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**ACCOUNTING**

**9706/33**

Paper 3 Structured Questions

**October/November 2018**

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.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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This document consists of **17** printed pages.

**PUBLISHED****Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks																																				
1(a)	$\frac{21}{(126 - 21)} \times 100 = 20\%$ <p>(1) OF (1)</p> <p>OR</p> $\frac{16}{(96 - 16)} \times 100 = 20\%$ <p>(1) OF (1)</p>	<b>3</b>																																				
1(b)	<p style="text-align: center;">CL plc Manufacturing Account for the year ended 31 December 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Prime cost</td> <td></td> <td style="text-align: right;">780 000</td> <td></td> </tr> <tr> <td>Factory overheads</td> <td></td> <td style="text-align: right;"><u>202 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">982 000</td> <td></td> </tr> <tr> <td>Work in progress – opening</td> <td style="text-align: right;">17 000</td> <td></td> <td></td> </tr> <tr> <td>– closing</td> <td style="text-align: right;"><u>25 000</u></td> <td style="text-align: right;"><u>(8 000)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Factory cost of finished goods</td> <td></td> <td style="text-align: right;">974 000</td> <td></td> </tr> <tr> <td>Factory profit</td> <td></td> <td style="text-align: right;"><u>194 800</u></td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Transfer to income statement</td> <td></td> <td style="text-align: right;"><u>1 168 800</u></td> <td style="text-align: right;">(1) OF</td> </tr> </table>		\$	\$		Prime cost		780 000		Factory overheads		<u>202 000</u>	(1)			982 000		Work in progress – opening	17 000			– closing	<u>25 000</u>	<u>(8 000)</u>	(1)	Factory cost of finished goods		974 000		Factory profit		<u>194 800</u>	(1) OF	Transfer to income statement		<u>1 168 800</u>	(1) OF	<b>4</b>
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1(d)	<p>Is there a guarantee of supply? <b>(1)</b></p> <p>Is there a way to control quality? <b>(1)</b></p> <p>How many costs are fixed and will still have to be paid? <b>(1)</b></p> <p>If staff are laid off now can they be re-employed later on? <b>(1)</b></p> <p>Decision <b>(1)</b> Justification <b>(Max 3)</b></p>	<b>4</b>																																																																								

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Question	Answer	Marks
1(e)(i)	Total of direct costs <b>(1)</b>	<b>1</b>
1(e)(ii)	Any suitable example e.g. purchase of raw materials, carriage on raw materials, machine operators' wages <b>(1)</b>	<b>1</b>
1(e)(iii)	Any suitable example e.g. depreciation of factory machinery, supervisor's salary, factory rent, factory insurance <b>(1)</b>	<b>1</b>

Question	Answer	Marks
2(a)	<p>They provide additional information at the end of the financial statements. <b>(1)</b></p> <p>They provide further explanation of specific items in the financial statements. <b>(1)</b></p> <p>They explain the accounting methods and policies used to prepare the accounts. <b>(1)</b></p> <p>They ensure transparency of financial statement figures. <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p><b>Max 3</b></p>	<b>3</b>
2(b)	<p>Depreciation buildings: <math>160\,000 \times 5\% = 8000</math> <b>(1)</b></p> <p>Depreciation fixtures and fittings: <math>95\,000 \times 15\% = 14\,250</math> <b>(1)</b></p> <p><math>20\,000 \times 15\% \times \frac{9}{12} = 2250</math> <b>(1) OF</b></p> <p>Total = <math>14\,250 + 2250 = 16\,500</math> <b>(1) OF</b></p> <p>Depreciation motor vehicles: <math>30\,000 \times 20\% \times \frac{9}{12} = 4500</math> <b>(1)</b></p> <p><math>22\,000 \times 20\% \times \frac{3}{12} = 1100</math> <b>(1)</b></p> <p>Total = <math>4500 + 1100 = 5600</math> <b>(1) OF</b></p>	<b>7</b>

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2(c)	<p style="text-align: center;">S plc Note to the Statement of Financial position at 30 September 2017</p> <p>Property, plant and equipment</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">Land and buildings</th> <th style="width: 15%; text-align: center;">Fixtures and fittings</th> <th style="width: 15%; text-align: center;">Motor vehicles</th> <th style="width: 20%; text-align: center;">Total</th> <th></th> </tr> </thead> <tbody> <tr> <td colspan="6">Cost</td> </tr> <tr> <td>Balance at 1 October 2016</td> <td style="text-align: right;">200 000</td> <td style="text-align: right;">95 000</td> <td style="text-align: right;">43 000</td> <td style="text-align: right;">338 000</td> <td style="text-align: right;">*</td> </tr> <tr> <td>Purchases</td> <td></td> <td style="text-align: right;">20 000</td> <td></td> <td style="text-align: right;">20 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Disposals</td> <td></td> <td></td> <td style="text-align: right;">(10 000)</td> <td style="text-align: right;">(10 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Balance at 30 September 2017</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">200 000</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">115 000</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">33 000</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">348 000</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td colspan="6">Depreciation</td> </tr> <tr> <td>Balance at 1 October 2016</td> <td style="text-align: right;">70 000</td> <td style="text-align: right;">28 000</td> <td style="text-align: right;">13 000</td> <td style="text-align: right;">111 000</td> <td style="text-align: right;">*(1)</td> </tr> <tr> <td>Disposals</td> <td></td> <td></td> <td style="text-align: right;">(2 000)</td> <td style="text-align: right;">(2 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Charge for the year</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">8 000</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">16 500</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">5 600</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">30 100</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Balance at 30 September 2017</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">78 000</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">44 500</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">16 600</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">139 100</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td colspan="6">Net book value</td> </tr> <tr> <td>Balance at 30 September 2017</td> <td style="text-align: right;">122 000</td> <td style="text-align: right;">70 500</td> <td style="text-align: right;">16 400</td> <td style="text-align: right;">208 900</td> <td rowspan="2" style="vertical-align: middle;">} (1) OF both</td> </tr> <tr> <td>Balance at 30 September 2016</td> <td style="text-align: right;">130 000</td> <td style="text-align: right;">67 000</td> <td style="text-align: right;">30 000</td> <td style="text-align: right;">227 000</td> </tr> </tbody> </table> <p>* Balances</p>						Land and buildings	Fixtures and fittings	Motor vehicles	Total		Cost						Balance at 1 October 2016	200 000	95 000	43 000	338 000	*	Purchases		20 000		20 000	(1)	Disposals			(10 000)	(10 000)	(1)	Balance at 30 September 2017	200 000	115 000	33 000	348 000	(1) OF	Depreciation						Balance at 1 October 2016	70 000	28 000	13 000	111 000	*(1)	Disposals			(2 000)	(2 000)	(1)	Charge for the year	8 000	16 500	5 600	30 100	(1) OF	Balance at 30 September 2017	78 000	44 500	16 600	139 100	(1) OF	Net book value						Balance at 30 September 2017	122 000	70 500	16 400	208 900	} (1) OF both	Balance at 30 September 2016	130 000	67 000	30 000	227 000	<b>8</b>
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2(d)	<p>Annual cost to the company would be \$6000 for the preference shares (1) and \$5000 for the debentures. (1) The company could decide whether or not to pay dividends to the ordinary shareholders (1) but control could be lost. (1)</p> <p>The interest paid on the debentures reduces the profit before tax (1) and debentures must be redeemed. (1) Both debentures and preference shares increase the gearing of the company. (1)</p> <p>Since the cost of debentures is less (1) the directors should be advised to issue the debenture. (1)</p> <p><b>Accept other valid points.</b></p> <p><b>Recommendation (1) and Justification Max 6</b></p>	7

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3(b)(ii)	<p style="text-align: center;">Kia's books Joint venture with Zarina</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>Purchases <b>W1</b></td> <td style="text-align: right;">600</td> <td style="text-align: right;">(2)</td> <td>Sales</td> <td style="text-align: right;">1 790</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Repairs</td> <td style="text-align: right;">160</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Share of profits</td> <td style="text-align: right;">216</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cash settlement to Zarina</td> <td style="text-align: right;">814</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>1 790</u></td> <td></td> <td></td> <td style="text-align: right;"><u>1 790</u></td> <td></td> </tr> </table> <p><b>W1</b> 400 (1) + 200 (1)</p>		\$			\$		Purchases <b>W1</b>	600	(2)	Sales	1 790	(1)	Repairs	160	(1)				Share of profits	216	(1)				Cash settlement to Zarina	814	(1)					<u>1 790</u>			<u>1 790</u>		<b>6</b>																		
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<b>Question</b>	<b>Answer</b>	<b>Marks</b>
3(c)	<p>Both Kia and Zarina have benefitted from each other's contribution to the business. e.g. Zarina has access to Kia's selling markets</p> <p>Access to greater resources and finance therefore no need to borrow</p> <p>Both have been sharing risks and costs with another person so reducing workload</p> <p><b>(1) for benefit plus (1) for development</b></p>	<b>2</b>
3(d)	<p>As Kia has sold all the necklaces presumably she has the sales contacts which Zarina does not have. <b>(1)</b></p> <p>Both have spent approximately equal amounts Kia \$760 and Zarina \$670 <b>(1)</b></p> <p>If profits are shared equally then Kia would have received \$180 which is \$36 <b>(1)</b> less than she received in the joint venture. <b>(1)</b></p> <p>Accept other valid points.</p> <p><b>Recommendation (1) with justification Max 4 marks</b></p>	<b>5</b>

<b>Question</b>	<b>Answer</b>	<b>Marks</b>
4(a)	<p>A bonus share issue is free <b>(1)</b> and so the company gets no extra funds, <b>(1)</b> but a rights issue has to be paid for. <b>(1)</b> The shareholder can sell on the right to buy a rights issue. <b>(1)</b></p> <p>The bonus issue will be made from the company's reserves. <b>(1)</b></p> <p><b>Accept other valid points.</b></p>	<b>3</b>

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5(a)	<p>Helps to compare the actual performance with the planned as budgeted to take corrective action.</p> <p>Communication of targets easier – people setting targets understand them.</p> <p>Motivate managers / increase commitment – setting targets.</p> <p>Realistic targets – set by the person doing the job.</p> <p>Improved co-ordination of budget preparation exercise facilitates master budget.</p> <p><b>Accept other valid points.</b></p> <p><b>(2 marks)</b> × any 2 points (1 mark stating + 1 mark for development)</p>	<b>4</b>

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5(c)	<p>Budget is based on standards which are never the same as actual data. (1)</p> <p>Actual material price could be different to standard e.g. discounts, market price increase, scarcity. (1)</p> <p>Actual usage / quantity could be different to standard e.g. quality of materials, skills of workers. (1)</p> <p>Labour rate could be different due to more / less skilled staff. (1)</p> <p>Labour hours could be different due to overtime, quality of materials, skills of workers. (1)</p> <p>Sales revenue could be different to standard due to different demand, different sales price. (1)</p> <p><b>Accept other valid points.</b></p> <p><b>Max 4</b></p>	<b>4</b>
5(d)	<p>Fixed budget does not reflect what has actually happened as it does not compare like with like. (1)</p> <p>Does not allow for meaningful variance analysis so does not aid performance evaluation. (1)</p> <p><b>Accept other valid points.</b></p> <p><b>(Any 2 disadvantages) (1 mark for stating + 1 for development)</b></p>	<b>4</b>

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6(a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Sales</th> <th></th> <th style="text-align: center;">Labour</th> <th></th> <th style="text-align: center;">Rent</th> <th></th> <th style="text-align: center;">Seeds</th> <th></th> <th style="text-align: center;">Net cash flow</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> <th style="text-align: center;">\$</th> <th></th> <th style="text-align: center;">\$</th> <th></th> <th style="text-align: center;">\$</th> <th></th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">(30 000) (1)</td> </tr> <tr> <td>Y1</td> <td style="text-align: right;">4 500</td> <td style="text-align: right;">}</td> <td style="text-align: right;">(900)</td> <td style="text-align: right;">}</td> <td style="text-align: right;">(4 000)</td> <td></td> <td style="text-align: right;">(1 000)</td> <td></td> <td style="text-align: right;">(1 400) }</td> </tr> <tr> <td>Y2</td> <td style="text-align: right;">9 000</td> <td style="text-align: right;">} (1)</td> <td style="text-align: right;">(1 800)</td> <td style="text-align: right;">} (1)</td> <td style="text-align: right;">(4 000)</td> <td></td> <td style="text-align: right;">(1000)</td> <td></td> <td style="text-align: right;">2 200 }</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;"><b>OF</b></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Y3</td> <td style="text-align: right;">16 500</td> <td style="text-align: right;">}</td> <td style="text-align: right;">(3 300)</td> <td style="text-align: right;">}</td> <td style="text-align: right;">(4 000)</td> <td></td> <td style="text-align: right;">(1 000)</td> <td></td> <td style="text-align: right;">8 200 }</td> </tr> <tr> <td>Y4</td> <td style="text-align: right;">16 500</td> <td style="text-align: right;">}</td> <td style="text-align: right;">(3 300)</td> <td style="text-align: right;">}</td> <td style="text-align: right;">(4 000)</td> <td></td> <td style="text-align: right;">(1 000)</td> <td></td> <td style="text-align: right;">8 200 }</td> </tr> <tr> <td>Y5</td> <td style="text-align: right;">16 500</td> <td style="text-align: right;">} (1)</td> <td style="text-align: right;">(3 300)</td> <td style="text-align: right;">} (1)</td> <td style="text-align: right;">(4 000)</td> <td></td> <td style="text-align: right;">(1 000)</td> <td></td> <td style="text-align: right;">8 200 } (1) <b>OF</b></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;"><b>OF</b></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">(1)</td> <td></td> <td style="text-align: center;">(1)</td> <td></td> <td></td> </tr> </tbody> </table>		Sales		Labour		Rent		Seeds		Net cash flow		\$		\$		\$		\$		\$										(30 000) (1)	Y1	4 500	}	(900)	}	(4 000)		(1 000)		(1 400) }	Y2	9 000	} (1)	(1 800)	} (1)	(4 000)		(1000)		2 200 }					<b>OF</b>						Y3	16 500	}	(3 300)	}	(4 000)		(1 000)		8 200 }	Y4	16 500	}	(3 300)	}	(4 000)		(1 000)		8 200 }	Y5	16 500	} (1)	(3 300)	} (1)	(4 000)		(1 000)		8 200 } (1) <b>OF</b>					<b>OF</b>											(1)		(1)			<b>8</b>
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6(b)	<p>Average profit = <math>\frac{25\,400 - 30\,000 (1)}{5 (1)} = -920</math></p> <p>Average investment = 15 000 (1)</p> <p>ARR = <math>\frac{-920}{15\,000} = -6.13\% (1) \text{ OF}</math></p>						<b>4</b>																																																																																																									
6(c)	<p>Average profit = <math>\frac{50\,800 (1) \text{ OF} - 38\,000 (1)}{5 (1)} = 2560</math></p> <p>Average investment = 19 000 (1)</p> <p>ARR = <math>\frac{2560}{19\,000} = 13.47\% (1) \text{ OF}</math></p>						<b>5</b>																																																																																																									
6(d)(i)	Useful for comparisons / easy to calculate (1)						<b>3</b>																																																																																																									
6(d)(ii)	<p>Doesn't take into account timing of cash flows (1) doesn't take into account time value of money (1) uses subjective measures (1)</p> <p><b>Any two for (1) each</b></p>																																																																																																															



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<b>Question</b>	<b>Answer</b>	<b>Marks</b>
6(e)	<p>NPV has not been calculated and would be a better indicator <b>(1)</b></p> <p>Payback has not been calculated <b>(1)</b></p> <p>Project is risky as, say, weather could destroy crops <b>(1)</b></p> <p>Project is loss making in early years <b>(1)</b></p> <p>Labour / rent / price of seeds may change <b>(1)</b></p> <p>Selling price is governed by the factors outside Asif's control <b>(1)</b></p> <p><b>Accept other valid points.</b></p> <p><b>Reasonable comments for (1) each</b> <b>Max 5</b></p>	<b>5</b>