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**ACCOUNTING**

**9706/32**

Paper 3 A Level Structured Questions

**March 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.

Cambridge will not enter into discussions about these mark schemes.

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

**PUBLISHED**

Question	Answer	Marks																																																																														
1(a)	An intangible asset is an identifiable non-monetary asset <b>(1)</b> without physical substance <b>(1)</b> from which future benefits are expected. <b>(1)</b>	<b>3</b>																																																																														
1(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">680 000</td> <td></td> </tr> <tr> <td>Cost of sales <b>W1</b></td> <td style="text-align: right;"><u>(401 714)</u></td> <td style="text-align: right;"><b>(2)of</b></td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">278 286</td> <td style="text-align: right;"><b>(1)of</b></td> </tr> <tr> <td>Distribution costs <b>W2</b></td> <td style="text-align: right;">(66 607)</td> <td style="text-align: right;"><b>(3)of</b></td> </tr> <tr> <td>Administrative expenses <b>W3</b></td> <td style="text-align: right;"><u>(147 837)</u></td> <td style="text-align: right;"><b>(3)of</b></td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;">63 842</td> <td style="text-align: right;"><b>(1)of</b></td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;"><u>(4 500)</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Profit before tax</td> <td style="text-align: right;">59 342</td> <td></td> </tr> <tr> <td>Tax</td> <td style="text-align: right;"><u>(12 385)</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>46 957</u></td> <td style="text-align: right;"><b>(1)of</b></td> </tr> <tr> <td colspan="3"> <b>W1</b></td> </tr> <tr> <td colspan="3">Cost of sales: <math>117\,257 + 378\,000 - (108\,543 - 15\,000)</math> <b>(1)</b> = 401 714 <b>(1)of</b></td> </tr> <tr> <td colspan="3"><b>W2</b></td> </tr> <tr> <td colspan="3" style="text-align: center;">\$</td> </tr> <tr> <td colspan="3">Distribution costs:</td> </tr> <tr> <td>TB</td> <td style="text-align: right;">70 152</td> <td></td> </tr> <tr> <td>Provision</td> <td style="text-align: right;">90</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Prepayment</td> <td style="text-align: right;"><u>(3 635)</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>66 607</u></td> <td style="text-align: right;"><b>(1)of</b></td> </tr> <tr> <td colspan="3"> <b>W3</b></td> </tr> <tr> <td colspan="3">Administrative expenses:</td> </tr> <tr> <td>TB</td> <td style="text-align: right;">145 267</td> <td></td> </tr> <tr> <td>Accrual</td> <td style="text-align: right;">2 480</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Provision</td> <td style="text-align: right;">90</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>147 837</u></td> <td style="text-align: right;"><b>(1)of</b></td> </tr> </table>		\$		Revenue	680 000		Cost of sales <b>W1</b>	<u>(401 714)</u>	<b>(2)of</b>	Gross profit	278 286	<b>(1)of</b>	Distribution costs <b>W2</b>	(66 607)	<b>(3)of</b>	Administrative expenses <b>W3</b>	<u>(147 837)</u>	<b>(3)of</b>	Profit from operations	63 842	<b>(1)of</b>	Finance costs	<u>(4 500)</u>	<b>(1)</b>	Profit before tax	59 342		Tax	<u>(12 385)</u>	<b>(1)</b>	Profit for the year	<u>46 957</u>	<b>(1)of</b>	 <b>W1</b>			Cost of sales: $117\,257 + 378\,000 - (108\,543 - 15\,000)$ <b>(1)</b> = 401 714 <b>(1)of</b>			<b>W2</b>			\$			Distribution costs:			TB	70 152		Provision	90	<b>(1)</b>	Prepayment	<u>(3 635)</u>	<b>(1)</b>		<u>66 607</u>	<b>(1)of</b>	 <b>W3</b>			Administrative expenses:			TB	145 267		Accrual	2 480	<b>(1)</b>	Provision	90	<b>(1)</b>		<u>147 837</u>	<b>(1)of</b>	<b>13</b>
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1(c)	<p>Trade receivables turnover = <math>\frac{87\,450}{680\,000} \times 365 = 47</math> days <b>(1)of</b></p> <p>Inventory turnover ratio = <math>\frac{105\,400}{401\,714} \times 365 = 95.77</math> days <b>(1)of</b></p> <p>Trade payables turnover = <math>\frac{26\,550}{378\,000} \times 365 = 26</math> days <b>(1)of</b></p> <p>Working capital cycle = <math>47 + 96 - 26 = 117</math> days <b>(1)OF</b></p>	<b>4</b>
1(d)	<p>It is taking longer to receive payment from customers than the allowed period. <b>(1)</b></p> <p>There should be a review of the credit control system. <b>(1)</b></p> <p>May consider discounts/incentives to encourage prompt payment. <b>(1)</b></p> <p>Payment to suppliers is being made quicker than the allowed period. <b>(1)</b></p> <p>This maintains a good relationship with the suppliers. <b>(1)</b></p> <p>Future discounts/incentives should be protected. <b>(1)</b></p> <p>Detrimental to cash flow <b>(1)</b> as payments are received 21 days after payments are made. <b>(1)</b></p> <p>Inventory turnover of 95.77 days could be reduced to improve liquidity. <b>(1)</b></p> <p><b>1 for decision + Max 4 for justification</b></p>	<b>5</b>
		<b>25</b>

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2(a)	<table border="1" data-bbox="459 220 1816 616"> <thead> <tr> <th data-bbox="459 220 1137 284">Internal auditor</th> <th data-bbox="1137 220 1816 284">External auditor</th> </tr> </thead> <tbody> <tr> <td data-bbox="459 284 1137 384">Internal auditors are employees</td> <td data-bbox="1137 284 1816 384">External auditors are external independent persons</td> </tr> <tr> <td data-bbox="459 384 1137 552">Review the business practices and internal control system to prevent mistakes</td> <td data-bbox="1137 384 1816 552">Examine the financial statements and give opinion whether the financial statements present a true and fair view and comply with legal requirements</td> </tr> <tr> <td data-bbox="459 552 1137 616">Report to the senior management</td> <td data-bbox="1137 552 1816 616">Report to shareholders</td> </tr> </tbody> </table> <p data-bbox="360 652 808 684">Accept any reasonable alternative.</p> <p data-bbox="360 719 714 751"><b>(2 marks)</b> × 2 explanations</p>	Internal auditor	External auditor	Internal auditors are employees	External auditors are external independent persons	Review the business practices and internal control system to prevent mistakes	Examine the financial statements and give opinion whether the financial statements present a true and fair view and comply with legal requirements	Report to the senior management	Report to shareholders	4
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2(b)	<p data-bbox="360 788 696 820">Responses could include:</p> <ul data-bbox="360 858 1895 1230" style="list-style-type: none"> <li>Proposed dividend – The proposed dividend has to be approved by shareholders at the annual general meeting. It is not regarded as liability at the statement of financial position date. According to IAS 10 <i>Events After The Reporting Period</i>, a proposed dividend should be treated as a non-adjusting event and entered as a note on the financial statements.</li> <li>Depreciation of printing machine – According to IAS 16 <i>Property, Plant and Equipment</i>, the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the business. As the consumption of the printing machine is decreasing, reducing balance method should be adopted.</li> <li>Goodwill – IAS 38 <i>Intangible Assets</i> prohibits the recognition of internal generated goodwill. Therefore do not include this in the financial statements.</li> <li>Inventory – According to IAS 2 <i>Inventories</i>, inventories should be valued at the lower of cost and net realisable value. Therefore inventory should be valued at \$43 400 not \$44 500</li> </ul> <p data-bbox="360 1273 714 1305"><b>(2 marks)</b> × 4 explanations</p> <p data-bbox="360 1342 1167 1374">It is not necessary to quote the relevant accounting standards.</p>	8								

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2(f)	<p>To prepare true and fair financial statements, it is essential that they are prepared in accordance with applicable accounting standards <b>(1)</b>. Euan should voice his concerns and discuss with the directors <b>(1)</b> giving them the opportunity to revise the statements <b>(1)</b>. If the directors do not reflect the changes, the external auditor can consider issuing a qualified auditor report <b>(1)</b>.</p> <p><b>Max. 3</b></p>	<b>3</b>																																								
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3(a)	Differences:  Surplus of income over expenditure is used instead of profit. <b>(1)</b> Excess of expenditure over income is used instead of loss. <b>(1)</b> Accumulated fund is used instead of capital. <b>(1)</b> An income and expenditure account is prepared instead of an income statement. <b>(1)</b> <b>Max 3</b>	<b>3</b>																																										
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3(c)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="6" style="text-align: center;">Subscriptions Account</td> </tr> <tr> <td></td> <td style="text-align: center;">\$</td> <td></td> <td></td> <td style="text-align: center;">\$</td> <td></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">1 750</td> <td style="text-align: right;"><b>(1)</b></td> <td>Balance b/d</td> <td style="text-align: right;">500</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Income and Expenditure Account <b>(1)</b></td> <td style="text-align: right;">77 500</td> <td style="text-align: right;"><b>(1)</b></td> <td>Cash/bank</td> <td style="text-align: right;">76 500</td> <td style="text-align: right;"><b>(1)OF</b></td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;">750</td> <td></td> <td>Balance c/d</td> <td style="text-align: right;"><u>3 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>80 000</u></td> <td></td> <td></td> <td style="text-align: right;"><u>80 000</u></td> <td></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">3 000</td> <td style="text-align: right;"><b>(1)</b></td> <td>Balance b/d</td> <td style="text-align: right;">750</td> <td style="text-align: right;"><b>(1)</b></td> </tr> </table>	Subscriptions Account							\$			\$		Balance b/d	1 750	<b>(1)</b>	Balance b/d	500	<b>(1)</b>	Income and Expenditure Account <b>(1)</b>	77 500	<b>(1)</b>	Cash/bank	76 500	<b>(1)OF</b>	Balance c/d	750		Balance c/d	<u>3 000</u>			<u>80 000</u>			<u>80 000</u>		Balance b/d	3 000	<b>(1)</b>	Balance b/d	750	<b>(1)</b>	<b>7</b>
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3(d)	Apply for overdraft. <b>(1)</b> Seek loan. <b>(1)</b> Increase membership. <b>(1)</b> Increase subscription. <b>(1)</b> Increase prices charged in snack bar. <b>(1)</b> Introduce other trading activities. <b>(1)</b> <b>Max 4</b>	<b>4</b>																																										

<b>Question</b>	<b>Answer</b>	<b>Marks</b>
3(e)	Advantages Would raise extra funds <b>(1)</b> without need for interest / repayment <b>(1)</b> . Club may get benefit of association with sponsor. <b>(1)</b>  Disadvantages Sponsor may withdraw. <b>(1)</b> Club may become reliant on sponsors <b>(1)</b> Other income sources may suffer. <b>(1)</b> Any other valid advantages or disadvantage <b>Max 5</b>	<b>5</b>
		<b>25</b>



Question	Answer	Marks																																																
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4(e)	<p>Newer version of appliance may be available. (1)  Appliances may be damaged. (1)  There may be competitors selling appliances at a cheaper price. (1)  <b>Max 2</b></p>	<b>2</b>																																																

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<b>Question</b>	<b>Answer</b>	<b>Marks</b>
4(f)	<p>There will be a profit of \$23 750 (consignment) or \$18 000 (home). <b>(1)</b> Therefore, based on these figures, Sachin should make the consignment. <b>(1)</b>of Tajid may not be able to accept the consignment <b>(1)</b> and/or may not be able to maintain the commission rate. <b>(1)</b> Overseas selling price may continue to fall. <b>(1)</b> There may be further investment opportunities at home as a result of pursuing this project. <b>(1)</b></p> <p>Decision 1 <b>Max 3 justification</b></p>	<b>4</b>
		<b>25</b>



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5(d)	Assist in setting budgets. Evaluate managerial performance. Predict future costs for decision making. Motivate staff by providing targets. Provide ways of improving efficiency. Control device – uses variance analysis. Valuing inventories. Expensive Time consuming to operate Requires specialist knowledge  Advice 1 mark 4 for reasons	<b>5</b>
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6(a)	<p>Net present value method of capital investment appraisal uses the present value of the net cash flows less the initial investment. (cash inflows less cash outflows <b>(1)</b> using today's price levels <b>(1)</b> at the company's cost of capital <b>(1)</b>)</p> <p><b>max (2)</b></p> <p>The internal rate of return method of capital investment appraisal also uses the present values of cash flows. <b>(1)</b> However it represents the true interest rate earned by the investment over the course of its economic life <b>(1)</b>. This rate will cause the net present value to be returned to zero. <b>(1)</b></p> <p><b>max (2)</b></p>	<b>4</b>																																																						
6(b)	<p>NPV at 14%</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 25%;">Net cash flow</th> <th style="width: 10%;">DF</th> <th style="width: 15%;">\$</th> <th style="width: 45%;"></th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(260 000)</td> <td>1</td> <td>(260 000)</td> <td><b>1</b></td> </tr> <tr> <td>1</td> <td>144 000</td> <td>0.877</td> <td>126 288</td> <td><b>1of</b></td> </tr> <tr> <td>2</td> <td>92 400</td> <td>0.769</td> <td>71 055.60</td> <td><b>1of</b></td> </tr> <tr> <td>3</td> <td>126 000</td> <td>0.675</td> <td>85 050</td> <td><b>1of</b></td> </tr> <tr> <td></td> <td></td> <td>NPV</td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">22 393.60</td> <td><b>1of</b></td> </tr> </tbody> </table> <p>Working:</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;">Units</th> <th style="width: 15%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 15%;"></th> <th style="width: 45%;"></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>36 000</td> <td>30</td> <td>26</td> <td>144 000</td> <td><b>(1)</b></td> </tr> <tr> <td>2</td> <td>42 000</td> <td>30</td> <td>27.8</td> <td>92 400</td> <td><b>(1)</b></td> </tr> <tr> <td>3</td> <td>42 000</td> <td>31.5 <b>(1)</b></td> <td>28.5</td> <td>126 000</td> <td><b>(1)</b></td> </tr> </tbody> </table>		Net cash flow	DF	\$		0	(260 000)	1	(260 000)	<b>1</b>	1	144 000	0.877	126 288	<b>1of</b>	2	92 400	0.769	71 055.60	<b>1of</b>	3	126 000	0.675	85 050	<b>1of</b>			NPV	22 393.60	<b>1of</b>	Units						1	36 000	30	26	144 000	<b>(1)</b>	2	42 000	30	27.8	92 400	<b>(1)</b>	3	42 000	31.5 <b>(1)</b>	28.5	126 000	<b>(1)</b>	<b>9</b>
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1	144 000	0.877	126 288	<b>1of</b>																																																				
2	92 400	0.769	71 055.60	<b>1of</b>																																																				
3	126 000	0.675	85 050	<b>1of</b>																																																				
		NPV	22 393.60	<b>1of</b>																																																				
Units																																																								
1	36 000	30	26	144 000	<b>(1)</b>																																																			
2	42 000	30	27.8	92 400	<b>(1)</b>																																																			
3	42 000	31.5 <b>(1)</b>	28.5	126 000	<b>(1)</b>																																																			

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Question	Answer	Marks																														
6(c)	<p>lower rate + (different in rate × (low rate npv/low rate npv + high rate npv)            14% <b>(1)</b> + (6% <b>(1)</b> × 22 393.60 <b>(1of)</b> / 22 393.60 + 2 968.40) = 19.3% <b>(1of)</b></p> <p>at 20% NPV is</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th></th> <th>Net cash flow</th> <th>DF</th> <th>\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(260 000)</td> <td>1</td> <td>(260 000)</td> <td><b>(1)</b></td> </tr> <tr> <td>1</td> <td>144 000</td> <td>0.833</td> <td>119 952</td> <td>*</td> </tr> <tr> <td>2</td> <td>92 400</td> <td>0.694</td> <td>64 125.60</td> <td><b>*(1)*</b></td> </tr> <tr> <td>3</td> <td>126 000</td> <td>0.579</td> <td>72 954</td> <td>*</td> </tr> <tr> <td></td> <td></td> <td>NPV</td> <td><u>(2 968.40)</u></td> <td><b>(1)of</b></td> </tr> </tbody> </table>		Net cash flow	DF	\$		0	(260 000)	1	(260 000)	<b>(1)</b>	1	144 000	0.833	119 952	*	2	92 400	0.694	64 125.60	<b>*(1)*</b>	3	126 000	0.579	72 954	*			NPV	<u>(2 968.40)</u>	<b>(1)of</b>	<b>7</b>
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6(d)	<p>The net cash flow generated over the 3 years is \$102 400 <b>(1)</b>. This cash can be put to other uses within the business <b>(1)</b>.</p> <p>Production levels have increased up to 42 000 from 40 000 <b>(1)</b>. This means that the business can increase its market <b>(1)</b> and potentially its profit <b>(1)</b> max</p> <p>The net present value is positive with a cost of capital at 14%. <b>(1)</b></p> <p>The discounted net cash flows exceed the initial cost of the investment <b>(1)</b></p> <p>The internal rate of return is larger than the cost of capital <b>(1)</b></p> <p>The return of the investment is greater than the cost <b>(1)</b></p> <p><b>Max 5</b></p>	<b>5</b>																														
		<b>25</b>																														