CAMBRIDGE
International Education

# Cambridge International AS & A Level

**ACCOUNTING** **9706/42**

Paper 4 Cost and Management Accounting **May/June 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.

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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.

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| |
|---|
| GENERIC MARKING PRINCIPLE 5:<br><br>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:<br><br>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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**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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| Question | Answer | Marks |
|---|---|---|
| 1(a) | **Prepare the production budget (in units) for <u>each</u> of the months April, May, June and July 2025.** | **4** |

| | April | May | June | July | |
|---|---|---|---|---|---|
| Sales | 1 000 | 1 200 | 1 500 | 1 300 | **(1) row** |
| Closing inventory | 240 | 300 | 260 | 220 | **(1) row** |
| Opening inventory | (200) **(1)** | (240) | (300) | (260) | |
| Production | 1 040 | 1 260 | 1 460 | 1 260 | **(1)OF row** |

Alternative answer

| | April | May | June | July | |
|---|---|---|---|---|---|
| Opening inventory | 200 **(1)** | 240 | 300 | 260 | |
| Production | 1 040 | 1 260 | 1 460 | 1 260 | **(1)OF row** |
| Sales | (1 000) | (1 200) | (1 500) | (1 300) | **(1) row** |
| Closing inventory | 240 | 300 | 260 | 220 | **(1) row** |

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>

**Prepare an extract from the cash budget for <u>each</u> of the months June and July 2025 to show the payments related to production.**

<table>
<tr><td>Payments</td><td>June<br>$</td><td></td><td>July<br>$</td><td></td></tr>
<tr><td>Trade payables – month after purchase W1</td><td>12 285</td><td>(1)OF</td><td>14 235</td><td>(1)OF</td></tr>
<tr><td>Trade payables – two months after purchase W2</td><td>15 600</td><td>(1)OF</td><td>18 900</td><td>(1)OF</td></tr>
<tr><td>Direct labour W3</td><td>43 800</td><td></td><td>37 800</td><td>(1)OF both</td></tr>
<tr><td>Other costs W4</td><td>45 360</td><td>(1)OF</td><td>52 560</td><td>(1)OF</td></tr>
<tr><td>Total production payments</td><td>117 045</td><td></td><td>123 495</td><td></td></tr>
</table>

**W1** based on units for May = 0.39 × 1 260 × 25 = 12 285
based on units for June = 0.39 × 1 460 × 25 = 14 235
**OR W1**
based on units for May = (0.2 × 1 260 × 25) + (0.2 × 1 260 × 25 × 0.95) = 12 285
based on units for June = (0.2 × 1 460 × 25) +(0.2 × 1 460 × 25 × 0.95) = 14 235
**OR W1**
based on units for May = 9.75 × 1 260 = 12 285
based on units for June = 9.75 × 1 460 = 14 235

**W2** based on units for April = 0.6 × 1 040 × 25 = 15 600
based on units for May = 0.6 × 1 260 × 25 = 18 900

**W3** 1 460 × 30 = 43 800 and 1 260 × 30 = 37 800

**W4** based on units for May = 1260 × (40 – 4) = 45 360
based on units for June = 1460 × (40 – 4) = 52 560

</td><td>7</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 1(c) | **Calculate the <u>change</u> in the expected bank overdraft at the end of <u>each</u> of the months June, July and August 2025 if the order was accepted. Assume that all the extra production would take place in the month in which the units are supplied.** | **7** |

| | $ | |
|---|---|---|
| June – direct labour 900 × 30 | 27 000 | |
| Increase in overdraft at end **June** | 27 000 | **(1)** |
| July – direct materials 900 × 25 × 0.39 | 8 775 | **(1)** |
| – other costs 900 × 36 | 32 400 | **(1)** |
| Increase in overdraft at end **July** | 68 175 | **(1)OF** |
| August – direct materials 900 × 25 × 0.6 | 13 500 | **(1)** |
| receipt from customer 900 × 156 × 1/6 | (23 400) | **(1)** |
| Increase in overdraft at end **August** | 58 275 | **(1)OF** |

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| Question | Answer | Marks |
|---|---|---|
| 1(d) | **Advise the directors whether or not the company should accept the order. Justify your answer.**<br>**For (max 3)**<br>It would be more profitable than the usual sales. **(1)**<br>It might make use of spare capacity. **(1)**<br>It would increase market share / enter overseas market. **(1)**<br>There might be repeat orders. **(1)**<br>If other costs are largely fixed, they would reduce per unit as they are spread over more units, further increasing profit. **(1)**<br><br>**Against (max 3)**<br>Regular customers may also request credit. **(1)**<br>There might not be enough capacity in the factory. **(1)**<br>Existing machinery may become exhausted / new machinery may be required. **(1)**<br>Additional labour and materials may not be available. **(1)**<br>Workers may be overworked / overtime may be required. **(1)**<br>Finance will be needed – the overdraft limit may need to be renegotiated. **(1)**<br>Increased overdraft interest **(1)** will reduce profit.<br>Credit checks will be needed on the new customer. **(1)**<br>The company may have to adopt credit control / collection procedures. **(1)**<br>The longer the credit period the greater the risk of not being paid. **(1)**<br>More administration/delivery costs may be incurred for an overseas customer. **(1)**<br><br>**Accept other valid responses.**<br>**Decision supported with a comment (1)** | **7** |

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| Question | Answer | Marks |
|---|---|---|
| 2(a) | **State why cost drivers are used in the application of ABC.**<br><br>Cost drivers relate cost and effect in allocating indirect costs. **(1)**<br>**OR** Cost drivers assist in allocating overheads to activities **(1)**<br>**Accept other valid responses** | **1** |

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| Question | Answer | Marks |
|---|---|---|
| 2(b) | **Calculate the selling price of <u>one</u> unit of <u>each</u> product.** | **9** |

| | A | | B | |
|---|---|---|---|---|
| | $ | | $ | |
| Direct material | 80 | **}** | 66 | **}** |
| Direct labour | 33 | **}(1)** | 78 | **}(1)** |
| Quality inspections **W1** | 8.40 | | 11.20 | **(1) both** |
| Order processing **W2** | 12 | | 16 | **(1) both** |
| Depreciation **W3** | 9.45 | | 10.08 | **(1) both** |
| Other overheads **W4** | 20 | | 20 | **(1) both** |
| Cost | 162.85 | | 201.28 | **(1)OF both** |
| Mark-up | 162.85 | | 201.28 | |
| Selling price | 325.70 | **(1)OF** | 402.56 | **(1)OF** |

**W1** 8 960 × 210/560 = 3 360 3 360/400 = 8.40
8 960 × 350/560 = 5 600 5 600/500 = 11.20
**W2** 12 800 × 120/320 = 4 800 4 800/400 = 12
12 800 × 200/320 = 8 000 8 000/500 = 16
**W3** 8 820 × 54/126 = 3 780 3 780/400 = 9.45
8 820 × 72/126 = 5 040 5 040/500 = 10.08
**W4** 18 000/900 = 20
18 000 × 400/900 = 8 000 18 000 × 500/900 = 10 000

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| Question | Answer | Marks |
|---|---|---|

2(b)

**OR**

| | A | | B | |
|---|---|---|---|---|
| | $ | | $ | |
| Direct material | 32 000 | **}** | 33 000 | **}** |
| Direct labour | 13 200 | **} (1)** | 39 000 | **}(1)** |
| Quality inspections **W1** | 3 360 | | 5 600 | **(1) both** |
| Order processing **W2** | 4 800 | | 8 000 | **(1) both** |
| Depreciation **W3** | 3 780 | | 5 040 | **(1) both** |
| Other overheads **W4** | 8 000 | | 10 000 | **(1) both** |
| Cost | 65 140 | | 100 640 | **(1)OF both** |
| Mark-up | 65 140 | | 100 640 | |
| Revenue | 130 280 | | 201 280 | |
| Selling price | 325.70 | **(1)OF** | 402.56 | **(1)OF** |

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(c)</td><td>Calculate the <u>change</u> in selling price of <u>one</u> unit of <u>each</u> product if Sooraj uses machine hours as the cost driver.<br><br>
<table>
<tr><td></td><td>A</td><td>B</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Total machine hours</td><td><u>1200</u></td><td><u>3000</u></td><td></td></tr>
<tr><td>Revised depreciation W1</td><td>2520(1) OR<br>6.30(1)</td><td>6300 OR<br>12.60</td><td>(1)<br>(1)</td></tr>
<tr><td>Original depreciation</td><td><u>(3780)</u><br>9.45</td><td><u>(5040)</u><br>10.08</td><td></td></tr>
<tr><td>Change in depreciation</td><td><u>(1260)</u><br>3.15</td><td><u>1260</u><br><u>2.52</u></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Cost change per unit</td><td><u>(3.15)</u></td><td><u>2.52</u></td><td>(1)OF both</td></tr>
<tr><td>Change in selling price</td><td>decrease 6.30<br>1(OF)</td><td>increase 5.04</td><td>(1)OF</td></tr>
</table>
W1 8820 × 1200/4200 = 2520 8820 × 3000/4200 = 6300</td><td>5</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(c)</td><td>OR
<table>
<tr><td></td><td>A</td><td>B</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>Total machine hours</td><td>1200</td><td>3000</td><td></td></tr>
<tr><td>Original total cost</td><td>65 140</td><td>100 640</td><td></td></tr>
<tr><td>Revised depreciation W1</td><td>2 520(1)</td><td>6 300</td><td>(1)</td></tr>
<tr><td>Original depreciation</td><td>(3 780)</td><td>(5 040)</td><td></td></tr>
<tr><td>Revised total cost</td><td>63 880</td><td>101 900</td><td></td></tr>
<tr><td>Revised revenue</td><td>127 760</td><td>203 800</td><td></td></tr>
<tr><td>Revised selling price</td><td>319.40</td><td>407.60</td><td>(1)OF both</td></tr>
<tr><td>Original selling price</td><td>(325.70)</td><td>(402.56)</td><td></td></tr>
<tr><td>Change in selling price</td><td>decrease 6.30<br>(1) OF</td><td>increase 5.04</td><td>(1)OF</td></tr>
</table></td><td></td></tr>
<tr><td>2(d)</td><td>Explain the relationship between the choice of cost driver and profit.<br>The choice of cost driver does not affect the total costs (1) as it merely moves costs between products (1). It will affect profits if products have a percentage mark-up (1) but will have no effect where a fixed mark-up is used (1).<br><br>Max 3<br>Accept other valid responses.</td><td>3</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 2(e) | **Advise Sooraj whether or not he should manufacture these components for Product A in his own factory. Justify your answer.**<br><br>**For (max 2)**<br>It could decrease the total cost of the business **(1)** by [400 × (50 – 22) – 8000] = $3200 **(1).**<br>He could use any spare capacity in the factory **(1).**<br>He is not dependant on supplier / no delivery charge **(1).**<br>He might be able to improve the quality of the components as he would be making them for his own use **(1).**<br>His business reputation might improve if it is seen as an expanding business **(1).**<br><br>**Against (max 2 )**<br>He may require new machinery **(1)** and may have to finance the purchase of the new machinery **(1)**.<br>Extra space for the production may be required **(1)**.<br>Additional workers may not be available **(1).**<br>Staff training would be needed / staff would lack the necessary expertise / quality may worsen **(1).**<br>The problems which affected the supplier's ability to meet demand might also affect Sooraj **(1).**<br>If he maintained the same percentage mark-up, the decrease in cost would actually reduce profit **(1).**<br>There may be environmental issues due to extra production **(1)**.<br><br>**Effect on product B (max 2)**<br>He might need to process fewer purchase orders **(1).** This would increase the cost savings for product A and the allocation of overheads to product B might increase **(1).**<br>**OR** More quality inspections might be needed to be assured of the quality of the components **(1).** This would decrease the cost savings for product A and allocation of overheads to product B might decrease **(1).**<br><br>**Accept other valid responses.**<br>**Decision supported with a comment (1)** | **7** |

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