CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **February/March 2024**

MARK SCHEME

Maximum Mark: 50

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 February/March 2024 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 descriptions 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.

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).

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.

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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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ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
N0	No working shown
AE	Attempts evaluation
R1	Required item 1
R2	Required item 2
OF	Own figure
EVAL	Evaluation
NAQ	Not answered question
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
Highlight	Highlight
Off page Comment	Off page comment

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Abbreviations and guidance
The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation.

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. **}***

row = all figures in the row must be correct for this mark to be awarded

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Explain why non-financial factors are disregarded by traditional investment appraisal techniques.

Investment appraisal techniques are based on monetary analysis (1) and non-financial factors cannot be expressed in monetary terms (1).

Accept other valid responses.</td><td>2</td></tr>
<tr><td>1(b)</td><td>Suggest <u>two</u> non-financial factors which are disregarded by traditional investment appraisal techniques.

Any two reasonable answers for (1) mark each, e.g. improvement in staff morale, improvement in customer satisfaction, effect on the environment, competitive advantage, effect of job losses to social welfare.

Accept other valid responses.</td><td>2</td></tr>
<tr><td>1(c)</td><td>Calculate the net cash flow expected to arise in <u>each</u> of the years 1 to 4.

<table>
<tr><th>Year</th><th>Sales
$</th><th>Variable costs
$</th><th>Fixed costs
$</th><th>Net cash flow
$</th><th></th></tr>
<tr><td>1</td><td>114 000</td><td>(66 000)</td><td>(19 000)</td><td>29 000</td><td>(1)</td></tr>
<tr><td>2</td><td>220 000</td><td>(110 000)</td><td>(19 000)</td><td>91 000</td><td>(1)</td></tr>
<tr><td>3</td><td>144 000</td><td>(104 000)</td><td>(19 000)</td><td>21 000</td><td>(1)</td></tr>
<tr><td>4</td><td>60 000</td><td>(56 000)</td><td>(19 000)</td><td>(15 000)</td><td>(1)</td></tr>
</table></td><td>4</td></tr>
<tr><td>1(d)</td><td>Calculate, to <u>two</u> decimal places, the internal rate of return (IRR) of the purchase of the licence.

<table>
<tr><th>Year</th><th>Net cash flow
$</th><th></th><th>Present value at 10%
$</th><th></th><th>Present value at 15%
$</th><th></th></tr>
<tr><td>0</td><td>(100 000)</td><td></td><td>(100 000)</td><td></td><td>(100 000)</td><td>(1)</td></tr>
<tr><td>1</td><td>29 000</td><td>0.909</td><td>26 361</td><td>0.870</td><td>25 230</td><td>(1)OF</td></tr>
<tr><td>2</td><td>91 000</td><td>0.826</td><td>75 166</td><td>0.756</td><td>68 796</td><td>(1)OF</td></tr>
<tr><td>3</td><td>21 000</td><td>0.751</td><td>15 771</td><td>0.658</td><td>13 818</td><td>(1)OF</td></tr>
<tr><td>4</td><td>(15 000)</td><td>0.683</td><td>(10 245)</td><td>0.572</td><td>(8 580)</td><td>(1)OF</td></tr>
<tr><td></td><td colspan="2">Net present value</td><td>7 053</td><td></td><td>(736)</td><td>(1)OF</td></tr>
</table>
IRR = 10% + [(15%-10%) × 7053/(7053+736)] (1)OF = 14.53% (1)OF</td><td>8</td></tr>
</table>

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Question	Answer	Marks
1(e)	**Discuss whether it would be better on financial grounds for the company to stop production at the end of year 3. Assume that the fixed costs and the cost of the licence would be unchanged. Calculations are <u>not</u> required.** Even though the net cash flow in year 4 is negative/results for year 4 show a loss instead of a profit **(1)** production creates a positive contribution **(1)** and so should continue **(1).** **Note** – mark on an own figure basis **Accept other valid responses.**	**3**
1(f)	**Advise the directors whether or not other investment appraisal techniques should also be used. Justify your answer. Calculations are <u>not</u> required.** **General comments (max 3)** Using additional techniques will be more time consuming **(1)** and the validity of the outcomes will still depend on the accuracy of the estimated values **(1).** But they may highlight other aspects of the decision, particularly with regard to the level of risk **(1).** IRR is based on NPV **(1)** which is widely accepted as the most suitable method of investment appraisal. **(1)** **Payback (max 1)** It is simple to calculate and understand **(1).** It recognises that the sooner cash is received the less risk there is in an investment **(1).** But it ignores the time value of money **(1).** It ignores cash flows arising after the payback period **(1).** **Accounting rate of return (max 1)** It looks at the earnings over the whole life of an investment in the same way as IRR and NPV **(1).** It is based on profits which may be more subjective/affected by accounting policies **(1).** Like payback it ignores the time value of money **(1).** **Decision supported by a comment (1)** **Accept other valid responses**	**6**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Prepare, for January 2024 in a columnar format, the fixed budget and the flexible budget statement.
<table>
<tr><td></td><td>Fixed budget</td><td>Flexible budget</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Sales revenue</td><td>544 000</td><td>476 000</td><td>(1) row</td></tr>
<tr><td>Direct material</td><td>(96 000)</td><td>(84 000)</td><td>(1) row</td></tr>
<tr><td>Direct labour W1</td><td>(192 000)</td><td>(168 000)</td><td>(1) row</td></tr>
<tr><td>Fixed overheads</td><td>(80 000)</td><td>(70 000)</td><td>(1) row</td></tr>
<tr><td>Profit</td><td>176 000</td><td>154 000</td><td>(1)OF row</td></tr>
<tr><td colspan="4">W1: 32000 hours x $6 = $192 000
28000 hours x $6 = $168 000</td></tr>
</table></td><td>5</td></tr>
<tr><td>2(b)(i)</td><td>Calculate the following variances:

Direct material price

21 700 × (4 – 3.80) = 4340 (1) F (1)</td><td>2</td></tr>
<tr><td>2(b)(ii)</td><td>Direct material usage

4 × (21 700 – 21 000) = 2800 (1) A (1)</td><td>2</td></tr>
<tr><td>2(b)(iii)</td><td>Direct labour rate

31 500 × (6 – 5.80) = 6300 (1) F (1)</td><td>2</td></tr>
<tr><td>2(b)(iv)</td><td>Direct labour efficiency

6 × (31 500 – 28 000) = 21 000 (1) A (1)</td><td>2</td></tr>
<tr><td>2(c)</td><td>Explain why the fixed overhead volume variance was adverse. Your answer should consider the sub-variances of the fixed overhead volume variance but calculation of these is <u>not</u> required.

The fixed overhead volume variance was adverse because actual production was less than budgeted production (1).
The fixed overhead capacity variance (1) was adverse because actual hours worked were less than the hours from the fixed budget as 31500 hours is less than 32000 hours (1).
The fixed overhead efficiency variance (1) was adverse because actual hours worked were greater than the hours from the flexible budget statement as 31500 hours is more than 28 000 hours (1).

Accept other valid responses</td><td>5</td></tr>
</table>

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Question	Answer	Marks
2(d)	**Advise the directors whether or not the company should start to prepare budgets for <u>both</u> trade receivables and trade payables. Justify your answer** **For (max 3)** Predicts cash inflows and cash outflows. **(1)** Enables a cash budget to be prepared. **(1)** Assists in the production of master budget / budgeted statement of financial position. **(1)** Could give a benchmark for monitoring the performance of credit control. **(1)** Cash is often more important than profit. **(1)** **Against (max 3)** The company may make all sales and purchases on a cash basis. **(1)** More time consuming/increased administrative costs. **(1)** The budget won't make the trade receivables pay up/won't stop irrecoverable debts. **(1)** Doesn't ensure there is enough cash to pay the trade payables. **(1)** **Decision supported by a comment (1)** **Accept other valid responses**	**7**

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