



Cambridge International AS & A Level

ACCOUNTING**9706/32**

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.

This document consists of **16** 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>Responses could include: Investors can better understand</p> <ul style="list-style-type: none"> • the ability of a business to generate cash from operating activities (1) • ability of business to raise cash from external sources (1) • the causes of changes in net cash flows (1) • whether the business can generate enough cash to buy non-current assets, paying tax and dividend (1) • statement of cash flows is more objective, preparing on the basis of actual cash received and paid, unlike income statement and statement of financial position which involves accounting policies whereas some items are based on estimation. (1) <p>Max 3 Accept other valid points</p>	3												
1(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Retained earnings 31 Dec 2019</td> <td style="text-align: right;">\$ 61 700 }</td> </tr> <tr> <td>Retained earnings 31 Dec 2018</td> <td style="text-align: right;">(88 200) }(1)</td> </tr> <tr> <td>Interim dividend</td> <td style="text-align: right;">24 000 (1)</td> </tr> <tr> <td>Tax charge</td> <td style="text-align: right;">3 100 (1)</td> </tr> <tr> <td>Interest</td> <td style="text-align: right;"><u>4 800</u> (1)</td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;"><u>5 400</u> (1)</td> </tr> </table>	Retained earnings 31 Dec 2019	\$ 61 700 }	Retained earnings 31 Dec 2018	(88 200) }(1)	Interim dividend	24 000 (1)	Tax charge	3 100 (1)	Interest	<u>4 800</u> (1)	Profit from operations	<u>5 400</u> (1)	5
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Question	Answer	Marks
1(c)	<p style="text-align: right;">\$ OF</p> <p>Profit from operations 5 400 (3)</p> <p>Depreciation W1 99 750 (1)</p> <p>Profit on disposal of asset (1 300) (1)</p> <p>Decrease in inventory 9 950)</p> <p>Increase in trade receivables (10 800) (1)</p> <p>Increase in trade payables 1 500)</p> <p>Decrease in accrued expenses <u>(2 300)</u> (1)</p> <p>Cash from operations <u>102 200</u> (1)OF</p> <p>W1</p> <p>Depreciation: Plant and machinery (225 000 + 180 000 – 344 250) = 60 750 (1) 39 000 + 60 750 = 99 750 (1) CF Motor vehicles (136 000 – 7000 – 90 000) = 39 000 (1)</p> <p>To be awarded the (1)OF for cash from operations, the opening figure must be from 1(b).</p>	7
1(d)(i)	<p style="text-align: right;">\$ OF</p> <p>Net cash from operations 102 200 (1)</p> <p>Tax paid (5 200) (1)</p> <p>Interest paid <u>(2 200)</u> (1)</p> <p>Net cash from operating activities <u>94 800</u> (1)OF</p> <p>To be awarded the (1)OF for net cash from operating activities, the opening figure must be from 1(c).</p>	3
1(d)(ii)	<p style="text-align: right;">\$ (1)</p> <p>Loan received 80 000 (1)</p> <p>Dividend paid <u>(24 000)</u> (1)</p> <p>Net cash from financing activities <u>56 000</u></p>	2

Question	Answer	Marks
1(e)	<p>Response could include:</p> <ul style="list-style-type: none"> • paying out constant dividends may strengthen the value of shares (1) • poorer cash position, i.e. bank overdraft \$8500 at 31 December 2019 has increased (1) • bank loan already \$80000 obtained in 2019 (1) • dividends are paid out of retained earnings of previous years (1) • if P plc does not earn good profit in 2020, paying out cash dividends will further reduce the liquidity (1) • can pay bonus shares instead of cash dividend (1) <p>1 mark for decision plus Max 4 marks for justification. Accept other valid points.</p>	5

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2(a)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">50 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Plant and equipment</td> <td style="text-align: right;">55 860</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">13 125</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">23 670</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;"><u>(14 950)</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">127 705</td> <td></td> </tr> <tr> <td>Capital in new partnership</td> <td style="text-align: right;">(100 000)</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Loan to new partnership</td> <td style="text-align: right;"><u>(20 000)</u></td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td>Balance payable to Raj</td> <td style="text-align: right;"><u>7 705</u></td> <td style="text-align: right;">(1)</td> </tr> </table>		\$		Goodwill	50 000	(1)	Plant and equipment	55 860	(1)	Inventory	13 125	(1)	Trade receivables	23 670	(1)	Trade payables	<u>(14 950)</u>			127 705		Capital in new partnership	(100 000)	}	Loan to new partnership	<u>(20 000)</u>	}(1)	Balance payable to Raj	<u>7 705</u>	(1)	6
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2(b)	\$	12																														

Question	Answer	Marks
2(c)	<p>Responses could include:</p> <ul style="list-style-type: none"> • interest rate is lower (1) as Raj will probably demand less than the market rate (1) • no need to submit financial statements (1) obtaining the loan will be quicker (1) • no security required (1) so business assets will not be tied up in a loan (1) • trust among the partners (1) as it is flexible to pay to Raj in case the business does not perform well (1) <p>1 mark for stating a reason up to a Max of 2 reasons, plus further 1 mark for development for each reason. Accept other valid points</p>	4
2(d)	<p>Responses could include:</p> <ul style="list-style-type: none"> • same field and same knowledge/expertise (1) • international working experience (1) • bring additional capital (1) • may dilute the ownership (1) • may dilute the control (1) • already merge with Raj (1) • share the profit (1) • share the loss (1) <p>1 mark for decision and Max 2 marks for justification Accept other valid points</p>	3

Question	Answer	Marks
3(a)	$ \begin{array}{r} \text{Shop takings (49 200 + 870)} \\ \text{Opening inventory} \\ \text{Purchases (15 100 + 2810 – 2740)} \\ \text{Closing inventory} \\ \hline \text{Gross profit} \\ \text{Shop wages} \\ \text{Shop expenses} \\ \hline \text{Shop profit for the year} \end{array} $	4
3(b)	$ \begin{array}{r} \text{Subscriptions (78 650 + (1200 – 1600)(1) + (1900 – 400)(1))} \\ \text{Shop profit} \\ \hline \text{Administrative expenses} \\ \text{Depreciation 40000x20\%} \\ \hline \text{Deficit for the year} \end{array} $	5
3(c)	$ \begin{array}{r} \text{Bank} \\ \text{Shop inventory} \\ \text{Members' subscriptions due} \\ \text{Club equipment - at cost} \\ \text{Club equipment - accumulated depreciation} \\ \text{Shop trade payables} \\ \text{Subscriptions in advance} \\ \text{Accumulated fund at 1 January 2019} \\ \text{Deficit for the year} \\ \hline \text{Accumulated fund at 31 December 2019} \end{array} $	3

Question	Answer		Marks
3(d)	Financial statements of a limited company income statement, statement of financial position and statement of cash flows profit or loss for the year equity prepared on the basis of trial balance	Financial statements of a not-for profit organisation income and expenditure account and statement of financial position excess of income over expenditure or excess of expenditure over income accumulated fund prepared on the basis of receipts and expenditure account	4
3(e)	<p>Accept any other reasonable alternatives. 1 mark for each pair of differences up to a max of 4</p> <p>Responses could include:</p> <ul style="list-style-type: none"> • bank balance is only \$16 770 (\$15 900 + \$870) (1) • the club must replace the club equipment which is at the final year of the useful life (1) • no other assets such as investments which are easily convertible into cash (1) • do not have enough cash to replacement club equipment (1) • may ask for credit/payable by instalments/bank loan/members' contribution (1) <p>Max 4 Accept other valid points</p>		4
3(f)	<p>Responses could include:</p> <ul style="list-style-type: none"> • subscriptions fee are recurring and club equipment is once and for all (1) • members may leave the club (1) • members are not obliged to subscribe more (1) • members' donations (1) • bank loans – finance cost and collateral required (1) • alternative source of finance could be interest free loans from members (1) <p>Max 4 for comments, plus further 1 mark for decision Accept other valid points</p>		5

Question	Answer	Marks
4(a)	<p>Equity W1 \$ 560 000 (1) Non-current liabilities W2 80 000 (1) Current liabilities W3 <u>140 000 (1)</u> <u>780 000 (1)</u></p> <p>W1 \$640 000 – \$80 000 = \$560 000 W2 \$780 000 – \$140 000 = \$640 000 \$640 000 × 12.5% = \$80 000 W3 \$224 000 ÷ 1.6 = \$140 000</p>	4
4(b)	<p>Draft profit from operations W1 \$ 144 000 (1) Interest W2 <u>(4 000) (1)OF</u> Draft profit for the year <u>140 000 (1)</u></p> <p>W1 \$640 000 × 22.5% = \$144 000 W2 \$80 000 OF × 5% = \$4 000</p>	3
4(c)	<p>Ordinary shares \$ 200 000 (1) New issue 100 000 (1) Dividend paid 50 000 (1) Draft profit for the year (50 000) (1) Bonus issue of shares <u>350 000</u> Transfer to reserve <u>25 000 (1)</u> At 31 December 2019 <u>390 000</u></p> <p>W1 \$140 000 ÷ 2.5 = \$56 000 W2 \$560 000 – \$350 000 – \$25 000 = \$185 000</p>	10

Question	Answer	Marks
4(d)	<p>Adjusting events are those that provide evidence of conditions that existed at the end of the reporting period. (1) The entity should adjust the amounts recognised in its financial statements. (1) Non-adjusting events are those events after reporting period that are indicative of conditions that arose after the end of the reporting period. (1) The entity should not adjust the amounts recognised in its financial statements. (1)</p>	4
4(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> • Adjusting events (1) • Arising from the sales in 2019 (1) • Trade receivables existed at 31 December 2019 (1) • Evidence of assets at 31 December 2019 being impaired (1) • Prudence concept (1) • Accounting treatment : should be written off / recognised in the financial statements of 2019 <p>1 mark for each valid point up to a maximum of three plus further 1 mark for explaining accounting treatment</p>	4

Question	Answer	Marks																								
5(a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 20%; text-align: center;">Master budget</th> <th style="width: 20%; text-align: center;">Flexed budget</th> <th style="width: 20%; text-align: center;">Actual</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Direct materials</td> <td style="text-align: right;">60 000 (1)</td> <td style="text-align: right;">57 600 (1)</td> <td style="text-align: right;">68 340</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;">160 000 (1)</td> <td style="text-align: right;">153 600 (1)</td> <td style="text-align: right;">156 864</td> </tr> <tr> <td>Fixed overheads</td> <td style="text-align: right;"><u>48 000 (1)</u></td> <td style="text-align: right;"><u>46 080 (1)</u></td> <td style="text-align: right;">49 800</td> </tr> <tr> <td>Total costs</td> <td style="text-align: right;"><u>268 000</u></td> <td style="text-align: right;"><u>257 280</u></td> <td style="text-align: right;"><u>275 004 (1)</u></td> </tr> </tbody> </table>		Master budget	Flexed budget	Actual		\$	\$	\$	Direct materials	60 000 (1)	57 600 (1)	68 340	Direct labour	160 000 (1)	153 600 (1)	156 864	Fixed overheads	<u>48 000 (1)</u>	<u>46 080 (1)</u>	49 800	Total costs	<u>268 000</u>	<u>257 280</u>	<u>275 004 (1)</u>	7
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5(b)(i)	Direct materials variance \$68 340 – \$57 600 10 740 A (1) OF Must be the difference between actual and flexed budget	1																								
5(b)(ii)	Direct materials price variance \$68 340 – (8040 × \$8) or (\$8.5 – \$8) × 8040 4020 A (1) pay more per kilo (1) Direct materials usage variance (2400 × 3 – 8040) × \$8 6720 A (1) use more materials (1)	4																								
5(c)(i)	Direct labour variance \$156 864 – \$153 600 3264 A (1) OF Must the difference between actual and flexed budget	1																								
5(c)(ii)	Direct labour rate variance \$156 864 – (9120 × \$16) or (\$17.2 – \$16) × 9120 Direct labour efficiency variance (2400 × 4 – 9120) × \$16 7680 F (1) use fewer labour hour (1)	4																								
5(d)(i)	Total fixed overheads variance \$49 800 – \$46 080 3720 A (1)	1																								

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5(d)(ii)	Fixed overheads expenditure variance \$49 800 – \$48 000 1800 A (1)	1																																																									
5(d)(iii)	Fixed overheads volume variance \$48 000-\$46 080 1920 A (1)	1																																																									
5(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> responsibility accounting : manager is only responsible for anything that is under his/her control (1) production manager is only responsible for the production process (1) production is not responsible for the purchases of raw materials (1) delay in supply of materials has an effect on delay in production (1) production manager is responsible for the efficiency of direct labour, not the rate which is not under his control, i.e. inflation or bargaining power of labour union (1) ensuring the stable supply of raw materials should be the responsibility of the manager of purchasing department (1) <p>Max 4 for comments, plus further 1 mark for decision Accept other valid points</p>	5																																																									
6(a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">March</th> <th style="text-align: right;">April</th> </tr> <tr> <th></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Opening balance</td> <td style="text-align: right;">39 400</td> <td style="text-align: right;"><u>25 140</u></td> </tr> <tr> <td>Receipts</td> <td></td> <td></td> </tr> <tr> <td>Cash sales</td> <td style="text-align: right;">84 000 W1 (1)</td> <td style="text-align: right;">90 000 W2 (1)</td> </tr> <tr> <td>Credit sales - with cash discount</td> <td style="text-align: right;">22 230 W3 (1)</td> <td style="text-align: right;">23 940 W4 (1)</td> </tr> <tr> <td>Credit sales no cash discount</td> <td style="text-align: right;">86 400 W5 (1)</td> <td style="text-align: right;"><u>93 600</u> W6 (1)</td> </tr> <tr> <td>January sales</td> <td style="text-align: right;"><u>192 630</u></td> <td style="text-align: right;"><u>207 540</u></td> </tr> <tr> <td>February sales</td> <td></td> <td></td> </tr> <tr> <td>Total receipts</td> <td></td> <td></td> </tr> <tr> <td>Payments</td> <td></td> <td></td> </tr> <tr> <td>Suppliers</td> <td style="text-align: right;">72 000 W7 (1)</td> <td style="text-align: right;">76 800 W8 (1)</td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">67 200</td> <td style="text-align: right;">71 680 W9 (1) both</td> </tr> <tr> <td>Current month</td> <td style="text-align: right;">15 680</td> <td style="text-align: right;">16 800 W10 (1) both</td> </tr> <tr> <td>Previous month</td> <td style="text-align: right;">52 010</td> <td style="text-align: right;">52 010 (1) both</td> </tr> <tr> <td>Other overheads</td> <td style="text-align: right;"><u>206 890</u></td> <td style="text-align: right;"><u>36 000</u> (1)</td> </tr> <tr> <td>Purchase of machinery</td> <td style="text-align: right;"><u>253 290</u></td> <td style="text-align: right;"><u>253 290</u></td> </tr> <tr> <td>Total payments</td> <td style="text-align: right;">25 140</td> <td style="text-align: right;">(20 610) (1)OF</td> </tr> <tr> <td>Ending balance</td> <td></td> <td></td> </tr> </tbody> </table>		March	April		\$	\$	Opening balance	39 400	<u>25 140</u>	Receipts			Cash sales	84 000 W1 (1)	90 000 W2 (1)	Credit sales - with cash discount	22 230 W3 (1)	23 940 W4 (1)	Credit sales no cash discount	86 400 W5 (1)	<u>93 600</u> W6 (1)	January sales	<u>192 630</u>	<u>207 540</u>	February sales			Total receipts			Payments			Suppliers	72 000 W7 (1)	76 800 W8 (1)	Wages	67 200	71 680 W9 (1) both	Current month	15 680	16 800 W10 (1) both	Previous month	52 010	52 010 (1) both	Other overheads	<u>206 890</u>	<u>36 000</u> (1)	Purchase of machinery	<u>253 290</u>	<u>253 290</u>	Total payments	25 140	(20 610) (1)OF	Ending balance			13
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Question	Answer	Marks
6(a)	<p>Workings</p> <p>Cash sales W1 $2800 \times 40\% \times \\75 84 000 W2 $3000 \times 40\% \times \\75 90 000 Credit sales – with cash discount W3 $2600 \times 60\% \times 20\% \times \\$75 \times 95\%$ 22 230 W4 $2800 \times 60\% \times 20\% \times \\$75 \times 95\%$ 23 940 Credit sales – no cash discount W5 January sales $2400 \times 60\% \times 80\% \times \\75 86 400 W6 February sales $2600 \times 60\% \times 80\% \times \\75 93 600 Payment for purchases W7 $3000 \times 3 \times \\$8$ 72 000 W8 $3200 \times 3 \times \\$8$ 76 800 Wages – current month W9 March production $3000 \times \\$28 \times 80\%$ 67 200 April production $3200 \times \\$28 \times 80\%$ 71 680 Wages – previous month W10 Feb production $2800 \times \\$28 \times 20\%$ 15 680 March production $3000 \times \\$28 \times 20\%$ 16 800</p>	
6(b)	<p>Responses could include:</p> <ul style="list-style-type: none"> • to identify cash deficit and surplus during the month and decide any necessary action to be taken (1) to enable appropriate planning to source other funds or make investments (1) • co-ordinate cash inflows and outflows (1) • determine the time of capital expenditure (1) depending on resources available (1) • evaluate actual performance with budgeted flows (1) • to identify the cash balance or overdraft at the end of each month (1) <p>1 mark for identifying each purpose up to a Max of 2 marks, plus further 1 mark for explanation/development for each purpose.</p> <p>Accept other valid points.</p>	4

Question	Answer	Marks
6(c)	<p>Other overheads</p> <p>Additional depreciation</p> $ \begin{array}{r} \$ \\ 56\,210 \text{ (1)} \\ \underline{600 \text{ (1)}} \\ 56\,810 \end{array} $ <p>Break-even $56\,810/\\$23 = 2470$ units (1)</p> <p>Budgeted sales for April = 3000 units.</p> <p>Therefore, T Limited can exceed breakeven in April. (1)</p>	4
6(d)	<p>Responses could include</p> <ul style="list-style-type: none"> • sales and cash receipts have different timing (1) • purchases and payment for purchases have different timing (1) • expenses incurred and actual payments have different timing (1) • calculation of the breakeven point does not take into account capital expenditure (1) • calculation of the breakeven point includes non-cash item such as depreciation (1) • businesses making sales more than the breakeven point in a month does not necessarily mean that there is cash surplus in that month (1) <p>Max 4 Accept other valid points</p>	4