
ACCOUNTING

9706/31

Paper 3 Structured Questions

October/November 2016

MARK SCHEME

Maximum Mark: 150

Published

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2016	9706	31

- 1 (a) International Dancing
Income and Expenditure Account for the year ended 31 December 2015

	\$		
Annual subscriptions	106 500	(1)	
Profit on sale of CDs 5800 (1) – 2500 (1)	<u>3 300</u>		
	109 800		
Less expenses			
Rent	15 000	} (1)	
Staff costs	61 000		
Insurance and administration (4200 – 300 (1)+ 50(1))	3 950		
CDs for club use	4 000	(1)	
Depreciation (17 200 + 11 700 – 21 300)	<u>7 600</u>	(1)	
Surplus of income over expenditure	<u>18 250</u>	(1)OF	[9]

- (b) (i) $\$13\,500 + (105\,500 - 98\,500 + 5800)(1) = \$26\,300 (1)OF$ [2]

(ii)

	\$		
Purchase price	142 000		
Bank balance	(13 150)	(1)	
Life membership fees	<u>(50 000)</u>	(1)	
Bank loan needed	<u>78 850</u>	(1)OF	[3]

(c)

	\$		
Purchase price	15 000	(1)	
Bank balance	(7 885)	(1)OF	
Life membership fees	<u>(5 000)</u>	(1)	
Bank loan needed	<u>2 115</u>	(1)OF	[4]

- (d) Advantages
Purchases of premises seems to be cheaper than renting in long-term.
Potential investment which could be sold in the future.
Club may be able to rent out room(s) to other community groups, etc. to bring in income
No worries about rent rises

(1) mark × 3 points. **Max 3**

- Disadvantages
Club will responsible for maintenance
Club will bear the running cost of the building
Club will need to pay off the loan / interest
Are projections of life membership income achievable?
(1) mark × 3 points. **Max 3**

Recommendation (1) [7]

[Total: 25]

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- 2 (a) A statement of cash flows is based on summarised historical data (1) for a period and provides a link between the cash and cash equivalents balance at the start of the year and the balance at the end of the year (1) whereas a cash budget is based on predetermined or expected data for a future period.(1) usually presented in columnar format (1). **Max 2** [2]

- (b) Statement of Cash Flows for Hank Limited for the year ended 31 March 2016

	\$	\$	
Profit from operations		30 000	#
Add depreciation		12 000	## (1) both
Less profit on sale of non-current assets		(3 000)	
Less increase in inventories		(26 000)	
Less increase in trade receivables		(14 000)	### (1) all three
Less decrease in trade payables		<u>(7 000)</u>	
Cash from operations		(8 000)	
Less interest paid		(9 000)	## (1) both
Less taxation paid		<u>(18 000)</u>	
Net cash from operating activities		(35 000)	
Investing activities			
Add proceeds from sale of non-current assets	8 000		(1)
Less purchase of non-current assets	<u>(52 000)</u>		(1)
Net cash used in investing activities		(44 000)	
Financing activities			
Add receipts from share issue	45 000		(1)
Less dividends paid	(25 000)		(1)
Add increase in loan	<u>22 000</u>		(1)
Net cash from financing activities		<u>42 000</u>	
Net decrease in cash and cash equivalents		(37 000)	# (1) both
Cash and cash equivalents at the start of the year		<u>14 000</u>	## (1) both
Cash and cash equivalents at the end of the year		<u>(23 000)</u>	

[10]

- (c) Hank Limited has a weak cash position as there has been a decrease in cash over the period of \$37 000 (1).

This can partly be explained by the purchase of non-current assets \$52 000 (1) and the dividends paid of \$25 000 (1) however the net cash from operations is also negative \$35 000 (1)of mainly due to negative movements in working capital totally \$47 000 (1). Altogether despite making a profit from operations, increasing the loan and issuing more shares (1) the net movement in cash and cash equivalents has been a decrease, therefore the business is in a weak cash position (1). It cannot continually keep issuing shares or taking out loans and the movements in working capital need reviewing (1). **Max 4** [4]

Page 4	Mark Scheme	Syllabus	Paper
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- (d) Note to the financial statements on non-current assets.
Schedule of non-current assets.

	\$	
Non-current assets		
Cost at 1 April 2015	272 000	
Additions	52 000	
Disposals	<u>(24 000)</u>	# (1) OF both
Cost at 31 March 2016	300 000	(1) W1
Depreciation at 1 April 2015	48 000	(1)
Charge	12 000	# (1) both
Disposals	<u>(19 000)</u>	
Depreciation 31 March 2016	<u>41 000</u>	
Net book value at 31 March 2016	259 000	# (1) both
Net book value at 1 April 2015	224 000	

W1 $12\,000 \times 25 = 300\,000$

[5]

- (e) The directors should apply the international standards (1)
So that the information contained within the published accounts is useful and aids making economic decisions (1) is comparable (1), consistent (1), understandable (1), relevant (1) and reliable (1).

Or

if international standards are not complied with the external auditor (1) will qualify (1) the audit report as the financial statements do not show a true and fair view (1)

Advice 1 mark

Max 3 for justification

[4]

[Total: 25]

Page 5	Mark Scheme	Syllabus	Paper
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3 (a)		Alpha plc	
(i)	Profit for the year	\$160 000	
	Profit margin	(160 000 / 1 000 000) (1)	16% (1)OF
(ii)	Finance charges	\$16 000	
	Profit from operations	\$176 000	
	Income gearing	(16 000 (1) / 176 000)	9.09% (1)OF
(iii)	Number of ordinary shares	400 000	
	Earnings per share	(160 000 (1) / 400 000)	\$0.40 (1)OF
(iv)	Price/earnings ratio	(1.20 / 0.40) (1)OF	3 (1)OF
(v)	Market value of one share	\$1.20	
	Dividend per share	\$0.07	
	Dividend yield	(0.07 (1) / 1.20)	5.83% (1)OF
(vi)	Total dividend paid	0.07 × 400 000 (1)	\$28 000 (1)OF
(vii)	Dividend cover	160 000 / 28 000 (1)	5.71 times (1)OF

[14]

- (b) (i) Profit margin Alpha plc has a higher selling price/better GP margin and better control over expenses
- (ii) Income gearing Beta plc has a lower profit available to pay interest.
- (iii) Earnings per share Alpha plc has a higher profit in relation to issued shares.
- (iv) Price earnings ratio Investors have more confidence in Alpha plc's prospects
- (v) Dividend yield Beta plc pays a higher total dividend in relation to the market price.
- (vi) Market value of one share Alpha plc may have greater net assets
Alpha plc is considered to have better prospects
There is more demand for Alpha plc's shares

One suitable comment per point for (1)of each

[6]

- (c) Alpha plc has better dividend cover (1)of and carries less risk. (1)
Alpha plc is a more profitable company. (1)
Alpha plc pays a higher dividend per share (1) even though Beta plc pays a higher dividend in total. (1)
Alpha plc has higher earnings per share (1), lower income gearing (1), lower dividend yield (1) and lower price earnings ratio. (1)
Decision would depend on the issue price in relation to the market value. (1)
Decision. (1)

All marks to be on OF basis

Max 5

[5]

[Total: 25]

- 4 (a) An offer of an issue of shares to existing shareholders (1) based on their existing holding (1) at a price which is usually favourable to the purchaser (1). It is cheaper than offering to the public (1). **Max 3.** [3]

- (b) Scrumpton plc – statement of changes in equity for the year ended 30 September 2017.

	Share Capital \$	Share Premium \$	Retained Earnings \$	Total \$
Balance b/d	1 200 000	300 000	125 000 (1)	1 625 000
Share issue	300 000 (1)	60 000 (1)		360 000
Profit			57 500 (5)	57 500
Dividends			(24 000) (1)	(24 000)
	<u>1 500 000</u>	<u>360 000</u>	<u>158 500</u>	<u>2 018 500</u> (1) OF

Profit: \$167 500 – \$20 000 (1) – \$67 500 (1) – \$15 000 (1) – \$7 500 (1) = \$57 500 (1) of [10]

- (c) The proposed dividend is not a liability at the statement date and is therefore accounted for in the next period (1). It is disclosed by way of a note in the accounts for the current year (1). [2]

- (d) (i) Adjusting event is one which requires the accounts of the year to be adjusted (1) as a result of the conditions of the event existing at the statement of financial position date (1).

A non-adjusting event does not require the statements to be adjusted but a note is added (1) as the conditions leading to the event were not present at the statement of financial position date (1). [4]

- (ii) The bankruptcy is an adjusting event since the condition existed at the statement date (1) and therefore the trade receivables should be adjusted (1). [2]

- (e) The carrying amount of the plant is \$100 000 (1).
Recoverable amount is the higher of net selling price and value in use (1).
The recoverable amount is therefore \$70 000 (1). Profit reduced by \$30 000 (1). [4]

[Total: 25]

Page 7	Mark Scheme	Syllabus	Paper
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- 5 (a) Standard costing sets predetermined costs and revenues to be achieved under normal operating situations.
Comparison between actual and pre-determined expected cost (1).
Periodic recording of differences – variances (1).
Max 2 [2]
- (b) (i) Material price variance 15 768 – 15 330 = 438 (1) (A) (1)
(ii) Material usage variance 15 330 – 15 750 = 420 (1) (F) (1)
(iii) Labour rate variance 8492 – 8878 = 386 (1) (F) (1)
(iv) Labour efficiency variance 8878 – 8625 = 253 (1) (A) (1)

1 mark for figure and 1 for direction [8]
- (c) Favourable – use of better quality materials (2)
 use of a more qualified labour force (2)
 use of better machinery / tools (2).

Adverse – use of poorer materials (2)
 use of a less qualified labour force (2)
 use of poorer machinery / tools (2)
 loss / write-off of materials (2).

Identification (1) + development (1). Max 4 Favourable and 4 Adverse [8]
- (d)
- | | | | |
|-----------|---------------|-----------------|--------|
| | \$ | \$ | |
| Sales | | 44 100 | (1) |
| Deduct: | | | |
| Materials | 15 768 | | |
| Labour | 8 492 | | |
| Overheads | <u>11 550</u> | <u>(35 810)</u> | (2) |
| Profit | | <u>8 290</u> | (1) OF |
- [4]
- Overheads 10 500 (1) X 1.1 = 11 550 (1) OF
- (e) Each recommendation (1).
Provide training to his workforce to improve efficiency (1)
Look for cheaper supplies of material of the same quality (1)
Control overheads by streamlining procedures (1)
Max 3 [3]
- [Total: 25]**

6 (a) Product X

Year	Inflow \$	Outflow \$	Net Cash Flow \$	
0		(50 000)	(50 000)	(1) both
1	70 000	(41 000)	29 000	} (2)* OF
2	73 500	(53 000)	20 500	
3	77 175	(55 100)	22 075	
4	61 740	(46 280)	<u>15 460</u>	
			<u>37 035</u>	(1)

* **(1)** mark for each two correct answers.

[8]

(b) Product X

Year	NCF \$	DF \$	Present Value \$	
0	(50 000)	1.000	(50 000)	(1)
1	29 000	0.909	26 361	(1) OF
2	20 500	0.826	16 933	(1) OF
3	22 075	0.751	16 578	(1) OF
4	15 460	0.683	<u>10 559</u>	(1) OF
Net Present Value	(1)		<u>20 431</u>	(1) OF

[7]

(c) Based on NPV, Alexander should choose Product Y **(1)OF** because it yields a higher NPV **(1)OF**.

[2]

(d) Advantages – time value of money used **(1)**, easy to understand **(1)**, greater importance given to earlier cash flows **(1)**. **Max 1**.

Disadvantages – difficult to predict cash flow **(1)**, length of project difficult to predict **(1)**, cost of capital may change during project **(1)**. **Max 1**.

[2]

(e) Simple to understand and use **(1)**. Encourages caution **(1)**. Does not consider the time value of money **(1)**. Ignores cash flows after the initial investment has been recovered **(1)**.

Max 3

[3]

(f) Effect on environment **(1)**
 Current economic conditions **(1)**
 Political stability / government **(1)**
 Technological change **(1)**
 Trend / fashion **(1)**
 Customer loyalty **(1)**

Max 3

[3]

[Total: 25]