Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

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

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)

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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.

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					Mark
1(a)	Manufacturing account for the year ended 31 December 2020					**8**
		$		$		
	Opening inventory of raw materials	66 000				
	Purchases	292 000				
	Carriage inwards	7 800	**(1)**			
	Closing inventory of raw materials	(72 000)				
	Cost of raw materials consumed			293 800	**(1OF)**	
	Direct wages			200 200		
	Prime cost			494 000	**(1OF)**	
	Indirect manufacturing expenses			108 000		
	Factory rent			48 000	**(1)**	
	Depreciation – machinery ($325 000 + $5 000 – $155 000) × 20%			35 000	**(1)**	
				685 000		
	Opening work in progress			42 600	**}**	
	Closing work in progress			(54 000)	**}(1)**	
	Cost of goods manufactured			673 600		
	Add : 25% mark up			168 400	**(1OF)**	
	Value of finished goods transferred			842 000	**(1OF)**	

Question	Answer	Mark
1(b)	Provision for unrealised profit |	\$ | | | \$ | Balance c/d \$150 000 × 25 / 125 | 30 000 **(1)** | Balance b/d \$126 000 × 20 / 120 | 21 000 **(1)** | | Income statement | 9 000 **(1OF)** | 30 000 | | 30 000	**3**
1(c)	The luxury sofas inventories should be stated at the cost \$120 000, i.e. being unrealised profit \$30 000 deducted from the transfer value of \$150 000 **(1)**. This is in compliance with prudence concept **(1)** that the value of assets is not overstated **(1)** and realisation concept **(1)** that profit is only realised when goods are sold. **(1)**	**5**
1(d)	| Luxury sofas | Standard sofas | \$ | \$ Revenue | 944 000 | 175 000 Opening inventory | 126 000 | Transfer value/Purchases | 842 000 | 158 600 Closing inventory | (150 000) | (16 000) Cost of sales of luxury sofas | 818 000 **(1OF)** | 142 600 **(1)** Gross profit | 126 000 **(1OF)** | 32 400 **(1OF)**	**4**

Question	Answer	Mark
1(e)	Luxury sofas has a gross profit margin of 30.23% **(1OF)** ([126 000 + 168 400 – 9 000 **(1OF)**] / 944 000). Manufacturing luxury sofas has a higher gross profit margin of 30.23% **(1)** than trading luxury sofas that has a gross profit margin of 20%. **(1)** Ceasing production would incur costs such as redundancy. **(1)** G Limited can control the quality if goods are manufactured. **(1)** **Max 2 mark for calculations.** **Max 2 for valid points.** **1 mark for decision.** **Accept other valid points.**	**5**

Question	Answer			Mark
2(a)	Statement of financial position at 31 December 2020 (extract)			**9**
		$		
	Non-current assets **W1**	438 000	**(1)**	
	Current assets			
	Inventory **W3**	70 080	**(3)**	
	Trade receivables **W4**	95 040	**(1)**	
	Cash and cash equivalents (balancing)	9 120	**(1OF)**	
	Total current assets **W2**	174 240	**(2)**	
	Total assets	612 240	**(1OF)**	

Question	Answer	Mark
2(a)	**W1** $1 051 200 ÷ 2.4 **W2** Trade payables ($642 400 × 45) / 365 = $79 200**(1)** $79 200 × 2.2 = 174 240**(1OF)** **W3** Cost of sales $1 051 200 × 60% = $630 720**(1)** X + $642 400 – 1.2X = $630 720 X = $58 400**(1)** 1.2X = $70 080**(1)** **W4** Trade receivables ($1 051 200 × 33) / 365 = $95 040**(1)**	
2(b)	Inventory turnover (in days) [($58 400 + $70 080) ÷ 2 **(1OF)**] × 365 / $630 720 = 37.18 / 38 days**(1OF)** Working capital cycle = 38 days + 33 days – 45 days = 26 days **(1OF)**	**3**
2(c)	2020 has a higher non-current assets turnover than 2019**.**This suggests that 2020 is more efficient in utilising its non-current assets in generating revenue. **(1)** 2020 has a shorter working capital cycle than 2019.This suggests that 2020 can generate cash from its net current assets in shorter time than 2019. **(1)** In terms of non-current assets turnover and working capital cycle, the performance in 2020 is better than 2019. **(1)** **Accept other valid points**	**3**

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Question	Answer	Mark
2(d)	An increase in current share price **(1)** – investors have confidence **(1)** as they are expecting a higher profitability in the future **(1)** A decrease in the current earnings per share **(1)** – there is a decrease in current profit **(1)** due to increased expenses **(1)** or – there is an increase in number of ordinary shares **(1)** as the company has issued additional ordinary shares. **(1)** Max 2 reasons × 3 marks (1 mark for identifying each reason plus up to Max 2 marks for explanation/development.) **Accept other valid points**	**6**
2(e)	Based on historical information **(1)** Inflation not taken into account **(1)** Different accounting policies **(1)** Ratios do not explain the causation factors **(1)** Based on the business being similar type/size **(1)** Max 4 **Accept other valid points**	**4**

Question	Answer	Mark
3(a)	Faster **(1)** More accurate information **(1)** Information updated easily **(1)** Information easily accessible **(1)** Reduce staff cost **(1)** Handle complex/voluminous information easily **(1)** Facilitate reporting **(1)** Space saving **(1)** Better security **(1)** Max 4 **Accept other valid points.**	**4**

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Question	Answer	Mark
3(b)	$ Profit 2020 21 160 Profit 2019 $21 160 / 1.15 18 400 **}** Profit 2018 $18 400 / 1.15 16 000 **}(1)** 55 560 ÷ 3 $18 520 **(1)**	**2**
3(c)	Profits over a prolonged period provide interested parties with a reliable base. **(1)** Factors leading to the better profit include its reputation, loyal customers, reliable suppliers and good location, etc. **(1)** **Accept other valid points.**	**2**

Question	Answer	Mark
3(d)		**6**

	Adul		Basha		Carl	
	$		$		$	
Capital account	360 000		360 000		371 100	
Current account	22 000		(5 600)			
Increase/decrease in assets value **W1**	2 900	}	2 900	}**(1)**	(39 000)	**(1)**
	384 900		357 300		332 100	
Goodwill	25 000	]	25 000	]**(1)**	18 520	**(1OF)**
	409 900		382 300		350 620	
Motor vehicle taken over	(44 000)	**(1)**				
Goodwill written off **W2**	(27 408)		(27 408)		(13 704)	**(1OF all)**
	338 492		354 892		336 916	

W1

Adul and Basha ($580 000 + $88 000) – ($564 000 + $98 200) = $5 800 $5 800 × 1 / 2 = $2 900
Carl ($230 000 + $62 000 + $35 000) – ($265 000 + $65 000 + $36 000) = ($39 000)

W2

($50 000 + $18 520 OF) × 2 / 5 = $27 408
($50 000 + $18 520 OF) × 1 / 5 = $13 704

Question	Answer			Mark
3(e)	Statement of financial position after the merger			**6**
		$		
	Non-current assets			
	Office equipment	810 000	**(1)**	
	Motor vehicles	106 000	**(1)**	
		916 000		
	Current assets			
	Inventory	74 000	**(1)**	
	Trade receivables	118 300	**(1)**	
	Cash and cash equivalents	30 200	**(1)**	
		222 500		
	Total assets	1 138 500	**(1OF)**	

Question	Answer	Mark
3(f)	Financial factors **(Max 2)** Return on capital employed of Adul and Basha 8.69% **(1)** ($64 000 / $736 400) is higher than that of Carl's 5.7%($21 160 / $371 100) **(1)** Adul and Basha partnership has a better profitability than Carl's business. **(1)** Non-financial factors **(Max 2)** Pooling of expertise Synergy effect Loss and risk are shared However Cannot make own decision Profit has to be shared May have conflict among partners 2 marks for financial factors and 2 marks for non-financial factors. 1 mark for decision. **Accept other valid points**	**5**

Question	Answer	Mark
4(a)	Joint venture is formed for a specific project or business activity **(1)** Consists of two or more persons **(1)** Joint venture is of temporary nature **(1)** Joint venture is dissolved automatically when the project/business activity is finished. **(1)** Share profits / losses. **(1)** **Max 3** **Accept other valid points.**	**3**

Question	Answer	Mark
4(b)(i)	Joint venture account	**7**

	$			$	
Purchases	46 000	**(1)**	Sales	95 400	**(1)**
Cash register	2 600	**(1)**	Register taken over	2 000	**}**
Transportation	3 430	**}**	Inventory taken over	3 100	**}(1)**
Assistants' wages	8 170	**}(1)**			
Rent of stall	12 000	**}**			
Packaging	4 700	**}(1)**			
Profit shared:					
Tan	11 800	**(1OF both)**			
Wang	11 800				
	100 500			100 500	

Question	Answer	Mark
4(b)(ii)	Joint venture with Tan – In Wang's book	**4**

	$			$	
Cash – rent	12 000		Cash – sales	95 400	**(1)**
Cash – cash register	2 600		Cash register	2 000	**}**
Cash – transportation	980		Inventory	3 100	**}(1)**
Cash – assistants' wages	5 400				
Cash – packaging	4 080				
Cash – advertising					
Share of profit	11 800	**(1OF)**			
Cash to Tan	63 640	**(1OF)**			
	100 500			100 500	

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<tr><th>Question</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4(b)(iii)</td><td>
Joint venture with Wang – In Tan's book
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Cash – purchases of goods</td><td>46 000</td><td>}</td><td>Cash from Wang</td><td>63 640</td><td>(1OF)</td></tr>
<tr><td>Cash – transportation</td><td>2 450</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Cash – assistants' wages</td><td>2 770</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Cash – packaging</td><td>620</td><td>} (1all)</td><td></td><td></td><td></td></tr>
<tr><td>Share of profit</td><td>11 800</td><td>(1OF)</td><td></td><td></td><td></td></tr>
<tr><td></td><td>63 640</td><td></td><td></td><td>63 640</td><td></td></tr>
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</td><td>3</td></tr>
<tr><td>4(c)</td><td>
Benefits to Tan (consignor)
• Explore a new market in the city (1) with long term prospect (1)
• Less risk (1) as Wang has the local knowledge in the city (1)
• She takes all the profits (1) after paying commission to Wang (1)
• Less set up costs (1) as she need not establish a branch in the city (1)

Benefits to Wang (consignee)
• He must gain (1) as he receives commission from sales of goods (1)
• He has no risk (1) as he is not responsible for the loss from trading (1)
• He can build a good relationship with Tan (1) and may form a partnership with Tan in the long term (1)
• He is not required to bear any cost (1) as all costs incurred will be reimbursed by Tan. (1)

1 mark for each valid point plus one further mark for development.

Max 2 advantages to each × 2 marks (1 mark for identifying plus 1 mark for development.)

Accept other valid points
</td><td>8</td></tr>
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Question	Answer	Mark
5(a)	Arrange credit if there is cash shortage **(1)** Arrange investment if there is cash surplus **(1)**	**2**
5(b)		**4**

	July	August	
Closing inventory	300	200	**(1 for both)**
Sales	1240	1500	**(1 for both)**
Opening inventory	(240)	(300)	**(1 for both)**
Budgeted production in unit	1300	1400	**(1 for both)**

Question	Answer					Mark
5(c)		July		August		**11**
		$		$		
	Receipts					
	Sales of current month	39 680		48 000		$198 400 × 20% / $240 000 × 20%
	Sales of previous month	171 200		158 720		$214 000 × 80% / $198 400 × 80%
		210 880	**(1)**	206 720	**(1)**	
	Payments					
	Payment to suppliers	114 660	**(1OF)**	123 480	**(1OF)**	1300 × $90 × 98% / 1400 × $90 × 98%
	Direct wages	52 000		56 000	**(1OF for both)**	1300 × $40 / 1400 × $40
	Bonus	1 400	**(1)**			($214 000 – $200 000) × 10%
	Fixed overhead					
	Previous month	24 000	**(1)**	25 200	**(1)**	$60 000 × 40% / $60 000 × 105% × 40%
	Current month	37 800		37 800	**(1 for both)**	$60 000 × 105% × 60%
	Machine			40 000	**(1)**	
		229 860		282 480		
	Opening balance	80 600		61 620		
	Net flow	(18 980)		(75 760)		
	Closing balance	61 620		(14 140)	**(1OF for both)**	

Question	Answer	Mark
5(d)	$ Cash deficit 14 140 **(1OF)** Required balance 24 500 **(1)** 38 640 **(1OF)** $38 640 / 96% = $40 250 **(1OF)**	**4**
5(e)	Delay the purchase of machinery to a later month **(1)** when more funds are available **(1)** Ask for a loan **(1)**, e.g. bank loan or overdraft **(1)** Ask for longer payment period or payments in smaller amounts **(1)**, i.e. instalment/on credit for purchase of machinery/materials **(1)** Improved credit control **(1)** by asking prompt payments from trade receivables **(1)** Issue shares **(1)** as non-current assets should be financed by long-term funds **(1)** Increase selling price **(1)** if demand permits **(1)** Max 2 × 2 marks (1 mark for identifying plus 1 mark for development.) **Accept other valid points**	**4**

Question	Answer	Mark
6(a)(i)		**5**

	Inflows	Outflows	Depreciation		Profit	
	$	$	$		$	
Year 1	100 000	36 000	55 000		9 000	
Year 2	132 000	50 000	55 000		27 000	
Year 3	160 000	68 000	55 000		37 000	
Year 4	92 000	50 000	55 000		(13 000)	
	484 000	204 000	220 000	**(1)**	60 000	**(1)**

Average profit $60 000 / 4 = $15 000 **(1)**
Average investment $220 000 / 2 = $110 000 **(1)**
ARR = $15 000 / $110 000 = 13.64% **(1)**

6(a)(ii)						**3**

	Inflows	Outflows	Net		NPV	
	$	$	$	8%	$	
Year 0		(220 000)	(220 000)	1	(220 000)	**(1)**
Year 1	100 000	36 000	64 000	0.926	59 264	**}**
Year 2	132 000	50 000	82 000	0.857	70 274	**}**
Year 3	160 000	68 000	92 000	0.794	73 048	**}**
Year 4	92 000	50 000	42 000	0.735	30 870	**}(1)**
					13 456	**(1OF)**

Question	Answer	Mark
6(a)(iii)	NPV at 12% |	\$ | | Year 0 | (220 000) | | Year 1 | 57 152 | | Year 2 | 65 354 | | Year 3 | 65 504 | | Year 4 | 26 712 | | | (5 278) **(1)** | IRR = 8% + 4% **(1)** [\$13 456 / (\$13 456 + \$5 278) **(1)**] = 10.87% **(1OF)**	**4**
6(b)	Positive NPV **(1)** IRR is higher than the cost of capital **(1)** ARR is higher than the cost of capital **(1)** The machine should be bought **(1)** **1 mark for decision + Max 2 for comments**	**3**
6(c)	It considers the time value of money **(1)** It considers all cash inflows and outflows over the investment's life time **(1)** Cashflows are more objective than accounting profits **(1)** **Accept other valid points.**	**3**
6(d)	The revised NPV is negative \$5 728 **(1)** so the new machine should not be bought. **(1)** **Accept other valid points.**	**2**

Question	Answer				Mark
6(e)			12%	NPV	**5**
		$		$	
	Original NPV			(5 278)	**(1OF)**
	Advertisement	(20 000)	0.893	(17 860)	**(1)**
	Revenue - Year 2	24 000	0.797	19 128	**(1)**
	Revenue - Year 3	5 632	0.712	4010	**(1OF)**
		(1OF)		0	
	Minimum increase in sales revenue of $5 632 in year 3 will achieve a just positive NPV				