Cambridge Assessment
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 2020**

MARK SCHEME

Maximum Mark: 150

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

This document consists of **16** printed pages.

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)	Responses could include: Investors can better understand • the ability of a business to generate cash from operating activities **(1)** • ability of business to raise cash from external sources **(1)** • the causes of changes in net cash flows **(1)** • whether the business can generate enough cash to buy non-current assets, paying tax and dividend **(1)** • statement of cash flows is more objective, preparing on the basis of actual cash received and paid, unlike income statement and statement of financial position which involves accounting policies whereas some items are based on estimation. **(1)** **Max 3** **Accept other valid points**	**3**
1(b)	\$ Retained earnings 31 Dec 2019 61 700 } Retained earnings 31 Dec 2018 (88 200) }**(1)** Interim dividend 24 000 **(1)** Tax charge 3 100 **(1)** Interest <u>4 800</u> **(1)** Profit from operations <u>5 400</u> **(1)**	**5**

Question	Answer	Marks
1(c)	$ Profit from operations 5 400 **OF** Depreciation **W1** 99 750 **(3)** Profit on disposal of asset (1 300) **(1)** Decrease in inventory 9 950 **)** Increase in trade receivables (10 800) **)(1)** Increase in trade payables 1 500 **)** Decrease in accrued expenses (2 300) **)(1)** Cash from operations 102 200 **(1)OF** **W1** Depreciation: Plant and machinery (225 000 + 180 000 – 344 250) = 60 750 **(1)** 39 000 + 60 750 = 99 750 **(1) CF** Motor vehicles (136 000 – 7000 – 90 000) = 39 000 **(1)** To be awarded the **(1)OF** for cash from operations, the opening figure must be from **1(b).**	**7**
1(d)(i)	$ Net cash from operations 102 200 **OF** Tax paid (5 200) **(1)** Interest paid (2 200) **(1)** Net cash from operating activities 94 800 **(1)OF** To be awarded the **(1)OF** for net cash from operating activities, the opening figure must be from **1(c).**	**3**
1(d)(ii)	$ Loan received 80 000 **(1)** Dividend paid (24 000) **(1)** Net cash from financing activities 56 000	**2**

Question	**Answer**	**Marks**
1(e)	Response could include: • paying out constant dividends may strengthen the value of shares **(1)** • poorer cash position, i.e. bank overdraft $8500 at 31 December 2019 has increased **(1)** • bank loan already $80000 obtained in 2019 **(1)** • dividends are paid out of retained earnings of previous years **(1)** • if P plc does not earn good profit in 2020, paying out cash dividends will further reduce the liquidity **(1)** • can pay bonus shares instead of cash dividend **(1)** **1 mark** for decision plus **Max 4** marks for justification. **Accept other valid points.**	**5**

Question	**Answer**	**Marks**
2(a)	(see below)	**6**

	$	
Goodwill	50 000	**(1)**
Plant and equipment	55 860	**(1)**
Inventory	13 125	**(1)**
Trade receivables	23 670	**(1)**
Trade payables	(14 950)	
	127 705	
Capital in new partnership	(100 000)	}
Loan to new partnership	(20 000)	}**(1)**
Balance payable to Raj	7 705	**(1)**

Question	**Answer**	**Marks**
2(b)	$	**12**

Question	Answer	Marks
2(b)		

Non-current assets		
Plant and equipment	486 860	**(1)**
Current assets		
Inventory	60 325	}
Trade receivables	76 470	}**(1)**
Cash at bank (13 600 – 7705)	5 895	**(1)OF**
	142 690	
Total assets	629 550	
Capital account **W1**		
Amir	277 500	**(2)**
Ishan	185 000	**(2)**
Raj	87 500	**(1)**
	550 000	**(1)**
Current account		
Amir	11 100	**)**
Ishan	(3 800)	**)(1)**
	7 300	
Loan from Raj	20 000	**(1)**
Current liabilities		
Trade payables	52 250	**(1)**
Total equity and liabilities	629 550	

W1

Capital accounts

	Amir		Ishan		Raj	
	$		$		$	
Balance	300 000		200 000		100 000	
Goodwill	15 000	**(1)**	10 000	**(1)**		
Goodwill	(37 500)	**(1)**	(25 000)	**(1)**	(12 500)	**(1)**
	277 500		185 000		87 500	

Question	Answer	Marks
2(c)	Responses could include: • interest rate is lower **(1)** as Raj will probably demand less than the market rate **(1)** • no need to submit financial statements **(1)** obtaining the loan will be quicker **(1)** • no security required **(1)** so business assets will not be tied up in a loan **(1)** • trust among the partners **(1)** as it is flexible to pay to Raj in case the business does not perform well **(1)** **1 mark** for stating a reason up to a **Max of 2 reasons**, plus further 1 **mark** for development for each reason. **Accept other valid points**	**4**
2(d)	Responses could include: • same field and same knowledge/expertise **(1)** • international working experience **(1)** • bring additional capital **(1)** • may dilute the ownership **(1)** • may dilute the control **(1)** • already merge with Raj **(1)** • share the profit **(1)** • share the loss **(1)** **1 mark** for decision and **Max 2 marks** for justification **Accept other valid points**	**3**

Question	Answer				Marks
3(a)		$	$		**4**
	Shop takings (49 200 + 870)		50 070	**(1)**	
	Opening inventory	1 300			
	Purchases (15 100 + 2810 – 2740)	15 170		**(1)**	
	Closing inventory	1 100	15 370		
	Gross profit		34 700	**(1)OF**	
	Shop wages		18 700		
	Shop expenses		9 400		
	Shop profit for the year		6 600	**(1)OF**	
3(b)			$		**5**
	Subscriptions (78 650 + (1200 – 1600)**(1)** + (1900 – 400)**(1)**		79 750		
	Shop profit		6 600	**(1)OF**	
			86 350		
	Administrative expenses		78 600		
	Depreciation 40000x20%		8 000	**(1)**	
	Deficit for the year		(250)	**(1)OF**	
3(c)			$		**3**
	Bank		9 850		
	Shop inventory		1 300		
	Members' subscriptions due		1 600		
	Club equipment - at cost		40 000		
	Club equipment - accumulated depreciation		(32 000)		
	Shop trade payables		(2 740)		
	Subscriptions in advance		(1 200)		
	Accumulated fund at 1 January 2019		16 810	**(1)**	
	Deficit for the year		(250)	**(1)OF**	
	Accumulated fund at 31 December 2019		16 560	**(1)OF**	

Question	Answer	Marks
3(d)	<table><tr><td>Financial statements of a limited company</td><td>Financial statements of a not-for profit organisation</td></tr><tr><td>income statement, statement of financial position and statement of cash flows</td><td>income and expenditure account and statement of financial position</td></tr><tr><td>profit or loss for the year</td><td>excess of income over expenditure or excess of expenditure over income</td></tr><tr><td>equity</td><td>accumulated fund</td></tr><tr><td>prepared on the basis of trial balance</td><td>prepared on the basis of receipts and expenditure account</td></tr></table> **Accept any other reasonable alternatives.** **1 mark** for each pair of differences up to a **max of 4**	**4**
3(e)	Responses could include: • bank balance is only $16 770 ($15 900 + $870) **(1)** • the club must replace the club equipment which is at the final year of the useful life **(1)** • no other assets such as investments which are easily convertible into cash **(1)** • do not have enough cash to replacement club equipment **(1)** • may ask for credit/payable by instalments/bank loan/members' contribution **(1)** **Max 4** **Accept other valid points**	**4**
3(f)	Responses could include: • subscriptions fee are recurring and club equipment is once and for all **(1)** • members may leave the club **(1)** • members are not obliged to subscribe more **(1)** • members' donations **(1)** • bank loans – finance cost and collateral required **(1)** • alternative source of finance could be interest free loans from members **(1)** **Max 4 for comments**, plus further 1 **mark** for decision **Accept other valid points**	**5**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Equity **W1**</td><td>560 000</td><td>**(1)**</td></tr>
<tr><td>Non-current liabilities **W2**</td><td>80 000</td><td>**(1)**</td></tr>
<tr><td>Current liabilities **W3**</td><td>140 000</td><td>**(1)**</td></tr>
<tr><td></td><td>780 000</td><td>**(1)**</td></tr>
</table>
W1 $640 000 – $80 000 = $560 000
W2 $780 000 – $140000 = $640 000
$640 000 × 12.5% = $80 000
W3 $224 000 ÷ 1.6 = $140 000
</td><td>**4**</td></tr>
<tr><td>4(b)</td><td>
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Draft profit from operations **W1**</td><td>144 000</td><td>**(1)**</td></tr>
<tr><td>Interest **W2**</td><td>(4 000)</td><td>**(1)OF**</td></tr>
<tr><td>Draft profit for the year</td><td>140 000</td><td>**(1)**</td></tr>
</table>
W1 $640 000 × 22.5% = $144 000
W2 $80 000 OF × 5% = $4000
</td><td>**3**</td></tr>
<tr><td>4(c)</td><td>
<table>
<tr><td></td><td>Ordinary shares
$</td><td></td><td>Share premium
$</td><td></td><td>General reserve
$</td><td></td><td>Retained earnings
$</td><td></td></tr>
<tr><td>At 1 January 2019</td><td>200 000</td><td></td><td>35 000</td><td></td><td>21 000</td><td></td><td>80 000</td><td>**(1)OF**</td></tr>
<tr><td>New issue</td><td>100 000</td><td>**(1)**</td><td>40 000</td><td>**(1)**</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Dividend paid</td><td></td><td></td><td></td><td></td><td></td><td></td><td>(56 000)</td><td>**W1 (1)**</td></tr>
<tr><td>Draft profit for the year</td><td></td><td></td><td></td><td></td><td></td><td></td><td>140 000</td><td>**(1)OF**</td></tr>
<tr><td>Bonus issue of shares</td><td>50 000</td><td>**(1)**</td><td>(50 000)</td><td>**(1)**</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Transfer to reserve</td><td></td><td></td><td></td><td></td><td>18 000</td><td>}</td><td>(18 000)</td><td>}**(1)**</td></tr>
<tr><td>At 31 December 2019</td><td>350 000</td><td></td><td>25 000</td><td>**(1)**</td><td>39 000</td><td></td><td>146 000</td><td>**W2 (1)OF**</td></tr>
</table>
W1 $140 000 ÷ 2.5 = $56 000
W2 $560 000 – $350 000 – $25 000 – $39 000 = $146 000
</td><td>**10**</td></tr>
</table>

Question	Answer	Marks
4(d)	Adjusting events are those that provide evidence of conditions that existed at the end of the reporting period. **(1)** The entity should adjust the amounts recognised in its financial statements. **(1)** Non-adjusting events are those events after reporting period that are indicative of conditions that arose after the end of the reporting period. **(1)** The entity should not adjust the amounts recognised in its financial statements. **(1)**	**4**
4(e)	Responses could include: • Adjusting events **(1)** • Arising from the sales in 2019 **(1)** • Trade receivables existed at 31 December 2019 **(1)** • Evidence of assets at 31 December 2019 being impaired **(1)** • Prudence concept **(1)** • Accounting treatment : should be written off / recognised in the financial statements of 2019 **1 mark** for each valid point up to a maximum of three plus further **1 mark** for explaining accounting treatment	**4**

Question	Answer	Marks
5(a)	Master budget \$ | Flexed budget \$ | Actual \$ Direct materials: 60 000 **(1)** | 57 600 **(1)** | 68 340 Direct labour: 160 000 **(1)** | 153 600 **(1)** | 156 864 Fixed overheads: 48 000 **(1)** | 46 080 **(1)** | 49 800 Total costs: 268 000 | 257 280 | 275 004 **(1)**	**7**
5(b)(i)	Direct materials variance \$68 340 – \$57 600 10 740 A **(1)OF** Must be the difference between actual and flexed budget	**1**
5(b)(ii)	Direct materials price variance \$68 340 – (8040 × \$8) or (\$8.5 – \$8) × 8040 4020 A **(1)** pay more per kilo **(1)** Direct materials usage variance (2400 × 3 – 8040) × \$8 6720 A **(1)** use more materials **(1)**	**4**
5(c)(i)	Direct labour variance \$156 864 – \$153 600 3264 A **(1)OF** Must the difference between actual and flexed budget	**1**
5(c)(ii)	Direct labour rate variance \$156 864 – (9120 × \$16) 10944 A **(1)** pay more per hour **(1)** or (\$17.2 – \$16) × 9120 Direct labour efficiency variance (2400 × 4 – 9120) × \$16 7680 F **(1)** use fewer labour hour **(1)**	**4**
5(d)(i)	Total fixed overheads variance \$49 800 – \$46 080 3720 A **(1)**	**1**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(d)(ii)</td><td>Fixed overheads expenditure variance
$49 800 – $48 000 1800 A (1)</td><td>1</td></tr>
<tr><td>5(d)(iii)</td><td>Fixed overheads volume variance
$48 000-$46 080 1920 A (1)</td><td>1</td></tr>
<tr><td>5(e)</td><td>Responses could include:
responsibility accounting : manager is only responsible for anything that is under his/her control (1)
production manager is only responsible for the production process (1)
production is not responsible for the purchases of raw materials (1)
delay in supply of materials has an effect on delay in production (1)
production manager is responsible for the efficiency of direct labour, not the rate which is not under his control, i.e. inflation or bargaining power of labour union (1)
ensuring the stable supply of raw materials should be the responsibility of the manager of purchasing department (1)
Max 4 for comments, plus further 1 mark for decision
Accept other valid points</td><td>5</td></tr>
<tr><td>6(a)</td><td><table>
<tr><td></td><td>March
$</td><td></td><td>April
$</td><td></td></tr>
<tr><td>Opening balance</td><td>39 400</td><td></td><td>25 140</td><td></td></tr>
<tr><td>Receipts</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cash sales</td><td>84 000</td><td>W1 (1)</td><td>90 000</td><td>W2 (1)</td></tr>
<tr><td>Credit sales - with cash discount</td><td>22 230</td><td>W3 (1)</td><td>23 940</td><td>W4 (1)</td></tr>
<tr><td>Credit sales no cash discount</td><td></td><td></td><td></td><td></td></tr>
<tr><td>January sales</td><td>86 400</td><td>W5 (1)</td><td></td><td></td></tr>
<tr><td>February sales</td><td></td><td></td><td>93 600</td><td>W6 (1)</td></tr>
<tr><td>Total receipts</td><td>192 630</td><td></td><td>207 540</td><td></td></tr>
<tr><td>Payments</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Suppliers</td><td>72 000</td><td>W7 (1)</td><td>76 800</td><td>W8 (1)</td></tr>
<tr><td>Wages</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Current month</td><td>67 200</td><td></td><td>71 680</td><td>W9 (1) both</td></tr>
<tr><td>Previous month</td><td>15 680</td><td></td><td>16 800</td><td>W10 (1) both</td></tr>
<tr><td>Other overheads</td><td>52 010</td><td></td><td>52 010</td><td>(1) both</td></tr>
<tr><td>Purchase of machinery</td><td></td><td></td><td>36 000</td><td>(1)</td></tr>
<tr><td>Total payments</td><td>206 890</td><td></td><td>253 290</td><td></td></tr>
<tr><td>Ending balance</td><td>25 140</td><td></td><td>(20 610)</td><td>(1)OF</td></tr>
</table></td><td>13</td></tr>
</table>

Question	Answer	Marks
6(a)	**Workings** Cash sales **W1** 2800 × 40% × $75 84 000 **W2** 3000 × 40% × $75 90 000 Credit sales – with cash discount **W3** 2600 × 60% × 20% × $75 × 95% 22 230 **W4** 2800 × 60% × 20% × $75 × 95% 23 940 Credit sales – no cash discount **W5** January sales 2400 × 60% × 80% × $75 86 400 **W6** February sales 2600 × 60% × 80% × $75 93 600 Payment for purchases **W7** 3000 × 3 × $8 72 000 **W8** 3200 × 3 × $8 76 800 Wages – current month **W9** March production 3000 × $28 × 80% 67 200 April production 3200 × $28 × 80% 71 680 Wages – previous month **W10** Feb production 2800 × $28 × 20% 15 680 March production 3000 × $28 × 20% 16 800	
6(b)	Responses could include: • to identify cash deficit and surplus during the month and decide any necessary action to be taken **(1)** to enable appropriate planning to source other funds or make investments **(1)** • co-ordinate cash inflows and outflows **(1)** • determine the time of capital expenditure **(1)** depending on resources available **(1)** • evaluate actual performance with budgeted flows **(1)** • to identify the cash balance or overdraft at the end of each month **(1)** **1 mark** for identifying each purpose up to a Max of **2 marks**, plus further **1 mark** for explanation/development for each purpose. **Accept other valid points.**	**4**

Question	Answer	Marks
6(c)	| | $ | | |---|---|---| Other overheads 56 210 **(1)** Additional depreciation 600 **(1)** 56 810 Break-even 56 810/$23 = 2470 units **(1)** Budgeted sales for April = 3000 units. Therefore, T Limited can exceed breakeven in April. **(1)**	**4**
6(d)	Responses could include • sales and cash receipts have different timing **(1)** • purchases and payment for purchases have different timing **(1)** • expenses incurred and actual payments have different timing **(1)** • calculation of the breakeven point does not take into account capital expenditure **(1)** • calculation of the breakeven point includes non-cash item such as depreciation **(1)** • businesses making sales more than the breakeven point in a month does not necessarily mean that there is cash surplus in that month **(1)** **Max 4** **Accept other valid points**	**4**