
ACCOUNTING

9706/33

Paper 3 Structured Questions

October/November 2016

MARK SCHEME

Maximum Mark: 150

Published

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1 (a)

M Limited
Manufacturing Account for the year ended 31 December 2015

	\$	\$
Inventory – raw materials at 1 January 2015	10 400	
Purchases of raw materials	146 200	
Carriage inwards	<u>3 160</u> (1)	
	159 760	
Less inventory at 31 December 2015	<u>(11 750)</u>	148 010
Direct wages		<u>249 400</u>
Prime cost		397 410 (1of)
Indirect wages	54 650	
Rent	36 000 (1)	
Heat, light and power	25 680 (1)	
General expenses	9 450 (1)	
Depreciation on machinery	<u>20 000</u> (1)	<u>145 780</u>
		543 190
Inventory work-in-progress 1 January 2015	12 600	
Inventory work-in-progress 31 December 2015	<u>14 670</u>	<u>(2 070)</u> (1)
Factory cost of finished goods		541 120
Add factory profit (20%)		<u>108 224</u> (1)of
Factory cost transferred to income statement		<u>649 344</u> (1)of

Workings:

Rent $49\,000 - 4\,000 = 45\,000 / 5 = 9\,000 \times 4 = 36\,000$ (1)
Heat, light and power $28\,600 + 3\,500 = 32\,100 / 5 = 6\,420 \times 4 = 25\,680$ (1)
General expenses $12\,600 / 4 = 3\,150 \times 3 = 9\,450$ (1)

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(b)

	\$		\$
Revenue			742 490
Inventory of finished goods at 1 January 2015	14 904		
Finished goods transferred from the manufacturing account	649 344		
Inventory of finished goods at 31 December 2015	<u>(15 750)</u>		<u>648 498</u> (1)
Gross profit			93 992 (1)of
Office salaries	24 780		
Carriage outwards	2 790 (1)		
Rent	9 000		
Heat, light and power	6 420 (1)		
General expenses	3 150		
Depreciation on motor vehicle	6 250 (1)		
Depreciation on office equipment	<u>1 560</u> (1)		<u>(53 950)</u>
Profit from operations			40 042
Add factory profit	108 224 (1)of		
Less increase in provision for unrealised profit	<u>141</u> (2)		<u>108 083</u>
Profit for the year			<u>148 125</u> (1)of

Workings:

Office machinery depreciation $15\,000 - 4\,600 = 10\,400 \times 15\%$

Provision for unrealised profit $15\,750 - 14\,904 = 846(1) \times 20 / 120 = 141$ (1)of [10]

- (c) Transfer price is the price of goods calculated in the manufacturing account and completed (1) and transferred to the income statement (1). It often includes an additional percentage for factory profit (1) and this is included in the inventory of finished goods as unrealised profit (1).
Max 2

[2]

(d)

Factory cost here is actually \$54.11 each (1)of and the cost of transfer is \$64.93 (1) only because it reflects an element of factory profit. (1) The offer price is therefore higher than M's cost. (1) The company should delay the decision until they need extra supplies (1).

If demand exceeds 10 000 capacity accept offer although contribution per unit will be reduced. (1) However, the products supplied must be of the same quality (1) and delivery reliable. (1)

(Decision 1 Justification max 3)

[4]

[Total: 25]

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2 (a) Making a profit is not the main reason for clubs **(1)** They provide facilities for the members **(1)**. The club is owned by the members **(1)** providing they have paid a subscription for membership **(1)**. Any surplus is used to improve the facilities and provide other benefits for the members **(1)**. **Max [2]**

(b)

AB Cricket Club

Income and expenditure account for the year ended 31 August 2016

	\$	\$	
Profit from refreshments		720	(1)
Match ticket sales		6 400	
Profit on the sale of equipment		360	(1)
Subscriptions		11 290	(4)
Life membership		<u>230</u>	(1)
		19 000	
Groundsman's wages	7 500		(1)
Repairs to clubhouse	700		
Awards to players	1 450		
Administration expenses	760		
Depreciation on equipment	<u>666</u>		(2)
Surplus of income over expenditure		<u>11 076</u>	
		<u>7 924</u>	(1of)

Workings:

Subscriptions $490 + 165 + 11200$ **(1)** = 11855 – (270 **(1)** + 295 **(1)**) = 11290 **(1)of**

Equipment = $(7800 - 3640 + 2500)$ **(1)** = 6660 × 10% = 666 **(1)**

Life membership $1500 + 800 = 2300 / 10 = 230$

[11]

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(c)

AB Cricket Club Statement of financial position as at 31 August 2016		
	\$	
Non-current assets		
Equipment at net book value W1	<u>5 994</u>	(2)
Current assets		
Inventory	390	
Subscriptions in arrears	165	(1)
Bank	11 880	
Savings account	<u>3 500</u>	
	<u>15 935</u>	
Total assets	<u>21 929</u>	
Accumulated fund at 1 September 2015	7 825	
Add surplus for the year	<u>7 924</u>	(1of)
Accumulated fund at 31 August 2016	<u>15 749</u>	
Life membership fund	<u>2 070</u>	(1)
Clubhouse fund	<u>3 500</u>	(1)
Current liabilities		
Subscriptions in advance	295	(1)
Creditors for refreshments	<u>315</u>	(1)
	<u>610</u>	
Total funds and liabilities	<u>21 929</u>	
W1 6660 – 666(1)of = 5994(1)of		

[8]

- (d) The life membership is payment of a lump sum (1). It will inflate the surplus if it is all entered in the income and expenditure account in the year in which it is paid. (1) Also the club owes those members the benefit of membership for a number of years (1) not just the year of joining. (1)

[4]

[Total: 25]

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3 (a) Stewardship is the responsibility which managers have for the management of resources **(1)** within a business on behalf of the owners.**(1)** **[2]**

(b) An end of year audit is the process of checking the financial records of a business **(1)** by an independent person **(1)**, in order to ensure that the records show a true and fair view. **(1)** max 2 marks **[2]**

(c) The published audit report would be qualified **(1)**. **[1]**

(d) (i) 1 IAS 36. (1)

Non-current assets should not be stated at more than their highest amount to be recovered through their use or sale.**(1)** In this case the assets are obsolete and have no resale value so XY Limited must reduce the carrying amount of the non-current assets to their recoverable value (net book value) **(1)** which is the higher of the fair value and its value in use.**(1)** The value of the assets reduce by \$180 000 in the statement of financial position. **(1)** This impairment loss should also be recorded in the income statement **(1)** max 3

2 IAS2 / IAS8 (1)

Inventories should be valued at the lower of cost and net realisable value. (prudence concept).**(1)** In periods of rising prices using FIFO will give a higher inventory value than using AVCO.**(1)** However in the long term profits will be the same.**(1)** The consistency concept states that the method should not be frequently changed so comparisons can be made. **(1)** The value of inventory should be decreased by \$42 000 both in the statement of financial position **(1)** and in the income statement which will decrease the amount of profit for the year **(1)** max 3

3 IAS 10 (1)

If a material event exists at the end of the year and the outcome is known before the accounts are approved, then this is an adjusting event **(1)** and the financial statements must be amended.**(1)** The bad debt written off amounted to \$81 000. **(1)**The current assets will be increased in the statement of financial position **(1)** and the amount of debt written off previously as bad in the income statement should now be recorded as bad debt recovered**(1)** of \$60 750 **(1)** max 3 **[9]**

(ii)

	\$	
Original operating profit	174 000	(1)
Impairment	(180 000)	(1)
Overvaluation of inventory	(42 000)	(1)
Irrecoverable debt recovered	<u>60 750</u>	(2) W1
Adjusted profit for the year	12 750	(1of)

W1 675 000 × 12% = 81 000 **(1)** × 75% = 60 750 **(1)** **[6]**

(e) A qualified audit report which indicates that the auditor is not satisfied **(1)** that the financial statements audited present a true and fair view. **(1)** This is a safeguard of the shareholders interests **(1)** as it signals that the statements are incorrect in the opinion of the external independent examiner. **(1)** This may also put potential shareholders off investing in the business **(1)** **[5]**

[Total: 25]

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- 4 (a) (i) Goods sent on consignment account
- | | | | |
|----------------------|--------|-----|-----|
| | \$ | | |
| Consignment to Patel | 12 000 | (1) | [1] |
- (ii) Consignment to Patel account
- | | | | |
|---------------------------|---------------|-------|--|
| | \$ | | \$ |
| Goods sent | 12 000 | (1) | Sales 10 600 (1) |
| Delivery and insurance | 610 | | Value of inventory c/d W1 3 921 |
| Insurance | 110 | | |
| Storage charges | 350 | | |
| Selling expenses | 245 | (1) | |
| Commission W2 | 530 | (2) | |
| Irrecoverable debt | 120 | (1) | |
| Bank charges | 12 | (1) | |
| Profit to income st | 544 | (1)of | |
| | 14 521 | | 14 521 |
| Value of inventory b/d W1 | 3 921 | (2)of | |
- W1** value of inventory
cost 12 000 + expense 1070 = 13 070 (1) × 30% = 3921 (1of)
- W2** 5% × 10 600 (1) = 530 (1of) [11]
- (iii) Patel account
- | | | | |
|-------------|---------------|-----|-----------------------------|
| | \$ | | \$ |
| Consignment | 10 600 | (1) | Commission 530 (1) |
| | | | Expenses 350 (1) |
| | | | Selling expenses 245 (1) |
| | | | Irrecoverable debts 120 (1) |
| | | | Cash 7 475 (1) |
| | | | Bank <u>1 880</u> (1)of |
| | <u>10 600</u> | | <u>10 600</u> |
- [7]
- (b) The irrecoverable debt will reduce profitability/ profit for the year (1) by \$120 (1) [2]
- (c) Yes. Hamid and Patel should enter into partnership.
Partnership has unlimited liability as do sole traders (1)
shared responsibility(1) / shared liability to debts (1)
shared workload (1)
greater access to skills (1) and customer base (1)
trust and reliability considerations between two of them (1)
- No. Hamid and Patel should not enter into partnership.
practical issues such as speed of communication for decision making between countries (1)
e.g. time differences
trust and reliability considerations between two of them (1)
restricted trading opportunities.
(1) decision **max 3** for justification [4]

[Total: 25]

5 (a)

Year	Cash flow	Option 1		Option 2	
		Cash flow	Discounted cash flow	Cash flow	Discounted cash flow
	\$	\$		\$	\$
0	(225 000)	(225 000)	(1)	(225 000)	(225 000) (1)
1	69 000	62 721	(1)	69 000	62 721 (1of)
2	245 000	202 370	(1)	70 000	57 820 (1)
3				66 000	49 566 (1)
4				117 000	79 911 (1)
NPV		<u>40 091</u>	(1of)	<u>25 018</u>	(1of)

[10]

(b) The directors should adopt option 1 (1of) because it has the higher NPV (1).

[2]

(c) If candidate selects option 1 in (b)

$$\frac{40\,091 \text{ (1of)}}{225\,000 \text{ (1)}} \times 100 = 17.82\% \text{ (1of)}$$

If candidate selects option 2 in (b)

$$\frac{25\,018 \text{ (1of)}}{225\,000 \text{ (1)}} \times 100 = 11.12\% \text{ (1of)}$$

[3]

(d) If candidate selects option 1 in (b)

$$\text{Average profit} = \frac{(210\,000 - 71\,000) \text{ (1)} - 50\,000 \text{ (1)}}{2 \text{ (1)}} = 44\,500 \text{ (1of)}$$

$$\text{Average investment} = \frac{(225\,000 + 175\,000) \text{ (1)}}{2} = 200\,000 \text{ (1)}$$

$$\text{ARR} = \frac{44\,500}{200\,000} \times 100 = 22.25\% \text{ (1)}$$

If candidate selects option 2 in (b)

$$\text{Average profit} = \frac{(425\,000 - 178\,000) \text{ (1)} - 150\,000 \text{ (1)}}{4 \text{ (1)}} = 24\,250 \text{ (1of)}$$

$$\text{Average investment} = \frac{225\,000 + 75\,000 \text{ (1)}}{2} = 150\,000 \text{ (1)}$$

$$\text{ARR} = \frac{24\,250}{150\,000} \times 100 = 16.17\% \text{ (1of)}$$

[6]

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(e) Decision (1) Reasons (3) Max

* NPV takes account of time value and money (1)

Accounting profit is subjective (1)

NPV takes account of the cost of capital (1)

[4]

[Total: 25]

- 6 (a)** A master budget is the consolidation of all of the prepared budgets (1). It consists of a budgeted income statement and statement of financial position (1).

[2]

(b) Production budget January – April 2017

	January	February	March	April	
Opening inventory	(200)	(220)	(240)	(260)	(1)
Sales	<u>370</u>	<u>410</u>	<u>380</u>	<u>430</u>	(1)
	170	190	140	170	
Closing inventory	<u>220</u>	<u>240</u>	<u>260</u>	<u>260</u>	(1)
Production	<u>390</u>	<u>430</u>	<u>400</u>	<u>430</u>	(1) of

[4]

(c) Cash budget January – March 2017

Receipts

	January	February	March	
Sales	10 700	11 500	12 000	(1)
Interest	<u>500</u>			
	<u>11 200</u>	<u>1 100</u>	<u>12 000</u>	
Payments				
Purchases – cash	1 365	1 505	1 330	(1)
Purchases – credit	1 190	1 365	1 505	(1)
Direct labour	1 950	2 150	2 000	(1)
Overheads	2 280	2 532	2 436	(1)
Equipment	<u>6 000</u>			
	<u>12 785</u>	<u>7 552</u>	<u>7 271</u>	
Net cash flow	<u>(1 585)</u>	<u>3 948</u>	<u>4 729</u>	
Opening balance	(10 450)	(12 035)	(8 087)	(1) of
Closing balance	<u>(12 035)</u>	<u>(8 087)</u>	<u>(3 358)</u>	(1) of

[10]

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(d) Increase selling price **(1)**. Reduce direct materials **(1)** by seeking cheaper suppliers **(1)**, direct labour **(1)** and overheads **(1)**. Postpone purchase of equipment **(1)**. Seek more favourable credit terms **(1)**. Review credit control **(1)**. **Max 6** **[6]**

(e) Advice **(1)**. Justification **(2)**

If overdrawn balance is expected every month for the next year **(1)** then a loan is recommended **(1)**

An agreed loan should be cheaper than a long term overdraft.**(1)**

[3]

[Total: 25]