

Cambridge
International
AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING**9706/32**

Paper 3 Structured Questions

October/November 2019

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 October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **20** 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)		Cost \$		Accumulated depreciation \$		Net book value \$	7
	Freehold property	360 000		–		360 000	(1)
	Plant and machinery	346 000	(1) W1	182 000	(1) W2	164 000	(1) OF
	Motor vehicles	228 000	(1) W3	98 000	(1) W4	130 000	(1) OF
	Workings: W1 386 800 – 43 000 + 2 200 W2 200 500 – 20 700 + 2 200 W3 240 000 – 36 000 + 24 000 W4 147 000 – 59 000 + 10 000						

Question	Answer	Marks																																																																					
1(b)	<p style="text-align: center;">Z Limited</p> <p style="text-align: center;">Statement of financial position at 30 June 2019</p> <p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Non-current assets</td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td>Freehold property</td> <td style="text-align: right;">525 000</td> <td></td> </tr> <tr> <td>Plant and machinery</td> <td style="text-align: right;">186 300</td> <td></td> </tr> <tr> <td>Motor vehicles</td> <td style="text-align: right;">93 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>804 300</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">75 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade and other receivables: (86 200 – 18 000 (1) + 25 000 (1))</td> <td style="text-align: right;">93 200</td> <td></td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">116 300</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>284 500</u></td> <td></td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;"><u>1 088 800</u></td> <td></td> </tr> <tr> <td>Equity and liabilities</td> <td></td> <td></td> </tr> <tr> <td>Equity</td> <td></td> <td></td> </tr> <tr> <td>Ordinary shares of \$1 each</td> <td style="text-align: right;">500 000</td> <td></td> </tr> <tr> <td>Share premium</td> <td style="text-align: right;">50 000</td> <td></td> </tr> <tr> <td>Revaluation reserve</td> <td style="text-align: right;">165 000</td> <td></td> </tr> <tr> <td>Retained earnings: (46 000 – 18 000 (1) + 6000 (1) + 25 000 (1))</td> <td style="text-align: right;">59 000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>774 000</u></td> <td></td> </tr> <tr> <td>Non-current liabilities</td> <td></td> <td></td> </tr> <tr> <td>8% debentures (2021–22)</td> <td style="text-align: right;">250 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> </tr> <tr> <td>Trade and other payables</td> <td style="text-align: right;">64 800</td> <td></td> </tr> <tr> <td>Total equity and liabilities</td> <td style="text-align: right;"><u>1 088 800</u></td> <td></td> </tr> </table>	Non-current assets			Freehold property	525 000		Plant and machinery	186 300		Motor vehicles	93 000			<u>804 300</u>	(1)	Current assets			Inventory	75 000	(1)	Trade and other receivables: (86 200 – 18 000 (1) + 25 000 (1))	93 200		Cash and cash equivalents	116 300			<u>284 500</u>		Total assets	<u>1 088 800</u>		Equity and liabilities			Equity			Ordinary shares of \$1 each	500 000		Share premium	50 000		Revaluation reserve	165 000		Retained earnings: (46 000 – 18 000 (1) + 6000 (1) + 25 000 (1))	59 000			<u>774 000</u>		Non-current liabilities			8% debentures (2021–22)	250 000	(1)	Current liabilities			Trade and other payables	64 800		Total equity and liabilities	<u>1 088 800</u>		8
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1(c)	<p>Possible answers:</p> <p>The expected life of the asset (1)</p> <p>Rate of usage of the asset over its expected useful life (1)</p> <p>The nature of the asset (1)</p> <p>The pattern of the revenue / benefit generated by the asset (1) (matching / accruals concept (1))</p> <p>Max 4</p> <p>Accept other valid points.</p>	4
1(d)	<p>Current gearing is 24.41% (1) OF</p> <p>Issuing shares will reduce gearing to 12.35% (1) OF</p> <p>Issuing debentures will increase gearing to 61.76% (1) OF</p> <p>Debenture interest payable will increase by \$80 000 / to \$100 000 per annum (1)</p> <p>Directors should consider that cash will have to be found in the future to repay debentures (1)</p> <p>Additional debenture interest payments may cause cash flow issues / reduce profit (1)</p> <p>High gearing will increase risk / may make arranging alternative finance difficult (1)</p> <p>Payment of dividends is discretionary / debenture interest must be paid (1)</p> <p>Issue of debentures may require security (1)</p> <p>Rights issue may not be fully subscribed / will take longer / may dilute existing capital (1)</p> <p>Accept other valid points.</p> <p>Max 2 for ratios, Max 3 for comments +1 for decision</p>	6

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2(a)(i)	Expenses are understated / will increase by \$4000 (1) Inventory is understated / will increase by \$1000 Profit on consignment is overstated / will decrease (1) by \$3000 (1)	3																					
2(a)(ii)	Distribution costs are overstated / will decrease by \$4000 (1) Profit on consignment is overstated / will decrease by \$3000 Profit for the year is understated / will increase (1) by \$1000 (1)	3																					
2(b)	<p>Consignment account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Goods on consignment</td> <td style="text-align: right;">50 000 (1)</td> <td>Clarissa (750 × 80) 60 000 (1)</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">4 000 (1)</td> <td>Balance c/d (1) 14 000 (1)</td> </tr> <tr> <td>Clarissa</td> <td style="text-align: right;">2 000 (1)</td> <td></td> </tr> <tr> <td>Clarissa (10% of 60 000)</td> <td style="text-align: right;">6 000 (1) OF</td> <td></td> </tr> <tr> <td>Income statement (1)</td> <td style="text-align: right;">12 000 (1) OF</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>74 000</u></td> <td style="text-align: right;"><u>74 000</u></td> </tr> </table> <p>Balance b/d 14 000 (1) OF</p>		\$		Goods on consignment	50 000 (1)	Clarissa (750 × 80) 60 000 (1)	Bank	4 000 (1)	Balance c/d (1) 14 000 (1)	Clarissa	2 000 (1)		Clarissa (10% of 60 000)	6 000 (1) OF		Income statement (1)	12 000 (1) OF			<u>74 000</u>	<u>74 000</u>	10
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2(c)	\$32 500 (1) + \$14 000 (1) OF = \$46 500 (1) OF	3																					

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2(d)	<p>Possible answers:</p> <p>Each machine sold may still bring in a profit (1)</p> <p>Assuming that sales in other countries are maintained, total profit should increase (1)</p> <p>New consignment could increase total sales due to wider market (1)</p> <p>As this country is closer then transport costs should be lower / less scope for damage in transit (1)</p> <p>Liam might be able to negotiate a lower rate of commission (1)</p> <p>Accept other valid points. Max 4 for comments</p>	4
2(e)	<p>An agent in a consignment earns commission / bears no risk / has a long-term relationship (1) while a party in a joint venture earns a share of profit / bears most of the risk / has a short-term relationship (1)</p>	2

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3(d)	<p>Return on capital employed for the year ended 30 June 2019.</p> $\left(\frac{66\,000}{(181\,946 + 147\,964)} \right) \times 100 = 20.01\% \text{ (1) OF}$	2																																				
3(e)	<p>Possible answers:</p> <p>Jack's profit before the merger was \$44 000 compared to salary and residual profit after the merger of \$34 800 / decreased by \$9 200 (1)</p> <p>Jack's drawings before the merger were \$40 000 compared to drawings after the merger of \$34 800 / decreased by \$5 200 (1)</p> <p>Paul's profit before the merger was \$20 500 compared to salary and residual profit after the merger of \$31 200 / increased by \$10 700 (1)</p> <p>Paul's drawings before the merger were \$20 000 compared to drawings after the merger of \$31 200 / increased by \$11 200 (1)</p> <p>Jack's ROCE has decreased from 26.83% to 20.01% (1) OF</p> <p>Paul's ROCE has increased from 13.62% to 20.01% (1) OF</p> <p>1 mark for each valid point (max 2 marks for each of Jack and Paul) + 1 for decision (who is better off and who is not)</p>	5																																				

Question	Answer	Marks																																																															
4(a)	Service / tertiary business (1)	1																																																															
4(b)	<p>R Limited</p> <p>Statement of cash flows for the year ended 31 December 2018</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right; width: 20%;">\$000</td> <td style="text-align: right; width: 20%;">\$000</td> </tr> <tr> <td>Profit from operations (135 + 16)</td> <td style="text-align: right;">27 (1)</td> <td style="text-align: right;">151 (1)</td> </tr> <tr> <td>Depreciation – equipment</td> <td style="text-align: right;">21 (1)</td> <td style="text-align: right;">48</td> </tr> <tr> <td>– motor vehicles</td> <td style="text-align: right;">(7) (1)</td> <td style="text-align: right;">(7) (1)</td> </tr> <tr> <td>Profit on disposal</td> <td style="text-align: right;">(22) (1)</td> <td style="text-align: right;">(22) (1)</td> </tr> <tr> <td>Increase in trade receivables</td> <td style="text-align: right;">(18) (1)</td> <td style="text-align: right;">(18) (1)</td> </tr> <tr> <td>Decrease in trade payables</td> <td style="text-align: right;">152 (1) OF</td> <td style="text-align: right;">152 (1) OF</td> </tr> <tr> <td>Cash from operations</td> <td style="text-align: right;">(16) (1)</td> <td style="text-align: right;">(16) (1)</td> </tr> <tr> <td>Interest paid</td> <td style="text-align: right;">136 (1) OF</td> <td style="text-align: right;">136 (1) OF</td> </tr> <tr> <td>Net cash from operating activities</td> <td></td> <td></td> </tr> <tr> <td>Cash flow from investing activities</td> <td></td> <td></td> </tr> <tr> <td>Purchase of non-current assets</td> <td style="text-align: right;">(80) (1)</td> <td></td> </tr> <tr> <td>Proceeds of sale of non-current assets</td> <td style="text-align: right;">30 (1)</td> <td></td> </tr> <tr> <td>Net cash used in investing activities</td> <td style="text-align: right;">(50) (1) OF</td> <td></td> </tr> <tr> <td>Cash from financing activities</td> <td></td> <td></td> </tr> <tr> <td>Proceeds of issue of shares</td> <td style="text-align: right;">144 (1)</td> <td></td> </tr> <tr> <td>Dividend paid</td> <td style="text-align: right;">(80) (1)</td> <td></td> </tr> <tr> <td>Net cash from financing activities</td> <td style="text-align: right;">64 (1) OF</td> <td></td> </tr> <tr> <td>Net increase in cash and cash equivalents</td> <td style="text-align: right;">150 (1) OF</td> <td></td> </tr> <tr> <td>Cash and cash equivalents 1 Jan 2018</td> <td style="text-align: right;">(50) (1) OF</td> <td></td> </tr> <tr> <td>Cash and cash equivalents 31 Dec 2018</td> <td style="text-align: right;">100 (1) OF</td> <td></td> </tr> </table>		\$000	\$000	Profit from operations (135 + 16)	27 (1)	151 (1)	Depreciation – equipment	21 (1)	48	– motor vehicles	(7) (1)	(7) (1)	Profit on disposal	(22) (1)	(22) (1)	Increase in trade receivables	(18) (1)	(18) (1)	Decrease in trade payables	152 (1) OF	152 (1) OF	Cash from operations	(16) (1)	(16) (1)	Interest paid	136 (1) OF	136 (1) OF	Net cash from operating activities			Cash flow from investing activities			Purchase of non-current assets	(80) (1)		Proceeds of sale of non-current assets	30 (1)		Net cash used in investing activities	(50) (1) OF		Cash from financing activities			Proceeds of issue of shares	144 (1)		Dividend paid	(80) (1)		Net cash from financing activities	64 (1) OF		Net increase in cash and cash equivalents	150 (1) OF		Cash and cash equivalents 1 Jan 2018	(50) (1) OF		Cash and cash equivalents 31 Dec 2018	100 (1) OF		18
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4(c)	Because the revaluation of a non-current asset does not involve any movement of funds (1)	1
4(d)	<p>Possible answers:</p> <p>Reduced profit / increased expenses for the year (1)</p> <p>Decrease in trade payables / paying payables more quickly (1)</p> <p>Increase in trade receivables / receivables paying more slowly (1)</p> <p>Purchase of non-current assets (1)</p> <p>Payment of dividend (1)</p> <p>Repayment of loans / debentures (1)</p> <p>Accept other valid points.</p> <p>Max 5</p>	5

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5(e)	<p>Possible answers:</p> <p>For (Max 2)</p> <p>More realistic / fair / reliable / relevant (1)</p> <p>Allows better pricing of the product (1)</p> <p>Avoids the arbitrary allocation of overheads (1)</p> <p>Against (Max 2)</p> <p>Complex / difficult to identify cost drivers (1)</p> <p>Time consuming (1)</p> <p>Costly / specialists may be required (1)</p> <p>Accept other valid points.</p> <p>Decision (1)</p>	5

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6(a)(i)	<p>Production budget in units</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;"></th> <th style="width: 10%;">June</th> <th style="width: 10%;">July</th> <th style="width: 10%;">August</th> <th style="width: 10%;">Sept</th> <th style="width: 10%;">October</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>units</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>workings</td> </tr> <tr> <td>Sales</td> <td>5 000</td> <td>12 000</td> <td>18 000</td> <td>6 000</td> <td></td> <td>3 000</td> </tr> <tr> <td>1. Sales</td> <td>12 000</td> <td>18 000</td> <td>6 000</td> <td>3 000</td> <td>(1) row</td> <td>1 800</td> </tr> <tr> <td>2. Add closing inventory (20%)</td> <td>2 400</td> <td>3 600</td> <td>1 200</td> <td>600</td> <td>(1) row</td> <td>360</td> </tr> <tr> <td></td> <td><u>14 400</u></td> <td><u>21 600</u></td> <td><u>7 200</u></td> <td><u>3 600</u></td> <td></td> <td><u>2 160</u></td> </tr> <tr> <td>Less opening inventory</td> <td>*1000 (1)</td> <td>2 400</td> <td>3 600</td> <td>1 200</td> <td>(1) OF for all 3</td> <td>600</td> </tr> <tr> <td>Monthly production (units)</td> <td><u>13 400</u></td> <td><u>19 200</u></td> <td><u>3 600</u></td> <td><u>2 400</u></td> <td>(1) OF row</td> <td><u>1 560</u></td> </tr> </tbody> </table> <p>* the opening inventory in June equals the closing inventory in May = June sales 5000 × 20% = 1000</p>		June	July	August	Sept	October		units						workings	Sales	5 000	12 000	18 000	6 000		3 000	1. Sales	12 000	18 000	6 000	3 000	(1) row	1 800	2. Add closing inventory (20%)	2 400	3 600	1 200	600	(1) row	360		<u>14 400</u>	<u>21 600</u>	<u>7 200</u>	<u>3 600</u>		<u>2 160</u>	Less opening inventory	*1000 (1)	2 400	3 600	1 200	(1) OF for all 3	600	Monthly production (units)	<u>13 400</u>	<u>19 200</u>	<u>3 600</u>	<u>2 400</u>	(1) OF row	<u>1 560</u>	5
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6(b)	<p>Possible advantages and disadvantages:</p> <p>Advantages Max 2</p> <p>They provide more realistic targets / enable better planning and control (1) It improves motivation (1) It improves co-ordination (1) It enables better communication (1) Makes the managers accountable for their performance (1)</p> <p>Disadvantages Max 3</p> <p>Managers may not have the skills required (1) The whole budget process could take longer (1) Managers may set lower targets so that they look good (1) Managers may build in slack / a buffer so that they don't overspend (1) It encourages wasteful spending / they spend up to their limits so they don't lose future allocations (1) May result in conflict / competition between departments over the allocation or use of resources (1) Departmental budgets may have different objectives to the business as a whole (1)</p> <p>Accept other valid points.</p>	5
6(c)	<p>Possible answers:</p> <p>It allows for changes in activity / more realistic / accurate or reliable (1) It makes it easier to identify variances. (1) It provides clearer understanding of what corrective action is required. (1) It enables better comparisons – like for like. (1)</p> <p>Accept other valid points. Max 2</p>	2

Question	Answer				Marks
6(d)	Units	85 000	85 000		8
	Actual		Flexed budget	Variance	
	\$	\$	\$	\$	
	Sales	871 250	892 500 (1)	21 250 A (1) OF	
	Direct materials	382 500	420 750 (1)	38 250 F (1) OF	
	Direct labour	357 000	276 250 (1)	80 750 A (1) OF	
	Fixed costs	28 000	27 000	1 000 A (1)	
	Profit	<u>103 750</u>	<u>168 500</u>	<u>64 750 A (1) OF</u>	