Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 A Level Structured Questions **February/March 2022**

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 February/March 2022 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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.

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Question	Answer	Marks
1(a)	Indirect manufacturing costs are costs incurred during the course of production / in the factory **(1)** but they cannot be directly traced to the items being manufactured **(1)** **Accept other valid answers.**	**2**
1(b)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>Purchases of direct materials</td><td>76 500</td><td></td></tr><tr><td>Closing inventory</td><td>14 200</td><td></td></tr><tr><td>Cost of direct materials consumed</td><td>62 300</td><td>**(1)**</td></tr><tr><td>Direct wages</td><td>119 000</td><td></td></tr><tr><td>Prime cost</td><td>181 300</td><td>**(1)**</td></tr><tr><td>Factory manager salaries</td><td>36 000</td><td>**}**</td></tr><tr><td>Factory rent</td><td>32 000</td><td>**}(1)**</td></tr><tr><td>Indirect manufacturing costs **W1**</td><td>22 000</td><td>**(1)**</td></tr><tr><td>Factory machines depreciation **W2**</td><td>7 200</td><td>**(1)**</td></tr><tr><td></td><td>278 500</td><td></td></tr><tr><td>Closing work in progress</td><td>12 500</td><td></td></tr><tr><td>Cost of goods manufactured</td><td>266 000</td><td></td></tr><tr><td>20% factory profit</td><td>53 200</td><td>**(1)OF**</td></tr><tr><td>Transfer value</td><td>319 200</td><td>**(1)OF**</td></tr></table> **W1** (\$188 000 – \$32 000 – \$46 000) × 20% = \$22 000 **W2** \$9000 ÷ 25% × 20% = \$7200	**7**

Question	Answer					Marks
1(c)		$		$		11
	Standard furniture					
	Revenue			510 000		
	Opening inventory	71 000				
	Purchases	292 000				
	Closing inventory	66 500				
	Cost of sales			296 500	**(1)**	
	Gross profit			213 500	**(1)**	
	Luxury furniture					
	Revenue			484 000		
	Value transferred from factory	319 200	**(1)OF**			
	Closing inventory $35 000 × 120%	42 000	**(1)**			
	Cost of sales			277 200		
	Gross profit			206 800	**(1)OF**	
	Total gross profit			420 300		
	Factory profit			53 200	**(1)OF**	
	Less :unrealised profit $35 000 × 20%			7 000	**(1)**	
				46 200		
				466 500		
	Administrative expenses **W1**			309 600	**(2)**	
	Selling and distribution costs **W2**			73 000	**(1)**	
				382 600		
	Profit for the year			83 900	**(1)OF**	
	W1					
	Administrative expenses					
		$				
	Salaries for office staff	167 000				
	Depreciation of office equipment	8 600				
	Office rent	46 000				
	Other expenses	88 000	**(1)**			
		309 600	**(1)**			

Question	Answer	Marks
1(c)	**W2** Selling and distribution costs | | $ | Salaries for salespeople 44 000 Depreciation of motor vehicles 10 500 Carriage outwards 18 500 73 000 **(1)**	
1(d)	Gross margin of standard furniture for 2021 is 41.86% **(1)OF** ($213 500 / $510 000) Effective gross margin (including factory profit) of luxury furniture for 2021 is 52.27% ($206 800 + $46 200) / $484 000 **(1)OF** Luxury has a higher gross margin than standard **(1)** The inclusion of luxury furniture which has a high gross margin can improve the profit margin **(1)** Inclusion of luxury can increase the customer base which has positive effect on profitability **(1)** Synergy may occur, i.e. by streamlining some operations to reduce cost thus improving profitability **(1)** **1 mark** for each of the two calculations plus **1 mark** for each other valid point up to a **max** of three. **Accept other valid answers.**	**5**

Question	Answer	Marks
2(a)	Prudence **concept /** So that the value of the assets were not overstated **(1)** To ensure that the carrying amount of assets does not exceed their recoverable amount **(1)** So that the financial statements show a true and fair view **(1)** IAS 36 Impairment of assets **(1)** **Max 3** **Accept other valid answers.**	**3**
2(b)	Carrying amount at 31 December 2021 $24 000 ($36 000 – $12 000) **(1)** Fair value less cost to sell $21 000 – $4000 = $17 000 **(1)** Value in use $18 500 Recoverable amount is the higher of fair value ($17 000) and value in use ($18 500)**(1),** therefore recoverable amount is $18 500 **(1).** Since the carrying amount ($24 000) exceeds the recoverable amount ($18 500) **(1),** the impairment loss is $5500 **(1)** ($24 000 – $18 500)	**6**

Question	Answer	Marks
2(c)	(table below)	11

	Building $		Plant and Machinery $		Motor Vehicle $	
Cost/valuation						
1 January 2021	600 000		400 000		60 000	
Addition			224 000	**(1) W1**		
Revaluation	150 000	**(1) W2**				
Impairment					(41 500)	**(1)OF W3**
31 December 2021	750 000		624 000		18 500	
Accumulated depreciation						
1 January 2021	150 000		160 000		24 000	
Revaluation	(150 000)	**(1)**				
Impairment					(36 000)	**(1)**
Charge for the year	50 000	**(2) W4**	116 000	**(1)OF W5**	12 000	**(1) W6**
31 December 2021	50 000		276 000		-	
Carrying amount at 31 December 2021	700 000		348 000		18 500	**(1)OF row**
Carrying amount at 31 December 2020	450 000		240 000		36 000	**(1) row**

W1 $200 000 + ($54 000 – $30 000) = $224 000 **(1)**

W2 $750 000 – $600 000 = $150 000 **(1)**

W3 ($60 000 – $18 500) = $41 500 **(1)OF**

W4 $750 000/15 **(1)** = $50 000 **(1)OF**

W5 ($624 000 – $160 000) × 25% = $116 000 **(1)OF**

W6 $60 000 / 5 = $12 000 **(1)**

Question	Answer	Marks
2(d)	Advantages **(Max 2)** Repair and maintenance cost for the coming 5 years is fixed regardless of increase in future cost The service of same company for the coming 5 years is guaranteed **Accept other valid advantages** Disadvantages **(Max 2)** A one-off payment may adversely affect the cash flow Not flexible, may have another company providing better and/or cheaper service **Accept other valid disadvantages** **1 mark for decision.**	**5**

Question	Answer	Marks
3(a)	Cash equivalents are short-term **(1)** / highly liquid investments **(1)** that are readily convertible to known amounts of cash **(1)** and which are subject to an insignificant risk of changes in value **(1)** **Max 2** **Accept other valid answers.**	**2**

Question	Answer					Marks
3(b)	Statement of cash flows for the year ended 31 December 2021					14
		$'000		$'000		
	Operating activities					
	Profit from operations **W1**			211	**(3)**	
	Adjustments for:					
	Depreciation – buildings **W2**	41	**(1)**			
	Depreciation – plant and equipment **W3**	63	**(1)**			
	Profit on disposal of plant and equipment	(2)	**(1)**			
	Increase in inventory	(28)	**}**			
	Increase in trade receivables	(32)	**}**			
	Decrease in trade payables	(34)	**}(1)**			
				8		
	Cash generated from operations			219		
	Interest paid			(44)	**(1)**	
	Net cash from operating activities			175		
	Cash flows from investing activities					
	Purchase of buildings **W4**	(420)	**(1)**			
	Purchase of plant and equipment **W5**	(97)	**}**			
	Sale of plant and equipment	3	**}(1)**			
	Net cash used in investing activities			(514)		
	Cash flows from financing activities					
	Proceeds from issue of shares **W6**	250	**(1)**			
	Repayment of debenture	(50)	**(1)**			
	Dividend paid **W7**	(140)	**(1)**			
	Net cash from financing activities			60		
	Net decrease in cash and cash equivalents			(279)	**(1)**	
	Cash and cash equivalents at beginning of the period			37		
	Cash and cash equivalents at end of the period			(242)		

Question	Answer	Marks
3(b)	**W1** ($136 000 – $109 000)**(1)** + ($80 000 + $60 000) **(1)** + $44 000 **(1)** = $211 000 **W2** $201 000 – $160 000 = $41 000 **(1)** **W3** $326 000 – ($274 000 – $11 000) = $63 000 **(1)** **W4** ($1150 000 – $80 000) – $650 000 = $420 000 **(1)** **W5** $539 000 – ($454 000 – $12 000) = $97 000 **(1)** **W6** ($600 000 + $120 000) – ($400 000+$70 000) **(1)** **W7** $80 000(400 000 × $0.2) + $60 000(600 000 × $0.1) = $140 000 **(1)**	
3(c)	Provides additional information **(1)** how the business generates and uses cash **(1)** Produced on a cash basis **(1)** whereas income statement and statement of financial position are prepared on accrual basis **(1)** **Max 2 points** x **2 marks** (1 mark for a basic point and 1 mark for development) **Accept other valid answers.**	4

Question	Answer	Marks
3(d)	For **(Max 2)** Maybe the finance by overdraft is only for short-term, i.e. very strong cash from operations in the coming one or two years. The time to obtain overdraft is shorter than other means (debenture or issue of shares) No or minimal costs to obtain overdraft Have no impact on gearing ratio Against **(Max 2)** Long-term assets should be financed by long-term financing Interest rate of overdraft may be higher than debenture/bank loan, let alone no interest for issue of shares Overdraft is repayable on demand / short notice. **1 mark for decision.** **Accept other valid answers.**	**5**

Question	Answer	Marks
4(a)	Javeed can receive more commission **(1)** as he should not be responsible for the faulty goods **(1)** Javeed has given effort in selling goods **(1)** which are later returned; he spent further effort in dealing with the returned goods **(1)** **Max 2 points × 2 marks** (1 mark for a basic point and 1 mark for development) **Accept other valid answers.**	**4**

Question	Answer	Marks
4(b)	Number of goods unsold 300 – (254-18) = 64, of which 18 units have defects subject to repair. Cost $34 500 } Freight $7 200 } Import duties $2 100 } Transportation to warehouse $3 600 } Total for 300 units $47 400 **(1)** Cost per unit $158 **(1)OF** Net realisable value of returned goods ($160 – $5) = $155 each **(1)** 18 × $155 **(1)OF** + (64 – 18) × $158 **(1)OF** = $10 058 **(1)OF**	**6**
4(c)	Consignment account Goods sent on consignment $34 500 **(1)** Bank – freight $7 200 **(1)** Javeed – Import duties $2 100 } Assistant's salary $4 500 } Transportation to warehouse $3 600 } Transportation to customers $6 000 } Advertising $4 800 }**(1)** Commission $5 080 **(1)** Income statement – profit on consignment $1 278 **(1)OF** Total $69 058 Javeed – net sales $59 000 **(1)** Inventories c/d $10 058 **(1)OF** Total $69 058	**7**

Question	Answer	Marks
4(d)	<table><tr><td>Item</td><td>Effect (Increase/Decrease) in $</td><td>Reason</td></tr><tr><td>Other receivables</td><td>Increased by $32 920 **W1(1)**</td><td>Amount due from Javeed **(1)**</td></tr><tr><td>Cash at bank</td><td>Reduced by $7200 **(1)**</td><td>Freight charges paid by G Limited **(1)**</td></tr><tr><td>Purchases</td><td>Decreased by $34 500 **(1)**</td><td>Cost of goods sent to Javeed **(1)**</td></tr><tr><td>Profit for the year</td><td>Increased by $1278 **(1)OF**</td><td>Profit on consignment **(1)**</td></tr></table> **W1** $59 000 – $2100 – $4500 – $3600 – $6000 – $4800 – $5080 = $32 920 **(1)**	**8**

Question	Answer	Marks
5(a)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>Sales 1120 × $250</td><td>280 000</td><td>**(1)**</td></tr><tr><td>Direct materials 1120 × $60</td><td>(67 200)</td><td>**(1)**</td></tr><tr><td>Direct labour 1120 × $100</td><td>(112 000)</td><td>**(1)**</td></tr><tr><td>Fixed overhead 1120 × $24 **W1**</td><td>(26 880)</td><td>**(1)**</td></tr><tr><td>Budgeted profit</td><td>73 920</td><td>**(1)OF**</td></tr></table> **W1** $24 000/($100 000 ÷ $25) = $6 per labour hour; $6 × 4=$24 or $24 000/1000 = $24	**5**
5(b)	Variance is the difference between budgeted amount (cost or revenue) and actual amount. **(1)** Variance analysis is the way to identify and explain the difference. **(1)** **Accept other valid answers.**	**2**
5(c)(i)	Selling price variance ($250 – $248*) × 1120 $2240 A **(1)** *$277 760//1120=$248	**1**

Question	Answer	Marks
5(c)(ii)	Sales volume variance (1120 – 1000) × $250 $30 000 F **(1)**	**1**
5(c)(iii)	Direct materials total variance $72 688 – $67 200 $5 488 A **(1)**	**1**
5(c)(iv)	Direct labour total variance $128 520 – $$112 000 $16 520 A **(1)**	**1**
5(c)(v)	Fixed overhead total variance $26 880 – $25 600 $1 280 F **(1)**	**1**
5(d)(i)	Standard usage per unit $60 000 ÷ 1000 ÷ $12=5 kilos Actual usage $72 688 ÷ $11.8=6160kilos Direct material price variance ($12 – $11.8) × 6160 = $1232 **(1)** (F) **(1)** Direct material usage variance [6160 – (1120 × 5)] × $12 = $6720 **(1)** (A) **(1)**	**4**
5(d)(ii)	Direct material price variance – Price per kilo reduces **(1)** due to a decrease in market price/trade discount for larger order/shift to a cheaper supplier **(1)** Direct material usage variance – More direct materials are used **(1)** due to materials of lower quality/inefficient use by labours **(1)**	**4**

Question	Answer	Marks
5(e)	For **(Max 2)** reducing price can increase sales as evidenced in July with a reduction of $2, 120 more units were sold customer base can be increased provided that the quality maintained Against **(Max 2)** there is no financial gain due to a higher proportionate increase in direct materials, direct labour and fixed overhead the company may not have enough capacity to cope with the increased production the quality of products may be compromised. **1 mark for decision** **Accept other valid answers.**	**5**

Question	Answer	Marks
6(a)	It is the cost of financing an investment through debt and/or equity. **(1)** It is also the minimum required rate of return for an investment. **(1)** **Accept other valid answers.**	**2**
6(b)(i)	2 years **(1)** + [($550 000 – $400 000)/180 000] × 12 = 2 years and 10 months **(1)**	**2**
6(b)(ii)	Average profit ($200000 × 2 + $180 000 + $162 000 – $550 000)/4 = $48 000 **(1)** $48 000/($550 000/2) **(1)** = 17.45% **(1)OF**	**3**

Question	Answer	Marks
6(b)(iii)	NPV | | $ | 10% | $ | Year 0 (550 000) 1 (550 000) **(1)** Year 1 200 000 0.909 181 800 **}** Year 2 200 000 0.826 165 200 **}** Year 3 180 000 0.751 135 180 **}** Year 4 162 000 0.683 110 646 **}(1)** 192 000 42 826 **(1)OF**	**3**
6(b)(iv)	$ 16% $ Year 0 (550 000) 1 (550 000) Year 1 200 000 0.862 172 400 Year 2 200 000 0.743 148 600 Year 3 180 000 0.641 115 380 Year 4 162 000 0.552 89 424 192 000 (24 196) **(1)** 10% **(1)** + [6% × ($42 826/($42 826 + $24 196)] **(1)OF** = 13.83% **(1)OF**	**4**
6(c)	The payback period is within the life of the machine **(1)** There is a positive NPV **(1)** The IRR is higher than the cost of capital **(1)** The directors should purchase the machine **(1)** **Max 2** **1 mark for decision.** **Accept OF comments**	**3**
6(d)	The NPV is negative **(1)** therefore the machine should not be purchased **(1)** **Accept OF comments**	**2**

Question	Answer	Marks
6(e)	16% 0.862 ×1 0.862 0.743 ×1 0.743 0.641 ×0.9 0.5769 0.552 ×0.9×0.9 0.44 712 2.62 902 **(1)** $550 000**(1)** ÷ 2.62 902 = $209 203 | | $ | | Year 1 209 203 **(1)** Year 2 209 203 **(1)** Year 3 $209203x0.9 188 283 **(1)** Year 4 $188283x0.9 169 455 **(1)** 776 145 Proof: $ 16% $ Year 0 (550 000) 1 (550 000) Year 1 209 203.4 0.862 180 333 Year 2 209 203.4 0.743 155 438 Year 3 188 283.1 0.641 120 690 Year 4 169 454.8 0.552 93 539 0 Alternative methods of calculation are possible, e.g. to increase each year's discounted cash flow by 4.6% to eliminate the deficit of $24 196 and then to gross up each year's increased amount by the discount rate. This gives slightly different figures due to rounding but is a correct answer.	6