission

Total sales $123 600 + $86 400 = $210 000 **(1)**

a = 5% × ($210 000 – a)

a = $10 000 **(1)**

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Question	Answer	Marks
3(c)	**The consignee – Mahood**	5

The consignee – Mahood

	$			$	
Cash sales	123 600	)			
Credit sales	86 400	)(1) OF	Bank – Advance payment	55 000	(1)
			Import duty	1 600	
			Carriage inwards	2 800	
			Advertising	9 700	
			Carriage outwards	3 300	
			Bad debt	4 320	(1) OF
			Commission	10 000	(1) OF
			Bank to Y Limited (balance)	123 280	(1) OF
	210 000			210 000	

Question	Answer	Marks
3(d)	**Consigning goods to Mahood**	5

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.

Question	Answer	Marks
4(a)	**Ephraim and Fikriyah** Statement of financial position at 1 October 2017	13

	$	$	
Non-current assets		170 000	**(1)**
Current assets			
Inventories	18 500		**(1)**
Trade receivables	24 500		
Cash and cash equivalents	7 500	50 500	**(1)**
Total assets		220 500	**(1) OF**
Capital and liabilities			
Capital accounts **(W1)**:			
Ephraim	72 500		
Fikriyah	122 000	194 500	**(8)**
Current liabilities			
Trade payables		26 000	**(1)**
Total equity and liabilities		220 500	

Capital accounts

W1	Ephraim	Fikriyah	
	$	$	
Balance b/d	60 000	120 000	**(1) both**
Goodwill	10 000	6 000	**(1) both**
Goodwill	(8 000) **(1)**	(8 000)	**(1)**
Non-current assets	10 000	5 000	**(1) both**
Inventories	500	(1 000)	**(1) both**
	72 500 **(1) OF**	122 000	**(1) OF**

Question	Answer	Marks
4(b)	As profits are shared equally both Ephraim and Fikriyah would receive $50 000 in the first year. **(1)**	12
	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.	

Question	Answer	Marks
5(a)(i)	*(see table below)*	**12**

Year	Inflows		Outflows		Net cash flow	Discount factor	Discounted cash flows	
0			100 000		(100 000)		(100 000)	**(1)**
1			180 000	**(1)**	(180 000)	0.909	(163 620)	**(1) OF**
2	35 000	}	15 500	**(1)**	19 500	0.826	16 107	**(1) OF**
3	40 000	} **(1)**	16 000	**(1)**	24 000	0.751	18 024	**(1) OF**
4	50 000		17 000	**(1)**	33 000	0.683	22 539	**(1) OF**
							(206 950)	
4	290 000					0.683	198 070	**(1)**
NPV							(8 880)	**(1) OF**

Question	Answer	Marks
5(a)(ii)	*(see table below)*	**3**

Year	Inflows	Outflows	Net cash flow	Discount factor	Discounted cash flows	
Discounted cash flows before sales proceeds					(206 950)	**(1) OF**
4	315 000			0.683	215 145	**(1)**
NPV					8 195	**(1) OF**

Question	Answer	Marks
5(b)	$\dfrac{206\,950 \; \textbf{(1) OF}}{0.683 \;\; \textbf{(1)}}$ = $303 001 **(1) OF**	**3**

Question	Answer	Marks
5(c)	Both positive and negative NPVs are small in relation to the outlay.	5
	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(d)	Payback ignores the time value of money	2
	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	

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 $ $(15\,360 \times \$80) - \$1\,190\,400$ 38 400 (F)	**2**
6(b)(ii)	Direct materials usage variance $(15\,360 - 4800 \times 3) \times \$80$ 76 800 (A)	**2**
6(b)(iii)	Direct labour rate variance $(55\,200 \times \$30) - \$1\,766\,400$ 110 400 (A)	**2**
6(b)(iv)	Direct labour efficiency variance $(55\,200 - 4800 \times 12) \times \$30$ 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) — **8**

	$	
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**

Question	Answer	Marks
6(d)	Increasing selling price may lose existing customers	**3**
	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.	