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**ACCOUNTING**

**9706/31**

Paper 3 Structured Questions

**October/November 2017**

MARK SCHEME

Maximum Mark: 150

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**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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

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

Question	Answer	Marks																																																																																								
1(b)	<p style="text-align: center;">Ted Manufacturing account for year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 10%; text-align: right;">\$</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Opening inventory of raw materials</td> <td></td> <td style="text-align: right;">52 000</td> <td></td> </tr> <tr> <td>Purchases</td> <td></td> <td style="text-align: right;">484 000</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td></td> <td style="text-align: right;">21 000</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>557 000</u></td> <td></td> </tr> <tr> <td>Closing inventory of raw materials</td> <td></td> <td style="text-align: right;">67 000</td> <td></td> </tr> <tr> <td>Cost of raw materials consumed</td> <td></td> <td style="text-align: right;"><u>490 000</u></td> <td style="text-align: right;"><b>(1) OF</b></td> </tr> <tr> <td>Direct expenses</td> <td></td> <td style="text-align: right;">120 000</td> <td></td> </tr> <tr> <td>Direct wages</td> <td></td> <td style="text-align: right;">626 000</td> <td></td> </tr> <tr> <td>Prime cost</td> <td></td> <td style="text-align: right;"><u>1 236 000</u></td> <td style="text-align: right;"><b>(1) OF</b></td> </tr> <tr> <td>Indirect wages</td> <td></td> <td style="text-align: right;">132 000</td> <td></td> </tr> <tr> <td>Factory overheads</td> <td></td> <td style="text-align: right;">510 900</td> <td></td> </tr> <tr> <td>Depreciation of factory machinery</td> <td style="text-align: right;"><b>W1</b></td> <td style="text-align: right;">8 100</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Rent</td> <td style="text-align: right;"><b>W2</b></td> <td style="text-align: right;">360 000</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Heat and light</td> <td style="text-align: right;"><b>W3</b></td> <td style="text-align: right;">133 500</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Insurance and rates</td> <td style="text-align: right;"><b>W4</b></td> <td style="text-align: right;">64 500</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>2 445 000</u></td> <td></td> </tr> <tr> <td>Opening work in progress</td> <td style="text-align: right;">97 000</td> <td></td> <td></td> </tr> <tr> <td>Closing work in progress</td> <td style="text-align: right;"><u>102 000</u></td> <td style="text-align: right;"><u>(5 000)</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Cost of production</td> <td></td> <td style="text-align: right;">2 440 000</td> <td></td> </tr> <tr> <td>Add : 20% mark-up</td> <td></td> <td style="text-align: right;">488 000</td> <td style="text-align: right;"><b>(1) OF</b></td> </tr> <tr> <td>Transferred to the trading section of Income Statement</td> <td></td> <td style="text-align: right;"><u>2 928 000</u></td> <td style="text-align: right;"><b>(1) OF</b></td> </tr> </tbody> </table> <p><b>W1</b> Depreciation of factory machinery <math>(\\$330\,000 - \\$276\,000) \times 15\% = \\$8\,100</math>  <b>W2</b> Rent <math>(\\$440\,000 + \\$40\,000) \times 3/4 = \\$360\,000</math>  <b>W3</b> Heat and light <math>\\$178\,000 \times 3/4 = \\$133\,500</math>  <b>W4</b> Insurance and rates <math>(\\$92\,000 - \\$60\,000) \times 3/4 = \\$64\,500</math></p>		\$	\$		Opening inventory of raw materials		52 000		Purchases		484 000		Carriage inwards		21 000	<b>(1)</b>			<u>557 000</u>		Closing inventory of raw materials		67 000		Cost of raw materials consumed		<u>490 000</u>	<b>(1) OF</b>	Direct expenses		120 000		Direct wages		626 000		Prime cost		<u>1 236 000</u>	<b>(1) OF</b>	Indirect wages		132 000		Factory overheads		510 900		Depreciation of factory machinery	<b>W1</b>	8 100	<b>(1)</b>	Rent	<b>W2</b>	360 000	<b>(1)</b>	Heat and light	<b>W3</b>	133 500	<b>(1)</b>	Insurance and rates	<b>W4</b>	64 500	<b>(1)</b>			<u>2 445 000</u>		Opening work in progress	97 000			Closing work in progress	<u>102 000</u>	<u>(5 000)</u>	<b>(1)</b>	Cost of production		2 440 000		Add : 20% mark-up		488 000	<b>(1) OF</b>	Transferred to the trading section of Income Statement		<u>2 928 000</u>	<b>(1) OF</b>	<b>10</b>
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1(e)	<p>Responses could include:</p> <p>Ted should consider accepting the extra order <b>(1)</b> as his production unit cost \$30.50 is higher than the unit cost \$28 demanded by the external supplier. <b>(1)</b>  Unit production cost is \$2 440 000 <b>(OF)</b>/80 000 = \$30.50 <b>(1)</b></p> <p>Accepting the order can also maintain the goodwill with the customer. <b>(1)</b>  However, he should also consider whether the product quality can be maintained. <b>(1)</b></p> <p><b>1 mark</b> for the decision and <b>max 3 marks</b> for relevant points.</p>	<b>4</b>																																								

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2(e)	<p>Yes <b>(1)</b></p> <p>The donation was for a specific purpose <b>(1)</b> and so should not be paid into the current account <b>(1)</b> in case it is not used for that purpose.</p> <p>It is for future use <b>(1)</b> and so can be used to earn interest in the interval. <b>(1)</b></p> <p>It will ensure that the members appreciate the amount of funds available for current running costs <b>(1)</b> and what are reserved for a special purpose. <b>(1)</b></p> <p>Any payments made for the purpose of expanding the facilities will be paid from this account <b>(1)</b> and so ensuring members know about any ongoing developments. <b>(1)</b></p> <p><b>Decision (1), Justification Max 4</b></p>	<b>5</b>

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



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><b>Max. 2 for each ratio – 1 for rise/fall – 1 for better/worse and/or explanation.</b> <b>Max. 2 for other comments.</b> <b>Max. 8</b></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) <b>Max. 5 + 1 decision.</b></p>	6

Question	Answer	Marks																																																
4(a)	The account which records the introduction <b>(1)</b> or withdrawal <b>(1)</b> of funds/assets of a person into the business.	<b>2</b>																																																
4(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="4" style="text-align: center;">Capital account – Armfield</td> <td colspan="4" style="text-align: center;">Capital account – Bonetti</td> </tr> <tr> <td style="width: 15%;">Cash</td> <td style="width: 10%;">4 000</td> <td style="width: 10%; text-align: right;">} <b>(1)</b></td> <td style="width: 15%;">Balance b/d</td> <td style="width: 10%;">100 000</td> <td style="width: 15%;">Cash</td> <td style="width: 10%;">5 000</td> <td style="width: 10%; text-align: right;">} <b>(1)</b></td> </tr> <tr> <td>Reveal</td> <td>7 000</td> <td></td> <td></td> <td></td> <td>Reveal</td> <td>8 000</td> <td style="text-align: right;">} <b>(1)</b></td> </tr> <tr> <td>Balance c/d</td> <td><u>89 000</u></td> <td style="text-align: right;"><b>(1) OF</b></td> <td></td> <td></td> <td>Balance c/d</td> <td><u>153 000</u></td> <td style="text-align: right;"><b>*(1) OF</b></td> </tr> <tr> <td></td> <td><u>100 000</u></td> <td></td> <td></td> <td style="text-align: right;"><u>100 000</u></td> <td></td> <td><u>158 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">89 000</td> <td></td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;"><u>153 000</u></td> </tr> </table> <p>* Transfer to new partnership capital accounts</p>	Capital account – Armfield				Capital account – Bonetti				Cash	4 000	} <b>(1)</b>	Balance b/d	100 000	Cash	5 000	} <b>(1)</b>	Reveal	7 000				Reveal	8 000	} <b>(1)</b>	Balance c/d	<u>89 000</u>	<b>(1) OF</b>			Balance c/d	<u>153 000</u>	<b>*(1) OF</b>		<u>100 000</u>			<u>100 000</u>		<u>158 000</u>					Balance b/d	89 000		Balance b/d	<u>153 000</u>	<b>6</b>
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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)  Only one year's results available, so difficult to form opinion. (1)  Disadvantages include sharing of profits, possible disagreements and therefore delays to decision making process. (1)  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)  Ownership is transferable. (1)  More legal formalities. (1) Greater expense to maintain. (1)  Since the partners are close to retirement it is advisable to incorporate. (1)</p> <p><b>Max 2 advantages x 2 marks each (1 mark for identifying, 1 mark for development.)</b></p>	4																																																												

Question	Answer	Marks
5(a)(i)	Direct Material costs – quantity discounts <b>(1)</b> / savings on carriage inwards <b>(1)</b>	<b>4</b>
5(a)(ii)	Direct labour – more hours worked leading to overtime rates <b>(1)</b> / shortage of labour leading to higher wage rates. <b>(1)</b>	
5(b)(i)	$(90 - 20.4 - 30) - 33$ <b>(1)</b> = \$6.60 <b>(1)</b> × 1000 units = \$6600 <b>(1of)</b>	<b>3</b>
5(b)(ii)	$(80 - 20.08 - 36) - 22$ <b>(1)</b> = \$1.92 <b>(1)</b> 1500 units = \$2880 <b>(1of)</b>	<b>3</b>
5(b)(iii)	$6600 - 2880 = \$3720$ decrease <b>(1)</b>	<b>1</b>
5(c)(i)	15 000 A <b>(2)</b> = $(90 - 80) \times 1500$	<b>8</b>
5(c)(ii)	45 000 F <b>(2)</b> = $(500 \times 90)(1500 - 1000) \times 90$	
5(c)(iii)	480 F <b>(2)</b> = $(5.10 - 5.02) = 0.08 \times (4 \times 1500)$	
5(c)(iv)	9000 A <b>(2)</b> = $(10 - 12) \times (3 \times 1500)$  <b>Where two marks are given, one is for amount and one for direction.</b>	
5(d)	Variance analysis reconciles between a flexed budget and actual, <b>(1)</b> not between a master budget and actual. <b>(1)</b> Only the sales volume variance takes into account the differences from the master budget. <b>(1)</b>	<b>3</b>
5(e)	Profit decreases <b>(1)OF</b> Other reservations <b>(1)</b>  <b>Decision (1)OF + Max 2 for justification</b>	<b>3</b>

Question	Answer				Marks
6(a)		Product A \$	Product B \$	Total \$	<b>3</b>
	Sales value Overheads	240 000 <b>(1)</b> 120 000	360 000 <b>(1)</b> 180 000 <b>(1) for both</b>	600 000 300 000	
6(b)		Product A \$	Product B \$	Product B \$	<b>5</b>
	Direct cost Overheads Total Selling price Profit	(3.2 + 1.8) (120 / 20) <u>5</u> <u>6</u> 11 <u>12</u> <u>1</u>	<b>(1)OF</b> <b>(1)OF</b> <b>(1)OF</b> 20 <b>(1)OF</b>	(4.9 + 2.1) (180 / 18) <u>7</u> <u>10</u> 17 <u>20</u> <u>3</u>	
				<b>(1) for both</b> <b>(1)OF</b> <b>(1)OF</b> <b>(1)OF</b> <b>(1)OF</b>	
6(c)		A \$	B \$	Total \$	<b>5</b>
	Delivery (100+) Delivery (small) <u>13 790</u> Order processing <u>17 025</u> 30 185 Other overheads <u>130 447</u> Total <u>161 262</u>	510 <u>13 280</u> 13 790 <u>17 025</u> 30 185 <u>130 447</u> 161 262	690 <u>8 920</u> 9 610 <u>11 725</u> 21 335 <u>117 403</u> 138 738	<b>(1) for both</b> <b>(1) for both</b> <b>(1) for both</b> <b>(1)OF for both</b> <b>(1)OF for both</b> 52 150 <u>247 850</u> 300 000	
				<b>(1) for both</b> <b>(1) for both</b> <b>(1) for both</b> <b>(1)OF for both</b> <b>(1)OF for both</b>	
6(d)		A \$	B \$		<b>5</b>
	Direct cost Overheads Total Selling price Profit	5 (161.2 / 20) <u>8.06</u> 13.06 <u>12.00</u> <u>(1.06)</u>	<b>(1)OF</b> <b>(1)OF</b> <b>(1)OF</b> 20 <b>(1)OF</b>	7 <u>7.71</u> 14.71 <u>20.00</u> <u>5.29</u>	
				<b>(1) for both</b> <b>(1)OF</b> <b>(1)OF</b> <b>(1)OF</b> <b>(1)OF</b>	

Question	Answer	Marks
6(e)	<p>Profit per unit for A is now negative <b>(1)</b> although A still has a positive contribution towards fixed costs. <b>(1)</b> Profit per unit for B has increased. <b>(1)</b></p> <p>The directors should consider increasing the selling price of A. <b>(1)</b> Perhaps delivery charges could be charged separately as an addition to the unit price. <b>(1)</b></p> <p>Advantage/disadvantage of change of method. <b>(1)</b> Motivation/behavioural aspects. <b>(1)</b></p> <p><b>[1 mark for decision + 1 max method + 1 max non-financial + 2 max for comparison A versus B]</b></p>	<b>5</b>
6(f)	<p>Cost driver – the separate activities of each department. <b>(1)</b> Cost pool – an account collecting the cost of each activity. <b>(1)</b></p>	<b>2</b>