Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **May/June 2022**

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 2022 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U 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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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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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>
<table>
<tr><th>Not-for-profit organisations</th><th>Limited company</th></tr>
<tr><td>Income and expenditure account</td><td>Income statement</td></tr>
<tr><td>Surplus / deficit</td><td>Profit / loss</td></tr>
<tr><td>Accumulated fund</td><td>Equity</td></tr>
</table>
1 mark for each difference up to a maximum of three

Accept other valid answers.
</td><td>3</td></tr>
<tr><td>1(b)</td><td>
Café trading account for year ended 31 December 2021
<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Sales $43 500 × 180%</td><td></td><td></td><td>78 300</td><td>(1)OF</td></tr>
<tr><td>Opening inventory</td><td>9 500</td><td></td><td></td><td></td></tr>
<tr><td>Purchases W1</td><td>44 200</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Closing inventory</td><td>(10 200)</td><td></td><td></td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td></td><td>43 500</td><td>(1)OF</td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>34 800</td><td></td></tr>
<tr><td>Wages</td><td></td><td></td><td>22 000</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>12 800</td><td>(1)OF</td></tr>
</table>
W1 Purchases $42 000 + $13 600 – $11 400 = $44 200
</td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(c)</td><td>
Subscriptions account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Balance b/d</td><td>3 000</td><td>}</td><td>Balance b/d</td><td>1 600</td><td>}(1) row</td></tr>
<tr><td>Income and Expenditure W1</td><td>90 000</td><td>(1)</td><td>Receipts & payments</td><td>89 600</td><td>(1)OF</td></tr>
<tr><td>Balance c/d</td><td>2 200</td><td>}</td><td>Balance c/d</td><td>4 000</td><td>}(1) row</td></tr>
<tr><td></td><td>95 200</td><td></td><td></td><td>95 200</td><td></td></tr>
</table>

W1 (420+18) × $200 + 24 × $200 × 50% = $90 000
</td><td>4</td></tr>
<tr><td>1(d)</td><td>
Income and expenditure account for year ended 31 December 2021
<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Subscriptions</td><td></td><td></td><td>90 000</td><td>(1)OF</td></tr>
<tr><td>Profit from café</td><td></td><td></td><td>12 800</td><td>(1)OF</td></tr>
<tr><td>Rental of meeting room $2 100 + $4 600</td><td></td><td></td><td>6 700</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>109 500</td><td></td></tr>
<tr><td>Club expenses</td><td>94 400</td><td></td><td></td><td></td></tr>
<tr><td>Depreciation of equipment ($78 000 + $14 000) × 15%</td><td>13 800</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Annual dinner $16 200 + $4 000</td><td>20 200</td><td>(1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>128 400</td><td></td></tr>
<tr><td>Deficit / Excess of expenditure over income</td><td></td><td></td><td>(18 900)</td><td>(1)OF</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>1(e)</td><td>Accrual / matching concept should be applied. (1). Life membership fee should be spread over a number of years. (1). The number of years to be spread depends on the accounting policy of the club. (1)

Max 3

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

Question	Answer	Marks
1(f)	Café wages are saved leading to higher profit from sale of refreshment **(1)** More space is released for club's other activities **(1)** Can offer snack and drinks 24/7 **(1)** Should consider the cost of vending machines **(1)** Welcoming atmosphere created by café staff **(1)** Food and drinks offered are fresher **(1)** Food and drinks are made to special needs, e.g. allergies **(1)** Redundancy payment if café staff are fired **(1)** Need for comparison between profitability and profit margins on vending machines and café. **(1)** **1 mark for decision** **Accept other valid answers.**	**5**

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Question	Answer					Marks
2(a)	Revised statement of financial position at 31 December 2021					**14**
		$		$		
	Non-current assets					
	Property, plant and equipment **W1**			794 500	**(3)**	
	Current assets					
	Inventory **W2**	76 500	**(3)**			
	Trade receivables ($164 000-$12 000)	152 000	**(1)**			
	Cash and cash equivalents	86 000		314 500		
	Total assets			1 109 000		
	Equity					
	Ordinary share capital ($1 shares)	600 000				
	Revaluation reserve	146 000	**(1)**			
	Retained earnings **W3**	153 000	**(4)**	899 000		
	Current liabilities					
	Trade payables	128 000				
	Other payables **W4**	82 000	**(2)**	210 000		
	Total equity and liabilities			1 109 000		

Question	Answer			Marks
2(a)		$		
	W1			
	Balance	606 000		
	Machine	50 000	**(1)**	
	Depreciation $50 000x15%	(7 500)	**(1)**	
	Revaluation reserve $350 000-($300 000-$96 000)	146 000	**(1)**	
		794 500		
	W2			
	Lower of cost and NRV			
	Category A	57 000	**(1)**	
	Category B ($14 000-$3 000)	11 000	**(1)**	
	Category C ($12 000-$2 500-$1 000)	8 500	**(1)**	
		76 500		
	W3			
	Retained earnings before adjustments	184 000		
	Depreciation of machine	(7 500)	**(1)OF**	
	Inventory overstated ($80 000-$76 500)	(3 500)	**(1)OF**	
	Irrecoverable debt	(12 000)	**(1)**	
	Provision for legal fee	(8 000)	**(1)**	
		153 000		
	W4			
	Other payables before adjustment	24 000		
	Machine	50 000	**(1)**	
	Provision for legal fee	8 000	**(1)**	
		82 000		

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Question	Answer	Marks
2(b)	Item 3 IAS 37 Provisions, contingent liabilities and contingent assets **(1)** The success of the claim is not probable **(1)** and therefore there is no need to make provision **(1).** However, it is necessary to disclose the claim as a note to the financial statements. **(1)** Provision for legal cost $8 000 should be made **(1)** as it is a liability **(1)** of uncertain timing or amount. **(1)**	**7**
2(c)(i)	Events after the reporting period are those events, favourable and unfavourable, occur between the end of the reporting period **(1)** and the date when the financial statements are authorised for issue. **(1)**	**2**
2(c)(ii)	Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period **(1)**	**1**
2(c)(iii)	Non-adjusting events – those that are indicative of conditions that arose after the reporting period. **(1)**	**1**

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Question	Answer	Marks
3(a)	$ At 1 January 2021 204 000 Profit for the year 198 000 **(1)OF** Dividend paid 450 000 × $0.30 (135 000) **(1)** Bonus issue ($400000 × 1/8-$44 000) (6 000) **(1)** General reserve (30 000) **(1)** At 31 December 2021 231 000	**4**
3(b)(i)	Price earnings ratio Earnings per share $198 000/450 000 $0.44 **(1)OF** $4.52/$0.44 **(1)OF** 10.27 **(1)OF**	**3**
3(b)(ii)	Dividend yield ($0.3 + $0.25)/$4.52 × 100 **(1)** 12.17% **(1)**	**2**
3(b)(iii)	Gearing ratio $150 000/($711 000 + $150 000) × 100 **(1)** 17.42% **(1)**	**2**
3(b)(iv)	Income gearing Debenture interest $150 000 × 9%=$13 500 **(1)** $13 500/($198 000 OF + $13 500) × 100 6.38% **(1)OF**	**2**
3(b)(v)	Return on capital employed ($198 000 OF + $13 500) **(1)OF**] / ($711 000 + $150 000) × 100 24.56% **(1)OF**	**2**

Question	Answer	Marks
3(c)	A highly geared company is a company which has a higher proportion of debt **(1)** compared to its share capital. **(1)** This indicates that the company has a very high financial risk in terms of default in repayment of debt and high level of interest expenses. **(1)** **Max 2** **Accept other valid answers.**	**2**
3(d)	The earnings per share for 2020 is $0.39 ($3.64/9.27) **(1)** There is an increase of 12.82% in earnings per share from $0.39 to $0.44 **(1)** The share price has increased **(1)** by a greater proportion than the earnings **(1)** as the investors have confidence in E plc **(1)** **Max 3** **Accept OF answers.**	**3**
3(e)	Profit for the year with the debenture will be lower by the amount of the interest **(1)** The interest has to be paid whether the company made a profit or not **(1)** The company may need to provide a security for the debenture **(1)** Issuing debenture will increase gearing **(1)** If the shares had been issued the dividends would be at the discretion of the directors **(1)** The issue of shares would be a permanent capital whereas debenture would have to be repaid **(1)** Issuing ordinary shares dilutes ownership **(1)** **Max 4** **1 mark for decision.** **Accept other valid answers.**	**5**

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Question	Answer	Marks
4(a)	Memorandum joint venture account	**7**

	$			$	
Purchases of shirts	90 000	**}**	Cash sales	21 000	**(1)**
Carriage	1 250	**}**	Credit sales	129 000	**(1)**
Insurance	800	**}(1)**			
Storage	2 000	**}**			
Use of office equipment	7 000	**}(1)**			
Packing	1 650	**}**			
Advertising	4 400	**}**			
Salespeople salaries	8 000	**}(1)**			
Discount allowed	1 000	**}**			
Irrecoverable debt	3 000	**}(1)**			
Profit shared:					
Adam	15 450				
Mary	15 450	**(1)OF**			
	150 000			150 000	

Question	Answer	Marks
4(b)	Joint venture with Adam account |	7

	$			$	
Other income : hire of storage	2 000	}	Cash : sales	21 000	}
Other income : hire of office equipment	7 000	}(1)	Trade receivables : sales	129 000	}(1)
Cash : packing	1 650	}			
Cash : advertising	4 400	}			
Cash : salespeople salaries	8 000	}(1)			
Trade receivables : Discount allowed	1 000	}			
Trade receivables : irrecoverable debt	3 000	}(1)			
Bank : payment to Adam	40 000	(1)			
Income statement : profit shared	15 450	(1)OF			
Bank : payment to Adam	67 500	(1)OF			
	150 000			150 000	

4(c)	Adam He earns an extra profit of $15 450 **(1),** a return of 17.17% of investing $90 000 within a period of less than 2 months **(1)** Mary Apart from earning profit of $15 450, she also receives a total of $9 000 **(1)** for hiring her warehouse and office facilities. She can utilize her resource to earn more income. **(1)** **1 mark for identification of basic point for each of Adam and Mary and 1 further mark for development.** **Accept other valid answers.**	4

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(d)</td><td>
<table>
<tr><th></th><th>Joint venture</th><th>Consignment</th></tr>
<tr><td>Relationship</td><td>Temporary partnership</td><td>Principal and agent</td></tr>
<tr><td>Profit sharing</td><td>Profit shared between the parties</td><td>Only principal gets the profit, agent is only entitled to commission</td></tr>
<tr><td>Ownership of inventory</td><td>Either party can control the inventory</td><td>Principal is the sole owner</td></tr>
</table>
1 mark for each difference up to a maximum of three
</td><td>3</td></tr>
<tr><td>4(e)</td><td>Long-term commitment (1) which therefore requires a capital outlay (1)

Adam is not experienced in trading (1) and may find it difficult to purchase goods from bankrupt sources (1)

He may be distracted from his major business (1) by the demands of dealing with partnership (1)

2 points x 2 marks

Accept other valid answers.</td><td>4</td></tr>
</table>

Question	Answer	Marks
5(a)		**8**

	Product S		Product P	
	$		$	
Direct materials	8	**}**	17	**}(1) row**
Direct labour	60	**}**	108	**}(1) row**
Factory overheads **W1**	10	**}**	15	**}(3) row**
Total cost per unit	78	**}**	140	**}(1)OF row**
Mark-up	39	**}**	70	**}(1)OF**
Selling price	117	**}**	210	**}(1)OF row**

W1
Total labour hours 24 000 × 4 + 15 000 × 6 = 186 000
$465 000/186 000 = $2.50 **(1)** per labour hour
$2.50 × 4 = $10 **(1)** $2.50 × 6 = $15 **(1)**

5(b)	Activity based costing assigns costs to products based on the activities that consume the resources **(1)** Activities are used as cost pools and costs are allocated to products using a cost driver **(1)** Cost driver is the factor that has a direct cause and effect relationship with the resources consumed. **(1)** **Max 3** **Accept other valid answers.**	**3**

Question	Answer	Marks
5(c)		**9**

	Product S		Product P	
	$		$	
Direct materials	192 000	}	255 000	}
Direct labour	1 440 000	}	1 620 000	}**(1)**
Factory overheads **W1**	346 800		118 200	**(4) row**
Total cost	1 978 800		1 993 200	**(1)OF row**
Total cost per unit	82.45		132.88	**(1)OF row**
Mark-up	41.23		66.44	**(1)OF row**
Selling price	123.68		199.32	**(1)OF row**

W1

	$	$	
Purchasing materials	90 000	30 000	**(1) row**
Machine running	108 000	54 000	**(1) row**
Machine setups	60 000	12 000	**(1) row**
Inspecting	88 800	22 200	**(1) row**
	346 800	118 200	

$120 000 × (24/32) = $90 000; $120 000x(8/32) = $30 000
$162 000 × (36 000/54 000) = $108 000; $162 000 × (18 000/54 000) = $54 000
$72 000 × (40/48) = $60 000; $72 000x(8/48) = $12 000
$110 000 × (400/500) = $88 800; $110 000 × (100/500) = $22 200

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Question	Answer	Marks
5(d)	**For (Max 2)** ABC provides more accurate/realistic cost information. Before ABC, overhead per unit for Product P ($15) is higher than Product S ($10); after ABC, overhead per unit for Product S ($14.45) is higher than Product P ($7.88)**(1)** Accurate cost information results in better pricing decision. Before ABC, selling price per unit for Product S and Product P is $117 and $210 respectively. After ABC, selling price per unit for Product S and Product P is $123.68 and $199.32. Selling price of Product S increase because it has higher overhead per unit after adopting ABC.**(1)** **Against (Max 2)** ABC is costly to implement, i.e. it needs specialists and staff require training. **(1)** ABC is time consuming **(1)** **1 mark for decision** **Accept other valid answers.**	**5**

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Question	Answer	Marks
6(a)	Sales 420 000 Direct materials 36 000 Direct labour 216 000 Fixed overheads 72 000 (324 000) **(1)** 96 000 **(1)OF**	**2**
6(b)(i)	Sales price variance ($72-$70) × 5 800 = $11 600 **(1)** F **(1)**	**2**
6(b)(ii)	Sales volume variance Standard profit ($70 – $6 – $36 – $12) = $16 **(1)** (6 000 – 5 800) × $16 = $3 200 **(1)OF** A **(1)**	**3**
6(b)(iii)	Direct material total variance (5 800 × $6) – $35 113 = $313 **(1)** A **(1)**	**2**
6(b)(iv)	Direct labour total variance (5 800 × 36) – $221 760 = $12 960 **(1)** A **(1)**	**2**
6(b)(v)	Fixed overhead volume variance Overhead absorption rate $4 ($12/3) per labour hour (6 000 – 5 800) × 3 hours × $4 = $2 400 **(1)** A**(1)** Alternative answer $72 000 – (5 800 × $12) = $2 400 **(1)** A**(1)**	**2**
6(b)(vi)	Fixed overhead expenditure variance $72 000 – $70 400 = $1 600 **(1)** F **(1)**	**2**

Question	Answer	Marks
6(c)(i)	Actual sales of 5800 units are lower than the budgeted sales. **(1)** Goods are sold at a price higher than the budget, increasing from $70 to $72. This may cause a decrease in demand. **(1)** Promotion / advertising is ineffective **(1)** Quality of goods are not good as expected **(1)** **Max 3** **Accept other valid answers.**	**3**
6(c)(ii)	Direct labour rate variance (17 600 × $12) – $221 760 = 10 560(A) **(1)** $221 760 ÷ 17 600 = $12.6 There has been an increase in pay / hourly rate has increased from $12 to $12.60 **(1)** Direct labour efficiency variance [(5 800 × 3) – 17 600] × $12 = $2 400(A) **(1)** 200 more labour hours have been deployed due to inefficiency of labour force **(1)** **Accept other valid answers.**	**4**
6(d)	Direct material total variance is $313 adverse and direct material usage variance is $1 275 adverse, therefore the direct material price variance is $962 favourable **(1)OF** The cost price of direct material is cheaper than expected, maybe due to change in supplier **(1)** P Limited has been successful in controlling the cost price of direct material **(1)** **Max 2 for justification** **1 mark for decision.**	**3**

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