



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.

This document consists of **15** 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.

<p>GENERIC MARKING PRINCIPLE 1:</p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> • 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.
<p>GENERIC MARKING PRINCIPLE 2:</p> <p>Marks awarded are always whole marks (not half marks, or other fractions).</p>
<p>GENERIC MARKING PRINCIPLE 3:</p> <p>Marks must be awarded positively:</p> <ul style="list-style-type: none"> • 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.
<p>GENERIC MARKING PRINCIPLE 4:</p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>

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>Statement of cash flows</p> <ul style="list-style-type: none"> • use historical data • format is prescribed by accounting standard, i.e. IAS7 • investors to make financial decisions • prepared on an annual basis <p>(1 marks) × 3 pairs of contrast Max 3 Accept other valid points</p>	3																																																																						
1(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right; width: 10%;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;">55 950</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Premises depreciation</td> <td style="text-align: right;">20 000</td> <td style="text-align: right;">W1</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Machinery depreciation</td> <td style="text-align: right;">27 000</td> <td style="text-align: right;">W2</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Motor vehicles depreciation</td> <td style="text-align: right;">39 800</td> <td style="text-align: right;">W3</td> <td></td> <td></td> </tr> <tr> <td>Loss on disposal of MV</td> <td style="text-align: right;">6 500</td> <td style="text-align: right;">W4</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Decrease in inventory</td> <td style="text-align: right;">3 950</td> <td></td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Increase in trade receivables</td> <td style="text-align: right;">(3 100)</td> <td></td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Increase in trade payables</td> <td style="text-align: right;">4 300</td> <td></td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Cash from operations</td> <td style="text-align: right;"><u>154 400</u></td> <td></td> <td style="text-align: right;">(1)OF</td> <td></td> </tr> <tr> <td>W1</td> <td>400 000 – 380 000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>W2</td> <td>202 000 + 28 000 – 203 000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>W3</td> <td>118 000 + 74 000 – 113 200 (1) – (65 000 – 26 000)(1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>W4</td> <td>(65 000 – 26 000) – 32 500</td> <td></td> <td></td> <td></td> </tr> </table>		\$				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	<u>154 400</u>		(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				9
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1(d)	<p>Increase in general reserve is due to a transfer from retained earnings to general reserve, not a cash transaction. (1)</p> <p>There is no impact on the cash flow. (1)</p>	2																																						
1(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> • 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) <p>1 mark for decision plus Max 3 marks for justification. Accept other valid points</p>	4																																						
2(a)(i)	<p>Work in progress are goods in the process of production that have not yet been completed. (1)</p>	1																																						

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2(a)(ii)	Valued at the lower of cost (1) and net realisable value (1) according to IAS2.	2																																				
2(b)	<p>Manufacturing account (for watches) for the year ended 31 December 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%; text-align: right;">\$</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">12 500</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">132 700</td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>(13 400)</u></td> </tr> <tr> <td>Cost of raw materials consumed</td> <td style="text-align: right;">131 800 (1)</td> </tr> <tr> <td>Direct wages</td> <td style="text-align: right;"><u>168 000</u></td> </tr> <tr> <td>Prime cost</td> <td style="text-align: right;">299 800 (1)</td> </tr> <tr> <td>Manufacturing overheads</td> <td style="text-align: right;">63 500</td> </tr> <tr> <td>Depreciation: plant and machinery W1</td> <td style="text-align: right;">34 000 (1)</td> </tr> <tr> <td>Rent and rates W2</td> <td style="text-align: right;"><u>38 400</u> (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">435 700</td> </tr> <tr> <td>Opening WIP</td> <td style="text-align: right;">9 000</td> </tr> <tr> <td>Closing WIP</td> <td style="text-align: right;"><u>(9 700)</u></td> </tr> <tr> <td>Manufacturing cost</td> <td style="text-align: right;">435 000</td> </tr> <tr> <td>Add 20% profit</td> <td style="text-align: right;"><u>87 000</u> (1)</td> </tr> <tr> <td>Transfer to trading account</td> <td style="text-align: right;"><u>522 000</u> (1)</td> </tr> <tr> <td>W1 (320000-184000)×25%=34000</td> <td></td> </tr> <tr> <td>W2 (68000-4000)×3/5=38400</td> <td></td> </tr> </table>		\$	Opening inventory	12 500	Purchases	132 700	Closing inventory	<u>(13 400)</u>	Cost of raw materials consumed	131 800 (1)	Direct wages	<u>168 000</u>	Prime cost	299 800 (1)	Manufacturing overheads	63 500	Depreciation: plant and machinery W1	34 000 (1)	Rent and rates W2	<u>38 400</u> (1)		435 700	Opening WIP	9 000	Closing WIP	<u>(9 700)</u>	Manufacturing cost	435 000	Add 20% profit	<u>87 000</u> (1)	Transfer to trading account	<u>522 000</u> (1)	W1 (320000-184000)×25%=34000		W2 (68000-4000)×3/5=38400		7
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2(d)	<p>Extract from income statement for the year ended 31 December 2019</p> <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Gross profit (80 600 + 112 000)</td> <td style="text-align: right;">192 600 (1)OF</td> </tr> <tr> <td>Manufacturing profit</td> <td style="text-align: right;">87 000 (1)OF</td> </tr> <tr> <td>Increase in provision for unrealised profit</td> <td style="text-align: right;">(1 000) (1)W1</td> </tr> </table> <p>W1: (54 000 – 48 000) × 20/120</p>		\$	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	3
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2(e)	<p>Responses could include:</p> <p>Accounting concepts</p> <ul style="list-style-type: none"> • 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) <p>Max 2 marks for accounting concepts and Max 3 marks for accounting treatment in financial statements</p>	5								
2(f)	<p>Responses could include:</p> <ul style="list-style-type: none"> • 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 <p>1 mark for decision plus Max 4 for justification. Accept other valid points</p>	5								

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3(a)	<p>Office equipment \$ 35 600 }</p> <p>Motor vehicles 20 000 }(1)</p> <p>Inventory W1 13 680 }</p> <p>Trade receivables W2 18 720 }(1)</p> <p>Goodwill W3 <u>32 000 (1)</u></p> <p>120 000 (1)OF</p> <p>W1 $\\$11\,400 \times 120\% = \\$13\,680$</p> <p>W2 $\\$19\,500 \times 96\% = \\$18\,720$</p> <p>W3 $(\\$26\,000 + \\$31\,000 + \\$39\,000)/3 = \\$32\,000$</p>	4																									
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3(d)	<p>Responses could include:</p> <ul style="list-style-type: none"> 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) <p>Max 3 Accept other valid points</p>	3																
3(e)	<p>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 :</p> <table style="margin-left: 40px;"> <tr> <td>Ang</td> <td>\$</td> <td>Kim</td> <td>\$</td> </tr> <tr> <td>Director fee</td> <td>25 000</td> <td></td> <td>25 000 (1) both</td> </tr> <tr> <td>Dividend</td> <td><u>16 250</u></td> <td></td> <td><u>16 250</u> (1) both</td> </tr> <tr> <td>Total</td> <td><u>41 250</u></td> <td></td> <td><u>41 250</u></td> </tr> </table> <p>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)</p> <p>1 mark for decision plus Max 2 marks for financial reasons and Max 2 marks for non-financial reasons Accept other valid points</p>	Ang	\$	Kim	\$	Director fee	25 000		25 000 (1) both	Dividend	<u>16 250</u>		<u>16 250</u> (1) both	Total	<u>41 250</u>		<u>41 250</u>	5
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4(c)	<p>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)</p>	4														
4(d)(i)	<p>Accounting treatment to issue 1</p> <p>design \$7000 and installation \$3000 incurred before the machine is put into use (1) capital expenditure (1)</p>	2														

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 \$120 000 (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)	$ \begin{array}{r} \text{Profit for the year} \\ \text{Design} \\ \text{Installation} \\ \text{Additional depreciation } (\$7000 + \$3000) (1) \times 25\% \\ \text{Impairment loss } (\$120\,000 - \$112\,000) \\ \hline \text{Adjusted profit} \\ \hline \text{\$} \\ 72\,000 \text{ OF} \\ 7\,000 (1) \\ 3\,000 (1) \\ (2\,500) (1) \\ \underline{(8\,000) (1)} \\ 71\,500 (1) \text{ OF} \end{array} $	6
Question	Answer	Marks
5(a)	$ \begin{array}{l} (\$82 - \$20 - \$36 - \$10.5) \times 4000 = \$62\,000 (1) \\ (\$42\,000/12\,000) \times 3 = \$10.5 (1) \\ \text{Alternative answer} \\ ((\$82 - \$20 - \$36) \times 4000 - \$42\,000 (1) = \$62\,000 (1) \end{array} $	2
5(b)	$ \begin{array}{r} \text{Actual sales} \\ \text{Direct materials} \\ \text{Direct labour} \\ \text{Fixed overheads} \\ \hline \text{Actual profit} \\ \hline \text{\$} \\ 344\,000 \\ 95\,718 \\ 150\,500 \\ 43\,600 \\ \underline{54\,182 (1)} \end{array} $	1

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5(c)	<p>Sales price variance $(\\$82 - \\$80) \times 4300$ Sales volume variance $(4300 - 4000) \times \\$15.5$ Labour rate variance $(\\$12.5 - \\$12) \times 12\,040$ Labour efficiency variance $(12\,040 - 4300 \times 3) \times \\12 Overheads expenditure variance $\\$43\,600 - \\$42\,000$ Overheads volume variance $(4300 - 4000) \times \\$10.5$</p> <p>8 600 (1) A (1) 4 650 (1) F (1) 6 020 (1) A (1) 10 320 (1) F (1) 1 600 (1) A (1) 3 150 (1) F (1)</p>	12																																								
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5(e)	<p>Responses could include:</p> <ul style="list-style-type: none"> 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) <p>1 mark for decision and Max 4 for justification Accept other valid points</p>	5

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W1																																																						
	Standard	Premium																																																				
Materials handling	60 000	20 000	(1) for both $\$80\,000 \times 30/40 = \$60\,000$ $\$80\,000 \times 10/40 = \$20\,000$																																																			
Machine setups	65 000	25 000	(1) for both $\$90\,000 \times 65/90 = \$65\,000$ $\$90\,000 \times 25/90 = \$25\,000$																																																			
Inspection	50 000	20 000	(1) for both $\$70\,000 \times 10\,000/14\,000 = 50\,000$																																																			
	175 000	65 000	$\$70\,000 \times 4000/14\,000 = \$20\,000$																																																			
6(f)	<p>Standard: $\\$91.5 \times 140\% = \\128.1 (1) Premium: $\\$136.25 \times 140\% = \\190.75 (1)</p>	2																																																				
6(g)	<p>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)</p> <p>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</p>	3																																																				

Question	Answer	Marks
6(h)	<p>Responses could include:</p> <p>For 2020</p> <ul style="list-style-type: none"> • 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) <p>For 2021</p> <ul style="list-style-type: none"> • 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) <p>Max 4 Accept other valid points.</p>	4