Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

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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PUBLISHED

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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<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1(a)</td><td>
Realisation account
<table>
<tr><th></th><th>$</th><th></th><th></th><th>$</th><th></th></tr>
<tr><td>Property</td><td>300 000</td><td>}</td><td>Z Limited</td><td>500 000</td><td>(1)</td></tr>
<tr><td>Equipment</td><td>71 000</td><td>}</td><td>Capital account Alan</td><td>28 000</td><td>(1)</td></tr>
<tr><td>Motor vehicles</td><td>62 000</td><td>}</td><td>Discount received</td><td>600</td><td>(1)</td></tr>
<tr><td>Inventory</td><td>24 000</td><td>} (1)</td><td>Trade payables</td><td>18 000</td><td>(1)</td></tr>
<tr><td>Irrecoverable debt</td><td>4 400</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Discount allowed</td><td>1 100</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Profit on realisation</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Alan</td><td>50 460</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Brian</td><td>33 640</td><td>}(1OF)</td><td></td><td></td><td></td></tr>
<tr><td></td><td>546 600</td><td></td><td></td><td>546 600</td><td></td></tr>
</table>
</td><td>8</td></tr>
<tr><td>1(b)</td><td>
<table>
<tr><th>Realisation</th><th>Revaluation</th><th></th></tr>
<tr><td>Ownership of assets changed</td><td>Ownership of assets not changed</td><td>(1)</td></tr>
<tr><td>Net book value and consideration recorded</td><td>Increase or decrease in asset value recorded</td><td>(1)</td></tr>
<tr><td>For takeover/dissolution of partnership/business</td><td>Change in partnership/business</td><td>(1)</td></tr>
<tr><td>Only prepared on business dissolution/sale</td><td>Prepared any number of times</td><td>(1)</td></tr>
</table>
Max 2
</td><td>2</td></tr>
</table>

Question	Answer					Mark
1(c)		Alan		Brian		**8**
		$		$		
	Capital account	250 000		200 000	**}**	
	Current account	27 000		(8 000)	**}(1)**	
	Profit on realisation	50 460	**(1OF)**	33 640	**(1OF)**	
	Motor vehicle taken over	(28 000)	**(1)**			
	Ordinary shares **W1**	(265 000)	**(1)**	(212 000)	**(1)**	
	Payable from bank account	34 460	**(1OF)**	13 640	**(1OF)**	
	W1 ($500 000–$23 000) × 5 / 9 = $265 000 ($500 000–$23 000) × 4 / 9 = $212 000					

Question	Answer			Mark
1(d)	Assets taken over	$		**2**
	Property	350 000		
	Equipment	68 000		
	Motor vehicle	29 000		
	Inventory	20 000		
	Trade payables	(18 000)		
		449 000	**(1)**	
	Consideration	500 000		
	Goodwill	51 000	**(1OF)**	

Question	Answer	Mark
1(e)	Calculations: Shareholding will be reduced from 72.38% **(1)** (1 000 000 / [1 000 000 + 381 600]) to 49.47% **(1)** (1 000 000 / [1 000 000 + 381 600 + 640 000]) For: By issuing shares Z Limited is saved from paying cash The sole trader can bring in his experience and expertise Synergy effect leading to better profitability in the future Against: The original shareholders will lose the controlling interest The original shareholders have to share the decision-making power with the new director There may be conflict with the new director **Max 2 marks for calculations** **'For' argument – Max 1 mark** **'Against' argument – Max 1 mark** **1 mark for decision** **Accept other valid points.**	**5**

Question	Answer	Mark
2(a)(i)	Sales revenue divided by total net book value of non-current assets. **(1)**	**1**
2(a)(ii)	The ratio measures the efficiency **(1)** of the business in using the non-current assets to generate sales revenue. **(1)**	**2**
2(b)	$806 400 / 2.1 = $384 000 **(1)**	**1**

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Question	Answer								Mark
2(c)		Property		Plant and equipment		Furniture and fixtures		Total	**14**
		$		$		$		$	
	Cost/Valuation								
	At 1 January 2020 **W1**	320 000	**(1)**	284 000	**(1)**	178 000	**(1)**	782 000	
	Revaluation	40 000	**(1)**					40 000	
	Additions			42 000	**(1)**	25 000	**(1)**	67 000	
	Disposal			(35 000)	**(1)**			(35 000)	
	At 31 December 2020	360 000		291 000		203 000		854 000	
	Accumulated depreciation								
	At 1 January 2020	128 000		168 800		101 200		398 000	
	Revaluation	(128 000)	**(1)**					(128 000)	
	Disposal			(35 000)	**(1)**			(35 000)	
	Charge for the year **W2**	30 000	**(1)**	31 440	**(1)**	40 600	**(1)**	102 040	
	At 31 December 2020	30 000		165 240		141 800		337 040	
	Net book value at 31 Dec 2020	330 000		125 760		61 200		516 960	**(1OF)row**
	Net book value at 31 Dec 2019 (5:3:2)	192 000		115 200		76 800		384 000	**(1)row**

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<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th></tr>
<tr><td>2(c)</td><td>
W1
<table>
<tr><td></td><td>Property</td><td></td><td>Plant and equipment</td><td></td><td>Furniture and fixtures</td><td></td></tr>
<tr><td></td><td>$</td><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Net book value 5:3:2</td><td>192 000</td><td></td><td>115 200</td><td></td><td>76 800</td><td></td></tr>
<tr><td>Accumulated depreciation</td><td>128 000</td><td></td><td>168 800</td><td></td><td>101 200</td><td></td></tr>
<tr><td>Original cost</td><td>320 000</td><td>(1)</td><td>284 000</td><td>(1)</td><td>178 000</td><td>(1)</td></tr>
</table>
W2 $128 000 / $320 000 = 40%, 20 years × 40% = 8 years, $360 000 / (20 – 8) = $30 000
[$291 000 – ($168 800 – $35 000)] × 20% = $31 440
$203 000 × 20% = $40 600
</td><td></td></tr>
<tr><td>2(d)</td><td>
Motor vehicles are non-current assets. (1)
Depreciation recognises the loss of value of non-current asset over its useful life (1)
Matching concept/matching the consumption of the cost of non-current asset with revenue generated by non-current assets (1)
Prudence concept/value of non-current asset/profit is not overstated. (1)
Requirement of IAS16 (1)

Max 3
Accept other valid points.
</td><td>3</td></tr>
<tr><td>2(e)</td><td>
Straight-line – the charge against the profit is constant each year (1) because it assumes that the non-current asset is used up evenly throughout its useful life (1)
Reducing balance – the charge against the profit is higher in early years (the profit is lower)/is lower in later years (the profit is higher) (1) because it assumes that the non-current asset is used up more in the early years than the later years (1)

Max 2 for straight line method and max 2 for reducing balance method.
</td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th></tr>
<tr><td>3(a)</td><td>Loss of control/increased risk (1) – e.g. inventory may not be safeguarded resulting in a loss of value (1)
Additional cost incurred/profit reduced (1), e.g. commission and freight (1)

2 disadvantages × 2 marks (1 mark for each identification, plus one further mark for development)
Accept other valid points.</td><td>4</td></tr>
<tr><td>3(b)</td><td>Tan
Consignment account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Goods sent on consignment</td><td>200 000</td><td>(1)</td><td>Nadeem – sales W1</td><td>232 050</td><td>(1)</td></tr>
<tr><td>Bank – Freight</td><td>4 600</td><td>}</td><td>Inventory c/d W2</td><td>20 888</td><td>(4)</td></tr>
<tr><td>Bank – Insurance</td><td>1 200</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Bank – packing</td><td>600</td><td>}(1)</td><td></td><td></td><td></td></tr>
<tr><td>Nadeem – Import duty</td><td>1 800</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Nadeem – Storage</td><td>2 700</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Nadeem – Transportation</td><td>2 200</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Nadeem – Transportation</td><td>2 600</td><td>}</td><td></td><td></td><td></td></tr>
<tr><td>Nadeem – Selling expenses</td><td>4 400</td><td>}(1)</td><td></td><td></td><td></td></tr>
<tr><td>Nadeem – commission</td><td>18 564</td><td>(1OF)</td><td></td><td></td><td></td></tr>
<tr><td>Income statement</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Profit on consignment</td><td>14 274</td><td>(1OF)</td><td></td><td></td><td></td></tr>
<tr><td></td><td>252 938</td><td></td><td></td><td>252 938</td><td></td></tr>
</table></td><td>10</td></tr>
</table>

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Question	Answer	Mark
3(b)	**W1** ($650 × 300) + (60 × $650 × 95%) = $232 050 **W2**	

Excluding storage			Including storage		
	$			**$**	
Cost of goods	200 000		Cost of goods	200 000	
Freight	4 600		Freight	4 600	
Insurance	1 200		Insurance	1 200	
Packing	600		Packing	600	
Import duty	1 800		Import duty	1 800	
Transportation	2 200		Transportation	2 200	
			Storage	2 700	
Total cost	210 400	**(1)**		213 100	**(1)**
	÷ 400			÷ 400	
Cost per unit	526	**(1OF)**	Cost per unit	532.75	**(1OF)**
38 × $526	199 88	**(1OF)**	38 × $532.75	20 245	**(1OF)**
2 × $450	900	**(1)**	2 × $450	900	**(1)**
Inventory	20 888		Inventory	21 145	

Question	Answer	Mark
3(c)	Pricing strategy **(1)** – building market share in Country B **(1)** Competition in Country B **(1)** – bench marking with the price of competitors **(1)** Market condition/income level in Country B **(1)** – the consumers will buy the cheaper motor **(1)** **3 reasons × 2 marks (1 mark for identification, plus one for development)** **Accept other valid points.**	**6**
3(d)	For **(Max 2)** • He can fully control the selling activities **(1)** • He can avoid paying commission **(1)** • He can expand the market for his products and increase his revenue **(1)** Against **(Max 2)** • He will incur setup costs **(1)** • He is new to the market and does not have sufficient knowledge of the market **(1)** • This can be more risky – political risk, economic risk, etc. **(1)** **'For' argument – Max 2 mark** **'Against' argument – Max 2 mark** **1 mark for decision** **Accept other valid points.**	**5**

Question	Answer	Mark
4(a)	• Factually correct **(1)** • No fraud **(1)** • Prepared in accordance with accounting standards and legislation **(1)** • Faithfully represent the performance and financial position **(1)** • No material errors or omissions **(1)** • Free from material misstatement **(1)** • Free from bias **(1)** **Max 3**	**3**

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Question	Answer	Mark
4(b)	Item 1i – IAS 38 *Intangible Assets* / IAS 36 *Impairment of Assets* **(1)**, purchased goodwill is recognised in the financial statements **(1)** and included at its value at 31 December / $24 000. **(1)** Item 1ii – IAS 38 *Intangible Assets* **(1)**, internally generated goodwill should not be recognised in the financial statements **(1)**, therefore there is no revaluation surplus of $50 000. **(1)** Item 2 – IAS 36 *Impairment of Assets* **(1)**, When the carrying amount exceeds the recoverable amount impairment has occurred **(1)**, and in this case there is an impairment loss of $3 800 **(1)** **For each item, 1 mark for correct IAS plus 2 further marks for explanation.**	**9**

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Question	Answer	Mark
4(c)	Revised statement of financial position at 31 December 2020	**10**

	$		$	
Non-current assets				
Goodwill **W1**			24 000	**(1)**
Property, plant and equipment **W2**			540 200	**(1)**
			564 200	
Current assets				
Inventory **W3**	80 000	**(1)**		
Trade receivables **W4**	172 800	**(2)**		
Cash and cash equivalents	34 800		287 600	
Total assets			851 800	
Equity				
Ordinary shares of $1 each			500 000	
Revaluation reserve			35 000	**(1)**
Retained earnings **W5**			120 800	**(3OF)**
			655 800	

Question	Answer	Mark
4(c)	Non-current liabilities Bank loan (2021–2025) 80 000 **}** Current liabilities Trade payables 96 000 Loan payable 20 000 **}(1)** 116 000 Total equity and liabilities 851 800 **W1** Goodwill \$80 000 – \$50 000 – \$6 000 = \$24 000 **W2** Property, plant and equipment \$544 000 – \$3 800 = \$540 200 **W3** Inventory \$88 000 – (\$40 000 × 25 / 125) = \$80 000 **W4** Trade receivables \$187 200 / 96% = \$195 000 **(1)**, with provision for doubtful debt \$7 800 deducted; (\$195 000 – \$15 000) × 4% = \$7 200 \$187 200 – \$15 000 + (\$7 800 – \$7 200) = \$172 800 **(1)**	

Question	Answer	Mark
4(c)	**W5** $ Retained earnings Balance b/d 153 000 Goodwill impairment (6 000) **}** Impairment loss (3 800) **}** Inventory unrealised profit (8 000) **}** Irrecoverable debt (15 000) **}(1)** Provision for doubtful debt overstated 600 **(1)** 120 800 **(1OF)**	
4(d)	A true and fair view enhances the credibility of the financial statements **(1)** The financial statements can be trusted by users, e.g. investors, banks **(1)** If not true and fair then a qualified audit report will be received **(1)** **Max 2 for comments plus 1 mark for decision** **Accept other valid points**	**3**

Question	Answer	Mark
5(a)	Sofas 2 000 × $250 / 50 10 000 Tables 5 000 × $160 / $40 20 000 Total labour hours 30 000 **(1)** Overhead absorption rate $600 000 / 30 000 = $20 per labour hour **(1OF)**	**2**
5(b)	Sofas: Direct materials $300; Direct labour $250; Factory overhead $100 **(1OF)**; Total cost $650 **(1OF)**; Mark up $195; Selling price $845 **(1OF)** Tables: Direct materials $190; Direct labour $160; Factory overhead $80 **(1OF)**; Total cost $430 **(1OF)**; Mark up $86; Selling price $516 **(1OF)**	**6**
5(c)	Sofas $195 × 2 000 $390 000 **(1OF)** Tables $86 × 5 000 $430 000 **(1OF)** Total profit $820 000 **(1OF)** **OR** Sales $4 270 000 **(1OF)** Cost of sales $3 450 000 **(1OF)** Total profit $820 000 **(1OF)**	**3**

Question	Answer	Mark
5(d)		**7**

	Sofas	Tables	
	$	$	
Direct materials	300	190	
Direct labour	250	160	
Factory overhead **W1**	185	46	**(5OF)**
Total cost	735	396	**(1OF both)**
Mark up	220.5	79.2	
Selling price	955.5	475.2	**(1OF both)**

W1

	Cost allocated			
	Sofas	Tables		
	$	$		
Setups	60 000	40 000	**(1 both)**	$100 000 × (600 / 1 000); $100 000 × (400 / 1 000)
Machine operations	200 000	120 000	**(1 both)**	$320 000 × (5 000 / 8 000); $320 000 × (3 000 / 8 000)
Materials cutting	80 000	40 000	**(1 both)**	$120 000 × (400 / 600); $120 000 × (200 / 600)
Inspection	30 000	30 000	**(1 both)**	$60 000 × (500 / 1 000)
	370 000	230 000		
	÷ 2 000	÷ 5 000		
Per unit	= $185	= $46	**(1OF both)**	

Question	Answer	Mark
5(e)	A higher fixed overhead is charged to sofas under ABC leading to a higher selling price. **(1)** A lower fixed overhead is charged to tables under ABC leading to a lower selling price. **(1)**	**2**
5(f)	8 000 labour hours (2 000 units × 4) are released to produce 1 600 (8 000 / 5) sofas more $$ Additional profit from sofas 1600 × $220.5 352 800 **(1OF)** Reduction of profit from tables 2000 × $79.2 (158 400) **(1OF)** 194 400 Training costs (90 000) **}** Machines converting costs (110 000) **}(1)** Decrease in profit (5 600) **(1OF)** **Decision**. **(1)**	**5**

Question	Answer	Mark
5(f)	*Alternative answer* $ Profit on sofas 3600 × $220.5 793 800 **(1OF)** Profit on tables 3000 × $79.2 237 600 **(1OF)** Training costs (90 000) **}** Machines converting costs (110 000) **}(1)** Total profit after the change 831 400 Original profit (2000 × $220.5) + (5000 × $79.2) (837 000) Decrease in profit (5 600) **(1OF)** **Decision**. **(1)**	

Question	Answer	Mark
6(a)	Assist planning/decision making/setting targets **(1)** Controlling by comparing the actual performance with budgets **(1)** Motivating managers/employees **(1)** Co-ordinating activities of departments **(1)** Managing resources efficiently **(1)** Responsibility accounting **(1)** **Max 2**	**2**

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Question	Answer	Mark
6(b)		**10**

	July	
	$	
Balance b/d **W1**	473 000	**(4OF)**
Sales for the month	280 000	**(1)**
Collection for the month **W2**	(273 000)	**(4OF)**
Balance c/d	480 000	**(1OF)**

W1 – amounts outstanding

	$	
100% of June sales $300 000 × 100%	300 000	**(1)**
50% of May sales $250 000 × 50%	125 000	**(1)**
20% of April sales $240 000 × 20%	48 000	**(1)**
	473 000	**(1OF)**

W2 – amounts received

	$	
50% of June sales $300 000 × 50%	150 000	**(1)**
30% of May sales $250 000 × 30%	75 000	**(1)**
20% of April sales $240 000 × 20%	48 000	**(1)**
	273 000	**(1OF)**

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Question	Answer	Mark
6(c)(i)	Trade receivables are not well managed. **(1)** Only 50% of credit customers adhere to the company policy of paying in one month after sale. **(1)** Potential liquidity/cash flow problems. **(1)** Possibility of increased irrecoverable debts. **(1)** Long outstanding debts are not followed up/poor credit control. **(1)** Credit reference of customers are not checked thoroughly. **(1)** **Max 3** **Accept other valid points.**	**3**
6(c)(ii)	Use the services of a credit controller. **(1)** Send monthly statements. **(1)** Undertake credit reference check. **(1)** Impose interest on late payment. **(1)** Stop selling goods to customers with overdue accounts. **(1)** Allow cash discount. **(1)** Consider cash sales. **(1)** **Max 3** **Accept other valid points.**	**3**

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Question	Answer	Mark
6(d)		**7**

	July	
	$	
Balance b/d **W1**	134 400	**(2OF)**
Purchases **W2**	256 000	**(1)**
Bank paid for current month purchases **W3**	(100 352)	**(1)**
Bank paid for last month purchases **W4**	(134 400)	**(1)**
Discount received **W5**	(2 048)	**(1)**
Balance c/d	153 600	**(1OF)**

W1
$280 000 / 125% = $224 000 **(1)** × 60% = $134 400 **(1OF)**

W2
$320 000 / 125% = $256 000

W3
$256 000 × 40% × 98% = $100 352

W4
$224 000 × 60% = $134 400

W5
$256 000 × 40% × 2% = $2 048

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