



Cambridge International Examinations Cambridge International Advanced Level

ACCOUNTING

9706/33 May/June 2016

Paper 3 Structured Questions MARK SCHEME Maximum Mark: 150

Published

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ge 2 Mark Scheme Syllabus Paper PLAT (a) Cambridge International A Level – May/June 2016 9706 33 9776 (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. 5 5 Subscriptions (W1) \$ \$ 5 000 Administrative expenses (W3) 4900 (2) 14360 5 Depreciation (W4) <u>9460</u> (2) 14360 400* Balance b/d 1000* Balance b/d 400* 1 Income and expenditure a/c 3500 36300 1 36300 1 W2< Restaurant profit: 17 450 – (6950 – 845 + 955) – (5450 + 280) 36300 1 36300 1 141 W3 Administrative expenses 4750 + 350 (1) – 200 (1) 9460 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1									Ĉ
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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]	(d)	(i)	Sponsorship Use funds from bank acc Debentures	ount as well	as another so	urce of fina	nce.		
 (ii) 1 mark for decision and 2 marks for justification of the decision based on (d)(i). [3] [Total: 25] 			2 marks for each compa	arison point				[4]
[Total: 25]		(ii)	1 mark for decision and 2	2 marks for j	ustification of t	the decisior	n based on (d)(i). [3]
								[Total: 25]

Page 3		Mark S	Syllabus	Paper	PLATINUM		
		Cambridge Internationa	I A Level – May/J	une 2016	9706	33	0777898626
2	(a)	Ahmed and	Bashmir				
	. ,	Memorandum Joint V	enture account				
			\$	\$			
		Revenue (38 000 + 55 500)		93 500	(1)		
		Returns inwards		4 500	(1)		
				89000	()		
		Purchases (24 500 + 17 600)	42 100		(1)		
		Closing inventory	6 500		(1)		
		č		35600			
		Gross profit		53400			
		Other income					
		Commissions received		1000	(1)		
		Discount received		600	(1)		
				55000			
		Expenses (3 200 + 2 300)	5 500		(1)		
		Irrecoverable debts	300		(1)		
				5800	()		
		Profit		49200			
		Ahmed (2/3)		32800	} 1 of both		
		Bashmir (1/3)		<u>16400</u>	JIOIDOII		
				<u>49200</u>			

[9]

[8]

(b)) Books of Ahmed						
_	Joint venture with Bashmir account						
	Purchases – credit	24 500	(1)	Revenue – cash	6000		
	Returns inwards	4 500	(1)	– credit	32000	} 1 both	
	Expenses	3200	(1)	Commissions	1000	(1)	
	Profit and loss	32800	(1)OF	Discount received	500	(1)	
				Balance c/d	<u>25 500</u>		
		<u>65000</u>			<u>65000</u>		
	Balance b/d	25 500	(1)OF				

- (c) The balance due from Bashmir would be shown as a current asset under other receivables.
 (10F) [1]
- (d) (i) \$ 49200 (1) OF 12500 } (6500) }(1) both 55200 (1) OF

Accept alternative answers

(ii) \$ 12500 (6500) 6000 × (2/3) = \$4000 (1)

[1]

[3]

Page	4	Mark Scheme					Syllabus	Paper	PLATINUM
U		Cambridge Inter	national A Lev	/el – May/	June	2016	9706	33	0777898626
(e	 (e) Yes or No (1) Max 1 for decision Reasons for Yes Made a profit More customers or busines More experience Max 2 for reasons OR Reasons for No Tarnish the reputation Poor choice of business as Max 2 for reasons Accept other valid answer 		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 Accept other valid answers.					[[Total 2	3]
3 (a		1	Disposal of ma	chinery ac	count				
	2015 Jun 1	Machinery (W1)	\$ 24000 (2)	2015 Jun 1	Provis of ma	sion for depre chinery (W2)	sciation 1	9200 (2 O	2) F
	Dec 31	Income statement	<u>13000</u> (1) <u>37000</u>		Bank		<u>1</u> <u>3</u>	<u>7800</u> (1 57000 [() 6]
	W1 W2	[(17 800 – 13 000) 24 000 × 10% (1) :	/ 2] (1) × 10 × 8						
(b)		Property \$	Plant ar machine \$	nd ery	Delivery van \$	ls Tota \$	I	
	Cost At 1 Ja Additio Dispos At 31 E	nuary 2015 ns als December 2015	200 000 200 000	258 000 76 000 <u>(24 000)</u> <u>310 000</u>	(1of))(1of)	23 000 <u>23 000</u>	4810 760 <u>(240</u> 5330	000 000 000) 000)	
	Deprec At 1 Ja Charge Elimina At 31 D	ciation nuary 2015 e for year ated on disposals December 2015	17 000 1 000 (1) <u>18 000</u>	210 000 31 000 <u>(19 200)</u> 221 800	(1) <u>)</u> (1of)	10 000 3 250 <u>13 250</u>	237 0 (1) 35 2 <u>(192</u> 253 0	000 250 200) 250	
	Net boo At 31 E At 31 E	ok value December 2015 December 2014	<u>182000</u> <u>183000</u>	<u>88200</u> 48000		<u>9750</u> <u>13000</u>	<u>2799</u> 2440	0 <u>50</u> (1of) 100 (1) r) row ow 31

Page 5	Mark Scheme	Syllabus	Paper	PLATINUM
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				0///090020

- (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 (62000 39000 3000) (1) less depreciation 12000 (1) = 8000 (1) Hence rate of return 8000/120000 × 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]

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	Cambridge International A Level – May/June 2016	9706	33	0777909626
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(a) (i)	$\frac{\text{Interest}}{\text{Profit before interest and tax}} \times 100\%$		
	W	$\frac{300}{1720}$ × 100% = 17.44% (1)	
	R	180 1576 ×100% =11.42% (1)	
(ii)	No No	let profit . 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)	Div M	vident paid & proposed arket price per share	
	W	$\frac{0.20}{3.50} \times 100\% = 5.71\%$ (1)	
	R	$\frac{0.35}{2.75} \times 100\% = 12.73\% \textbf{(1)}$	
(v)	Pro Div	ofit available for dividend vidend paid and proposed	
	W	<u>1103</u> 900 = 1.23 times (1)	
	R	<u>1084</u> 875 = 1.24 times (1)	

4

[10]

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				U///8986/6

(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]

_		<u> </u>						
Page 8		8	Mark Schel	me	0010	Syllabus	Paper	PLATINUM business academy
			Cambridge International A Le	evel – May/Jun	ie 2016	9706	33	0777898626
5 (a) (Tot OA	tal labour hours are 1875 standard an R = 42 000 / 2625 = \$16 per hour (1)	d 750 superior	= 2625 labour	hours (1)	[;	2]
	(b)	(i)	Direct materials22 500 × 5.5 9 000 × 8.5 Direct labour1 875 × 10 750 × 10 Overheads1 875 × 16 750 × 16 Costs	Standard \$ 123 750 18 750 30 000	Superior \$ 76 500 7 500 <u>12 000</u> 96 000	} } (1) } } (1) } (1) (1of)		
		(ii)	Standard 224250 / 22500 = \$9.97 (1of)	Superior 124 800 / 900	0 = \$13.87 (1 0	of)	[4	4]
	(c)	(i)	Direct materials Direct labour Direct expenses Overheads1 875 × 8.8 750 × 8.8 Costs	Standard \$ 123 750 18 750 7 200 16 500 <u>166 200</u>	Superior \$ 76500 7500 11700 <u>6600</u> 102300	<pre>} }) }(1of)) (1) }) (1) }) (1) }) (1)] (1)] (10f)</pre>	[4]
		(iii) (iii)	Number of sweatshirts New sales value Selling price per unit Change in selling price:	<u>49860</u> 216060 9.60	<u>30 690</u> 132 990 14.78) (1of) 3 (1of)	[;	2]
			Decrease in Standard \$0.37 (1) OF Increase in Superior \$0.91 (1) OF				[2	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]

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(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)	128250 - 75000 (1) = 53250 (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]

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Net cash flow	DF	\$	
300 000	1.000	(300 000)	(1)
54600	0.877	47884.20	(1)of
53250	0.769	40949.25	(1)of
208 170	0.675	140514.75	(1)of
	NPV (1)	(70651.80)	(1)of
	Net cash flow 300 000 54 600 53 250 208 170	Net cash flow DF 300 000 1.000 54 600 0.877 53 250 0.769 208 170 0.675 NPV (1)	Net cash flow DF \$ 300 000 1.000 (300 000) 54 600 0.877 47 884.20 53 250 0.769 40 949.25 208 170 0.675 140 514.75 NPV (1) (70 651.80)

(e) (i) The net cash flow generated over the 3 years is \$16020 (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

[1 mark decision] [Max 1 mark justification]

[Total: 25]

[6]