Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **October/November 2020**

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.

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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.

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.

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Question	Answer	Marks
1(a)	It completes the double entry **(1)** as the factory profit is a debit in the manufacturing account and a credit in the income statement **(1).** It enables the income statement to show the profit of the whole business **(1)** from both manufacturing and trading/selling **(1).** The increase in profit in the profit and loss section of the income statement **(1)** cancels the increase in cost in the trading account **(1).** **Accept other valid answers.** Any **two** reasons up to **(1+1)** each **Max 4**	**4**
1(b)(i)	140 000 (– 30 000 + 42 000) **(1)** + 10 000 **(1)** = $162 000 **(1)OF** to include base figure)	**3**
1(b)(ii)	162 000 × 20% = $32 400 **(1)OF**	**1**
1(c)(i)	Provision for unrealised profit account 2019 Dec 31 Income statement $2000 **(1)OF** Balance c/d $4000 **(1)** $6000 2019 Jan 1 Balance b/d $6000 **(1)** $6000 2020 Jan 1 Balance b/d $4000	**3**
1(c)(ii)	FG Limited Income statement for the year ended 31 December 2019 Revenue 320 800 Inventory 1 January 2019 36 000 Transfer price 194 400 **(1)OF** 230 400 Inventory 31 December 2019 24 000 **(1)** Cost of sales 206 400 Gross profit 114 400 **(1)OF** Factory profit 32 400 **(1)OF** Change in provision for unrealised profit 2 000 **(1)OF** Distribution costs 42 700 **(1)** Administrative expenses 61 900 **W1** 104 600 Profit for the year 44 200 **(1)OF** **W1** 78 900 (+ 12 000 – 24 000) **(1)** – 5000 **(1)** = 61 900	**9**

Question	Answer	Marks
1(d)	Using a transfer price may compare with the cost of buying from an external supplier **(1).** Using a transfer price may be used to assess departmental performance **(1).** Using a transfer price may assist in calculating pay or bonuses **(1).** Setting the rate of factory profit may be subjective **(1).** Factory profit does not alter the total profit for the year **(1).** Aids setting of selling price **(1).** **Accept other valid points** **Max (4)** for comments plus **(1)** for decision.	**5**

Question	Answer	Marks
2(a)	RF plc Statement of cash flows for the year ended 31 December 2019 $000 $000 Profit from operations (15 + 4) 19 **(1)** Depreciation – plant and machinery 12 **(1)** – motor vehicles 10 **(1)** Profit on disposal of motor vehicle (3) **(1)** Increase in inventory (17) **(1)** Increase in trade receivables (3) **(1)** Decrease in trade payables (6) **(1)** Cash from operations 12 Interest paid (5) **(1)** Net cash from operating activities 7 **(1)OF** Cash flow from investing activities Purchase of non-current assets (38) **(1)** Proceeds of sale of motor vehicle 15 **(1)** Net cash used in investing activities (23) **(1)OF** Cash flow from financing activities Proceeds from issue of shares 36 **(1)** Dividend paid (8) **(1)** Proceeds from new loan 5 **(1)** Net cash from financing activities 33 **(1)OF** Net increase in cash and cash equivalents 17 **(1)OF** Cash and cash equivalents on 31 December 2018 (7) **(1)** Cash and cash equivalents on 31 December 2019 10 **(1)OF**	**19**
2(b)	In a statement of cash flows the amount of the share premium is added to the par value to show total proceeds **(1)** whereas in the books of account it is recorded separately from the par value **(1)** in a separate ledger account called share premium account **(1).**	**3**

Question	Answer	Marks
2(c)	It may be a legal requirement **(1)** To comply with IAS7 **(1)** To explain why profit is not equal to increases or decreases in cash **(1)** To concentrate attention on cash flows **(1)** To show the extent to which the business relies on internal and external financing **(1)** To allow for comparisons with other businesses or previous years **(1)** To give more information than that which is given in the income statement and statement of financial position **(1)** To assist for loan application **(1)** **Accept other valid points** **Max 3**	**3**

Question	Answer	Marks
3(a)	Purchased goodwill **(1)** Patents **(1)** Trademarks **(1)** Franchises **(1)** Copyrights **(1)** **Accept other valid points** **Max 2**	**2**
3(b)(i)	Capital account – Babak |	\$		\$ | | Vehicle | 800 **(1)** | Balance b/d | 24 800 **(1)** | | Balance c/d | 24 000 **(1)OF** | | | | | 24 800 | | 24 800 | | | | Balance b/d | 24 000 |	**3**
3(b)(ii)	Capital account – Alice |	\$		\$ | | Inventory | 400**(1)** | Balance b/d | 30 600 **(1)** | | Balance c/d | 48 000**(1)OF** | Premises | 14 000 **(1)** | | | | Vehicle | 2 000 **(1)** | | | | Bank | 1 800 **(1)OF** | | | 48 400 | | 48 400 | | | | Balance b/d | 48 000 |	**6**

Question	Answer	Marks
3(c)	Alice and Babak Statement of financial position at 1January 2020 $ $ Non-current assets Intangible asset 200 **(1)** Tangible assets Premises 32 000 **}** Equipment 16 300 **}(1)** Vehicles 4 400 **(1)** + 2 000 **(1)** 6 400 54 700 54 900 Current assets Inventory 7 200 **(1)** Trade receivables 4 400 **(1)** Bank 7 600 **(1)OF** 19 200 Total assets 74 100 Capital – Alice 48 000 **}(1)OF** Babak 24 000 **}** 72 000 Current liabilities Trade payables 2 100 **(1)** Total capital and liabilities 74 100	**9**

Question	Answer	Marks
3(d)	**Advantages** Calculations would be done instantly, and time would be saved. **(1)** Calculations would be accurate. **(1)** Security could be organised (passwords etc.). **(1)** Documents such as invoices could be produced automatically. **(1)** Reports and accounts could be generated automatically. **(1)** **Accept other valid points** **Disadvantages** It would require expenditure on hardware. **(1)** It would require expenditure on software/other set up costs. **(1)** The partners would have to take time to familiarise themselves with the system/training would be needed. **(1)** The opening balances would have to be transferred to the new system. **(1)** Accounts would have to be backed up. **(1)** There could be inputting errors. **(1)** **Accept other valid points** Decision **(1)** **(1)** mark for decision **Max (2)** marks for advantages **Max (2)** for disadvantages	**5**

Question	Answer	Marks
4(a)	Trade receivables turnover = $\frac{1500}{7260}$ **}(1)** $\times$ 365 = 76 days **(1)OF** Trade payables turnover = $\frac{760}{4670}$ **}(1)** $\times$ 365 = 60 days **(1)OF** Inventory turnover = $\frac{1400}{4800}$ **}(1)** $\times$ 365 = 107 days **(1)OF** Working capital cycle = (107 + 76 – 60) (**(1)OF** all three) = 123 days **(1)OF**	**8**

Question	Answer	Marks
4(b)	RP Limited's ratio is worse **(1)OF** Comparison is difficult without knowing the components of the average ratio **(1).** The ratio indicates that the company may be holding too much inventory **(1),** which is possible given that items are held for more than three months **(1).** The ratio indicates that the company may be giving too much credit to its customers **(1)** which is possible given that debtors are taking about two and a half months to pay **(1).** The ratio indicates that the company is paying its suppliers too quickly **(1)** but this is not likely since it is taking on average two months to pay **(1).** **Accept other valid points.** **Max 5 for comments.**	**5**
4(c)	The ratio assumes that all sales and purchases are on credit **(1).** However the proportion of total sales which are for cash is broadly similar to the proportion of total purchases which are for cash and so the effect is likely to be small **(1).** **Accept other valid points.** **Max 2**	**2**
4(d)	$\frac{1650\ \textbf{(1)} + (1500 - 760)\ \textbf{(1)}}{(1140 + 7260)\ \textbf{(1)}} \times 100 = 28.45\%$ **(1)OF**	**4**
4(e)	RP Limited's ratio is worse **(1)OF.** This suggests that the inventory held is higher than the industry average **(1)** and that trade receivables are also higher **(1).**	**3**
4(f)	Cash discount should encourage credit customers to pay earlier **(1)** which would reduce the value of trade receivables **(1)** and assist the cash flow **(1)** and reduce both of the ratios **(1).** It might help avoid irrecoverable debts and so increase profit **(1).** However the cash received would be lower **(1)** and as an expense in the income statement it would tend to reduce profit **(1).** Decision **(1)** **Max (2)** for comments	**3**

Question	Answer	Marks
5(a)	Competitors changing their prices **(1)** Inflation **(1)** Recession in the national economy **(1)** Changes in demand/fashion **(1)** A change in import/export duty **(1)** A change in indirect taxes **(1)** Sanctions **(1)** **Accept other valid points.** **Max 3**.	**3**
5(b)	period 1 units; period 2 units; period 3 units sales 6000; 5600; 6400 **(1)row** closing inventory 1400; 1600; 1800 **(1)** 7400; 7200; 8200 opening inventory (1500) **(1)**; (1400) **(1)**; (1600) **(1)** production 5900 **(1)OF**; 5800 **(1)OF**; 6600 **(1)OF**	**8**
5(c)(i)	period 1 kilos; period 2 kilos production 29 500; 29 000 **(1)OFBoth** closing inventory 14 500 **(1)OF**; 16 500 **(1)OF** 44 000; 45 500 opening inventory (14 750) **(1)OF**; (14 500) **(1)OF** purchases 29 250 **(1)OF**; 31 000 **(1)OF**	**7**
5(c)(ii)	period 1 $; period 2 $ purchases 292 500 **(1)OF**; 310 000 **(1)OF**	**2**

Question	Answer	Marks
5(d)	Existing supplier will have a track record as to reliability. **(1)** New supplier may be less reliable leading to shortages if deliveries are not made on time. **(1)** Lower quality materials may take more time to process or lead to more wastage. **(1)** Lower quality materials may lead to lower quality finished goods. **(1)** Lower quality may affect reputation. **(1)** This might decrease sales or increase sales returns. **(1)** Could a better deal be negotiated with the existing supplier for the existing quality of goods? **(1)** A saving on materials will raise profit. **(1)** **Accept other valid points** **(1)** mark for decision plus **(1)** mark each for **max four** comments	**5**

Question	Answer	Marks
6(a)(i)	28 000 **(1)** – $\frac{\$22\,800}{\$6}$ **}(1)** = 24 200 kilos **(1)OF**	**3**
6(a)(ii)	$\frac{36\,300}{24\,200}$ **}(1)OF** + 6 **(1)** = \$7.50 per kilo **(1)OF**	**3**
6(a)(iii)	Labour rate variance = 21 280 **(1)** A **(1)**	**2**
6(a)(iv)	Labour efficiency variance= 28 000 **(1)** F **(1)**	**2**
6(a)(v)	\$ sales 1 456 000 **(1)** direct material 181 500 **(1)OF** direct labour 553 280 **(1)** fixed overheads 200 000 **(1)** profit 521 220 **(1)OF**	**5**
6(b)	\$ profit from flexed budget 476 000 sales price variance 56 000 **(1)** materials price variance (36 300) **}** materials usage variance 22 800 **} (1)** labour rate variance (21 280) **(1)OF** labour efficiency variance 28 000 **(1)OF** FO expenditure variance 10 000 **}** FO volume variance (14 000) **}(1)** actual profit 521 220 **(1)OF**	**6**

Question	Answer	Marks
6(c)	fixed overhead capacity variance **(1)** fixed overhead efficiency variance **(1)**	**2**
6(d)(i)	price of materials increased / bought a higher grade of materials /expensive supplier **(1)** **Accept other reasonable answers**	**1**
6(d)(ii)	used less material / had lower rate of wastage / improved quality **(1)** **Accept other reasonable answers**	**1**

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