Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 A Level Structured Questions **March 2020**

MARK SCHEME

Maximum Mark: 150

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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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.

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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)	T Limited Manufacturing account for year ended 31 December 2019	8

	$	
Opening inventory	17 300	
Purchases	200 400	
Carriage inwards	6 600	**(1)**
Closing inventory	(18 700)	
Cost of raw materials consumed	205 600	**(1)**
Direct wages	206 400	
Direct expenses	8 600	
Prime cost	420 600	**(1)OF**
Rent and rates **W1**	45 000	**(1)**
Repairs **W2**	13 500	}
Depreciation **W3**	32 000	}**(1)**
	511 100	
Opening work in progress	20 400	}
Closing work in progress	(21 500)	}**(1)**
Cost of production	510 000	
Manufacturing profit	122 400	**(1)OF**
Transferred value	632 400	**(1)**

Question	Answer	Marks
1(a)	**W1** $(\$72\,000 + \$3\,000) \times \frac{3}{5} = \$45\,000$ **W2** $\$18\,000 \times \frac{3}{4} = \$13\,500$ **W3** $\$48\,000 \times \frac{2}{3} = \$32\,000$	
1(b)	T Limited Income statement for the year ended 31 December 2019 Sales revenue 782 000 Less: cost of sales Opening inventory 55 000 × 120% 66 000 **(1)** Transfer value 632 400 Closing inventory (75 888) 622 512 Gross profit 159 488 **(1)OF** Manufacturing profit 122 400 **(1)OF *** 281 888 Administrative expenses **W1** 116 700 **(1)** Carriage outwards 16 300 Increase in unrealised profit **W2** 3 688 **(2)OF** Profit for the year 145 200 **(1)OF** **W1** $\$66\,200 + \left(\$75\,000 \times \frac{2}{5}\right) + \left(\$18\,000 \times \frac{1}{4}\right) + \left(\$48\,000 \times \frac{1}{3}\right) = \$116\,700$ **W2** $\frac{\$122\,400}{510\,000} = 24\,\%$ $\$75\,888 \times \left(\frac{24}{124}\right)$ **(1)OF** – ($55 000 × 20%) = $3 688 **(1)OF** **This profit figure in the income statement has to be the same as in the manufacturing account for the mark.*	**7**

Question	Answer	Marks
1(c)	$$\begin{array}{lll} & \$ & \\ \text{Inventory: finished goods} & 75\,888 & \\ \text{Unrealised profit } \left(75\,888 \times \frac{24}{124}\right) & 14\,688 & \textbf{(1)OF} \\ & 61\,200 & \textbf{(1)OF} \end{array}$$	**2**
1(d)	Responses could include: • prudence concept **(1)** • profit/assets not overstated **(1)** • realisation concept **(1)** • profit is unrealised because goods have not been sold to customers **(1)** • unrealised profit deducted from the transfer value of finished goods inventories, showing the cost of finished goods inventories in the statement of financial position **(1)** • increase in unrealised profit is deducted from the profit in the income statement **(1)** **Max 5** **Accept other valid points**	**5**
1(e)	In favour of • it can help to make more meaningful price comparisons **(1)** • the manufacturing department may be more motivated to control costs **(1)** Against • the process may be time consuming **(1)** • the price of the outside supplier may fluctuate throughout the year **(1)** **Max 1 mark** for in favour of, **1 mark** for against, **1 mark** for decision **Accept other valid points**	**3**

Question	Answer	Marks
2(a)	Cafe trading account for year ended 31 December 2019 $ $ Cafe sales 240 000 Opening inventory 13 000 Purchases 141 000 Closing inventory (difference) (16 000) **(1)OF** Cost of sales 138 000 **(1)OF** Gross profit **W1** 102 000 **(3)OF** **W1:** $\left(\$240\,000 \times \frac{1}{4} \times 50\%\right)$ **(1)** + $\left(\$240\,000 \times \frac{3}{4} \times 40\%\right)$ **(1)** = $102 000 **(1)OF**	**5**

Question	Answer	Marks
2(b)		**8**

Receipts and payments account

	$			$	
Balance b/d	33 500		Cafe trade payables **W2**	137 800	**(1)**
Subscriptions **W1**	320 500	**(2)**	Cafe wages **W3**	51 000	**(1)**
Cafe sales	240 000	**(1)**	Administrative expenses	251 100	
			Furniture and fixtures	35 000	**(2) W4**
			Balance c/d	119 100	
	594 000			594 000	

Balance b/d 119 100 **(1)OF**

W1 $322 000 + ($3 800 – $2 600)**(1)** + ($1 500 – $4 200)**(1)** = $320 500

W2 $26 400 + $141 000 – $29 600 = $137 800

W3 $46 000 + $5 000 = $51 000

W4 ($66 560 – $48 200)**(1)** + $16 640 = $35 000 **(1)**

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Question	Answer	Marks
2(c)	<table><tr><th>Income and Expenditure Account</th><th>Receipts and Payments Account</th></tr><tr><td>• revenue and expenditure</td><td>• cash receipts and payments</td></tr><tr><td>• accrual basis</td><td>• cash basis</td></tr><tr><td>• can include non-cash item such as depreciation</td><td>• cash items only</td></tr><tr><td>• include revenue expenditure</td><td>• can include capital expenditure</td></tr></table> **1 mark** × 2 differences **Accept other valid points**	**2**
2(d)(i)	Responses could include: • covering more than one year **(1)** • accrual concept **(1)** • revenue matches general running expenses **(1)** • capitalise donation **(1)** • transfer to income and expenditure account over a number of years **(1)** **Max 4** **Accept other valid points**	**4**
2(d)(ii)	Responses could include: • capital receipt credited to capital reserve **(1)** • cannot be recognised in income and expenditure account **(1)** • should be used for the purpose specified by the donor **(1)** • reserve debited when pool expenditure incurred in the future **(1)** **Max 3** **Accept other valid points**	**3**

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Question	Answer	Marks
2(e)	Responses could include: • purpose / objective of the club (not-for-profit organisation) is for social, athletic or charitable, etc, not for profit making **(1)** • funds of the club must be held in trust for the club and can only be used in carrying out its objective / mission **(1)** • the committee is not correct in distributing club surplus to the members **(1)** **Max** 2 valid points plus further **1 mark** for correct advice **Accept other valid points**	**3**

Question	Answer				Marks
3(a)		Ahmed		Omar	**6**
		$		$	
	Plant and equipment	230 000		144 000	
	Motor vehicles	71 000		40 000	
	Inventories	52 500		34 400	
	Cash at bank	–		28 600	
	Trade receivables	58 000		52 000	
	Trade payables	(42 500)		(34 100)	
	Bank overdraft	(8 900)		–	
		360 100	**(1)**	264 900	**(1)**
	Business value	400 000	**(1)**	300 000	**(1)**
	Goodwill	39 900	**(1)OF**	35 100	**(1)OF**

Question	Answer	Marks
3(b)	Ahmed and Omar Statement of financial position at 1 January 2020 $ Non-current assets Plant and equipment 374 000 } Motor vehicles 111 000 }**(1)** Goodwill 75 000 **(1)OF** 560 000 Current assets Inventories 86 900 } Trade receivables 110 000 }**(1)** Cash at bank 19 700 **(1)** 216 600 Total assets 776 600 Capital and liabilities Capital – Ahmed 400 000 } Capital – Omar 300 000]**(1)** 700 000 Current liabilities Trade payables 76 600 **(1)** Total capital and liabilities 776 600	**6**

Question	Answer	Marks
3(c)	Ahmed $\$400\,000 - \left(\$75\,000 \times \frac{3}{5}\right) = \$355\,000$ **(1)OF** Omar $\$300\,000 - \left(\$75\,000 \times \frac{2}{5}\right) = \$270\,000$ **(1)OF**	**2**
3(d)	Responses could include: • intangible asset **(1)** • excess of a business's value over its total net assets value **(1)** • usually occur in acquisition of business or change in partnership **(1)** • business image, strong customer base, good relationship with suppliers, good location etc **(1)** **Max 3** **Accept other valid points.**	**3**
3(e)	Response could include: • money measurement **(1)** – goodwill is recorded as an asset as a result of the acquisition of a business, not a merger, where the purchase consideration is quantifiable in monetary terms **(1)** • prudence **(1) –** value of asset is not overstated **(1)** **1 mark** for one accounting concept identified up to a maximum of two, plus further **1 mark** for explanation / development	**4**
3(f)	Responses could include: **Loan from partners** Advantages: • time and cost saved **(1)** • no collateral required **(1)** • potentially lower interest rate **(1)** • repayment of loan is more flexible **(1)** Disadvantages: • partners may not have enough funds **(1)** • partners don't want to lend as they have already contributed capital **(1)**	**4**

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Question	Answer	Marks
3(f)	**Bank loan** Advantages: • interest rate is the market rate which is objective **(1)** • may be able to raise more money **(1)** Disadvantages • loan interest may be higher **(1)** • collateral may be required **(1)** • application for loan may be costly / time-consuming **(1)** • bank may turn down the application **(1)** • the business is perceived as risky as long-term liabilities increase **(1)** **Max 1 mark** for advantage and **Max 1 mark** for disadvantage of each of the option. **Max 2** for each option **Accept other valid points**	

Question	Answer	Marks
4(a)(i)	$\frac{(588\,000 - 48\,000)(\mathbf{1})}{2\,000\,000}$ $0.27 **(1)**	**2**
4(a)(ii)	$\frac{\$3.2}{\$0.27}$ **OF** 11.85 **(1)OF**	**1**
4(a)(iii)	$\frac{\$0.27\,\mathbf{OF}}{\$0.12}$ 2.25 times **(1)OF**	**1**
4(a)(iv)	$\frac{\$0.12}{\$3.20}$ 3.75% **(1)**	**1**

Question	Answer	Marks
4 (b)	Responses could include: • smaller proportion of profit is distributed to the shareholders **(1)** • want to maintain higher retained earnings **(1)** • there may be capital commitments in the future **(1)** • may attract investors **(1)** **Max 3** **Accept other valid points**	**3**
4(c)(i)	Liability is a present obligation **(1)** arising from past events **(1)**, the settlement of which is expected to result in an outflow from the entity of resources **(1)** embodying economic benefits. **Max 2**	**2**
4(c)(ii)	Provision is a liability of uncertain timing **(1)** and amount **(1)** to cover a probable future event. **(1)** **Max 2**	**2**
4(c)(iii)	Contingent liability is a possible obligation that arises from past events **(1)** and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events **(1)** not wholly within the control of the entity.**(1)** **Max 2**	**2**
4(d)	According to IAS 37 **(1),** it is a liability **(1)** because it is the present obligation (being sued) arising from the past event (the sale contract) **(1)** and it is probable (more than 50%) that there is outflow of resources **(1)**. J plc should make a provision of $20 000 **(1)** resulting in a reduction a profit of $20 000 **(1)** and an increase in current liabilities of $20 000. **(1)** **Max 6**	**6**

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Question	Answer	Marks
4(e)	Responses could include: **Rights issue:** • share capital is a more permanent form of capital **(1)** • rights issue is only limited to existing shareholders **(1)** • control of the company maintained **(1)** • dividend payments are discretionary should profits fall **(1)** **Debenture:** • funds may be generated more quickly **(1)** • can raise the full amount of funds with greater certainty **(1)** • no voting rights **(1)** • interest must be paid / decreases profit **(1)** • gearing ratio will increase **(1)** • loan will have to be repaid **(1)** **Max 2** for rights issue **Max 2** for debentures **1 mark** for decision **Accept other valid points**	**5**

Question	Answer	Marks
5(a)(i)	Responses could include: • financial plan of the company as a whole for the coming year **(1)** • summarising the plans the company uses to achieve its strategic goals **(1)** • an aid to coordinate the budgets of various departments **(1)** **Max 2**	**2**
5(a)(ii)	Responses could include sales, labour, trade receivables, trade payables and cash **(1)** **Max 2**	**2**

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Question	Answer	Marks
5(b)(i)	**Working** Feb / March / April Sales 4000 / 4800 **(1 both)** / 4400 Closing inventory **W1** 960 / 880 **(1 both)** / 1000 4960 / 5680 / 5400 Opening inventory **W2** (800) / (960) **(1 both)** / (880) Units to be produced 4160 / 4720 **(1OF both)** / 4520 **W1** $4800 \times 20\% = 960$ $4400 \times 20\% = 880$ **W2** $4000 \times 20\% = 800$	**4**
5(b)(ii)	**Working** Feb / March / April Units to be produced 4 160 **OF** 4 720 **OF** 4 520 3 kilos per unit ×3 / ×3 / ×3 Raw materials required (kilos) 12 480 / 14 160 **(1 OF both)** / 13 560 Ending inventory **W1** 1 416 **(1)OF** 1 356 **(1)OF** 13 896 / 15 516 Opening inventory **W2** (1 248) **(1)OF** (1 416) **(1)OF** Direct materials to be purchased 12 648 / 14 100 **(1 OF both)**	**6**

Question	Answer	Marks
5(b)(ii)	**W1** 14 160 × 10% = 1416 13 560 × 10% = 1356 **W2** 12 480 × 10% = 1248	
5(c)	Feb $ Opening inventory **W1** 4 056 **(1)OF** Direct materials purchased **W2** 44 268 **(1)OF** Closing inventory **W3** (4 956) **(1)OF** Cost of raw materials consumed 43 368 **(1)OF** **W1** 1 248 **OF** × $3.25 = $ 4 056 **W2** 12 648 **OF** × $3.50 = $44 268 **W3** 1 416 **OF** × $3.50 = $ 4 956	**4**
5(d)	Responses could include: FIFO : • earlier material prices (lower prices) charged to cost of raw materials consumed • closing inventory valued by the latest prices (higher prices) AVCO • average cost (average of lower prices and higher prices) charged to cost of raw materials consumed • closing inventory valued by the average cost	**4**

Question	Answer	Marks
5(d)	FIFO produces a higher inventory value than AVCO. Hence cost of raw materials consumed (cost of sales) using the FIFO method will be lower than when using AVCO. Profit using FIFO method will be higher than when using AVCO **1 mark** for explaining FIFO **1 mark** for explaining AVCO **1 mark** for comparing the cost of raw materials consumed (cost of sales) or inventory value of both methods **1 mark** for comparing the profit of both methods	
5(e)	Responses could include: • budget is the blue print guiding the company **(1)** • budget help coordinating among the needs of various department **(1)** • budget motivate people **(1)** • budgetary control by comparing the budget with the actual result **(1)** • difficult to prepare budget in a changeable economy **(1)** • time consuming and costly to revise budget frequently **(1)** **Max 1 mark** for valid point 'for', **Max 1 mark** for valid point 'against' plus further **1 mark** for decision. **Accept other valid points**	**3**

Question	Answer				Marks
6(a)(i)		Receipts	Payments	Net	**3**
		$	$	$	
	Year 1	260 000	90 000	170 000	
	Year 2	290 000	120 000	170 000	
	Year 3	330 000	140 000	190 000	
	Year 4	130 000	80 000	50 000	

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Question	Answer	Marks
6(a)(i)	2 years **(1)** + $\frac{(480\,000 - 340\,000)(1)}{190\,000}$ 2 years 8.84 months => 2 years 9 months or 33 months **(1)OF**	
6(a)(ii)	Net 10% PV $ $ Year 0 (480 000) 1 (480 000) **(1)** Year 1 170 000 0.909 154 530 } Year 2 170 000 0.826 140 420 }**(1)** Year 3 190 000 0.751 142 690 } Year 4 50 000 0.683 34 150 **(1)** (8 210) **(1)OF**	**4**

Question	Answer	Marks
6(a)(iii)		**4**

	Net	7%	PV
	$		$
Year 0	(480 000)	1	(480 000)
Year 1	170 000	0.935	158 950
Year 2	170 000	0.873	148 410
Year 3	190 000	0.816	155 040
Year 4	50 000	0.763	38 150
			20 550 **(1)**

$7\%\textbf{(1)} + \left(\frac{3\% \times 20\,550}{28\,760}\right)\textbf{(1) OF} = 9.14\%\textbf{(1) OF}$

6(b)	W Limited should not buy the machine because of negative NPV **(1)** and IRR is less than the cost of capital. **(1)** W Limited could buy the machine because the payback period is one year and three months before the useful life which is 4 years. **(1)** **Max 3 marks** for justifications **1 mark** for decision	**4**

Question	Answer	Marks
6(c)	Cost of machine is now \$400 000 **(1)** $\left(\frac{\$480\,000 \times 100}{120}\right)$ Net 10% PV \$ \$ Year 0 (400 000) 1 (400 000) Year 1 170 000 0.909 154 530 Year 2 170 000 0.826 140 420 Year 3 190 000 0.751 142 690 Year 4 50 000 0.683 34 150 71 790 **(1)OF** Alternative method: \$ Previous NPV (\$480 000) (8 210) Saving on cost 80 000 **(1)** Revised NPV 71 790 **(1)OF** Payback period is : 2 years + $\frac{(400\,000 - 340\,000)(\mathbf{1})}{190\,000}$ 2 years 3.8 months => 2 years 4 months or 28 months **(1)** The directors decide to buy the machine because of positive NPV **(1)** and the payback period is shortened**. (1)**	**6**

Question	Answer	Marks
6(d)	Net present value • considers time value of money (NPV of –$8210 with tariff versus NPV of $71 790 without tariff) **(1)** • considers the whole life of asset, i.e. 4 years **(1)** • considers the cash flows **(1)** Payback period • easy to calculate and understood **(1)** • need to know when the investment can be recouped (33 months with tariff versus 28 months without tariff) **(1)** **Max 2 marks** for NPV and **Max 2 marks** for payback period	**4**