Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **October/November 2019**

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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Cambridge Assessment International Education

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.

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.

Question	Answer	Marks
1(a)	*(table below)*	**7**

	Cost $		Accumulated depreciation $		Net book value $	
Freehold property	360 000		–		360 000	**(1)**
Plant and machinery	346 000	**(1) W1**	182 000	**(1) W2**	164 000	**(1) OF**
Motor vehicles	228 000	**(1) W3**	98 000	**(1) W4**	130 000	**(1) OF**

Workings:
W1 386 800 – 43 000 + 2 200
W2 200 500 – 20 700 + 2 200
W3 240 000 – 36 000 + 24 000
W4 147 000 – 59 000 + 10 000

Question	Answer			Marks
1(b)	Z Limited Statement of financial position at 30 June 2019			8
		$		
	Non-current assets			
	Freehold property	525 000		
	Plant and machinery	186 300		
	Motor vehicles	93 000		
		804 300	**(1)**	
	Current assets			
	Inventory	75 000	**(1)**	
	Trade and other receivables: (86 200 – 18 000 **(1)** + 25 000 **(1)**)	93 200		
	Cash and cash equivalents	116 300		
		284 500		
	Total assets	1 088 800		
	Equity and liabilities			
	Equity			
	Ordinary shares of $1 each	500 000		
	Share premium	50 000		
	Revaluation reserve	165 000		
	Retained earnings: (46 000 – 18 000 **(1)** + 6000 **(1)** + 25 000 **(1)**)	59 000		
		774 000		
	Non-current liabilities			
	8% debentures (2021–22)	250 000	**(1)**	
	Current liabilities			
	Trade and other payables	64 800		
	Total equity and liabilities	1 088 800		

Question	Answer	Marks
1(c)	Possible answers: The expected life of the asset **(1)** Rate of usage of the asset over its expected useful life **(1)** The nature of the asset **(1)** The pattern of the revenue / benefit generated by the asset **(1)** (matching / accruals concept **(1)**) **Max 4** **Accept other valid points.**	**4**
1(d)	Current gearing is 24.41% **(1) OF** Issuing shares will reduce gearing to 12.35% **(1) OF** Issuing debentures will increase gearing to 61.76% **(1) OF** Debenture interest payable will increase by $80 000 / to $100 000 per annum **(1)** Directors should consider that cash will have to be found in the future to repay debentures **(1)** Additional debenture interest payments may cause cash flow issues / reduce profit **(1)** High gearing will increase risk / may make arranging alternative finance difficult **(1)** Payment of dividends is discretionary / debenture interest must be paid **(1)** Issue of debentures may require security **(1)** Rights issue may not be fully subscribed / will take longer / may dilute existing capital **(1)** **Accept other valid points.** **Max 2 for ratios, Max 3 for comments +1 for decision**	**6**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)(i)</td><td>Expenses are understated / will increase by $4000 (1)

Inventory is understated / will increase by $1000

Profit on consignment is overstated / will decrease (1) by $3000 (1)</td><td>3</td></tr>
<tr><td>2(a)(ii)</td><td>Distribution costs are overstated / will decrease by $4000 (1)

Profit on consignment is overstated / will decrease by $3000

Profit for the year is understated / will increase (1) by $1000 (1)</td><td>3</td></tr>
<tr><td>2(b)</td><td>Consignment account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Goods on consignment</td><td>50 000</td><td>(1)</td><td>Clarissa (750 × 80)</td><td>60 000</td><td>(1)</td></tr>
<tr><td>Bank</td><td>4 000</td><td>(1)</td><td>Balance c/d (1)</td><td>14 000</td><td>(1)</td></tr>
<tr><td>Clarissa</td><td>2 000</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Clarissa (10% of 60 000)</td><td>6 000</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td>Income statement (1)</td><td>12 000</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td></td><td>74 000</td><td></td><td></td><td>74 000</td><td></td></tr>
<tr><td>Balance b/d</td><td>14 000</td><td>(1) OF</td><td></td><td></td><td></td></tr>
</table></td><td>10</td></tr>
<tr><td>2(c)</td><td>$32 500 (1) + $14 000 (1) OF = $46 500 (1) OF</td><td>3</td></tr>
</table>

Question	Answer	Marks
2(d)	Possible answers: Each machine sold may still bring in a profit **(1)** Assuming that sales in other countries are maintained, total profit should increase **(1)** New consignment could increase total sales due to wider market **(1)** As this country is closer then transport costs should be lower / less scope for damage in transit **(1)** Liam might be able to negotiate a lower rate of commission **(1)** **Accept other valid points.** **Max 4** for comments	**4**
2(e)	An agent in a consignment earns commission / bears no risk / has a long-term relationship **(1)** while a party in a joint venture earns a share of profit / bears most of the risk / has a short-term relationship **(1)**	**2**

Question	Answer	Marks
3(a)	(see table below)	**3**

	Jack		Paul				
	$		$				
Net assets	164 000		150 500				
Plant and equipment value increased	10 000						
Inventory value decreased			(7 000)		**Or**	if combined	
Provision for doubtful debt			(590)				
	174 000		142 910			316 910	**(1)**
Fair value of business	195 000		152 000			347 000	**(1)**
Goodwill	21 000	**(1)**	9 090	**(1)**	=	30 090	**(1) OF**

Question	Answer	Marks
3(b)	Jack and Paul Statement of financial position at 1 July 2018	10

	$		$	
Non-current assets				
Plant and equipment (118 000 + 103 700 + 10 000)			231 700	**(1)**
Current assets				
Inventory (36 000 + 47 000 – 7000)	76 000	**(1)**		
Trade receivables (31 500 + 29 500 – 590)	60 410	**(1)**		
Bank **W1**	22 600	**(3)**	159 010	
Total assets			390 710	
Equity and liabilities				
Jack (200 000 – (30 090 × 60%) **(1) OF**)	181 946	**(1) OF**		
Paul (160 000 – (30 090 × 40%) **(1) OF**)	147 964	**(1) OF**	329 910	
Current liabilities				
Trade payables			60 800	
Total equity and liabilities			390 710	

W1	Jack		Paul			
	$		$			
Capital in partnership	200 000		160 000			
Value of business taken over by partnership	195 000		152 000			
Additional cash contributed	5 000	**(1)**	8 000	**(1)**		
Cash taken over by partnership	6 200		3 400			
	11 200		11 400		22 600	**(1) OF**

Question	Answer	Marks
3(c)	Current account | | Jack | | Paul | | | Jack | | Paul | | | | $ | | $ | | | $ | | $ | | | Drawings | 34 800 | **(1) OF** | 31 200 | **(1) OF** | Salaries | 24 000 | | 24 000 | **(1) both** | | | | | | | Profit | 10 800 | **(1)** | 7 200 | **(1)** | | | 34 800 | | 31 200 | | | 34 800 | | 31 200 | |	5
3(d)	Return on capital employed for the year ended 30 June 2019. $\left(\frac{66\ 000}{(181\ 946+147\ 964)}\right)$ **(1) OF** $\times$ 100 = 20.01% **(1) OF**	2
3(e)	Possible answers: Jack's profit before the merger was $44 000 compared to salary and residual profit after the merger of $34 800 / decreased by $9 200 **(1)** Jack's drawings before the merger were $40 000 compared to drawings after the merger of $34 800 / decreased by $5 200 **(1)** Paul's profit before the merger was $20 500 compared to salary and residual profit after the merger of $31 200 / increased by $10 700 **(1)** Paul's drawings before the merger were $20 000 compared to drawings after the merger of $31 200 / increased by $11 200 **(1)** Jack's ROCE has decreased from 26.83% to 20.01% **(1) OF** Paul's ROCE has increased from 13.62% to 20.01% **(1) OF** **1 mark for each valid point (max 2 marks for each of Jack and Paul) + 1 for decision (who is better off and who is not)**	5

Question	Answer	Marks
4(a)	Service / tertiary business **(1)**	**1**
4(b)	R Limited Statement of cash flows for the year ended 31 December 2018	**18**

	$000		$000	
Profit from operations (135 + 16)			151	**(1)**
Depreciation – equipment	27	**(1)**		
– motor vehicles	21	**(1)**	48	
Profit on disposal			(7)	**(1)**
Increase in trade receivables			(22)	**(1)**
Decrease in trade payables			(18)	**(1)**
Cash from operations			152	**(1) OF**
Interest paid			(16)	**(1)**
Net cash from operating activities			136	**(1) OF**
Cash flow from investing activities				
Purchase of non-current assets	(80)	**(1)**		
Proceeds of sale of non-current assets	30	**(1)**		
Net cash used in investing activities			(50)	**(1) OF**
Cash from financing activities				
Proceeds of issue of shares	144	**(1)**		
Dividend paid	(80)	**(1)**		
Net cash from financing activities			64	**(1) OF**
Net increase in cash and cash equivalents			150	**(1) OF**
Cash and cash equivalents 1 Jan 2018			(50)	**(1) OF**
Cash and cash equivalents 31 Dec 2018			100	**(1) OF**

Question	Answer	Marks
4(c)	Because the revaluation of a non-current asset does not involve any movement of funds **(1)**	**1**
4(d)	Possible answers: Reduced profit / increased expenses for the year **(1)** Decrease in trade payables / paying payables more quickly **(1)** Increase in trade receivables / receivables paying more slowly **(1)** Purchase of non-current assets **(1)** Payment of dividend **(1)** Repayment of loans / debentures **(1)** **Accept other valid points.** **Max 5**	**5**

Question	Answer	Marks
5(a)	(see below)	7

	Product X		Product Y	
	$		$	
Direct materials	300 000	**)**	375 000	**)**
Direct labour	125 000	**)**	225 000	**)(1) all four**
Production overhead	60 000	**(1)**	120 000	**(1)**
Total production cost	485 000		720 000	
	÷ 5 000		÷ 5 000	
Unit production cost	97	**(1) OF**	144	**(1) OF**
50% mark-up	48.5		72	
Unit selling price	145.5	**(1) OF**	216	**(1) OF**

Per Unit

	Product X		Product Y	
	$		$	
Direct materials	60	**)**	75	**)**
Direct labour	25	**)**	45	**)(1)**
Production overhead	12	**(1)**	24	**(1)**
Unit production cost	97	**(1) OF**	144	**(1) OF**
50% mark up	48.5		72	
Unit selling price	145.5	**(1) OF**	216	**(1) OF**

Question	Answer	Marks
5(b)	Activity based costing is a costing method to allocate production **overhead** to products according to the **activities** performed / **cost drivers**. **(1)**	1

Question	Answer	Marks
5(c)	(see below)	7

	Product X		Product Y		Per unit	Product X		Product Y	
	$		$						
Direct materials	300 000		375 000			60.0		75.0	
Direct labour	125 000		225 000			25.0		45.0	
Production overhead	119 000	}	61 000	**} W1**		23.8		12.2	**} W1**
Total production cost	544 000		661 000						
	÷ 5 000		÷ 5 000						
Unit production cost	108.8	**(1) OF**	132.2	**(1) OF**		108.8	**(1) OF**	132.2	**(1) OF**
50% mark up	54.4		66.1			54.4		66.1	
Unit selling price	163.2	**(1) OF**	198.3	**(1) OF**		163.2	**(1) OF**	198.3	**(1) OF**

W1	Total	X		Y		Per unit	X		Y	
	$	$		$			$		$	
Machine set up	120 000	80 000	}	40 000	**} (1)**		16.0	}	8.0	**} (1)**
Materials handling	45 000	30 000	}	15 000	**} (1)**		6.0	}	3.0	**} (1)**
Inspection	15 000	9 000	}	6 000	**} (1)**		1.8	}	1.2	**} (1)**
	180 000	119 000		61 000			23.8		12.2	

Question	Answer	Marks
5(d)(i)	<table><tr><td></td><td>Product X</td><td>Product Y</td><td></td></tr><tr><td>Per unit</td><td>$</td><td>$</td><td></td></tr><tr><td>Production overhead</td><td></td><td></td><td></td></tr><tr><td>On machine hours</td><td>12.0</td><td>24.0</td><td>**(1) OF**</td></tr><tr><td>On ABC</td><td>23.8</td><td>12.2</td><td>**(1) OF**</td></tr><tr><td>Difference</td><td>11.8</td><td>(11.8)</td><td>**(1) OF**</td></tr></table>	**3**
5(d)(ii)	<table><tr><td></td><td>Product X</td><td></td><td>Product Y</td><td></td></tr><tr><td>Per unit</td><td>$</td><td></td><td>$</td><td></td></tr><tr><td>Original selling price</td><td>145.50</td><td></td><td>216.00</td><td></td></tr><tr><td>Selling price using ABC</td><td>163.20</td><td></td><td>198.30</td><td></td></tr><tr><td>Difference</td><td>17.70</td><td>**(1)OF**</td><td>(17.70)</td><td>**(1)OF**</td></tr></table>	**2**

Question	Answer	Marks
5(e)	Possible answers: For (**Max 2**) More realistic / fair / reliable / relevant **(1)** Allows better pricing of the product **(1)** Avoids the arbitrary allocation of overheads **(1)** Against (**Max 2**) Complex / difficult to identify cost drivers **(1)** Time consuming **(1)** Costly / specialists may be required **(1)** **Accept other valid points.** Decision **(1)**	**5**

Question	Answer	Marks
6(a)(i)	Production budget in units	5

	units						workings
Sales	5 000		12 000	18 000	6 000		3 000
	June		July	August	Sept		October
1. Sales	12 000		18 000	6 000	3 000	**(1) row**	1 800
2. Add closing inventory (20%)	2 400		3 600	1 200	600	**(1) row**	360
	14 400		21 600	7 200	3 600		2 160
Less opening inventory	*1000	**(1)**	2 400	3 600	1 200	**(1) OF for all 3**	600
Monthly production (units)	13 400		19 200	3 600	2 400	**(1) OF row**	1 560

* the opening inventory in June equals the closing inventory in May = June sales 5000 × 20% = 1000

Question	Answer	Marks
6(a)(ii)	Purchases budget	5

	June		July		August		Sept	
Monthly production (units)	13 400		19 200		3 600		2 400	
Monthly requirement (units)	19 200		3 600		2 400		1 560	
	× 1.5		× 1.5		× 1.5		× 1.5	
Monthly purchases (kilos)	28 800		5 400		3 600		2 340	**(1) OF row**
	× \$3.00		× \$3.00		× \$3.30		× \$3.30	
Monthly purchases (\$)	86 400	**(1) OF**	16 200	**(1) OF**	11 880	**(1) OF**	7 722	**(1) OF**

Question	Answer	Marks
6(b)	Possible advantages and disadvantages: Advantages **Max 2** They provide more realistic targets / enable better planning and control **(1)** It improves motivation **(1)** It improves co-ordination **(1)** It enables better communication **(1)** Makes the managers accountable for their performance **(1)** Disadvantages **Max 3** Managers may not have the skills required **(1)** The whole budget process could take longer **(1)** Managers may set lower targets so that they look good **(1)** Managers may build in slack / a buffer so that they don't overspend **(1)** It encourages wasteful spending / they spend up to their limits so they don't lose future allocations **(1)** May result in conflict / competition between departments over the allocation or use of resources **(1)** Departmental budgets may have different objectives to the business as a whole **(1)** **Accept other valid points.**	**5**
6(c)	Possible answers: It allows for changes in activity / more realistic / accurate or reliable **(1)** It makes it easier to identify variances. **(1)** It provides clearer understanding of what corrective action is required. **(1)** It enables better comparisons – like for like. **(1)** **Accept other valid points.** **Max 2**	**2**

Question	Answer	Marks
6(d)	<table><tr><td>Units</td><td>85 000</td><td>85 000</td><td></td><td></td><td></td></tr><tr><td></td><td>Actual</td><td>Flexed budget</td><td></td><td>Variance</td><td></td></tr><tr><td></td><td>$</td><td>$</td><td></td><td>$</td><td></td></tr><tr><td>Sales</td><td>871 250</td><td>892 500</td><td>**(1)**</td><td>21 250 A</td><td>**(1) OF**</td></tr><tr><td>Direct materials</td><td>382 500</td><td>420 750</td><td>**(1)**</td><td>38 250 F</td><td>**(1) OF**</td></tr><tr><td>Direct labour</td><td>357 000</td><td>276 250</td><td>**(1)**</td><td>80 750 A</td><td>**(1) OF**</td></tr><tr><td>Fixed costs</td><td>28 000</td><td>27 000</td><td></td><td>1 000 A</td><td>**(1)**</td></tr><tr><td>Profit</td><td>103 750</td><td>168 500</td><td></td><td>64 750 A</td><td>**(1) OF**</td></tr></table>	**8**