Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

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.

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

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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.

Question	Answer			Marks
1(a)(i)		$		**4**
	draft	78 000		
	sale or return goods	8 000	**(1)**	
	adj for net realisable value [–27 +18.2 – 4.1]	(12 900)	**(1)**	
	import duties	3 500	**(1)**	
	inventory	76 600	**(1)OF**	
1(a)(ii)		$		**2**
	opening inventory	85 000		
	purchases	1 317 000		
	import duties	30 000	**(1)**	
	closing inventory	(76 600)		
	cost of sales	1 355 400	**(1)OF**	

Question	Answer	Marks
1(b)	GH plc Income statement for the year ended 30 June 2020. | | $ | | $ | | Revenue 1980–20 | | | 1 960 000 | **(1)** Cost of sales | | | 1 355 400 | **(1)OF** Gross profit | | | 604 600 | Other income | | | 6 300 | **(1)** Distribution costs | 167 700 | **W1** | | Administrative expenses | 424 100 | **W2** | | | | | 591 800 | Profit from operations | | | 19 100 | Finance charges | | | 49 000 | Loss for the year | | | 29 900 | **(1)OF** **W1** – distribution | $ | draft | 186 500 | import duties | (30 000) | **(1)** export duties | 7 200 | **(1)** impairment loss | 4 000 | **(1)** | 167 700 | **(1)OF**	**15**

Question	Answer	Marks
1(b)	**W2** – administrative | | $ | | draft: 391 000 provision for doubtful debts: 3 000 **W3** add back other income: 6 300 **(1)** provision for legal fees: 31 000 **(1)** export duties: (7 200) **(1)** 424 100 **(1)OF** **W3** – provision for doubtful debts $ draft trade receivables (194 + 6): 200 000 less sale or return: (20 000) **(1)** 180 000 at 5%: 9 000 **(1)OF** less opening provision: (6 000) 3 000 **(1)OF**	
1(c)	With a probability of more than 50% at present this requires a provision **(1)** which lowers profit and increases current liabilities **(1).** If the probability was less than 50% it would be a contingent liability **(1)** which would be recorded by a note to the accounts **(1).**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>RX Sports
Receipts and payments account for the year ended 31 December 2019
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Balance b/d</td><td>1 420</td><td>(1)</td><td>Trade payables</td><td>8 600</td><td>W4</td></tr>
<tr><td>Subscriptions</td><td>14 700</td><td>W1</td><td>Computer</td><td>2 800</td><td>W5</td></tr>
<tr><td>Disposal of club equipment</td><td>4 700</td><td>W2</td><td>Rent</td><td>5 500</td><td>W6</td></tr>
<tr><td>Trade receivables</td><td>16 260</td><td>W3</td><td>Staff costs</td><td>9 640</td><td>W7</td></tr>
<tr><td></td><td></td><td></td><td>Other costs</td><td>1 320</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Balance c/d</td><td>9 220</td><td></td></tr>
<tr><td></td><td>37 080</td><td></td><td></td><td>37 080</td><td></td></tr>
<tr><td>Balance b/d</td><td>9 220(1)OF</td><td></td><td></td><td></td><td></td></tr>
</table>
W1 14 200 + (400 – 200) (1) + (600 – 300) (1) = $14 700 (1)OF
W2 (7 200 – 3 100) (1) + 600 = $4 700 (1)OF
W3 14 800 + (5 200 – 3 740) (1) = $16 260 (1)OF
W4 9 950 + (1 560 – 2 910) (1) = $8 600 (1)OF
W5 (1 900 ÷ 0.25) (1) – 4 800 = $2 800 (1)OF
W6 6 000 × 11/12 = $5 500 (1)
W7 9 800 – 160 = $9 640 (1)</td><td>16</td></tr>
<tr><td>2(b)</td><td>Only the receipts and payments account contains capital items. (1)
Only the income and expenditure account contains non-cash items. (1)
Only the income and expenditure account contains items which have been adjusted for prepayments and accruals. (1)
Accept other valid points</td><td>3</td></tr>
<tr><td>2(c)</td><td>Income and expenditure account (1)</td><td>1</td></tr>
</table>

Question	Answer	Marks
2(d)	**Cash flow** Making all sales on a cash basis would mean the money is received earlier hence improving cash flow. **(1)** However, the trade receivables collection period is 93 days **(1)** which is less than the trade payables payment period of 107 days **(1)** which means that the cash flow issue should not be a problem **(1)**. It can be assumed that the club has negotiated special terms with suppliers to allow for the payments by instalments which might cease if credit sales were stopped. **(1)** There has been a considerable increase in the funds of the club during the year and therefore it seems likely that there is no need to make this change in order to improve cash flow. **(1)OF** **Surplus/deficit** Allowing members to pay in instalments involves a lot of administration and if this was stopped then cost savings might arise. **(1)** Members might be put off making purchases and the sales of the club might fall. **(1)** Given that trade receivables have been falling and inventory has been increasing it is possible that the club is already finding it more difficult to make sales. **(1)** The profit from these sales makes up more than a quarter of the income of the club and this could be jeopardised. **(1)** The club is already making a deficit and this could be increased by the change. **(1)** **Accept other valid points** Max **(2)** for cash flow, Max **(2)** for surplus/deficit plus **(1)** mark for decision	**5**

Question	Answer	Marks
3(a)	It is a profitable business. **(1)** The premises are in a good location. **(1)** There is a strong customer base. **(1)** The business has a good reputation. **(1)** The employees are well trained and efficient. **(1)** **Accept other valid points** **Max 3**	**3**
3(b)	cash **(1)** shares **(1)** debentures/loan stock **(1)**	**3**
3(c)	The profit sharing ratio is 1:1 **(1)** and Arthur will have received 50% of the profit on realisation **(1).** The correct distribution of the purchase consideration depends on whether the partners contributed equally to the business **(1)** as shown by their capital accounts **(1)** and whether they withdrew resources equally from the business/taken equal amounts as drawings **(1)** as shown by their current accounts **(1).** Decision **(1)** **(1)** for Decision plus max **(4)** for comments	**5**
3(d)	Depreciation provided had been inadequate **(1)**. The partnership had failed to provide for an impairment loss **(1)**. VC plc had undervalued it during the negotiations for the purchase of the partnership **(1)**. **Accept other valid points** **Max 2**	**2**
3(e)(i)	300 000 **(1)** – 261 350 **(1)** = 38 650 **(1)OF**	**3**
3(e)(ii)	261 350 **(1)** – 209 410 **(1)** = 51 940 **(1)OF**	**3**
3(f)	The profit on realisation would be shared equally **(1)** Arthur and Belinda would gain $25 970 each **(1)OF**	**2**
3(g)	The statement of financial position of a limited company does not show an account for each shareholder/owner **(1)** and therefore the gain has to be recorded in total **(1).** The statement of financial position of a partnership does show an account for each partner/owner **(1)** and so each partner can be credited with his/her share of the gain. **(1)**	**4**

Question	Answer	Marks
4(a)	PM Limited Schedule of non-current assets for the year ended 31 March 2020	9

	Premises $000	Plant and machinery $000	Motor vehicles $000	Total $000	
Cost					
At 1 April 2019	900	405	198	1 503	**(1)row**
Additions		117	76	193	**(1)row**
Disposals				(136)	**(1)row**
At 31 March 2020	900	430	230	1 560	**(1)OF row**
Depreciation					
At 1 April 2019	72	184	103	359	**(1)row**
Charge for the year	18	107	46	171	**(1)row**
Eliminated on disposal				(81)	**(1)row**
At 31 March 2020	90	245	114	449	**(1)OF row**
Net book value At 31 March 2020	810	185	116	1 111	**}(1)OF row**
					}
At 1 April 2019	828	221	95	1 144	**}**

Question	Answer	Marks
4(b)	description — $000 — section depreciation charge — 171 **(1)** — operating activities **(1)** loss on disposal — 29 **(1)** — operating activities **(1)** profit on disposal — 10 **(1)** — operating activities **(1)** proceeds from sale of non-current assets — 36 **(1)** — investing activities **(1)** cost of purchases of non-current assets — 193 **(1)** — investing activities **(1)**	**10**
4(c)	The accumulated depreciation on the premises would be cancelled **(1)** and the remainder of the gain would be added to the cost **(1)**.	**2**
4(d)	There would be no effect **(1)** as a revaluation does not involve any movement of funds **(1).**	**2**
4(e)	Delivery **(1)** Installation **(1)** Legal fees **(1)** Import duties **(1)** **Accept other valid points** **Max2**	**2**

Question	Answer	Marks
5(a)		**6**
		$		
	direct material	20	**}**
	direct labour	12	**}(1)**
	production overhead	18	**(1)**
	selling and distribution overhead	10	**(1)**
	total unit cost	60	**(1)OF**
	mark up	20	**(1)OF**
	selling price	80	**(1)OF**
5(b)	Production overheads	**12**

		$	
machine set up costs	$50 **(1)** × 350	17 500	**(1)OF**
quality inspection costs	$12 **(1)** × 400	4 800	**(1)OF**
order processing costs	$10 **(1)** × 770	7 700	**(1)OF**
		30 000	

	$	
direct material	30	**}**
direct labour	20	**}(1)**
production overhead	30	**(1)OF**
selling and distribution overhead	10	**(1)OF**
total unit cost	90	**(1)OF**
mark up	30	**(1)OF**
selling price	120	**(1)OF**

Question	Answer	Marks
5(c)	Overheads may not be fully variable which could result in the overhead cost per unit being somewhat overstated. **(1)** Costs for the same activity may not turn out to be quite the same for two different versions. **(1)** There is a need for market research to determine the level of demand for the deluxe version. **(1)** There is a need to establish what competitors are charging for a similar version. **(1)** **Accept other valid points** Max 2	**2**
5(d)	Halving the number of quality inspections would save money **(1)** – $3 000 for the standard version and $2 400 for the deluxe version **(1)**. The quality of the goods sold could fall with fewer inspections **(1)** which could result in a loss of reputation **(1)** or a fall in the number of units sold **(1)**. Decision **(1)** **Accept other valid points** **(1)** for decision plus max **(2)** for comments	**3**
5(e)(i)	one of the activities undertaken in the making of a product which results in a cost being incurred **(1)**	**1**
5(e)(ii)	a (memorandum) account which records the cost of each of these activities **(1)**	**1**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>6(a)</td><td>Advantages
May enable costs to be managed better (1)
Helps in preparing budgets and forecasts (1)
May increase staff motivation if targets are achievable (1)
Facilitates variance analysis (1)

Disadvantages
Calculating the standards is a difficult and time consuming job (1)
Maintaining the standard costing system can be expensive and difficult (1)
The system will not be applicable if there are one off jobs and irregular processes (1)
Setting standards is based on estimates (1)

Accept other valid points
Max 2 marks for advantages and Max 2 marks for disadvantages.</td><td>4</td></tr>
<tr><td>6(b)</td><td><table>
<tr><td></td><td>master budget</td><td>flexed budget</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>revenue</td><td>180 000</td><td>187 500</td><td>(1)</td></tr>
<tr><td>direct materials</td><td>24 000</td><td>25 000</td><td>(1)</td></tr>
<tr><td>direct labour</td><td>36 000</td><td>37 500</td><td>(1)</td></tr>
<tr><td>variable overhead</td><td>60 000</td><td>62 500</td><td>(1)</td></tr>
<tr><td>fixed overhead</td><td>20 000</td><td>20 000</td><td>(1)</td></tr>
<tr><td>profit</td><td>40 000</td><td>42 500</td><td>(1)OF</td></tr>
</table>
Marks for both budgets</td><td>6</td></tr>
</table>

Question	Answer	Marks
6(c)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>revenue from master</td><td>180 000</td><td>**(1)OF**</td></tr><tr><td>sales volume variance</td><td>7 500</td><td>**(1)**</td></tr><tr><td>sales price variance</td><td>(6 250)</td><td>**(1)**</td></tr><tr><td>actual revenue</td><td>181 250</td><td>**(1)**</td></tr></table>	**4**
6(d)	<table><tr><td>Variance</td><td>Revised value($)</td></tr><tr><td>Sales volume variance **(1)**</td><td>30 000 F **(1)**</td></tr><tr><td>Sales price variance **(1)**</td><td>28 000 A **(1)**</td></tr></table>	**4**
6(e)	This reduction would increase total revenue **(1).** It would increase market share **(1).** It would reduce contribution per unit from \$5 per unit to \$3 per unit **(1),** so it would still make a positive contribution **(1).** It would reduce total contribution from \$60 000 **(1)** to \$42 000 **(1)** and hence total profit would fall **(1).** Other methods to increase sales such as advertising could be tried **(1).** **Accept other valid points** Max **(4)** for comments plus **(2)** for calculations of total contribution plus **(1)** for decision	**7**