



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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This document consists of **20** printed pages.

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.

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)		Cost \$		Accumulated depreciation \$		Net book value \$		7
	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							

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

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Question	Answer	Marks																																														
2(a)(i)	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)	3																																														
2(a)(ii)	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)	3																																														
2(b)	Consignment account <table><tr><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><u>74 000</u></td><td></td><td></td><td><u>74 000</u></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>		\$		\$	Goods on consignment	50 000	(1)	Clarissa (750 × 80)	60 000	(1)	Bank	4 000	(1)	Balance c/d (1)	14 000	(1)	Clarissa	2 000	(1)				Clarissa (10% of 60 000)	6 000	(1) OF				Income statement (1)	12 000	(1) OF					<u>74 000</u>			<u>74 000</u>		Balance b/d	14 000	(1) OF				10
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2(c)	\$32 500 (1) + \$14 000 (1) OF = \$46 500 (1) OF	3																																														

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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)		Jack	Paul				3		
		\$	\$						
	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

<https://xtremepape.rs/>

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3(b)	Jack and Paul Statement of financial position at 1 July 2018 <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: right;">\$</th><th style="text-align: right;">\$</th><th></th></tr> </thead> <tbody> <tr> <td colspan="4">Non-current assets</td></tr> <tr> <td>Plant and equipment (118 000 + 103 700 + 10 000)</td><td></td><td style="text-align: right;">231 700</td><td style="text-align: right;">(1)</td></tr> <tr> <td colspan="4">Current assets</td></tr> <tr> <td>Inventory (36 000 + 47 000 – 7000)</td><td style="text-align: right;">76 000</td><td style="text-align: right;">(1)</td><td></td></tr> <tr> <td>Trade receivables (31 500 + 29 500 – 590)</td><td style="text-align: right;">60 410</td><td style="text-align: right;">(1)</td><td></td></tr> <tr> <td>Bank W1</td><td style="text-align: right;">22 600</td><td style="text-align: right;">(3)</td><td style="text-align: right;">159 010</td></tr> <tr> <td>Total assets</td><td></td><td></td><td style="text-align: right;">390 710</td></tr> <tr> <td colspan="4">Equity and liabilities</td></tr> <tr> <td>Jack (200 000 – (30 090 × 60%) (1) OF)</td><td style="text-align: right;">181 946</td><td style="text-align: right;">(1) OF</td><td></td></tr> <tr> <td>Paul (160 000 – (30 090 × 40%) (1) OF)</td><td style="text-align: right;">147 964</td><td style="text-align: right;">(1) OF</td><td style="text-align: right;">329 910</td></tr> <tr> <td colspan="4">Current liabilities</td></tr> <tr> <td>Trade payables</td><td></td><td></td><td style="text-align: right;">60 800</td></tr> <tr> <td>Total equity and liabilities</td><td></td><td></td><td style="text-align: right;">390 710</td></tr> <tr> <td colspan="4">W1</td></tr> <tr> <td></td><td style="text-align: center;">Jack</td><td style="text-align: center;">Paul</td><td></td></tr> <tr> <td></td><td style="text-align: center;">\$</td><td style="text-align: center;">\$</td><td></td></tr> <tr> <td>Capital in partnership</td><td style="text-align: right;">200 000</td><td style="text-align: right;">160 000</td><td></td></tr> <tr> <td>Value of business taken over by partnership</td><td style="text-align: right;">195 000</td><td style="text-align: right;">152 000</td><td></td></tr> <tr> <td>Additional cash contributed</td><td style="text-align: right;">5 000</td><td style="text-align: right;">(1)</td><td style="text-align: right;">8 000 (1)</td></tr> <tr> <td>Cash taken over by partnership</td><td style="text-align: right;">6 200</td><td style="text-align: right;">3 400</td><td></td></tr> <tr> <td></td><td style="text-align: right;">11 200</td><td style="text-align: right;">11 400</td><td style="text-align: right;">22 600 (1) OF</td></tr> </tbody> </table>		\$	\$		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	10
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3(d)	Return on capital employed for the year ended 30 June 2019. $\left(\frac{66\,000}{(181\,946 + 147\,964)} \right) (1) \text{ OF } \times 100 = 20.01\% (1) \text{ OF}$	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																																								

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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																																																																																																							

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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

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

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Question	Answer										Marks
5(c)											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 }			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 }		16.0 }		8.0 }		(1)
	Materials handling	45 000	30 000 }		15 000 }		6.0 }		3.0 }		(1)
	Inspection	15 000	9 000 }		6 000 }		1.8 }		1.2 }		(1)
		180 000	119 000		61 000		23.8		12.2		

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

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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

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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
		<u>14 400</u>	<u>21 600</u>	<u>7 200</u>	<u>3 600</u>		<u>2 160</u>
	Less opening inventory	*1000 (1)	2 400	3 600	1 200	(1) OF for all 3	600
	Monthly production (units)	<u>13 400</u>	<u>19 200</u>	<u>3 600</u>	<u>2 400</u>	(1) OF row	<u>1 560</u>
	* the opening inventory in June equals the closing inventory in May = June sales 5000 × 20% = 1000						

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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 (\$)	<u>86 400</u>	(1) OF	<u>16 200</u>	(1) OF	<u>11 880</u>	(1) OF	<u>7 722</u>	(1) OF

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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

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