Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

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.

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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.

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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)	Statement of cash flows • use historical data • format is prescribed by accounting standard, i.e. IAS7 • investors to make financial decisions • prepared on an annual basis Cash budget • use predicted figures • no prescribed format, suit management purpose • management to make management decisions • may be monthly or other periodic basis **(1 marks)** × 3 pairs of contrast **Max 3** **Accept other valid points**	**3**
1(b)		**9**

	$		
Profit from operations	55 950		
Premises depreciation	20 000	**W1**	**(1)**
Machinery depreciation	27 000	**W2**	**(1)**
Motor vehicles depreciation	39 800	**W3**	
Loss on disposal of MV	6 500	**W4**	**(1)**
Decrease in inventory	3 950		**(1)**
Increase in trade receivables	(3 100)		**(1)**
Increase in trade payables	4 300		**(1)**
Cash from operations	154 400		**(1)OF**

W1 400 000 – 380 000
W2 202 000 + 28 000 – 203 000
W3 118 000 + 74 000 – 113 200 **(1)** – (65 000 – 26 000)**(1)**
W4 (65 000 – 26 000) – 32 500

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Question	Answer	Marks
1(c)	Statement of cash flows for the year ended 31 December 2019 $ $ Operating activities Cash from operations 154 400 **OF** Tax paid (13400+12600-13400) (12 600) **(1)** Interest paid (8250+2500-750) (10 000) **(1)** Net cash from operating activities 131 800 Investing activities Purchase of machinery (28 000) } Purchase of motor vehicle (74 000) } Sale proceeds of motor vehicle 32 500 }**(1)** Net cash used in investing activities (69 500) Financing activities Receipts from issue of share capital 60 000 **(1)** Repayment of loan (70 000) **(1)** Dividend paid (44 000) **(1)** Net cash used in financing activities (54 000) Net increase in cash and cash equivalents 8 300 **(1)OF** Cash and cash equivalents at the start of the year 8 100 Cash and cash equivalents at the end of the year 16 400 Must have opening cash from operations from **(b)** for the **OF** mark	**7**
1(d)	Increase in general reserve is due to a transfer from retained earnings to general reserve, not a cash transaction. **(1)** There is no impact on the cash flow.**(1)**	**2**
1(e)	Responses could include: • there is still net increase in cash and cash equivalents even though part of the loan was repaid **(1)** • but it is only small increase **(1)** • additional shares were issued / large net cash inflows from operating activities **(1)** • saved from paying loan interest / gearing ratio is improved **(1)** • had to pay dividend and additional non-current assets. **(1)** **1 mark** for decision plus **Max 3** marks for justification. **Accept other valid points**	**4**
2(a)(i)	Work in progress are goods in the process of production that have not yet been completed. **(1)**	**1**

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Question	Answer	Marks
2(a)(ii)	Valued at the lower of cost **(1)** and net realisable value **(1)** according to IAS2.	**2**
2(b)	Manufacturing account (for watches) for the year ended 31 December 2019	**7**

	$	$	
Opening inventory		12 500	
Purchases		132 700	
Closing inventory		(13 400)	
Cost of raw materials consumed		131 800	**(1)**
Direct wages		168 000	
Prime cost		299 800	**(1)**
Manufacturing overheads		63 500	
Depreciation: plant and machinery **W1**		34 000	**(1)**
Rent and rates **W2**		38 400	**(1)**
		435 700	
Opening WIP	9 000		
Closing WIP	(9 700)	(700)	**(1)**
Manufacturing cost		435 000	
Add 20% profit		87 000	**(1)**
Transfer to trading account		522 000	**(1)**

W1 (320000-184000)x25%=34000
W2 (68000-4000)x3/5=38400

2(c)	Watches		Clocks		**2**
	$		$		
Sales	628 000		332 000		
Opening inventory	48 000	**W1**	28 400		
Transfer value/purchases	522 000	**OF**	252 600		
Closing inventory	(54000)		(29600)		
Cost of sales	516 000		251 400		
Gross profit	112 000	**(1)CF**	80 600	**(1)**	

W1: ($40000 × 120%)

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Question	Answer	Marks
2(d)	Extract from income statement for the year ended 31 December 2019 $ Gross profit (80 600 + 112 000) 192 600 **(1)OF** Manufacturing profit 87 000 **(1)OF** Increase in provision for unrealised profit (1 000) **(1)W1** **W1:** (54 000 – 48 000) × 20/120	**3**
2(e)	Responses could include: Accounting concepts • prudence concept **(1)** • realisation concept **(1)** • consistency concept **(1)** • profit not overstated and assets not overstated **(1)** • profit is unrealised because finished goods have not been sold to third party **(1)** increase/decrease in provision for unrealised profit is adjusted in the income statement, representing that both the opening finished goods inventory and closing finished goods inventory are stated at cost **(1)** • provision for unrealised profit is deducted from the transfer value of finished goods inventory, reflecting the cost of the finished goods inventory **(1)** **Max 2 marks** for accounting concepts and **Max 3 marks** for accounting treatment in financial statements	**5**
2(f)	Responses could include: • on the basis of **(c),** clocks have a higher gross profit margin than watches : clocks 24.28% (80 600/332 000) and watches 17.833% (112 000/628 000) • after adding manufacturing profit and adjusting unrealised profit to the watches gross profit, the profit of watches is 31.53% (<112 000 + 87 000 – 1000./628 000). • selling watches is more profitable than selling clocks • closing the plant to manufacture watches will incur more costs such as redundancy cost • specialisation in one product or too risky to sell only one product • watches and clocks may be complementary to each other • quality can be ensured for own manufactured goods • dependent on the supplier of clocks **1 mark** for decision plus **Max 4** for justification. **Accept other valid points**	**5**

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Question	Answer	Marks
3(a)		4

	$	
Office equipment	35 600	}
Motor vehicles	20 000	}**(1)**
Inventory **W1**	13 680	}
Trade receivables **W2**	18 720	}**(1)**
Goodwill **W3**	32 000	**(1)**
	120 000	**(1)OF**

W1 $11 400 × 120% = $13 680
W2 $19 500 × 96% = $18 720
W3 ($26 000 + $31 000 + $39 000)/3 = $32 000

3(b) **7**

Realisation account

	$			$	
Office equipment	42 400	}	X Limited	120 000	**(1)**
Motor vehicles	27 700	}**(1)**	Capital-Ang (Motor vehicle)	10 000	**(1)**
Inventory	11 400	}	Discount received	700	**(1)**
Trade receivables	19 500	}**(1)**			
Bank-realisation cost	3 700	**(1)**			
Profit on realisation					
Ang	15 600	}			
Kim	10 400	}**(1)**			
	130 700			130 700	

3(c) **6**

Capital account

	Ang $		Kim $			Ang $	Kim $	
Current account	2 500	}			Balance b/d	42 000	38 000	
Realisation (MV)	10 000			**(1)**	Current account		5 300	}**(1)**
X Ltd -ordinary shares	45 000		45 000	**(1)both**	Realisation - profit	15 600	10 400	**(1)both**
Bank	100	**(1)OF**	8 700	**(1)OF**				
	57 600		53 700			57 600	53 700	

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Question	Answer	Marks
3(d)	Responses could include**:** synergy **(1)** trade discount **(1)** expertise and experience from Ang and Kim **(1)** more customers **(1)** cost saving **(1)** economy of scale **(1)** less competition from partnership **(1)** **Max 3** **Accept other valid points**	**3**
3(e)	The 2019 partnership profit $39 000 is shared by Ang $23 400 and Kim $15 600 **(1)** The expected income from X Limited in 2020 is : Ang $ / Kim $ Director fee 25 000 / 25 000 **(1) both** Dividend 16 250 / 16 250 **(1)both** Total 41 250 / 41 250 Ang will receive $17 850 more ($41 250 – $23 400) and Kim will receive $25 650 more ($41 250 – $15 600) Director fee is stable income **(1)** Both can participate in the decision making **(1)** Shareholdings in X Limited is a valuable asset **(1)** **1 mark** for decision plus **Max 2** marks for financial reasons and **Max 2** marks for non-financial reasons **Accept other valid points**	**5**

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Question	Answer	Marks
4(a)	Summarised draft statement of financial position at 31 December 2019 $ Non-current assets 546 000 **(1)** Current assets 99 000 **W1 (1)** Total assets 645 000 **{** Equity 480 000 Non-current liabilities 120 000 **W2 (1)** Current liabilities 45 000 Total equity and liabilities 645 000 **{ (1)OF both** **W1** $45 000 × 2.2 = $99 000 **W2** ($480 000 × 20%)/80% = $120 000	**4**
4(b)	$ Retained earnings at 1 January 86 000 **(1)OF** Profit for the year 72 000 **W1** Dividend paid (36 000) **W2** Transfer to general reserve (10 000) **(1)** Retained earnings at 31 December 112 000 **W1** $2.4 ÷ 10 = $0.24 **(1)** 300 000 × $0.24 = $72 000 **(1)** **W2** $2.4 × 5% = $0.12 **(1)** $0.12 × 300 000 = $36 000 **(1)**	**6**
4(c)	According to IAS 36 an asset is impaired when the carrying amount of the asset exceeds **(1)** its recoverable amount **(1).** Recoverable amount is the higher **(1)** of an asset's fair value and its value in use.**(1)**	**4**
4(d)(i)	Accounting treatment to issue 1 design $7000 and installation $3000 incurred before the machine is put into use **(1)** capital expenditure **(1)**	**2**

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Question	Answer	Marks
4(d)(ii)	Accounting treatment to issue 2 recoverable amount is the higher of fair value ($100 000) and value in use ($112 000) **(1)** carrying value $1200 00 **(1)** is more than the recoverable amount, therefore it is impairment loss of $8000 ($120 000 – $112 000) **(1)** Carrying value $150 000 – ($150 000 × 5/25) = $120 000	**3**
4(e)	$ Profit for the year 72 000 **OF** Design 7 000 **(1)** Installation 3 000 **(1)** Additional depreciation ($7000 + $3000) **(1)** × 25% (2 500) **(1)** Impairment loss ($120 000 – $112 000) (8 000) **(1)** Adjusted profit 71 500 **(1)OF**	**6**

Question	Answer	Marks
5(a)	($82 – $20 – $36 – $10.5) × 4000 = $62 000 **(1)** ($42 000/12 000) × 3 = $10.5 **(1)** **Alternative answer** (($82 – $20 – $36) × 4000 – $42 000 **(1)** = $62 000 **(1)**	**2**
5(b)	$ Actual sales 344 000 Direct materials 95 718 Direct labour 150 500 Fixed overheads 43 600 Actual profit 54 182 **(1)**	**1**

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Question	Answer			Marks
5(c)	Sales price variance			**12**
	($82 – $80) × 4300	8 600 **(1)**	A **(1)**	
	Sales volume variance			
	(4300 – 4000) × $15.5	4 650 **(1)**	F **(1)**	
	Labour rate variance			
	($12.5 – $12) × 12 040	6 020 **(1)**	A **(1)**	
	Labour efficiency variance			
	(12 040 – 4300 × 3) × $12	10 320 **(1)**	F **(1)**	
	Overheads expenditure variance			
	$43 600 – $42 000	1 600 **(1)**	A **(1)**	
	Overheads volume variance			
	(4300 – 4000) × $10.5	3 150 **(1)**	F **(1)**	

5(d)		F	A			**5**
		$	$		$	
	Budgeted profit				62 000 **OF**	
	Sales price variance		8 600	}		
	Sales volume variance	4 650		}**(1)**		
	Material price variance		4 558	}		
	Materials usage variance		5 160	}**(1)**		
	Labour rate variance		6 020	}		
	Labour efficiency variance	10 320		}**(1)**		
	Overheads expenditure variance		1 600	}		
	Overheads volume variance	3 150		}**(1)**		
		18 120	(25 938)			
	Actual profit				54 182 **(1)OF**	
	OF from **5(a)** and **(b)**					

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Question	Answer	Marks
5(e)	Responses could include: • adverse materials price variance suggests higher price than expected **(1)** • adverse materials usage variance suggests poor quality leading to wastage **(1)** • better quality from new supplier can reduce wastage **(1)** • no trade discount will make the materials more expensive **(1)** • supply of raw materials from new supplier reliable? **(1)** • higher purchase price may outweigh better usage **(1)** • better quality attracts new customers and hence increases sales and profit **(1)** **1 mark** for decision and **Max 4** for justification Accept other valid points	**5**

Question	Answer	Marks
6(a)	Standard $ / Premium $ Direct materials 200 000 / 120 000} Direct labour 540 000 / 360 000 }**(1 both)** Factory overhead 144 000 **(1)** / 96 000 **W1 (1)** Total cost 884 000 / 576 000 }**(1)OF both** Unit cost $88.4 / $144 }**(1)OF both** **W1** $240 000/(30 000 + 20 000) = $4.8 30 000 × $4.8 = $144 000 20 000 × $4.8 = $96 000	**5**
6(b)	Standard : $88.4 × 140% = $123.76 **(1)OF** Premium : $144 × 140% = $201.6 **(1)OF**	**2**
6(c)	Cost driver is an activity which results in a specific cost being incurred. **(1)**	**1**

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Question	Answer	Marks
6(d)	Responses could include: • better ascertaining product costs **(1)** • better decision making, i.e. pricing **(1)** • better profitability analysis among products **(1)** • unused capacity can be identified easily, i.e. seasonal fluctuations **(1)** **Max 3** **Accept other valid points**	**3**
6(e)		

	Standard $	Premium $	
Direct materials	200 000	120 000	
Direct labour	540 000	360 000	
Factory overhead	175 000	65 000	**W1**
	915 000	545 000	**(1) OF for both**
Unit cost	91.5	136.25	**(1) for both**

W1

	Standard	Premium			
Materials handling	60 000	20 000	**(1) for both**	$80 000 × 30/40 = $60 000	$80 000 × 10/40 = $20 000
Machine setups	65 000	25 000	**(1) for both**	$90 000 × 65/90 = $65 000	$90 000 × 25/90 = $25 000
Inspection	50 000	20 000	**(1) for both**	$70 000 × 10 000/14 000 = 50 000	
	175 000	65 000		$70 000 × 4000/14 000 = $20 000	

6(f)	Standard: $91.5 × 140% = $128.1 **(1)** Premium: $136.25 × 140% = $190.75 **(1)**	**2**
6(g)	The difference in total production cost for each product is due to difference in overhead charged **(1)** Under absorption costing, Premium charges a higher overhead per unit **(1)** Under ABC, Premium charges a lower overhead per unit **(1)** Absorption costing: Standard $144 000/10 000=$14.4 Premium $96 000/4000=$24 ABC: Standard $175 000/10 000=$17.5 Premium $65 000/4000=$16.25	**3**

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Question	Answer	Marks
6(h)	Responses could include: For 2020 • ABC allow fairer allocation of overheads because it is based on the activities consumed **(1)** • unfair allocation resulting one product over-costing while another product under-costing **(1)** For 2021 • if only one product is produced, all the overheads are attributable to that product **(1)** • it is not appropriate to adopt ABC if V Limited only produced one product.**(1)** **Max 4** **Accept other valid points.**	**4**

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