
ACCOUNTING

9706/33

Paper 3 Structured Questions

October/November 2017

MARK SCHEME

Maximum Mark: 150

Published

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Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer	Marks																																																																																																						
1(a)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">Not-for-profit</td> <td style="width: 33%;">Profit-making</td> <td style="width: 34%;"></td> </tr> <tr> <td>Subscriptions</td> <td>Sales revenue</td> <td></td> </tr> <tr> <td>Income and expenditure account</td> <td>Income statement</td> <td></td> </tr> <tr> <td>Accumulated fund</td> <td>Capital / Equity</td> <td></td> </tr> <tr> <td>Receipts and payments account</td> <td>Bank account</td> <td></td> </tr> <tr> <td>Surplus of income over expenditure</td> <td>Profit</td> <td></td> </tr> <tr> <td>Excess of expenditure over income</td> <td>Loss</td> <td></td> </tr> </table> <p>(1 mark) × four differences</p>	Not-for-profit	Profit-making		Subscriptions	Sales revenue		Income and expenditure account	Income statement		Accumulated fund	Capital / Equity		Receipts and payments account	Bank account		Surplus of income over expenditure	Profit		Excess of expenditure over income	Loss		4																																																																																	
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1(d)	<p>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.</p> <p>The income should therefore be spread over an appropriate period to match funds received with the benefits provided to members.</p> <p>The payments received will be represented as a credit in the statement of financial position as deferred income.</p> <p>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.</p> <p>This may depend on the profile of the members and expected use, but should not be for a lengthy period of time.</p> <p>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.</p> <p>(1 mark) for each valid point to a max of 4 marks.</p>	4																												

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

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2(a)	A revaluation reserve arises when non-current assets are revalued at an amount greater than their current net book value.	1																																																
2(b)	<p style="text-align: center;">Wembo and Bob capital accounts</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">W</th> <th></th> <th style="text-align: center;">B</th> <th></th> <th style="text-align: center;">W</th> <th></th> <th style="text-align: center;">B</th> </tr> </thead> <tbody> <tr> <td>Vehicles</td> <td style="text-align: right;">11 000</td> <td>(1) both</td> <td style="text-align: right;">12 500</td> <td>Balance b/d</td> <td style="text-align: right;">100 000</td> <td>(1) both</td> <td style="text-align: right;">60 000</td> </tr> <tr> <td>Preference shares</td> <td style="text-align: right;">36 000</td> <td>(1)</td> <td style="text-align: right;">24 000</td> <td>Bank W3</td> <td style="text-align: right;">2 475</td> <td>(1)OF</td> <td style="text-align: right;">9 525</td> </tr> <tr> <td>Ordinary shares</td> <td style="text-align: right;">59 375</td> <td>(1)</td> <td style="text-align: right;">35 625</td> <td>Goodwill W1</td> <td style="text-align: right;">7 500</td> <td>(1)*</td> <td style="text-align: right;">5 000</td> </tr> <tr> <td>Loss in realisation W2</td> <td style="text-align: right;">3 600</td> <td>(1)*</td> <td style="text-align: right;">2 400</td> <td></td> <td></td> <td></td> <td style="text-align: right;">(1)*</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">109 975</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">74 525</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">109 975</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">74 525</td> </tr> </tbody> </table> <p>W1 $90\,000 + 36\,000 + 3\,500 + 13\,000 = 142\,500 - 155\,000 = 12\,500$ (1) goodwill</p> <p>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.</p> <p>W3 $-5\,000 + 4\,900 - 8\,100 - 3\,800 = -12\,000$ bank (1)</p>		W		B		W		B	Vehicles	11 000	(1) both	12 500	Balance b/d	100 000	(1) both	60 000	Preference shares	36 000	(1)	24 000	Bank W3	2 475	(1)OF	9 525	Ordinary shares	59 375	(1)	35 625	Goodwill W1	7 500	(1)*	5 000	Loss in realisation W2	3 600	(1)*	2 400				(1)*		109 975		74 525		109 975		74 525	16
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2(d)(i)	<p>Ordinary shares</p> <p>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)</p> <p>Possible involvement of Wembo and Bob in managing the company through voting rights (1)</p> <p>Max 2</p>	4																					
2(d)(ii)	<p>Preference shares</p> <p>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)</p> <p>Max 2</p>																						

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3(b)	<p>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]</p>	4																																																																															

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

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4(a)	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) .	2																																																															
4(b)	$400\,000 \times 60\% = 240\,000$ shareholders. (1) $240\,000 \times 1.75 = \$420\,000$ (1) $\$550\,000 - \$420\,000 = \$130\,000$ (1)OF	3																																																															
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4(c)(ii)	Note: $\$25\,600$ (1) OF Ordinary share dividends proposed at the year-end. (1) W4 $640\,000 \times 0.04 = 25\,600$	2																																																															

Question	Answer	Marks
4(d)	<p>EPS</p> <p>1 For current year profit after tax / number of ordinary shares $138\,700 / 640\,000 = \\$0.2167$ $\\$(0.22)$ (1)OF</p> <p>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)</p> <p>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.</p> <p>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)</p>	9

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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

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6(a)	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.	2																																																				
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6(b)	<p>Working</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">April</th> <th style="width: 15%; text-align: center;">May</th> <th style="width: 15%; text-align: center;">June</th> <th style="width: 15%; text-align: center;">July</th> </tr> </thead> <tbody> <tr> <td>Sales (in unit)</td> <td style="text-align: center;"><u>5 000</u></td> <td style="text-align: center;"><u>8 000</u></td> <td style="text-align: center;"><u>4 000</u></td> <td style="text-align: center;"><u>3 000</u></td> </tr> <tr> <td>Unit sold</td> <td style="text-align: center;">5 000</td> <td style="text-align: center;">8 000</td> <td style="text-align: center;">4 000</td> <td style="text-align: center;">3 000</td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: center;">4 000</td> <td style="text-align: center;">2 000</td> <td style="text-align: center;">1 500</td> <td style="text-align: center;">2 000</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: center;"><u>0</u></td> <td style="text-align: center;"><u>4 000</u></td> <td style="text-align: center;"><u>2 000</u></td> <td style="text-align: center;"><u>1 500</u></td> </tr> <tr> <td>Purchases (in unit)</td> <td style="text-align: center;"><u>9 000</u></td> <td style="text-align: center;"><u>6 000</u></td> <td style="text-align: center;"><u>3 500</u></td> <td style="text-align: center;"><u>3 500</u></td> </tr> <tr> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> </tr> <tr> <td>Sales (\$64 each)</td> <td style="text-align: center;">320 000</td> <td style="text-align: center;">512 000</td> <td style="text-align: center;">256 000</td> <td style="text-align: center;">1 088 000</td> </tr> <tr> <td>Purchases (\$40 each)</td> <td style="text-align: center;">360 000</td> <td style="text-align: center;">240 000</td> <td style="text-align: center;">140 000</td> <td style="text-align: center;">740 000</td> </tr> <tr> <td>April sales</td> <td style="text-align: center;">63 040</td> <td style="text-align: center;">96 000</td> <td style="text-align: center;">160 000</td> <td></td> </tr> <tr> <td>May sales</td> <td></td> <td style="text-align: center;">100 864</td> <td style="text-align: center;">153 600</td> <td></td> </tr> <tr> <td>June sales</td> <td></td> <td></td> <td style="text-align: center;">50 432</td> <td></td> </tr> <tr> <td>July sales</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>63 040</u></td> <td style="text-align: center;"><u>196 864</u></td> <td style="text-align: center;"><u>364 032</u></td> <td></td> </tr> </tbody> </table> <p>Operating expenses \$43 000 – (\$84 000 / 60) = \$42 200</p>					April	May	June	July	Sales (in unit)	<u>5 000</u>	<u>8 000</u>	<u>4 000</u>	<u>3 000</u>	Unit sold	5 000	8 000	4 000	3 000	Closing inventory	4 000	2 000	1 500	2 000	Opening inventory	<u>0</u>	<u>4 000</u>	<u>2 000</u>	<u>1 500</u>	Purchases (in unit)	<u>9 000</u>	<u>6 000</u>	<u>3 500</u>	<u>3 500</u>		\$	\$	\$	\$	Sales (\$64 each)	320 000	512 000	256 000	1 088 000	Purchases (\$40 each)	360 000	240 000	140 000	740 000	April sales	63 040	96 000	160 000		May sales		100 864	153 600		June sales			50 432		July sales						<u>63 040</u>	<u>196 864</u>	<u>364 032</u>		
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6(c)	<p>Responses may include:</p> <p>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)</p> <p>Cash deficit in May and June, should plan ahead.</p> <p>Sales not evenly distributed, i.e. seasonal trade, and this will affect the regularity of cash inflow.</p> <p>Not many trade receivables take the advantage of cash discount, Luke may consider to increase the cash discount.</p> <p>More than 50% of trade receivables pay 2 months after sale, Luke should consider to tighten its credit policy.</p> <p>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.</p> <p>Keeping too much inventory may have negative impact on cash flow.</p> <p>Accept other valid responses. (1 mark) for each valid point.</p>	6																																																												
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