Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING	**9706/33**
Paper 3 Structured Questions	**October/November 2017**
MARK SCHEME	
Maximum Mark: 150	

Published

This document consists of **12** printed pages.

Cambridge Assessment International Education

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>
<table>
<tr><th>Not-for-profit</th><th>Profit-making</th></tr>
<tr><td>Subscriptions</td><td>Sales revenue</td></tr>
<tr><td>Income and expenditure account</td><td>Income statement</td></tr>
<tr><td>Accumulated fund</td><td>Capital / Equity</td></tr>
<tr><td>Receipts and payments account</td><td>Bank account</td></tr>
<tr><td>Surplus of income over expenditure</td><td>Profit</td></tr>
<tr><td>Excess of expenditure over income</td><td>Loss</td></tr>
</table>
(1 mark) × four differences
</td><td>4</td></tr>
<tr><td>1(b)</td><td>
RS Rowing Club
Income and Expenditure Account for the year ended 31 March 2017
<table>
<tr><th></th><th></th><th>$</th><th>$</th><th>$</th><th></th></tr>
<tr><td>Members’ subscriptions</td><td>W1</td><td></td><td></td><td>10 150</td><td>(3)</td></tr>
<tr><td>Profit on sale of sports equipment</td><td>W2</td><td></td><td></td><td>291</td><td>(2)</td></tr>
<tr><td>Regatta</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Entry fees</td><td></td><td></td><td>4 200</td><td></td><td></td></tr>
<tr><td>Regatta expenses</td><td></td><td>2 456</td><td></td><td></td><td></td></tr>
<tr><td>Prizes</td><td></td><td>325</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>(2 781)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>1 419</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>11 860</td><td></td></tr>
<tr><td>Less expenses</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Rent</td><td></td><td></td><td>2 800</td><td></td><td></td></tr>
<tr><td>General expenses</td><td></td><td></td><td>1 379</td><td></td><td></td></tr>
<tr><td>Wages of boatman</td><td></td><td></td><td>3 500</td><td></td><td></td></tr>
<tr><td>Depreciation of boats and equipment</td><td></td><td></td><td>1 280 (1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>(8 959)</td><td></td></tr>
<tr><td>Surplus of income over expenditure</td><td></td><td></td><td></td><td>2 901</td><td>(1) (OF)</td></tr>
</table>
W1: Members’ subscriptions 10 300 + (350 + 650) (1) – (700 + 450) (1) = 10 150 (1) (OF)
</td><td>8</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>

W2 Sale of sports equipment

<table>
<tr><th></th><th>$</th><th>$</th><th></th></tr>
<tr><td>Sales</td><td></td><td>1 850</td><td></td></tr>
<tr><td>Opening inventory</td><td>364</td><td></td><td></td></tr>
<tr><td>Purchases</td><td>1 624</td><td></td><td></td></tr>
<tr><td>Closing inventory</td><td>(429)</td><td></td><td></td></tr>
<tr><td></td><td></td><td>(1 559)</td><td>(1)</td></tr>
<tr><td>Profit transferred to income and expenditure account</td><td></td><td>291</td><td>(1)OF</td></tr>
</table>

</td><td></td></tr>
<tr><td>1(c)</td><td>

RS Rowing Club
Extract from statement of financial position at 31 March 2017

<table>
<tr><th></th><th>$</th><th></th></tr>
<tr><td>Accumulated fund at 1 April 2016</td><td>40 614</td><td></td></tr>
<tr><td>Surplus of income over expenditure</td><td>2 901</td><td>(1)OF</td></tr>
<tr><td>Accumulated fund at 31 March 2017</td><td>43 515</td><td>(1)OF</td></tr>
</table>

</td><td>2</td></tr>
<tr><td>1(d)</td><td>

The club will receive one-off payments from members, however in accordance with the matching concept, this should not be credited in full to the income and expenditure account as it is not earned in the period received.

The income should therefore be spread over an appropriate period to match funds received with the benefits provided to members.

The payments received will be represented as a credit in the statement of financial position as deferred income.

The club should transfer amounts to the income and expenditure account from the deferred income account in equal instalments over a period it can determine as reasonable.

This may depend on the profile of the members and expected use, but should not be for a lengthy period of time.

As the lifetime fee is $400 and the normal annual membership is $50, it might seem appropriate to transfer the amounts in equal instalments over 8 years.

(1 mark) for each valid point to a max of 4 marks.

</td><td>4</td></tr>
</table>

Question	Answer	Marks
1(e)	Investment at fixed interest rate – annual income $2625. **(1)** Build a boat-house – annual rental income $1250, rent saved on old premises $2 800, total extra income $4050 **(2)** However, if the investment at fixed interest rate is chosen, after 3 years the funds will be available for other investments which may be more attractive. Building a property is a long term commitment which cannot be changed and may incur other costs, such as maintenance. On purely financial grounds, the club should use the funds to build the new boat-house. **(3 marks for calculations, 3 marks for reasons, 1 for recommendation).**	**7**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>A revaluation reserve arises when non-current assets are revalued at an amount greater than their current net book value.</td><td>1</td></tr>
<tr><td>2(b)</td><td>
Wembo and Bob capital accounts
<table>
<tr><th></th><th>W</th><th></th><th>B</th><th></th><th></th><th>W</th><th></th><th>B</th><th></th></tr>
<tr><td>Vehicles</td><td>11 000</td><td>(1) both</td><td>12 500</td><td></td><td>Balance b/d</td><td>100 000</td><td>(1) both</td><td>60 000</td><td></td></tr>
<tr><td>Preference shares</td><td>36 000</td><td>(1)</td><td>24 000</td><td>(1)</td><td>Bank W3</td><td>2 475</td><td>(1)OF</td><td>9 525</td><td>(1)OF</td></tr>
<tr><td>Ordinary shares</td><td>59 375</td><td>(1)</td><td>35 625</td><td>(1)</td><td>Goodwill W1</td><td>7 500</td><td>(1)*</td><td>5 000</td><td>(1)*</td></tr>
<tr><td>Loss in realisation W2</td><td>3 600</td><td>(1)*</td><td>2 400</td><td>(1)*</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>109 975</td><td></td><td>74 525</td><td></td><td></td><td>109 975</td><td></td><td>74 525</td><td></td></tr>
</table>
W1 90 000 + 36 000 + 3 500 + 13 000 = 142 500 – 155 000 = 12 500 (1) goodwill
W2 142 500 + 4 900 – 8 100 – 3 800 + 11 000 + 12 500 = 159 000 – 165 000 (1) = 6 000 (1) loss on realisation
* if the loss and goodwill are combined as a single entry, the figures will be 3 900 (2) and 2 600 (2), both on the credit side.
W3 –5 000 + 4 900 – 8 100 – 3 800 = –12 000 bank (1)
</td><td>16</td></tr>
</table>

Question	Answer	Marks
2(c)	Extract from the statement of financial position for Chantelle Limited at 31 March 2018 $ Equity and reserves ordinary shares (300 000 + 76 000) 376 000 **(1)** preference shares 60 000 **(1)** Share premium (19 000 + 75 000) 94 000 **(1)** Revaluation reserve 25 000 **(1) both** Retained earnings 40 000 * Total equity 595 000	**4**
2(d)(i)	Ordinary shares The dividend on ordinary shares is variable and dependent on the levels of profit **(1)** so has greater reward when the profits are high. **(1)** Possible involvement of Wembo and Bob in managing the company through voting rights **(1)** **Max 2**	**4**
2(d)(ii)	Preference shares Whereas cumulative preference shares have a fixed dividend of $4 200 per year, **(1)** which if profits are low one year will be paid the next. **(1)** So limited risk. **(1)** **Max 2**	

Question	Answer	Marks
3(a)(i)	Aleksander Goods on consignment account 2017 $ 2017 $ Jun 30 Income statement 20 000 **(1)** Apr 2 Consignment account 20 000 **(1)**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)(ii)</td><td>
Consignment account
<table>
<tr><td>2017</td><td></td><td>$</td><td></td><td>2017</td><td></td><td>$</td><td></td></tr>
<tr><td>Apr 2</td><td>Goods on consignment a/c</td><td>20 000</td><td>(1)</td><td>Jun 30</td><td>Benji (sales)</td><td>27 200</td><td>(1)</td></tr>
<tr><td></td><td>Bank</td><td>120</td><td>(1)</td><td></td><td>Balance c/d</td><td>5 560</td><td>(4)</td></tr>
<tr><td></td><td>Bank</td><td>6 080</td><td>(1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Benji</td><td>1 600</td><td>(1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Jun 30</td><td>Benji (commission)</td><td>2 720</td><td>(1of)</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Income statement</td><td>2 240</td><td>(1)OF</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>32 760</td><td></td><td></td><td></td><td>32 760</td><td></td></tr>
<tr><td>Jul 1</td><td>Balance b/d</td><td>5 560</td><td>(1of)</td><td></td><td></td><td></td><td></td></tr>
</table>
Inventory: 20 000 (1) + (120 + 6 080 + 1 600) (1) × 40 / 200 (1) = $5 560 (1of)
</td><td>12</td></tr>
<tr><td>3(a)(iii)</td><td>
Benji
<table>
<tr><td>2017</td><td></td><td>$</td><td></td><td>2017</td><td></td><td>$</td><td></td></tr>
<tr><td>Jun 30</td><td>Consignment a/c (sales)</td><td>27 200</td><td>(1)</td><td>Apr 2</td><td>Consignment a/c</td><td>1 600</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Jun 14</td><td>Bank</td><td>21 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Jun 30</td><td>Consignment a/c (commission)</td><td>2 720</td><td>(1)OF</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>Balance c/d</td><td>1 880</td><td></td></tr>
<tr><td></td><td></td><td>27 200</td><td></td><td></td><td></td><td>27 200</td><td></td></tr>
<tr><td>Jul 1</td><td>Balance b/d</td><td>1 880</td><td>(1)OF</td><td></td><td></td><td></td><td></td></tr>
</table>
</td><td>5</td></tr>
<tr><td>3(b)</td><td>
Profit per container had been 2 240 / 160 = $14. (1)OF
Now there is a loss per container of $6. (1)OF
Could Aleksander find a cheaper means of freight? (1)
Could Benji’s commission be reduced? (1) If commission could fall from $17 per container to below $11 per container then the consignment would be profitable again. (1)OF
Could the selling price be increased? (1)
Are there other selling opportunities? (1)
[max 4]
</td><td>4</td></tr>
</table>

Question	Answer	Marks
3(c)	Advertising is not a purchase/production cost. **(1)** Advertising is not part of bringing a product to its existing location or condition. **(1)** Its inclusion would contravene IAS 2. **(1)** **[max 2]**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>A share premium arises when a share is sold for more than its nominal value (1). The difference between the selling price and the nominal value is called the share premium (1).</td><td>2</td></tr>
<tr><td>4(b)</td><td>400 000 × 60% = 240 000 shareholders. (1)
240 000 × 1.75 = $420 000 (1)
$550 000 – $420 000 = $130 000 (1)OF</td><td>3</td></tr>
<tr><td>4(c)(i)</td><td>
<table>
<tr><th></th><th>Ordinary share capital</th><th></th><th>Share premium</th><th></th><th>Revaluation reserve</th><th>Retained earnings</th><th></th></tr>
<tr><td></td><td>$000s</td><td></td><td>$000s</td><td></td><td>$000s</td><td>$000s</td><td></td></tr>
<tr><td>At 1 April 2016</td><td>400</td><td></td><td>50</td><td></td><td>150</td><td>350</td><td>(1) row</td></tr>
<tr><td>Rights issue</td><td>240</td><td>(1)OF</td><td>180</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td></td><td></td><td></td><td>138.7</td><td>W1 (4)</td></tr>
<tr><td>Dividend paid</td><td></td><td></td><td></td><td></td><td></td><td>(8) W2</td><td>(1)OF row*</td></tr>
<tr><td>At 31 March 2017</td><td>640</td><td></td><td>230</td><td></td><td>150</td><td>480.7</td><td>(1) row</td></tr>
</table>
must not include proposed dividend or the debenture

W1 (245 000 – 70 000 (1) – (130 000 × 0.05 × 3/12) (1)of = 173 375 – (173 375 × 0.2) (1)
= 138 700 (1OF)
W2 ordinary interim div 0.02 × 400 000 = 8 000 (1OF)</td><td>9</td></tr>
<tr><td>4(c)(ii)</td><td>Note: $25 600(1) OF Ordinary share dividends proposed at the year-end. (1)

W4 640 000 × 0.04 = 25 600</td><td>2</td></tr>
</table>

Question	**Answer**	**Marks**
4(d)	EPS **1** For current year profit after tax / number of ordinary shares 138 700 / 640 000 = $0.2167 $(0.22) **(1)OF** **2** Assuming profits similar amount to previous years 138 700 / 400 000 = $0.347 **(1)OF** so shareholder is correct **(1)** that EPS has fallen, as there has not been a corresponding increase in profit to the level of increase in the number of shares. **(1)** If profits increase by 20% in the next year 166 440 / 640 000 = $0.26006 **(1)OF**. EPS will increase but will still not reach the level it was before the rights issue. **(1)** Any future issue of ordinary shares will decrease EPS further, unless there is a significant increase in profits **(1)**. Profits have to reach $222 080 to achieve an EPS of $0.347 with the current amount of shares **(1).** Max 4 marks on rights issue. A loan will be a long term liability **(1)** which will affect cash and profits. Cash will be reduced as the loan and interest is repaid **(1)** and profits will be reduced by the interest. **(1)** Gearing will also increase as long term liabilities increase. **(1)** The higher the rate of interest, the lower profits will be and so EPS will reduce. **(1)** Max 4 marks on loans. Recommendation based on the above comments. **(1)**	**9**

Question	Answer	Marks
5(a)	Direct materials (liquid) 16 000 × 0.25 × \$15 60 000 **(1)** Direct materials (packaging) 16 000 × \$0.80 12 800 **(1)** Direct labour 1 600 × \$9 14 400 **(1)** Fixed overheads 1 600 × 17.50 **(1)** 28 000 **(1)** Total standard cost 115 200 **(1OF)** Accept alternative approaches.	**6**
5(b)	Direct materials (liquid) 62 875 **}** Direct materials (packaging) 12 800 **} (1)** Direct labour 16 320 **}** Fixed overheads 31 375 **(1)** Total actual cost 123 370 **(1)**	**3**
5(c)	Direct labour rate variance 1 020 Adv **(2)** Direct labour efficiency variance 900 Adv **(2)** Fixed overhead expenditure variance 5 125 Adv **(2)** Fixed overhead volume variance 1 750 Fav **(2)** **1 for correct figure and 1 for direction.**	**8**
5(d)	\$ \$ \$ Standard cost of actual production 115 200 Fav Adverse Direct materials (liquids) price variance 7 000 **}** Direct materials (liquids) usage variance 4 125 **}(1)** Direct labour rate variance 1 020 **}** Direct labour efficiency variance 900 **}(1)** Fixed overhead expenditure variance 5 125 **}** Fixed overhead volume variance 1 750 **(1)** 5 875 14 045 8 170 Actual cost of actual production 123 370 **(1OF)**	**4**

Question	Answer	Marks
5(e)	Both methods represent the basis of production. **(1)** Will a change of method allow managers to control production more efficiently or set selling prices more accurately? **(1)** Production is not labour intensive and all units produced are identical. **(1)** Therefore either method would be acceptable. **(1)** **Decision (1)** **Justification Max 3**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(a)</td><td>Response may include:

Plan ahead if there is any cash deficit.
Plan ahead if there is any cash surplus.
Accept any reasonable alternative.
(1 mark) × 2 valid benefits.</td><td>2</td></tr>
<tr><td>6(b)</td><td>
<table>
<tr><th></th><th>$</th><th></th><th>$</th><th></th><th>$</th><th></th></tr>
<tr><td>Receipts</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Capital introduced</td><td>150 000</td><td>(1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Receipts from customers</td><td>63 040</td><td>(1)</td><td>196 864</td><td>(1)</td><td>364 032</td><td>(1)</td></tr>
<tr><td></td><td>213 040</td><td></td><td>196 864</td><td></td><td>364 032</td><td></td></tr>
<tr><td>Payments</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Payments to suppliers</td><td>0</td><td></td><td>360 000</td><td>(1)</td><td>240 000</td><td>(1)</td></tr>
<tr><td>Equipment</td><td>48 000</td><td>(1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Operating expenses</td><td>42 200</td><td>)</td><td>42 200</td><td>)</td><td>42 200</td><td>) (1) row</td></tr>
<tr><td></td><td>90 200</td><td></td><td>402 200</td><td></td><td>282 200</td><td></td></tr>
<tr><td>Net cash flow</td><td>122 840</td><td></td><td>(205 336)</td><td></td><td>81 832</td><td></td></tr>
<tr><td>Opening balance</td><td>0</td><td></td><td>122 840</td><td></td><td>(82 496)</td><td></td></tr>
<tr><td>Closing balance</td><td>122 840</td><td>(1)OF</td><td>(82 496)</td><td>(1)OF</td><td>(664)</td><td>(1)OF</td></tr>
</table>
</td><td>11</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(b)</td><td>Working
<table>
<tr><th></th><th>April</th><th>May</th><th>June</th><th>July</th></tr>
<tr><td>Sales (in unit)</td><td>5 000</td><td>8 000</td><td>4 000</td><td>3 000</td></tr>
<tr><td>Unit sold</td><td>5 000</td><td>8 000</td><td>4 000</td><td>3 000</td></tr>
<tr><td>Closing inventory</td><td>4 000</td><td>2 000</td><td>1 500</td><td>2 000</td></tr>
<tr><td>Opening inventory</td><td>0</td><td>4 000</td><td>2 000</td><td>1 500</td></tr>
<tr><td>Purchases (in unit)</td><td>9 000</td><td>6 000</td><td>3 500</td><td>3 500</td></tr>
<tr><td></td><td>$</td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>Sales ($64 each)</td><td>320 000</td><td>512 000</td><td>256 000</td><td>1 088 000</td></tr>
<tr><td>Purchases ($40 each)</td><td>360 000</td><td>240 000</td><td>140 000</td><td>740 000</td></tr>
<tr><td>April sales</td><td>63 040</td><td>96 000</td><td>160 000</td><td></td></tr>
<tr><td>May sales</td><td></td><td>100 864</td><td>153 600</td><td></td></tr>
<tr><td>June sales</td><td></td><td></td><td>50 432</td><td></td></tr>
<tr><td>July sales</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>63 040</td><td>196 864</td><td>364 032</td><td></td></tr>
</table>
Operating expenses $43 000 – ($84 000 / 60) = $42 200</td><td></td></tr>
</table>

Question	Answer	Marks
6(c)	Responses may include: Cash flow not bad, i.e. has net operating cash inflow; cash received from customers $994 560 ($63 040 + $196 864 + $364 032 + $370 624) is greater than operating cash outflows $908 800 ($360 000 + $240 000 + $140 000 + $42 200 × 4) Cash deficit in May and June, should plan ahead. Sales not evenly distributed, i.e. seasonal trade, and this will affect the regularity of cash inflow. Not many trade receivables take the advantage of cash discount, Luke may consider to increase the cash discount. More than 50% of trade receivables pay 2 months after sale, Luke should consider to tighten its credit policy. Maybe the business is a new business and Luke has only one supplier. It appears that Luke does not have much bargaining power, as he has to pay within one month following the purchases and is not allowed any cash discount. Keeping too much inventory may have negative impact on cash flow. Accept other valid responses. **(1 mark)** for each valid point.	**6**
6(d)	Revenue 1 088 000 **(1)** Cost of sales Opening inventory 0 Purchases 740 000 **(1)** Closing inventory 60 000 **(1)** 680 000 Gross profit 408 000 **(1)OF** Operating expenses 129 000 Discount allowed **W1** 3 264 **(1)** Profit for the period 275 736 **(1)OF** **W1**: 960 + 1536 +768 = 3264	**6**