Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 A Level Structured Questions **March 2021**

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.

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

Cambridge International is publishing the mark schemes for the March 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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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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Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

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3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Question	Answer	Marks
1(a)	Purchased goodwill occurs when a business acquires another business **(1)** It is the cost of acquisition **(1)** in excess of the fair value **(1)** of the separately identifiable net assets **(1)** of the acquired business.	**4**
1(b)	$ Ordinary shares 450 000 **(1)** Motor vehicle 28 000 **}** Cash 60 000 **}(1)** 538 000	**2**

Question	Answer			Marks
1(c)		$		**13**
	Non-current assets			
	Property, plant and equipment **W1**	1 220 000	**(2)**	
			(4)	
	Goodwill **W2**	115 000	**OF**	
		1 335 000		
	Current assets			
	Inventories	258 000	**(1)**	
	Trade receivables	432 000	**(1)**	
	Cash and cash equivalents	153 000	**(1)**	
		843 000		
	Total assets	2 178 000		
	Equity and liabilities			
	Share capital of $1 each	1 500 000	**(1)**	
	Share premium	150 000	**(1)**	
	General reserve	90 000	**}**	
	Retained earnings	177 000	**}(1)**	
	Equity	1 917 000		
	Current liabilities			
	Trade payables	261 000	**(1)**	
	Total equity and liabilities	2 178 000		
	W1 $935 000 + $305 000**(1)** – $20 000**(1)** = $1 220 000			

Question	Answer	Marks
1(c)	**W2** |	|	|	|	| | | $ | | $ | | | Purchase consideration | | | 538 000 | **(1)OF** | | Value of net assets acquired | | | | | | Property, plant and equipment 244 000 × 1.25 | 305 000 | **(1)** | | | | Inventories | 63 000 | | | | | Trade receivables 125 000 × 96% | 120 000 | } | | | | Trade payables 69 000–4000 | (650 00) | }**(1)** | 423 000 | | | Goodwill | | | 115 000 | **(1)OF** |	
1(d)	Future economic benefits are potentially contributing to the net increase in cash flows **(1)** or profit **(1)** to the business. This can be achieved by: • increase in the revenue **(1)** of P Limited due to good relationship of customer / good location / well-known business name **(1)** etc of Euan. • reducing the operating costs **(1)** of P Limited due to good employee morale making the business more efficient / good relationship with suppliers of Euan / synergy effect **(1)** etc. **Max 6** **Accept other valid points.**	**6**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>2019</td><td>$6500 × 4/5</td><td>5 200</td><td>}</td></tr>
<tr><td>2018</td><td>$4000 × 3/5</td><td>2 400</td><td>}(1)</td></tr>
<tr><td>2017</td><td>$4500 × 2/5</td><td>1 800</td><td>}</td></tr>
<tr><td>2016</td><td>$2000 × 1/5</td><td>400</td><td>}(1)</td></tr>
<tr><td>2015</td><td>$1000 × 0/5</td><td>0</td><td></td></tr>
<tr><td></td><td></td><td>9 800</td><td>(1)</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>2(b)</td><td>
<table>
<tr><th>Receipts and payments account</th><th>Income and expenditure account</th></tr>
<tr><td>a summary of cash receipts and payments</td><td>a summary of incomes (revenue) and expenses</td></tr>
<tr><td>includes both capital and revenue items</td><td>includes only revenue items</td></tr>
<tr><td>includes only cash items</td><td>includes both cash and non-cash items</td></tr>
<tr><td>includes receipts and payments regardless of the period they belong to</td><td>includes incomes and expenses relating to the period the account is prepared</td></tr>
<tr><td>opening balance and closing balance represent balances at bank and cash</td><td>there is no opening balance and the closing balance representing surplus or deficit is transferred to accumulated fund</td></tr>
</table>
.
1 mark for each difference up to a maximum of 3 differences.

Accept other valid differences.
</td><td>3</td></tr>
</table>

Question	Answer	Marks
2(c)	Accrual / matching concept **(1)** – income is recognised in the accounting period to which it relates. **(1)** – matching income with the expenses. **(1)** Prudence concept **(1)** – to ensure that income / surplus is not overstated. **(1)** Special donation is designated for the 2022 anniversary activities. It should be deferred **(1)** and to be recognised as income in 2022 in order to match the 2022 anniversary activities expenses. It is not recognised as income in 2020 **(1)** and should be recorded as deferred income / fund in the 2020 statement of financial position. **(1)** **Max 2 marks for accounting concepts and Max 3 for accounting treatment**	**5**
2(d)		**8**

	$	$	
Membership subscription **W1**		72 600	**(2)**
Life membership fees **W2**		5 000	**(1)**
Profit from sale of club equipment		2 200	**(1)**
		79 800	
Club house expenses **W3**	34 340	**(1)**	
Administration expenses **W4**	50 850	**(1)**	
Depreciation of club equipment **W5**	12 000	**(1)**	
		97 190	
Excess of expenditure over income / Deficit		(17 390)	**(1)OF**

W1 $73 000 + $2700 – $3800**(1)** + $1800 – $1100**(1)**=$72600
W2 ($8000 + $6500 + $4000 + $4500 + $2000) × 1/5 = $5000
W3 $37 000 – $2660 = $34 340
W4 $46 000 + $4200 + $650 = $50 850
W5 ($88 000 + 24 000 – $52 000) × 20% = $12 000

Question	Answer	Marks
2(e)(i)	$ Club equipment - cost 88 000 Club equipment - accumulated depreciation (52 000) Membership subscriptions in advance (2 700) Membership subscriptions in arrears 3 800 Administration expenses paid in advance 4 200 Club house expenses accrued (2 660) Bank/cash 3 200 **(1)** Life membership fee (9 800) **(1)OF** Accumulated fund at 31 December 2019 32 040 **(1)OF**	**3**
2(e)(ii)	$ Accumulated fund - 1 January 2020 32 040 Deficit for the year (17 390) **(1)OF** Transferred to anniversary fund (6 000) **(1)** Accumulated fund - 31 December 2020 8 650 **(1)OF**	**3**

Question	Answer	Marks
3(a)		**7**

	Ordinary shares $		Share premium $		Revaluation reserve $		Retained earnings $		Total $	
At 1 January 2020	600 000		48 000		75 000		162 400		885 400	
Dividend paid							(96 000)	**(1)**	(96 000)	
Bonus shares	60 000	**}**	(48 000)	**}**			(12 000)	**(1)**	–	
New issue	50 000	**}**	20 000	**}(1)**					70 000	
Revaluation					25 000	**(1)**			25 000	
Profit for the year							66 720	**(1)OF**	66 720	
At 31 December 2020	710 000		20 000		100 000		121 120	**(1)OF W2**	951 120	**(1) W1**

W1 Equity at 31 December 2020 = $1 292 520 – $341 400 = $951 120
W2 Retained earnings at 31 December 2020 = $951 120 – $710 000 – $20 000 – $100 000 = $121 120

Question	Answer	Marks
3(b)	Statement of cash flows at 31 December 2020	**13**

	$	$	
Cash flows from operating activities			
Profit from operations ($66 720 + $19 500)		86 220	**(1)OF**
Depreciation **W1**		64 000	**(3)**
Loss on disposal		3 000	**(1)**
Increase in inventories		(15 000)	**}**
Increase in trade receivables		(45 120)	**}(1)**
Increase in trade payables		8 400	**(1)**
Cash from operations		101 500	
Interest paid		(19 500)	**(1)**
Net cash from operating activities		82 000	
Cash flows from investing activities			
Purchases of machinery	(93 000)		**}**
Sale proceeds from sale of motor vehicle	26 000		**}(1)**
Net cash used in investing activities		(67 000)	
Cash flows from financing activities			
Repayment of debenture	(80 000)		**(1)**
New issue of shares	70 000		**(1)**
Dividend paid	(96 000)		**(1)**
Net cash used in financing activities		(106 000)	
Net decrease in cash and cash equivalents		(91 000)	**(1)**
Cash and cash equivalents at the start of the year		49 000	
Cash and cash equivalents at the end of the year		(42 000)	

W1 $842 000 + $25 000**(1)** + $93 000**(1)** – $29 000**(1)** – $867 000 = $64 000

Question	Answer	Marks
3(c)	• T Limited has positive cash flow before repayment of debentures and dividend paid. $101 500 – $67 000 + $70 000 – $19 500 = $85 000.**(1)** • Both the repayment of debenture and payment of dividend make T Limited turn from a positive cash position to a negative cash position. $85 000 – $80 000 – $96 000 = ($91 000) **(1)** • T Limited turns from a positive cash position to a negative cash position if only dividend but not debenture is paid. **(1)** • Although T Limited has enough retained earnings to pay dividend, paying $96 000 has great impact on the cash position. T Limited should reduce paying cash dividend and increase the bonus shares instead. **(1)** • T Limited is still in a positive cash position if only debenture but not dividend is paid. **(1)** • Early repayment of debenture however can save interest. **(1)** • Repayment of debenture can be deferred as the maturity date is in 2024–25 **(1)** **Max 5** **Accept other valid points.**	**5**

Question	Answer	Marks
4(a)(i)	To the directors **(Max 2)** • long-term fund for the operation of the company **(1)** • without the dilution of management control **(1)** • fixed dividend, which is good for cash budgeting as the amount of dividend payment is certain **(1)**	**4**
4(a)(ii)	To the preference shareholders **(Max 2)** • prior claim of dividend before ordinary shareholders **(1)** • prior claim of net assets before ordinary shareholders when the company is liquidated **(1)** • fixed dividend. **Accept other valid points.**	

Question	Answer	Marks
4(b)	$ Retained earnings at 31 December 2020 252 000 Retained earnings at 1 January 2020 (195 000) Preference shares dividend paid 28 000 **}** Ordinary shares dividend paid 90 000 **}(1)** Debenture interest 21 000 **(1)** Profit from operations 196 000 **(1)OF**	**3**
4(c)(i)	Return on capital employed $196 000 (OF) / ($1 252 000 + $300 000) 12.63% **(1)OF**	**1**
4(c)(ii)	Dividend cover ($196 000(OF) – $21 000 – $28000)**(1)**/$90 000 1.63 times **(1)OF**	**2**
4(c)(iii)	Dividend yield [($90 000/600 000) + $0.05] **(1)** /$1.80 11.11% **(1)OF**	**2**
4(c)(iv)	Gearing ($350 000+$300 000)**(1)**/($1 252 000+$300 000) 41.88% **(1)OF**	**2**
4(d)	• issue more ordinary shares **(1)** to increase equity **(1)** • reduce dividend **(1)** and retain more profits **(1)** • repay debenture / redeem preference shares **(1)** to reduce non-current liabilities **(1)** **Max 3 points × 2** **1 mark and 1 mark for development.** **Accept other valid points.**	**6**

Question	Answer	Marks
4(e)	The debenture interest and preference share dividend reduce the profit available to the ordinary shares **(1)** Debenture interest rate 7% is lower than the ROCE 12.63% **(1)** Preference share dividend rate 8% is lower than the ROCE 12.63% **(1)** Ordinary shares enjoy a higher return, i.e. the return in excess of 7% and 8% belong to the ordinary shareholders. **(1)** There is no dilution of ownership for ordinary shareholders. **(1)** 1 mark for decision and 1 mark for each valid point up to a maximum of 4.	**5**

Question	Answer	Marks
5(a)	Investigation to explain the difference **(1)** between a budgeted amount and an actual amount **(1).**	**2**
5(b)	Maintain control **(1)** to set / achieve targets **(1)** Address the problems (adverse variance/underperformed) **(1)** and take remedial action **(1)** Understand the strength (favourable variance/over performed) **(1)** and reinforce the strength **(1)** Review the standards **(1)** to minimise deviations from budget **(1)** **Max 2 points × 2** **1 mark and 1 mark for development.** **Accept other valid points.**	**4**
5(c)	$$ Direct materials 150 000 **}** Direct labour 337 500 **}(1)** Fixed overhead 135 000 **(1)** Production costs 622 500 **(1)OF**	**3**
5(d)(i)	$154 000 – $150 000 = $4000(A) **(1)**	**1**

Question	Answer	Marks
5(d)(ii)	Material price variance \$154 000 – \$(14 200 × \$10) = \$12 000 (A) **(1)** The price of materials has increased causing adverse variance **(1)** Material usage variance (15 000–14 200) × \$10 = \$8000(F) **(1)** Materials of better quality have been used resulting using lesser materials **(1)** **Max 4**	**4**
5(e)(i)	\$342 000 – \$337 500 = \$4500(A) **(1)**	**1**
5(e)(ii)	Labour rate variance \$342 000 – (22 000 × \$15) = \$12 000(A) **(1)** The hourly rate of labour has increased. **(1)** Labour efficiency variance (22 500 – 22 000) × \$15 = \$7500(F) **(1)** Labour is more efficient **(1)**	**4**
5(f)	\$18/3 = \$6 per labour hour **(1)**	**1**
5(g)	[(8000 – 7500) × 3)] × \$6 = \$9000**(1)OF**A**(1)**	**2**
5(h)	For **(Max 1)** • a more realistic allocation of fixed overhead between various products **(1)** • better pricing for each product **(1)** Against **(Max 1)** • costly in analysing information to prepare cost basis **(1)** • time consuming in collecting information **(1)** **1 Mark for decision.** **Accept other valid points.**	**3**

Question	Answer	Marks
6(a)	• Responsibility accounting **(1)** • Management control of business activities **(1)** • Motivating departments/functions **(1)** • Co-ordinating activities of departments/functions **(1)** • Planning ahead, remedial actions can be taken if shortage of resources is identified **(1)** **Max 2** **Accept other valid points.**	**2**
6(b)	April / May / June Closing inventory: 390 / 450 / 420 **}(1) row** Sales: 2 400 / 2 600 / 3 000 Opening inventory: (360) / (390) / (450) **}(1) row** Units to be produced: 2 430 **(1)** / 2 660 **(1)** / 2 970 **(1)**	**5**
6(c)	April / May / June **(1) W1** Production of following month: 2 660 **(1)OF** / 2 970 **(1)OF** / 2 755 Kilos per unit: 2 / 2 / 2 Cost per kilos: $8 / $8 / $8 Purchases: $42 560 / $47 520 / $44 080 0 **(1)OF** / 0 **(1)OF** / 0 **(1)OF** **W1** 375 + 2800 – 420 = 2755	**6**

Question	Answer	Marks
6(d)		**7**

	April		May		June	
	$		$		$	
Purchases of current month	42 560		47 520		44 080	
50% thereof with 5% cash discount(a)	20 216	**(1)OF**	22 572	**(1OF)**	20 938	**(1)OF**
Purchases of previous month	*38 880		42 560		47 520	
50% thereof(b)	19 440	**(1)OF**	21 280	**(1OF)**	23 760	**(1)OF**
Total paid to suppliers(a)+(b)	39 656		43 852		44 698	**(1)OF row**

*2430 × 2 × $8 = $38880

6(e)	**For (Max 2)** • Maintain the relationship with the long-term customer **(1)** • F Limited can still make a profit of $2 each **(1)** **Against (Max 2)** • Quality not assured **(1)** • Delivery time not assured **(1)** **1 Mark for decision.** **Accept other valid points.**	**5**