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**ACCOUNTING**

**9706/33**

Paper 3 Structured Questions

**May/June 2017**

MARK SCHEME

Maximum Mark: 150

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**Published**

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This document consists of **16** printed pages.

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Question	Answer	Marks																																				
1(a)	Provide information about the financial position <b>(1)</b> and financial performance <b>(1)</b> , and cash flows <b>(1)</b> of an entity. Useful to a wide range of users in making economic decisions. <b>(1)</b> <b>Max 2</b>	<b>2</b>																																				
1(b)	<div>XY plc – Income Statement for year ended 31 January 2017</div> <table><tr><td></td><td></td><td>\$</td><td></td></tr><tr><td>Revenue</td><td></td><td>985 000</td><td></td></tr><tr><td>Cost of sales</td><td>W1</td><td><u>448 600</u></td><td><b>(3)</b></td></tr><tr><td>Gross profit</td><td></td><td>536 400</td><td></td></tr><tr><td>Distribution costs</td><td>W2</td><td>201 200</td><td><b>(5)</b></td></tr><tr><td>Administrative expenses</td><td>W3</td><td><u>390 428</u></td><td><b>(4)</b></td></tr><tr><td>Loss from operations</td><td></td><td>(55 228)</td><td><b>(1)OF</b></td></tr><tr><td>Finance cost</td><td></td><td><u>5 000</u></td><td><b>(1)</b></td></tr><tr><td>Loss for the year</td><td></td><td><u>(60 228)</u></td><td><b>(1)OF</b></td></tr></table>			\$		Revenue		985 000		Cost of sales	W1	<u>448 600</u>	<b>(3)</b>	Gross profit		536 400		Distribution costs	W2	201 200	<b>(5)</b>	Administrative expenses	W3	<u>390 428</u>	<b>(4)</b>	Loss from operations		(55 228)	<b>(1)OF</b>	Finance cost		<u>5 000</u>	<b>(1)</b>	Loss for the year		<u>(60 228)</u>	<b>(1)OF</b>	<b>15</b>
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1(c)	<div>XY plc</div> <div>Statement of Changes in Equity for year ended 31 January 2017</div> <table><thead><tr><th></th><th>Share</th><th>Share</th><th>Retained</th></tr><tr><th></th><th>\$</th><th>\$</th><th>\$</th></tr></thead><tbody><tr><td>Balance at start of year</td><td>500 000</td><td>120 000</td><td>125 000</td></tr><tr><td>Loss for the year</td><td></td><td></td><td>(60 228) <b>(1) OF</b></td></tr><tr><td>Dividend paid</td><td></td><td></td><td>(20 000) <b>(1)</b></td></tr><tr><td>Bonus shares</td><td><u>50 000</u> <b>(1)</b></td><td><u>(50 000)</u> <b>(1)</b></td><td></td></tr><tr><td>Balance at end of year</td><td><u>550 000</u></td><td><u>70 000</u></td><td><u>44 772</u></td></tr></tbody></table>		Share	Share	Retained		\$	\$	\$	Balance at start of year	500 000	120 000	125 000	Loss for the year			(60 228) <b>(1) OF</b>	Dividend paid			(20 000) <b>(1)</b>	Bonus shares	<u>50 000</u> <b>(1)</b>	<u>(50 000)</u> <b>(1)</b>		Balance at end of year	<u>550 000</u>	<u>70 000</u>	<u>44 772</u>	4
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1(d)	<p>Responses may include:</p> <p>Bonus issue</p> <p>Shareholders may be expecting a cash bonus each year. Stop giving return to shareholders may be a negative signal about the performance of the company Company retains cash for other investment opportunities The interest of shareholders is not diluted by receiving the proportionate number of bonus shares Transfer from reserves</p> <p>Cash dividend</p> <p>Company maintains the practice of giving out cash returns to shareholders constantly Company may have liquidity problem in paying out cash dividend Short term benefit (cash) vs long term benefit (shares value increase). Accept any reasonable alternatives</p> <p>Advice <b>1 mark</b> and <b>3 max</b> for relevant points</p> <p>For each valid point, <b>1 mark</b> for basic explanation and <b>2 marks</b> for developed explanation</p>	4																												
	Total:	25																												

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2(a)	<div><div><div>G Limited</div><div>Revised statement of financial position at 31 December 2016</div><table><tr><td></td><td>\$</td><td></td></tr><tr><td>Non-current assets</td><td>642 000</td><td></td></tr><tr><td>Current assets</td><td></td><td></td></tr><tr><td>    Inventory</td><td>78 000</td><td></td></tr><tr><td>    Trade receivables</td><td>179 400</td><td>(2)</td></tr><tr><td>    Other receivables</td><td>63 000</td><td>(3)</td></tr><tr><td>    Cash and cash equivalents</td><td>54 000</td><td></td></tr><tr><td></td><td>374 400</td><td></td></tr><tr><td> Total assets</td><td> 1 016 400</td><td></td></tr><tr><td> Equity and liabilities</td><td></td><td></td></tr><tr><td>Equity</td><td></td><td></td></tr><tr><td>    Ordinary shares of \$1 each</td><td>550 000</td><td></td></tr><tr><td>    Retained earnings</td><td>258 400</td><td>(4)</td></tr><tr><td></td><td>808 400</td><td></td></tr><tr><td> Current liabilities</td><td></td><td></td></tr><tr><td>    Trade payables</td><td>171 000</td><td></td></tr><tr><td>    Other payables</td><td>37 000</td><td>(1)</td></tr><tr><td></td><td>208 000</td><td></td></tr><tr><td> Total equity and liabilities</td><td> 1 016 400</td><td></td></tr></table></div><div><div>Working</div><div><div>Trade receivables</div><div>\$189 000 – (\$12 000 (1) × 80% (1)) = \$179 400</div></div><div><div>Other receivables</div><div>\$3000 + \$20 000 (1) + \$40 000 (1) = \$63 000 (1)</div></div><div><div>Other payables</div><div>\$10 000 + \$27 000 = \$37 000 (1)</div></div><div><div>Retained earnings</div><div>\$235 000 – \$9600(1) – \$27 000(1) + \$20 000(1) + \$40 000 (1) = \$258 400</div></div></div></div>		\$		Non-current assets	642 000		Current assets			Inventory	78 000		Trade receivables	179 400	(2)	Other receivables	63 000	(3)	Cash and cash equivalents	54 000			374 400		 Total assets	 1 016 400		 Equity and liabilities			Equity			Ordinary shares of \$1 each	550 000		Retained earnings	258 400	(4)		808 400		 Current liabilities			Trade payables	171 000		Other payables	37 000	(1)		208 000		 Total equity and liabilities	 1 016 400		10
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2(b)	<p>Rental deposit paid which is refundable at the end of the lease period should be treated as current asset, i.e. realised within 12 months <b>(1)</b></p> <p>Prepaid rent \$40 000 (<math>\\$200\,000 \times 2 / 10</math>) should be treated as current assets (i.e. realised within 12 months) and only \$160 000 is recognised as expense of the year – accrual concept <b>(1)</b></p> <p>The company has breached the law (present obligation arising from past events) and the penalty to be paid is regarded as a liability. <b>(1)</b> A provision for penalty \$27 000 should be charged to income statement with the creation of liability at the same time – IAS 37 <b>(1)</b></p> <p>\$47 000 expected to be incurred to rebuild the fire exists is not a present obligation. <b>(1)</b>. Accrual or disclosure of this amount is not required.</p>	<b>5</b>
2(c)	<p>Auditor provides reassurance to shareholders that the accounts are true records of the business activities Auditor expresses his/her opinion whether the financial statements give a true and fair view carry out checks to ensure that the directors have acted in the best interest of the shareholders. To prevent fraud 1mark for each valid point + 1 mark for development. <b>Max 4 marks</b></p>	<b>4</b>
2(d)	<p>Auditor is appointed by shareholders, not directors The auditor is accountable to shareholders</p> <p><b>1 mark for each valid point. Max 2</b></p>	<b>2</b>

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Question	Answer	Marks
2(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> <li>• FIFO and AVCO are accounting methods in costing inventories permitted by the international accounting standard (IAS 2); to adopt which method is the accounting policy of the business</li> <li>• Business should select and apply its accounting policies consistently</li> <li>• Financial statements should contain relevant and reliable information</li> <li>• Business shall change an accounting policy only if the change <b>(1)</b> is required by the accounting standards; or <b>(2)</b> results in the financial statements providing reliable and more relevant information about the effects of transactions.</li> <li>• The cost of goods has an increasing trend. FIFO method attracts a higher inventory value and therefore a higher gross profit.</li> <li>• The directors cannot change the method if its purpose is only to improve the profitability.</li> </ul> <p>Accept any reasonable alternative</p> <p><b>(1 mark)</b> for recommendation  <b>(1 mark)</b> × 3 valid reasons</p>	<b>4</b>
	<b>Total:</b>	<b>25</b>

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3(a)	Separate from own business (2). Identify share of profit for each (2). Shared responsibility (2). Flexibility (2). <b>Identification 1 + development 1. Max. 2 benefits.</b>	4																																								
3(b)	<table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Sales income</td><td></td><td></td><td>35 000</td></tr><tr><td>Cost of goods</td><td>25 000</td><td>(1)</td><td></td></tr><tr><td>Expenses</td><td>1 700</td><td>(1)</td><td></td></tr><tr><td>Commission</td><td>3 500</td><td>(1)</td><td>(30 200)</td></tr><tr><td>Profit</td><td></td><td></td><td>4 800</td></tr><tr><td>Split:</td><td></td><td></td><td>(1) OF</td></tr><tr><td>Greaves</td><td></td><td></td><td>3 200</td></tr><tr><td>Hurst</td><td></td><td></td><td>1 600</td></tr><tr><td></td><td></td><td></td><td>(1) OF</td></tr></table>		\$		\$	Sales income			35 000	Cost of goods	25 000	(1)		Expenses	1 700	(1)		Commission	3 500	(1)	(30 200)	Profit			4 800	Split:			(1) OF	Greaves			3 200	Hurst			1 600				(1) OF	6
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3(d)	<p><b>Advice (1)</b>  <b>Justification (5)</b></p> <p>Benefits of partnership  Continuity <b>(1)</b>  Long-term relationship <b>(1)</b>  Formalised agreement <b>(1)</b>  Easier to raise finance <b>(1)</b>  <b>Max 3</b></p> <p>Disadvantages of partnership  Unlimited liability  Decision making is more difficult  Partners bound by agreement  Partners jointly responsible for debts  Short-term  <b>Max 2</b></p>	<b>6</b>
	<b>Total:</b>	<b>25</b>



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4(c)(ii)	$\text{LM plc } \frac{250\,000}{725\,000} \times 100\% = 34.48\% \text{ (1)} \quad \text{AB plc } \frac{200\,000}{1\,000\,000} \times 100\% = 20\% \text{ (1)}$ <p style="text-align: center;">OR</p> $\frac{250\,000}{725\,000 - (4000 + 60\,000)} = 37.82\% \quad \frac{200\,000}{1\,000\,000 - (6000 + 50\,000)} = 21.19\%$	<b>2</b>
4(c)(iii)	<p>LM plc is above the industry average <b>(1)</b> whilst AB plc is below the industry average. <b>(1)</b>  Both are low geared companies <b>(1)</b> and the industry average suggests that competitors are also low geared <b>(1)</b> as the average is below 50%. <b>(1)</b> James could therefore expect to receive future dividends provided that the companies continue to be profitable. <b>(1)</b>  <b>Max 5</b></p>	<b>5</b>
4(d)	<p>The ratios give mixed messages. <b>(1)OF</b>  LM plc is favourable for price earnings and dividend yield <b>(1)of</b> but AB plc is favourable for earnings per share and dividend cover. <b>(1)OF</b>  James may be concerned that the market value of LM has fallen in the past year. <b>(1)</b>  AB plc is more lowly geared <b>(1)</b> and James may feel this to be a safer investment. <b>(1)OF</b>  I would advise James to invest in AB plc. <b>(1)OF</b>  <b>Other valid points</b>  <b>Max 3 + Decision 1</b></p>	<b>4</b>
	<b>Total:</b>	<b>25</b>

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5(a)	Because the actual level of production is different from the budget. <b>(1)</b> So that meaningful comparisons can be made. <b>(1)</b>	<b>2</b>																					
5(b)	<p style="text-align: center;">EF plc Budgeted profit for March</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Revenue</td><td style="text-align: right;">120 000</td><td><b>(1)</b></td></tr> <tr> <td>Direct material</td><td style="text-align: right;">19 200</td><td><b>(1)</b></td></tr> <tr> <td>Direct labour</td><td style="text-align: right;">48 000</td><td><b>(1)</b></td></tr> <tr> <td>Variable overhead</td><td style="text-align: right;">9 600</td><td><b>(1)</b></td></tr> <tr> <td>Fixed overhead</td><td style="text-align: right;">14 000</td><td><b>(1)</b></td></tr> <tr> <td>Profit</td><td style="text-align: right;"><u>29 200</u></td><td><b>(1)OF</b></td></tr> </table>		\$		Revenue	120 000	<b>(1)</b>	Direct material	19 200	<b>(1)</b>	Direct labour	48 000	<b>(1)</b>	Variable overhead	9 600	<b>(1)</b>	Fixed overhead	14 000	<b>(1)</b>	Profit	<u>29 200</u>	<b>(1)OF</b>	<b>6</b>
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5(c)(i)	Direct labour rate variance      \$1024 favourable <b>(2)</b>	<b>2</b>																					
5(c)(ii)	Direct labour efficiency variance      \$3200 adverse <b>(2)</b>	<b>2</b>																					
5(c)(iii)	Total direct labour variance      \$2176 adverse <b>(1)OF</b>	<b>1</b>																					
	Note: one mark for amount and second for direction on each variance																						
5(d)(i)	Actual hours = $\frac{\$1620}{0.2(1)} = 8100$ <b>(1)OF</b>	<b>2</b>																					
5(d)(ii)	Standard hours = $8100(1of) - \frac{\$18\,000}{\$10(1)} = 6300$ <b>(1)OF</b> Number of units = $\frac{\$6300}{\$6(1)} = 1050$ <b>(1)OF</b>	<b>5</b>																					
5(e)	Machine breakdown Lack of staff training Lower grade of staff Problems with materials Poor motivation Any <b>two</b> reasons for <b>(1)</b> each	<b>2</b>																					

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Question	Answer	Marks
5(f)	Resistance Training costs Loss in production while training May not help if real cause of variances is not found <b>Max 3</b>	<b>3</b>
	<b>Total:</b>	<b>25</b>

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Question	Answer						Marks
6(a)	Calculate the cost driver rates						10
	<div>Machine hrs</div> <div>Product X 10 000 units × 2.5hrs = 25 000</div> <div>Product Y 14 000 units × 0.5 hrs = 7 000</div> <div><div><div></div><div>32 000</div></div></div>						
	Overhead costs						

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Question	Answer	Marks
6(b)	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p>Direct labour hour basis <math>\frac{\\$342\,000}{28\,500\text{ (1)}} = \\$12/\text{hr} \times 0.75</math></p> <p>Direct labour hours</p> </div> <div style="width: 45%; text-align: center;"> <p>Product X \$ 9.00 (1) OF</p> <p><math>\times 1.50</math></p> </div> <div style="width: 45%; text-align: center;"> <p>Product Y \$ 18.00 (1) OF</p> </div> </div>	<b>3</b>
6(c)	<p>If he uses ABC</p> <ul style="list-style-type: none"> <li>• The cost of X increases. }</li> <li>• The cost of Y decreases. (1) both</li> </ul> <p>Direct labour hours</p> <ul style="list-style-type: none"> <li>• Based on direct labour hours. Product Y has 2 times more hours per unit than product X. Therefore two times more share of overhead costs. (1)</li> </ul> <p>ABC</p> <ul style="list-style-type: none"> <li>• X has less set ups and orders than Y so takes less share of overhead costs (1)</li> <li>• X has more machine hours than Y so takes larger portion of machine based overheads (1)</li> <li>• The largest overhead costs are machine maintenance costs. The cost driver is machine hours, X has five times more hours per unit than Y so gets the largest portion. (1)</li> </ul> <p><b>Max 3</b></p>	<b>4</b>

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Question	Answer	Marks
6(d)	<div style="text-align: right; margin-right: 20px;"> ABC  \$ unit  Full cost           122.58  Mark-up 40%       <u>49.03</u>  Selling price       171.61 </div> <div style="display: inline-block; vertical-align: bottom;"> <b>(1)OF</b>   <b>(1)OF</b> </div> <p>Order price       \$8580.50</p> <p>Advice</p> <ul style="list-style-type: none"> <li>• Ahmed should reject the offer as the offer price (\$8450) is less than his required price. <b>(1)</b></li> <li>• Ahmed still makes profit <b>(1)</b></li> <li>• May be able to build relationship with customer / further orders <b>(1)</b></li> <li>• Ensures work force is not idle / spare capacity <b>(1)</b></li> </ul> <p>1 mark for advice and max 3 for discussion points. Other relevant points acceptable.</p>	<b>6</b>
6(e)	Fairer / more accurate / meaningful allocation of overhead costs. Provides good understanding of what drives the cost. Uses multiple cost drivers so recognises complexity of manufacturing. Useful for decision making (profitability / pricing / discontinue lines). Accurate and reliable cost information. <b>(1 mark)</b> × any two reasons. <b>Max 2</b>	<b>2</b>
	<b>Total:</b>	<b>25</b>