



Cambridge International AS & A Level

ACCOUNTING

9706/32

Paper 3 A Level Structured Questions

March 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.

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

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

This document consists of **22** 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)	<p style="text-align: center;">T Limited</p> <p>Manufacturing account for year ended 31 December 2019</p> <p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Opening inventory</td> <td style="width: 20%; text-align: right;">17 300</td> <td style="width: 20%;"></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">200 400</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">6 600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;">(18 700)</td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">205 600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cost of raw materials consumed</td> <td></td> <td></td> </tr> <tr> <td>Direct wages</td> <td style="text-align: right;">206 400</td> <td></td> </tr> <tr> <td>Direct expenses</td> <td style="text-align: right;">8 600</td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">420 600</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Prime cost</td> <td></td> <td></td> </tr> <tr> <td>Rent and rates W1</td> <td style="text-align: right;">45 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Repairs W2</td> <td style="text-align: right;">13 500</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Depreciation W3</td> <td style="text-align: right;">32 000</td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">511 100</td> <td></td> </tr> <tr> <td>Opening work in progress</td> <td style="text-align: right;">20 400</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Closing work in progress</td> <td style="text-align: right;">(21 500)</td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">510 000</td> <td></td> </tr> <tr> <td>Cost of production</td> <td></td> <td></td> </tr> <tr> <td>Manufacturing profit</td> <td style="text-align: right;">122 400</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">632 400</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Transferred value</td> <td></td> <td></td> </tr> </table>	Opening inventory	17 300		Purchases	200 400		Carriage inwards	6 600	(1)	Closing inventory	(18 700)			205 600	(1)	Cost of raw materials consumed			Direct wages	206 400		Direct expenses	8 600			420 600	(1)OF	Prime cost			Rent and rates W1	45 000	(1)	Repairs W2	13 500	}	Depreciation W3	32 000	}(1)		511 100		Opening work in progress	20 400	}	Closing work in progress	(21 500)	}(1)		510 000		Cost of production			Manufacturing profit	122 400	(1)OF		632 400	(1)	Transferred value			8
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1(b)	<p style="text-align: center;">T Limited Income statement for the year ended 31 December 2019</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Sales revenue</td> <td></td> <td style="text-align: right;">782 000</td> </tr> <tr> <td>Less: cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory $55\,000 \times 120\%$</td> <td style="text-align: right;">66 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Transfer value</td> <td style="text-align: right;">632 400</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>(75 888)</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>622 512</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">159 488 (1)OF</td> </tr> <tr> <td>Manufacturing profit</td> <td></td> <td style="text-align: right;"><u>122 400</u> (1)OF *</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">281 888</td> </tr> <tr> <td>Administrative expenses W1</td> <td></td> <td style="text-align: right;">116 700 (1)</td> </tr> <tr> <td>Carriage outwards</td> <td></td> <td style="text-align: right;">16 300</td> </tr> <tr> <td>Increase in unrealised profit W2</td> <td></td> <td style="text-align: right;"><u>3 688</u> (2)OF</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>145 200</u> (1)OF</td> </tr> </tbody> </table> <p>W1 $\\$66\,200 + \left(\\$75\,000 \times \frac{2}{5} \right) + \left(\\$18\,000 \times \frac{1}{4} \right) + \left(\\$48\,000 \times \frac{1}{3} \right) = \\$116\,700$</p> <p>W2 $\frac{\\$122\,400}{510\,000} = 24\%$</p> <p>$\\$75\,888 \times \left(\frac{24}{124} \right)$ (1)OF $- (\\$55\,000 \times 20\%) = \\$3\,688$ (1)OF</p> <p><i>*This profit figure in the income statement has to be the same as in the manufacturing account for the mark.</i></p>		\$	\$	Sales revenue		782 000	Less: cost of sales			Opening inventory $55\,000 \times 120\%$	66 000	(1)	Transfer value	632 400		Closing inventory	<u>(75 888)</u>				<u>622 512</u>	Gross profit		159 488 (1)OF	Manufacturing profit		<u>122 400</u> (1)OF *			281 888	Administrative expenses W1		116 700 (1)	Carriage outwards		16 300	Increase in unrealised profit W2		<u>3 688</u> (2)OF	Profit for the year		<u>145 200</u> (1)OF	7
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1(c)	<p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Inventory: finished goods</td> <td style="width: 20%; text-align: right;">75 888</td> <td style="width: 20%;"></td> </tr> <tr> <td>Unrealised profit $\left(75\,888 \times \frac{24}{124}\right)$</td> <td style="text-align: right;">14 688</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">61 200</td> <td style="text-align: right;">(1)OF</td> </tr> </table>	Inventory: finished goods	75 888		Unrealised profit $\left(75\,888 \times \frac{24}{124}\right)$	14 688	(1)OF		61 200	(1)OF	2
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	61 200	(1)OF									
1(d)	<p>Responses could include:</p> <ul style="list-style-type: none"> • prudence concept (1) • profit/assets not overstated (1) • realisation concept (1) • profit is unrealised because goods have not been sold to customers (1) • unrealised profit deducted from the transfer value of finished goods inventories, showing the cost of finished goods inventories in the statement of financial position (1) • increase in unrealised profit is deducted from the profit in the income statement (1) <hr style="border: 1px solid black;"/> <p>Max 5 Accept other valid points</p>	5									
1(e)	<p>In favour of</p> <ul style="list-style-type: none"> • it can help to make more meaningful price comparisons (1) • the manufacturing department may be more motivated to control costs (1) <p>Against</p> <ul style="list-style-type: none"> • the process may be time consuming (1) • the price of the outside supplier may fluctuate throughout the year (1) <hr style="border: 1px solid black;"/> <p>Max 1 mark for in favour of, 1 mark for against, 1 mark for decision Accept other valid points</p>	3									

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2(a)	<p style="text-align: center;">Cafe trading account for year ended 31 December 2019</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Cafe sales</td> <td></td> <td style="text-align: right;">240 000</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">13 000</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">141 000</td> <td></td> </tr> <tr> <td>Closing inventory (difference)</td> <td style="text-align: right;">(16 000)</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>138 000</u> (1)OF</td> </tr> <tr> <td>Gross profit W1</td> <td></td> <td style="text-align: right;"><u>102 000</u> (3)OF</td> </tr> </tbody> </table> <p>W1: $\left(\\$240\,000 \times \frac{1}{4} \times 50\% \right) (1) + \left(\\$240\,000 \times \frac{3}{4} \times 40\% \right) (1) = \\$102\,000 (1)OF$</p>		\$	\$	Cafe sales		240 000	Opening inventory	13 000		Purchases	141 000		Closing inventory (difference)	(16 000)	(1)OF	Cost of sales		<u>138 000</u> (1)OF	Gross profit W1		<u>102 000</u> (3)OF	5
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2(b)	<p style="text-align: center;">Receipts and payments account</p> <hr/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 15%; text-align: center;">\$</td> <td style="width: 30%;"></td> <td style="width: 15%; text-align: center;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">33 500</td> <td>Cafe trade payables W2</td> <td style="text-align: right;">137 800</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Subscriptions W1</td> <td style="text-align: right;">320 500 (2)</td> <td>Cafe wages W3</td> <td style="text-align: right;">51 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cafe sales</td> <td style="text-align: right;">240 000 (1)</td> <td>Administrative expenses</td> <td style="text-align: right;">251 100</td> <td></td> </tr> <tr> <td></td> <td></td> <td>Furniture and fixtures</td> <td style="text-align: right;">35 000</td> <td style="text-align: right;">(2) W4</td> </tr> <tr> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">119 100</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><hr/>594 000<hr/></td> <td></td> <td style="text-align: right;"><hr/>594 000<hr/></td> <td></td> </tr> </table> <p>Balance b/d 119 100 (1)OF</p> <p>W1 \$322 000 + (\$3 800 – \$2 600)(1) + (\$1 500 – \$4 200)(1) = \$320 500</p> <p>W2 \$26 400 + \$141 000 – \$29 600 = \$137 800</p> <p>W3 \$46 000 + \$5 000 = \$51 000</p> <p>W4 (\$66 560 – \$48 200)(1) + \$16 640 = \$35 000 (1)</p>		\$		\$		Balance b/d	33 500	Cafe trade payables W2	137 800	(1)	Subscriptions W1	320 500 (2)	Cafe wages W3	51 000	(1)	Cafe sales	240 000 (1)	Administrative expenses	251 100				Furniture and fixtures	35 000	(2) W4			Balance c/d	119 100			<hr/> 594 000 <hr/>		<hr/> 594 000 <hr/>		8
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2(c)	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black; text-align: center; padding-bottom: 5px;">Income and Expenditure Account</td> <td style="width: 50%; border-bottom: 1px solid black; text-align: center; padding-bottom: 5px;">Receipts and Payments Account</td> </tr> <tr> <td style="vertical-align: top; padding: 5px;"> <ul style="list-style-type: none"> • revenue and expenditure • accrual basis • can include non-cash item such as depreciation • include revenue expenditure </td> <td style="vertical-align: top; padding: 5px;"> <ul style="list-style-type: none"> • cash receipts and payments • cash basis • cash items only • can include capital expenditure </td> </tr> </table> <hr style="border: 1px solid black; margin-top: 10px;"/> <p>1 mark × 2 differences Accept other valid points</p>	Income and Expenditure Account	Receipts and Payments Account	<ul style="list-style-type: none"> • revenue and expenditure • accrual basis • can include non-cash item such as depreciation • include revenue expenditure 	<ul style="list-style-type: none"> • cash receipts and payments • cash basis • cash items only • can include capital expenditure 	2
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2(d)(i)	<p>Responses could include:</p> <ul style="list-style-type: none"> • covering more than one year (1) • accrual concept (1) • revenue matches general running expenses (1) • capitalise donation (1) • transfer to income and expenditure account over a number of years (1) <hr style="border: 1px solid black; margin-top: 10px;"/> <p>Max 4 Accept other valid points</p>	4				
2(d)(ii)	<p>Responses could include:</p> <ul style="list-style-type: none"> • capital receipt credited to capital reserve (1) • cannot be recognised in income and expenditure account (1) • should be used for the purpose specified by the donor (1) • reserve debited when pool expenditure incurred in the future (1) <hr style="border: 1px solid black; margin-top: 10px;"/> <p>Max 3 Accept other valid points</p>	3				

Question	Answer	Marks
2(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> purpose / objective of the club (not-for-profit organisation) is for social, athletic or charitable, etc, not for profit making (1) funds of the club must be held in trust for the club and can only be used in carrying out its objective / mission (1) the committee is not correct in distributing club surplus to the members (1) <hr/> <p>Max 2 valid points plus further 1 mark for correct advice Accept other valid points</p>	3

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3(c)	<p>Ahmed $\\$400\,000 - \left(\\$75\,000 \times \frac{3}{5} \right) = \\$355\,000$ (1)OF</p> <p>Omar $\\$300\,000 - \left(\\$75\,000 \times \frac{2}{5} \right) = \\$270\,000$ (1)OF</p>	2
3(d)	<p>Responses could include:</p> <ul style="list-style-type: none"> • intangible asset (1) • excess of a business's value over its total net assets value (1) • usually occur in acquisition of business or change in partnership (1) • business image, strong customer base, good relationship with suppliers, good location etc (1) <hr/> <p>Max 3 Accept other valid points.</p>	3
3(e)	<p>Response could include:</p> <ul style="list-style-type: none"> • money measurement (1) – goodwill is recorded as an asset as a result of the acquisition of a business, not a merger, where the purchase consideration is quantifiable in monetary terms (1) • prudence (1) – value of asset is not overstated (1) <hr/> <p>1 mark for one accounting concept identified up to a maximum of two, plus further 1 mark for explanation / development</p>	4
3(f)	<p>Responses could include:</p> <p>Loan from partners</p> <p>Advantages:</p> <ul style="list-style-type: none"> • time and cost saved (1) • no collateral required (1) • potentially lower interest rate (1) • repayment of loan is more flexible (1) <p>Disadvantages:</p> <ul style="list-style-type: none"> • partners may not have enough funds (1) • partners don't want to lend as they have already contributed capital (1) 	4

Question	Answer	Marks
3(f)	<p>Bank loan</p> <p>Advantages:</p> <ul style="list-style-type: none"> • interest rate is the market rate which is objective (1) • may be able to raise more money (1) <p>Disadvantages</p> <ul style="list-style-type: none"> • loan interest may be higher (1) • collateral may be required (1) • application for loan may be costly / time-consuming (1) • bank may turn down the application (1) • the business is perceived as risky as long-term liabilities increase (1) <hr/> <p>Max 1 mark for advantage and Max 1 mark for disadvantage of each of the option. Max 2 for each option Accept other valid points</p>	

Question	Answer	Marks
4(a)(i)	$\frac{(588000 - 48000)(1)}{2000000} \quad \0.27 (1)	2
4(a)(ii)	$\frac{\$3.2}{\$0.27} \text{ OF} \quad 11.85 \text{ (1) OF}$	1
4(a)(iii)	$\frac{\$0.27 \text{ OF}}{\$0.12} \quad 2.25 \text{ times (1) OF}$	1
4(a)(iv)	$\frac{\$0.12}{\$3.20} \quad 3.75\% \text{ (1)}$	1

Question	Answer	Marks
4 (b)	Responses could include: <ul style="list-style-type: none"> • smaller proportion of profit is distributed to the shareholders (1) • want to maintain higher retained earnings (1) • there may be capital commitments in the future (1) • may attract investors (1) <hr/> Max 3 Accept other valid points	3
4(c)(i)	Liability is a present obligation (1) arising from past events (1), the settlement of which is expected to result in an outflow from the entity of resources (1) embodying economic benefits. Max 2	2
4(c)(ii)	Provision is a liability of uncertain timing (1) and amount (1) to cover a probable future event. (1) Max 2	2
4(c)(iii)	Contingent liability is a possible obligation that arises from past events (1) and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events (1) not wholly within the control of the entity.(1) Max 2	2
4(d)	According to IAS 37 (1), it is a liability (1) because it is the present obligation (being sued) arising from the past event (the sale contract) (1) and it is probable (more than 50%) that there is outflow of resources (1). J plc should make a provision of \$20 000 (1) resulting in a reduction a profit of \$20 000 (1) and an increase in current liabilities of \$20 000. (1) Max 6	6

Question	Answer	Marks
4(e)	<p>Responses could include:</p> <p>Rights issue:</p> <ul style="list-style-type: none"> • share capital is a more permanent form of capital (1) • rights issue is only limited to existing shareholders (1) • control of the company maintained (1) • dividend payments are discretionary should profits fall (1) <p>Debenture:</p> <ul style="list-style-type: none"> • funds may be generated more quickly (1) • can raise the full amount of funds with greater certainty (1) • no voting rights (1) • interest must be paid / decreases profit (1) • gearing ratio will increase (1) • loan will have to be repaid (1) <hr/> <p>Max 2 for rights issue Max 2 for debentures 1 mark for decision</p> <p>Accept other valid points</p>	5

Question	Answer	Marks
5(a)(i)	<p>Responses could include:</p> <ul style="list-style-type: none"> • financial plan of the company as a whole for the coming year (1) • summarising the plans the company uses to achieve its strategic goals (1) • an aid to coordinate the budgets of various departments (1) <p>Max 2</p>	2
5(a)(ii)	<p>Responses could include sales, labour, trade receivables, trade payables and cash (1)</p> <p>Max 2</p>	2

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5(d)	<p>Responses could include:</p> <p>FIFO :</p> <ul style="list-style-type: none"> • earlier material prices (lower prices) charged to cost of raw materials consumed • closing inventory valued by the latest prices (higher prices) <p>AVCO</p> <ul style="list-style-type: none"> • average cost (average of lower prices and higher prices) charged to cost of raw materials consumed • closing inventory valued by the average cost 	4																		

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5(d)	<p>FIFO produces a higher inventory value than AVCO. Hence cost of raw materials consumed (cost of sales) using the FIFO method will be lower than when using AVCO. Profit using FIFO method will be higher than when using AVCO</p> <hr/> <p>1 mark for explaining FIFO 1 mark for explaining AVCO 1 mark for comparing the cost of raw materials consumed (cost of sales) or inventory value of both methods 1 mark for comparing the profit of both methods</p>	
5(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> • budget is the blue print guiding the company (1) • budget help coordinating among the needs of various department (1) • budget motivate people (1) • budgetary control by comparing the budget with the actual result (1) • difficult to prepare budget in a changeable economy (1) • time consuming and costly to revise budget frequently (1) <hr/> <p>Max 1 mark for valid point 'for', Max 1 mark for valid point 'against' plus further 1 mark for decision. Accept other valid points</p>	3

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6(d)	<p>Net present value</p> <ul style="list-style-type: none">• considers time value of money (NPV of $-\\$8210$ with tariff versus NPV of $\\$71\,790$ without tariff) (1)• considers the whole life of asset, i.e. 4 years (1)• considers the cash flows (1) <p>Payback period</p> <ul style="list-style-type: none">• easy to calculate and understood (1)• need to know when the investment can be recouped (33 months with tariff versus 28 months without tariff) (1) <hr/> <p>Max 2 marks for NPV and Max 2 marks for payback period</p>	4