Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **May/June 2016**

MARK SCHEME

Maximum Mark: 150

Published

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This document consists of **9** printed pages.

1 (a) Capital is the amount invested by owners in a trading organisation. **(1)** Accumulated fund is the surplus that builds up over a number of years in a club or society. **(1)** **[2]**

(b)

Pavey Sports & Social Club – Income and expenditure account for the year ended 31 March 2016.

	$		$	
Subscriptions (W1)			35 000	**(3)of**
Life membership			1 250	**(1)**
Restaurant profit (W2)			4 660	**(5)**
			40 910	
Administrative expenses (W3)	4 900	**(2)**		
Depreciation (W4)	9 460	**(2)**	(14 360)	
Surplus			26 550	**(1)of**

W1 Subscriptions account

Balance b/d	1 000*	Balance b/d	400*	
Income and expenditure a/c	35 000	Bank	34 000	**(1)**
Balance c/d	300*	Balance c/d	1 900	**(1)**
	36 300		36 300	

W2 Restaurant profit: 17 450 – (6950 – 845 + 955) – (5450 + 280)
W3 Administrative expenses 4750 + 350 **(1)** – 200 **(1)**
W4 Depreciation: 2560 **(1)** + 6900 **(1)** = 9460
* **(1)** for all three. **[14]**

(c) Variable amount received
Not part of regular income
Maybe allocated to specific projects in the future

Any 2 points 1 mark each. **[2]**

(d) (i) Sponsorship
Use funds from bank account as well as another source of finance.
Debentures

2 marks for each comparison point. **[4]**

(ii) **1 mark** for decision and **2 marks** for justification of the decision based on **(d)(i)**. **[3]**

[Total: 25]

2 (a)

Ahmed and Bashmir
Memorandum Joint Venture account

	$	$	
Revenue (38 000 + 55 500)		93 500	**(1)**
Returns inwards		4 500	**(1)**
		89 000	
Purchases (24 500 + 17 600)	42 100		**(1)**
Closing inventory	6 500		**(1)**
		35 600	
Gross profit		53 400	
Other income			
Commissions received		1 000	**(1)**
Discount received		600	**(1)**
		55 000	
Expenses (3 200 + 2 300)	5 500		**(1)**
Irrecoverable debts	300		**(1)**
		5 800	
Profit		49 200	
Ahmed (2/3)		32 800	} **1 of both**
Bashmir (1/3)		16 400	
		49 200	

[9]

(b)

Books of Ahmed
Joint venture with Bashmir account

Purchases – credit	24 500	**(1)**	Revenue – cash	6 000	} **1 both**
Returns inwards	4 500	**(1)**	– credit	32 000	
Expenses	3 200	**(1)**	Commissions	1 000	**(1)**
Profit and loss	32 800	**(1)OF**	Discount received	500	**(1)**
			Balance c/d	25 500	
	65 000			65 000	
Balance b/d	25 500	**(1)OF**			

[8]

(c) The balance due from Bashmir would be shown as a current asset under other receivables. **(1OF)** **[1]**

(d) (i)

$	
49 200	**(1) OF**
12 500	**}**
(6 500)	**}(1) both**
55 200	**(1) OF**

Accept alternative answers **[3]**

(ii)

$
12 500
(6 500)
6 000 × (2/3) = $4000 **(1)** **[1]**

(e) Yes or No **(1)**
Max 1 for decision
Reasons for Yes
Made a profit
More customers or business
More experience
Max 2 for reasons
OR
Reasons for No
Tarnish the reputation
Poor choice of business associate
Max 2 for reasons **[3]**

Accept other valid answers.

[Total 25]

3 (a)

Disposal of machinery account

2015		$		2015		$	
Jun 1	Machinery (W1)	24 000	**(2)**	Jun 1	Provision for depreciation of machinery (W2)	19 200	**(2) OF**
Dec 31	Income statement	13 000	**(1)**		Bank	17 800	**(1)**
		37 000				37 000	

[6]

W1 [(17 800 – 13 000)/ 2] **(1)** × 10
W2 24 000 × 10% **(1)** × 8

(b)

	Property $	Plant and machinery $		Delivery vans $		Total $	
Cost							
At 1 January 2015	200 000	258 000		23 000		481 000	
Additions		76 000	**(1of)**			76 000	
Disposals		(24 000)	**(1of)**			(24 000)	
At 31 December 2015	200 000	310 000		23 000		533 000	
Depreciation							
At 1 January 2015	17 000	210 000		10 000		237 000	
Charge for year	1 000 **(1)**	31 000	**(1)**	3 250	**(1)**	35 250	
Eliminated on disposals		(19 200)	**(1of)**			(19 200)	
At 31 December 2015	18 000	221 800		13 250		253 050	
Net book value							
At 31 December 2015	182 000	88 200		9 750		279 950	**(1of) row**
At 31 December 2014	183 000	48 000		13 000		244 000	**(1) row**

[8]

(c) Matches costs with revenue generated by the assets **(1)**
Non-current assets are not overvalued **(1)**
Profit is not overstated. **(1)**

(d) Correct return would be (62 000 – 39 000 – 3000) **(1)** less depreciation 12 000 **(1)** = 8000 **(1)**
Hence rate of return 8000/120 000 × 100% = 6.67% **(1of)**

Since this is less than the existing ROCE the proposal would not increase ROCE. **(1)**
The ROCE calculation uses profit before interest but if debenture interest ($9 600) **(1)** is included then there is a loss/negative return **(1)**.

However it may be necessary anyway to replace the machinery because of its age **(1)** as spare parts may no longer be available **(1)** and the machinery may be impossible to repair **(1)**. The productivity of the machinery may fall further with time and therefore the balance between costs and revenues would change. **(1)**
Max 4 for calculations
Max 4 for comments **[8]**

[Total: 25]

4 **(a)** **(i)** $\frac{\text{Interest}}{\text{Profit before interest and tax}} \times 100\%$

W $\frac{300}{1720} \times 100\% = 17.44\%$ **(1)**

R $\frac{180}{1576} \times 100\% = 11.42\%$ **(1)**

(ii) $\frac{\text{Net profit}}{\text{No. of shares}}$

W $\frac{1103}{4500} = \$0.25$ **(1)**

R $\frac{1084}{2500} = \$0.43$ **(1)**

(iii) W 3.50 / 0.25 = 14 **(1)**

R 2.75 /0.43 = 6.40 **(1)**

(iv) $\frac{\text{Divident paid \& proposed}}{\text{Market price per share}} \times 100\%$

W $\frac{0.20}{3.50} \times 100\% = 5.71\%$ **(1)**

R $\frac{0.35}{2.75} \times 100\% = 12.73\%$ **(1)**

(v) $\frac{\text{Profit available for dividend}}{\text{Dividend paid and proposed}}$

W $\frac{1103}{900} = 1.23$ times **(1)**

R $\frac{1084}{875} = 1.24$ times **(1)** **[10]**

(b) Both companies have a lower income gearing **(1)** than the industry average so there should be no concerns with regard to interest payments **(1)**.

The earnings per share of Ramsey is higher than the industry average **(1)** while that of Winterbottom is lower so Winterbottom's performance may be a concern **(1)**.

The dividend yield of Winterbottom is much lower **(1)** than the industry average while that of Ramsey is higher **(1)** so an investor who seeks short term income would favour Ramsey **(1)**.
The dividend cover of both companies is slightly higher than the industry average **(1)** so although apparently low there should not be major concerns **(1)**.

Ramsey has a lower PE ratio than industry average **(1)** but PE ratio for Winterbottom is higher which is better **(1)**.

[Max 10] **[10]**

(c) Investment advice **(1)of**.
(4) of justification marks. **[5]**

[Total: 25]

5 (a) Total labour hours are 1875 standard and 750 superior = 2625 labour hours **(1)**
OAR = 42 000 / 2625 = $16 per hour **(1)** **[2]**

(b) (i)

	Standard $	Superior $	
Direct materials22 500 × 5.5	123 750		}
9 000 × 8.5		76 500	} **(1)**
Direct labour1 875 × 10	18 750		}
750 × 10		7 500	} **(1)**
Overheads1 875 × 16	30 000		}
750 × 16		12 000	} **(1)**
Costs	172 500	96 000	**(1of)**

[4]

(ii)

Standard
224 250 / 22 500 = $9.97 **(1of)**

Superior
124 800 / 9000 = $13.87 **(1of)**

[2]

(c) (i)

	Standard $	Superior $	
Direct materials	123 750		}
		76 500	}
Direct labour	18 750		}
		7 500	}**(1of)**
Direct expenses	7 200	11 700	**(1)**
Overheads1 875 × 8.8	16 500		}
750 × 8.8		6 600	}**(1)**
Costs	166 200	102 300	**(1of)**

[4]

(ii)

	Standard	Superior	
Number of sweatshirts	49 860	30 690	
New sales value	216 060	132 990	**(1of)**
Selling price per unit	9.60	14.78	**(1of)**

[2]

(iii) Change in selling price:

Decrease in Standard $0.37 **(1) OF**
Increase in Superior $0.91 **(1) OF** **[2]**

(d) Activity based costing uses cost drivers and cost pools whereas, absorption costing uses direct labour hours or machine hours

Activity based costing is expensive to set up whereas, absorption costing is easy to set up
Activity based costing is more realistic than absorption costing.
Absorption costing is more easily understood than activity based costing.

Any three points of comparison 2 marks each. **[6]**

(e) The change in selling price is not significant in either case. However, the reduction in the selling price of Standard **(1)** may increase the number of units sold and vice versa for Superior **(1)**
1 mark for decision
Max 2 for comments **[3]**

[Total: 25]

6 (a) Payback does not consider the time value of money **(1)** whereas net present value does **(1)** payback calculates the time it takes to cover the initial cost of the investment and does not consider the net cash flow after the payback period **(1)** Net present value considers the discounted cash flows for the whole life of the investment **(1)** **[4]**

(b) Net cash flows:

	unit	inflow	outflow	net	net cash flows
0				(300) **(1)**	
1	2600	45	24	21 **(1)**	54 600 **(1)of***
2	4500	58.5	30	28.5 **(1)**	128 250 – 75 000 **(1)** = 53 250 **(1)of***
3	5400	76.05	37.5	38.55 **(1)**	208 170 **(1)of**

*for own figure net cash flows must be based on the correct number of units. **[8]**

(c) Pay back

2 years and 192 150/208170 × 365 days = 2 years **(1)** and 336.91 days **(1of)** **[2]**

(d)

	Net cash flow	DF	$	
0	300 000	1.000	(300 000)	**(1)**
1	54 600	0.877	47 884.20	**(1)of**
2	53 250	0.769	40 949.25	**(1)of**
3	208 170	0.675	140 514.75	**(1)of**
		NPV **(1)**	(70 651.80)	**(1)of**

[6]

(e) (i) The net cash flow generated over the 3 years is $16 020 **(1)**. This cash can be put to other uses within the business **(1)**.
Production levels have increased up to 5400 from 4000 **(1)**.
This means that the business can increase its market **(1)** and potentially its profit **(1)** max **[3]**

(ii) The managers of Artem Ltd should not purchase the machine **(1)** as the net present value is negative **(1)** and the discounted payback is within the life of the asset. **(1)** This means that the discounted net cash flows do not cover the cost of investment **(1)** and the present values generated are not enough to cover the initial cost of the investment. **(1)** max **[2]**

[1 mark decision]
[Max 1 mark justification] **[Total: 25]**