Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **October/November 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.

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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	Marks
1(a)	96 200 – 32 700 – 19 405 – 4 410 = $39 685 **(1)**	**1**
1(b)	$ draft profit 39 685 impairment of motor vehicles (925) **(1)** bank charges and interest (260) **(1)** provision (5 000) **(1)** sale or return goods (2 500) **(1)** corrected profit 31 000 **(1)OF**	**5**

Question	Answer	Marks
1(c)	LC plc Statement of financial position at 31 December 2020 $ Assets Non-current assets Property, plant and equipment **(1) W1** 275 280 **(3)** Current assets Inventory (6212+2100) 8 312 **(1)** Trade and other receivables **W2** 20 920 **(2)** 29 232 Total assets 304 512 Equity and liabilities Equity Ordinary share capital 110 000 **(1)** Revaluation reserve 48 000 **(1)** General reserve 14 000 **(1)** Retained earnings **W3** 49 732 **(4)** 221 732 Non-current liabilities Bank loan 50 000 **(1)** Current liabilities Trade payables 16 200 Bank 11 580 **(1)** Provision 5 000 **(1)** 32 780 Total equity and liabilities 304 512 **W1** 244 000 **(1)** + 22 080 **(1)** + 9 200 **(1)** = $275 280 **W2** 25 400 + 120 **(1)** – 4 600 **(1)** = $20 920 **W3** 54 732 + 31 000 **(1of)** – (7 000 + 5 000) **(1)** – (14 000 + 10 000) **(1)** = $49 732 **(1)OF**	**17**

Question	Answer	Marks
1(d)	If the directors had chosen to keep the reserves in the most flexible form **(1)** it would have been possible to debit $8000 to the share premium account **(1)** and only $2000 to the retained earnings account **(1).** **Max 2**	**2**

Question	Answer	Marks
2(a)	$ $ Sales 25 160 Inventory at 1 July 2020 210 Purchases (12 600 + 305 – 290) 12 615 **(1)** 12 825 Inventory at 30 June 2021 245 **(1)** Cost of sales 12 580 Gross profit 12 580 **(1)OF** Rent of vending machines 6 000 **(1)** Profit 6 580 **(1)OF**	**5**
2(b)(i)	20 000 **(1)** + (400 + 300) **(1)** = $20 700 **(1) OF**	**3**
2(b)(ii)	$ Closing bank balance 2 290 **}** Opening bank balance (1 420) **} (1)** Bank payments 36 460 **(1)** Subscriptions banked (20 700) **(1)OF** Cash banked 16 630 **(1)OF**	**4**
2(b)(iii)	$ Opening cash balance 180 **}** Closing cash balance (150) **} (1)** Sales 25 160 **(1)OF** Cash banked (16 630) **(1)OF** Cash expenses 8 560 **(1)OF**	**4**

Question	Answer	Marks
2(c)	AB Club Income and expenditure account for the year ended 30 June 2021 $ $ Subscriptions 20 000 **(1)** Profit from vending machines 6 580 **(1)OF** 26 580 Rent 12 000 Club expenses (5 140 + 8 560) 13 700 **(1)OF** Depreciation of equipment 400 **(1)** Depreciation of furniture 270 **(1)** 26 370 Surplus/excess of income over expenditure 210 **(1)OF**	**6**
2(d)	Operating a third vending machine means that more drinks will be sold, then sales/profit will increase **(1).** However, there will be a limit to how many drinks a certain number of members will want – is the demand there? **(1)** The cost of renting the vending machine will be a fixed cost which increases expenses/reduces profit. **(1)** Perhaps a third machine could be used to sell something different such as snacks. **(1)** **Accept other valid points.** Decision **(1)** Comments **Max 2**	**3**

Question	Answer	Marks
3(a)(i)	280 000 **(1)** / 2 000 000 = $0.14 **(1)OF**	**2**
3(a)(ii)	earnings per share is based on profit for the year which is the same in both years despite the change in profit from operations **(1)** and the number of shares in issue has also not changed **(1)**	**2**
3(b)(i)	2019 $\frac{1.60}{0.14}$ **(1of)** = 11.43 **(1)OF** 2020 $\frac{2.00}{0.14}$ **(1of)** = 14.29 **(1)OF**	**4**

Question	Answer	Marks
3(b)(ii)	2019 $\frac{0.075}{1.60}$ **(1)** $\times 100 = 4.69\%$ **(1)OF** 2020 $\frac{0.075}{2.00}$ **(1)** $\times 100 = 3.75\%$ **(1)OF**	**4**
3(c)	1 April 2020 **(1)**	**1**
3(d)	The receipt of the loan has increased liquidity/current ratio/quick ratio **(1)** and it would appear that the new capital is already enabling profit from operations to be increased **(1).** The loan will cause capital employed to increase and this along with profit will affect ROCE **(1).** The loan increases the risk of the company **(1)** and causes gearing ratio to rise **(1).** Loan interest must now be paid/will reduce profit for the year **(1).** Market price of the shares has increased meaning that investor confidence has increased **(1)** such that demand has increased **(1)** in turn causing the price earnings ratio to increase **(1).** Increase in the market price has caused the dividend yield to fall **(1).** A new investor would receive a lower return for the amount invested **(1).** The shares would be less attractive to an investor who needed an annual income / they might suit an investor who was prepared to wait for a capital gain **(1).** **Max 7** **Accept other valid points.**	**7**
3(e)(i)	Statement of changes in equity **(1)** Statement of cash flows **(1)**	**2**
3(e)(ii)	as a note to the accounts **(1)**	**1**

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Question	Answer	Marks
3(f)	A review of the performance of the company **(1)** A statement of the principal activities **(1)** Future developments in the business **(1)** Donations made **(1)** Details of directors and their shareholdings **(1)** Information about employees and employment policies **(1)** Health and safety information **(1)** **Max 2** **Accept other valid points.**	**2**

Question	Answer	Marks
4(a)	Accept any valid answers for **(1)** mark each, for example Advertising Storage and warehousing Insurance Selling costs **Max 2**	**2**
4(b)	Consignment account |	\$		|	\$	| | Goods on consignment | 18 000 | **}** | Benny (sales) | 17 520 | **(1)** | Bank (freight) | 3 000 | **}(1)** | Balance c/d **W2** | 8 640 | **(3)** | Benny (import duties) | 600 | **}** |		| | Benny (commission) **W1** | 2 628 | **(2)** |		| | Profit on consignment | 1 932 | **(1)OF** |		| | | 26 160 | | | 26 160 | | **W1** 15% **(1)** × 17 520 = \$2 628 **(1)OF** **W2** 80 **(1)** × $\frac{21600}{200}$ **(1)** = \$8 640 **(1)OF**	**8**

Question	Answer	Marks
4(c)	$$\begin{array}{lr} & \$ \\ \text{Sales} & 17\,520 \quad \textbf{(1)OF} \\ \text{Commission} & (2\,628) \quad \textbf{\} (1)OF} \\ \text{Import duties} & \underline{\quad (600)} \quad \textbf{\}} \\ & 14\,292 \\ \text{Balance} & \underline{(1\,292)} \quad \textbf{(1)} \\ \text{Amount remitted} & 13\,000 \quad \textbf{(1)OF} \end{array}$$	**4**
4(d)	Reduction in sales **(1)** = $2 160 **(1)OF** despite selling price being higher **(1)** Reduction in commission **(1)** = $324 **(1)OF** Increase in inventory carried forward **(1)** = $4 752 **(1)OF** Change from loss (984) to profit (1 932) = $2 916 **(1)OF** (4 752 + 324 – 2 160) **Max 7** **Accept other valid points.**	**7**
4(e)	There would be a loss in value of inventory **(1)** of $44 \times \frac{21600}{200}$ = $4 752 **(1)OF.** The original inventory value for 36 units ($3 888) would have been used **(1)** and the loss on consignment with revised sales figures would be $2 820 **(1)OF.** **Max 2** **Accept other valid points.**	**2**
4(f)	It may not be possible due to the location **(1)** to obtain an independent verification of the existence and value of the inventory **(1)** and therefore certify that the accounts show a true and fair view **(1).** **Max 2** **Accept other valid points.**	**2**

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

	Product A	Product B	
	$	$	
Direct materials	50 000	36 000	**(1) both**
Direct labour	20 000	10 000	**(1) both**
Production overheads	30 000	30 000	**}**
Administrative and distribution overheads	14 000	14 000	**} (1) both**
Total cost	114 000	90 000	
Sales revenue	124 000	94 000	**(1) both**
Profit	10 000	4 000	**(1)OF both**

Accept other presentations

5(b)	ABC will help in setting selling prices **(1)** as it enables a more realistic allocation of costs to a product **(1).** However, calculating the cost drivers may be expensive/time consuming **(1).** ABC will not help in make or buy decisions **(1)** as it does not provide a split between fixed and variable costs **(1).** The decision to buy is normally only made when the purchase price is less than the variable costs of manufacture **(1).** ABC will not help in allocating scarce resources **(1)** as it does not provide the contribution per unit of each product **(1)** which is necessary to rank the products in the order which will enable profits to be maximised **(1).** **Max 7**	**7**
5(c)	Advantage Quick/easy to calculate **(1)** Disadvantage Unlikely to be realistic **(1)** **Accept other valid points.**	**2**

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

	Product A $	Product B $	
Machine set up costs	7 200	4 800	**(1) both**
Quality inspections	3 500	3 500	**(1) both**
Factory supervisors' salaries	10 000	4 000	**(1) both**
Other production overheads	22 500	4 500	**(1) both**
	43 200	16 800	
Direct materials and labour	70 000	46 000	**(1)OF both**
	113 200	62 800	
Administrative and distribution overheads	14 000	14 000	**(1)OF both**
Total cost	127 200	76 800	
Sales revenue	124 000	94 000	**(1) both**
Profit/ (loss)	(3 200)	17 200	**(1)OF both**

Accept other presentations

5(e)	The loss apparently made by product A **(1)** would indicate that its selling price should be increased. This may reduce demand **(1).** However, the administrative and distribution costs are still being split in an unrealistic manner **(1).** The profit being earned by product B **(1)** would indicate that its selling price should not be changed. **Accept other valid points.** Decision **(1)** Comments **Max 2**	**3**

Question	Answer	Marks
6(a)	The excess of total cash inflows over total cash outflows **(1)** of both revenue and capital receipts and expenditure **(1)**	**2**

Question	Answer	Marks
6(b)(i)	$ Year 0 (outlay) (290 000) **(1)** Year 1dcf 79 477 **(1)** Year 2 dcf 60 572 **(1)** Year 3 dcf 44 856 **(1)** Year 4 dcf 26 076 **(1)** Shortfall in NPV before residual value 79 019 **(1)OF** Divided by year 4 discount factor 0.636 **(1)** Required scrap value 124 244 **(1)OF**	**8**
6(b)(ii)	$ Shortfall in NPV before residual value 79 019 **(1)OF** Required NPV 60 981 **(1)** 140 000 Divided by year 4 discount factor 0.636 **(1)** Required scrap value 220 126 **(1)OF**	**4**
6(c)	Option 1 has a lower initial outlay **(1)** which means that the cash flows can cover it sooner **(1).**	**2**
6(d)	A shorter period carries less risk **(1).** The longer the period the greater the likelihood that a project will never pay back at all **(1).** A shorter period means that funds are available sooner **(1).** **Max 2** **Accept other valid points.**	**2**
6(e)	Amounts are discounted in the calculation of NPV but are not in the calculation of profit **(1).** The calculation of profit takes into account non-cash items such as depreciation whereas NPV excludes such items **(1).** **Accept other valid answers.**	**2**

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Question	Answer	Marks
6(f)	ARR would indicate option 1 is better **(1).** There is a lower investment for option 1 **(1)** but there are disposal proceeds from option 2 **(1).** Payback would indicate option 1 is better **(1).** At this value the NPV of option 2 is positive **(1)** and will be higher than the NPV of option 1 **(1).** NPV is usually considered the better measure **(1).** **Accept other valid points.** Decision **(1)** Comments **Max 4**	**5**