
ACCOUNTING

9706/31

Paper 3 Structured Questions

October/November 2017

MARK SCHEME

Maximum Mark: 150

Published

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**Cambridge Assessment
International Education**

Question	Answer	Marks
1(a)	<p>Responses could include:</p> <ul style="list-style-type: none">• Better control of manufacturing cost.• Transferred price is compared with market price.• Manufacturing department is a profit centre.• Better way to measure the performance of the manufacturing department. <p>1 mark for each valid point, max 3.</p>	3

Question	Answer	Marks																																																																																								
1(b)	<div><div>Ted Manufacturing account for year ended 31 December 2016</div><table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Opening inventory of raw materials</td><td></td><td>52 000</td><td></td></tr><tr><td>Purchases</td><td></td><td>484 000</td><td></td></tr><tr><td>Carriage inwards</td><td></td><td>21 000</td><td>(1)</td></tr><tr><td></td><td></td><td>557 000</td><td></td></tr><tr><td>Closing inventory of raw materials</td><td></td><td>67 000</td><td></td></tr><tr><td>Cost of raw materials consumed</td><td></td><td>490 000</td><td>(1) OF</td></tr><tr><td>Direct expenses</td><td></td><td>120 000</td><td></td></tr><tr><td>Direct wages</td><td></td><td>626 000</td><td></td></tr><tr><td>Prime cost</td><td></td><td>1 236 000</td><td>(1) OF</td></tr><tr><td>Indirect wages</td><td></td><td>132 000</td><td></td></tr><tr><td>Factory overheads</td><td></td><td>510 900</td><td></td></tr><tr><td>Depreciation of factory machinery</td><td>W1</td><td>8 100</td><td>(1)</td></tr><tr><td>Rent</td><td>W2</td><td>360 000</td><td>(1)</td></tr><tr><td>Heat and light</td><td>W3</td><td>133 500</td><td>(1)</td></tr><tr><td>Insurance and rates</td><td>W4</td><td>64 500</td><td>(1)</td></tr><tr><td></td><td></td><td>2 445 000</td><td></td></tr><tr><td>Opening work in progress</td><td>97 000</td><td></td><td></td></tr><tr><td>Closing work in progress</td><td>102 000</td><td>(5 000)</td><td>(1)</td></tr><tr><td>Cost of production</td><td></td><td>2 440 000</td><td></td></tr><tr><td>Add : 20% mark-up</td><td></td><td>488 000</td><td>(1) OF</td></tr><tr><td>Transferred to the trading section of Income Statement</td><td></td><td>2 928 000</td><td>(1) OF</td></tr></table><div><div>W1</div><div>Depreciation of factory machinery (\$330 000 – \$276 000) × 15% = \$8100</div><div>W2</div><div>Rent (\$440 000 + \$40 000) × 3/4 = \$360 000</div><div>W3</div><div>Heat and light \$178 000 × 3/4 = \$133 500</div><div>W4</div><div>Insurance and rates (\$92 000 – \$6000) × 3/4 = \$64 500</div></div></div>		\$	\$		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	10
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Question	Answer	Marks																								
1(c)	<p style="text-align: center;">Ted Income Statement (trading section) for the year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td style="text-align: right;">\$</td></tr> <tr> <td>Revenue</td><td></td><td style="text-align: right;">4 268 000</td></tr> <tr> <td>Opening inventory of finished goods</td><td style="text-align: right;">146 400 (1)</td><td></td></tr> <tr> <td>Cost of production transferred</td><td style="text-align: right;"><u>2 928 000 (1) OF</u></td><td></td></tr> <tr> <td></td><td style="text-align: right;">3 074 400</td><td></td></tr> <tr> <td>Closing inventory of finished goods W1</td><td style="text-align: right;"><u>241 440 (3)</u></td><td></td></tr> <tr> <td>Cost of goods sold</td><td></td><td style="text-align: right;"><u>2 832 960</u></td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;"><u>1 435 040 (1) OF</u></td></tr> </table> <p>W1 Opening inventory $\\$122\,000 \times 120\% (1) = \\$146\,400$ Closing inventory Unrealised profit $\\$122\,000 \times 20\% + \\$15\,840 (1) = \\$40\,240 (1)$ $\\$40\,240 \times 120/20 = \\$241\,440 (1) OF$</p>		\$	\$	Revenue		4 268 000	Opening inventory of finished goods	146 400 (1)		Cost of production transferred	<u>2 928 000 (1) OF</u>			3 074 400		Closing inventory of finished goods W1	<u>241 440 (3)</u>		Cost of goods sold		<u>2 832 960</u>	Gross profit		<u>1 435 040 (1) OF</u>	6
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1(e)	<p>Responses could include:</p> <p>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) Unit production cost is $\\$2\,440\,000 (OF) / 80\,000 = \\$30.50 (1)$</p> <p>Accepting the order can also maintain the goodwill with the customer. (1) However, he should also consider whether the product quality can be maintained. (1)</p> <p>1 mark for the decision and max 3 marks for relevant points.</p>	4																								

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2(a)	<p>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) The capital is increased by profits. (1) The fund is increased by surpluses. (1) Capital is reduced by losses or drawings. (1) The fund is decreased by deficits. (1)</p> <p>Max 2</p>	2																																
2(b)	<p style="text-align: center;">The EF Tennis Club shop income statement for the year ended 31 December 2016</p> <table><tr><td></td><td style="text-align: right;">\$</td><td></td><td style="text-align: right;">\$</td></tr><tr><td>Sales</td><td></td><td></td><td style="text-align: right;">8 960</td></tr><tr><td>Inventory at 1 Jan 2016</td><td style="text-align: right;">975</td><td></td><td></td></tr><tr><td>Purchases W1</td><td style="text-align: right;">5 960</td><td style="text-align: right;">(2)</td><td></td></tr><tr><td>Inventory at 31 Dec 2016</td><td style="text-align: right;"><u>(826)</u></td><td></td><td style="text-align: right;"><u>6 109</u></td></tr><tr><td></td><td></td><td></td><td style="text-align: right;">2 851</td></tr><tr><td>Shop staff wages</td><td></td><td></td><td style="text-align: right;"><u>2 200</u></td></tr><tr><td>Shop profit</td><td></td><td></td><td style="text-align: right;"><u>651</u></td></tr></table> <p>W1 Purchases 5720 – 1210 (1) + 1450 (1) = 5960</p>		\$		\$	Sales			8 960	Inventory at 1 Jan 2016	975			Purchases W1	5 960	(2)		Inventory at 31 Dec 2016	<u>(826)</u>		<u>6 109</u>				2 851	Shop staff wages			<u>2 200</u>	Shop profit			<u>651</u>	4
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2(c)	<div>EF Tennis Club</div> <div>Income and expenditure account for the year ended 31 December 2016</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Subscriptions W1</td><td>3 610</td><td>(4)</td><td></td></tr><tr><td>Shop profit</td><td>651</td><td>(1) OF</td><td></td></tr><tr><td>Caterer's rent W2</td><td>2 400</td><td>(1)</td><td></td></tr><tr><td>Match ticket sales</td><td><u>2 740</u></td><td></td><td>9 401</td></tr><tr><td>Depreciation W3</td><td>1 426</td><td>(1)</td><td></td></tr><tr><td>Printing</td><td>3 765</td><td></td><td></td></tr><tr><td>Groundsmen's wages</td><td>4 210</td><td></td><td></td></tr><tr><td>Bad debts</td><td>54</td><td>(1)</td><td></td></tr><tr><td>Loss on sale of equip.</td><td><u>149</u></td><td>(1)</td><td><u>9 595</u></td></tr><tr><td>Deficit for the year</td><td></td><td></td><td><u>(194)</u> (1) OF</td></tr></table> <div>W1 Subscriptions $3600 + 180(1) + 90(1) - 260(1) = 3610$ (1) OF</div> <div>W2 Rent $2600 - 200$</div> <div>W3 Depreciation $14\,760 + 1400 - 1900 = 14\,260 \times 10\%$</div>		\$		\$	Subscriptions W1	3 610	(4)		Shop profit	651	(1) OF		Caterer's rent W2	2 400	(1)		Match ticket sales	<u>2 740</u>		9 401	Depreciation W3	1 426	(1)		Printing	3 765			Groundsmen's wages	4 210			Bad debts	54	(1)		Loss on sale of equip.	<u>149</u>	(1)	<u>9 595</u>	Deficit for the year			<u>(194)</u> (1) OF	10						
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2(d)	<div>Statement of Financial Position (Extract) at 31 December 2016</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td><td>\$</td></tr><tr><td>Current assets</td><td></td><td></td><td></td><td></td></tr><tr><td>Shop inventory</td><td>826</td><td></td><td></td><td></td></tr><tr><td>Subscriptions in arrears</td><td>90</td><td>(1)</td><td></td><td></td></tr><tr><td>Bank and cash</td><td>8 911</td><td>(1)</td><td>9 827</td><td></td></tr><tr><td>Current liabilities</td><td></td><td></td><td></td><td></td></tr><tr><td>Trade payables</td><td>1 450</td><td></td><td></td><td></td></tr><tr><td>Subscriptions in advance</td><td>260</td><td>(1)</td><td></td><td></td></tr><tr><td>Rents in advance</td><td><u>200</u></td><td>(1)</td><td><u>1910</u></td><td></td></tr><tr><td></td><td></td><td></td><td><u>7917</u></td><td></td></tr></table>		\$		\$	\$	Current assets					Shop inventory	826				Subscriptions in arrears	90	(1)			Bank and cash	8 911	(1)	9 827		Current liabilities					Trade payables	1 450				Subscriptions in advance	260	(1)			Rents in advance	<u>200</u>	(1)	<u>1910</u>					<u>7917</u>		4
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2(e)	<p>Yes (1)</p> <p>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.</p> <p>It is for future use (1) and so can be used to earn interest in the interval. (1)</p> <p>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)</p> <p>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)</p> <p>Decision (1), Justification Max 4</p>	5

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

Question	Answer	Marks
3(d)(i)	<p>There has been a fall of 26.25% in the EPS. (1) This indicates a poorer outcome for the shareholder. (1) As the profit has risen the fall is due to the share issue. (1)</p> <p>There has been a rise of 57.84% in the PE ratio. (1) This is a positive result. (1) This is due to the increase in price combined with the fall in earnings per share. (1)</p> <p>There has been a fall of 31.48% in the dividend yield. (1) This is a negative outcome. (1) This is due to the decreased dividend paid and increased market price. (1)</p> <p>There has been a fall of 8.13% in the dividend cover. (1) This is a negative result. (1) This is due to the increased total dividend not being matched by the available profits. (1)</p> <p>Overall the trend is not good (1) but as the price earnings ratio did improve - this indicates confidence. (1) There are only 2 years results to analyse – more would be beneficial. (1) Also beneficial to analyse alongside another similar company. (1) There may be other factors which have affected the results. (1)</p> <p>Max. 2 for each ratio – 1 for rise/fall – 1 for better/worse and/or explanation. Max. 2 for other comments. Max. 8</p>	8
3(d)(ii)	<p>The issue of the debentures will increase the gearing. (1) A greater proportion of profits will be paid to these holders lowering availability to Bevin. (1) Bevin may not receive dividends in years of low profits. (1) The market value, however, has risen and this may continue. (1) 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) Bevin should not invest (1) without further information. (1)</p> <p>Max. 5 + 1 decision.</p>	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)	<div><div>Capital account – Armfield</div><div><div>Cash4 000 Reveal7 000 Balance c/d89 000</div><div><div>100 000</div><div><div>100 000</div><div>Balance b/d89 000</div></div></div><div><div>}(1)</div><div>(1) OF</div></div></div><div><div>Capital account – Bonetti</div><div><div>Cash5 000 Reveal8 000 Balance c/d153 000</div><div><div>158 000</div><div><div>158 000</div><div>Balance b/d153 000</div></div></div><div><div>}(1)</div><div>*(1) OF</div></div></div></div><div>* Transfer to new partnership capital accounts</div></div>	6																																					
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4(d)	<div>Armfield and Bonetti</div> <div>Statement of Financial Position at 1 January 2017</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Non-current assets</td><td></td><td></td><td>225 000 (1)</td></tr><tr><td>Current assets</td><td></td><td></td><td></td></tr><tr><td>Inventories</td><td>18 000</td><td>}(1)</td><td></td></tr><tr><td>Trade receivables</td><td>13 000</td><td>}</td><td></td></tr><tr><td>Cash and cash equivalents</td><td><u>8 000</u></td><td>(1) OF</td><td><u>39 000</u></td></tr><tr><td>Total assets</td><td></td><td></td><td><u>264 000</u></td></tr><tr><td>Capital accounts:</td><td></td><td></td><td></td></tr><tr><td>Armfield</td><td>125 000</td><td></td><td></td></tr><tr><td>Bonetti</td><td><u>125 000</u></td><td>(1) both</td><td><u>250 000</u></td></tr><tr><td>Current liabilities</td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td><u>14 000</u> (1)</td></tr><tr><td>Trade payables</td><td></td><td></td><td><u>264 000</u></td></tr></table>		\$		\$	Non-current assets			225 000 (1)	Current assets				Inventories	18 000	}(1)		Trade receivables	13 000	}		Cash and cash equivalents	<u>8 000</u>	(1) OF	<u>39 000</u>	Total assets			<u>264 000</u>	Capital accounts:				Armfield	125 000			Bonetti	<u>125 000</u>	(1) both	<u>250 000</u>	Current liabilities							<u>14 000</u> (1)	Trade payables			<u>264 000</u>	5
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4(e)	<p>Based purely on profitability, Armfield benefits by \$20 000 (1) – Bonetti is worse off by \$20 000. (1)</p> <p>Only one year’s results available, so difficult to form opinion. (1)</p> <p>Disadvantages include sharing of profits, possible disagreements and therefore delays to decision making process. (1)</p> <p>Advantages include more capital, more expertise. (1)</p>	5																																																				
4(f)	<p>There would be limited liability / separate legal entity. (1) Possibility of raising more capital. (1)</p> <p>Ownership is transferable. (1)</p> <p>More legal formalities. (1) Greater expense to maintain. (1)</p> <p>Since the partners are close to retirement it is advisable to incorporate. (1)</p> <p>Max 2 advantages x 2 marks each (1 mark for identifying, 1 mark for development.)</p>	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) × 1000 units = \$6600 (1of)	3
5(b)(ii)	$(80 - 20.08 - 36) - 22$ (1) = \$1.92 (1) 1500 units = \$2880 (1of)	3
5(b)(iii)	$6600 - 2880 = \$3720$ decrease (1)	1
5(c)(i)	15 000 A (2) = $(90 - 80) \times 1500$	8
5(c)(ii)	45 000 F (2) = $(500 \times 90)(1500 - 1000) \times 90$	
5(c)(iii)	480 F (2) = $(5.10 - 5.02) = 0.08 \times (4 \times 1500)$	
5(c)(iv)	9000 A (2) = $(10 - 12) \times (3 \times 1500)$ 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 Other reservations (1) Decision (1)OF + Max 2 for justification	3

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

Question	Answer	Marks
6(e)	<p>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)</p> <p>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)</p> <p>Advantage/disadvantage of change of method. (1) Motivation/behavioural aspects. (1)</p> <p>[1 mark for decision + 1 max method + 1 max non-financial + 2 max for comparison A versus B]</p>	5
6(f)	<p>Cost driver – the separate activities of each department. (1) Cost pool – an account collecting the cost of each activity. (1)</p>	2