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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2021**

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 2021 series for most Cambridge IGCSE™, Cambridge International A and 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.

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)

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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.

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Question	Answer	Marks
1(a)	Debiting the bonus issue to retained earnings rather than to share premium **(1)**	**1**
1(b)	EN plc Statement of cash flows for the year ended 31 December 2020	**15**

	$000	$000	
Profit from operations (10 + 3 + 15)		28	**(1)**
Depreciation		112	**(1)**
Loss on disposal of machinery		14	**(1)**
Increase in working capital		(45)	**(1)**
Cash from operations		109	
Interest paid		(13)	**(1)**
Net cash from operating activities		96	**(1)OF**
Cash flow from investing activities			
Purchase of non-current assets	(291)		**(1)**
Proceeds of sale of machinery	47		**(1)**
Net cash used in investing activities		(244)	**(1)OF**
Cash flow from financing activities			
Proceeds from rights issue of shares	180		**(1)**
Proceeds from issue of debentures	200		**(1)**
Dividends paid	(40)		**(1)**
Net cash from financing activities		340	**(1)OF**
Net increase in cash and cash equivalents		192	**(1)OF**
Cash and cash equivalents on 31 December 2019		(42)	
Cash and cash equivalents on 31 December 2020		150	**(1)OF**

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Question	Answer	Marks
1(c)	The company is profitable/is making a profit. **(1)** The profit for the year seems quite low. **(1)** ROCE using opening capital is (28/440) 6.36%/using closing capital (28/910) 3.08%. **(1)OF** Substantial capital receipts were needed to clear the overdraft. **(1)** Dividends were considerably higher than profits. **(1)** The trend would appear to be towards negative retained earnings leading to no dividends at a future date. **(1)** **Accept other valid points** Comments **Max 3** Decision **(1) mark**	**4**
1(d)	The debenture has increased gearing/risk for the company **(1)** but it still remains low. **(1)** The debenture must be repaid. **(1)** The interest must be paid **(1)** irrespective of the level of profit/unpaid interest could lead to liquidation. **(1)** The high bank balance at the year-end may indicate that the debenture was issued earlier than was necessary. **(1)** The interest on the debenture appears to be less than the dividend paid. **(1)** May require security/collateral. **(1)** Will avoid dilution of ownership. **(1)** **Accept other valid points** **Max 5**	**5**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>The company had to: select a specific date for the transfer (1)
ensure the data on the manual system is up to date (1)
carry out control and verification procedures on the data from the manual system (1)
set up passwords for the new system (1)
ensure that there is adequate virus/firewall protection (1)
physical location of equipment (1)
set up the account names in the new system (1)
enter the opening balances on the new system (1)
run both manual and computerised systems in parallel (1)
organise back up of data for the new system (1)
discontinue the manual system once satisfied with the new system (1)

Accept other valid points
Max 8</td><td>8</td></tr>
<tr><td>2(b)</td><td>
<table>
<tr><th></th><th>$</th><th>explanation</th></tr>
<tr><td>1 training</td><td>4 500
decrease (1)</td><td>staff training should not be capitalised (1) and the full cost should be written off when incurred (1)</td></tr>
<tr><td>2 vehicles</td><td>2 000
increase (1)</td><td>the recoverable amount is the higher of value in use and fair value (1) and the impairment loss was only $5 000 (1)</td></tr>
<tr><td>3 machinery</td><td>17 000
increase (1)</td><td>the recoverable amount is higher than the carrying amount (1) and so there is no impairment loss to account for (1)</td></tr>
<tr><td>4 inventory</td><td>8 000
increase (1)</td><td>the damage did not relate to a condition at the year end and is a non-adjusting event (1) which only needs to be disclosed in a note if material (1)</td></tr>
<tr><td>5 premises</td><td>Nil (1)</td><td>revaluation does not affect profit (1) as it is credited to a revaluation reserve (1)</td></tr>
</table>
Accept other valid points.</td><td>15</td></tr>
<tr><td>2(c)</td><td>Because they arose from errors in data input (1) rather than processing errors (1)</td><td>2</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Interest on capital (1)
Partnership salary (1)</td><td>2</td></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td>partner</td><td>shareholder</td></tr>
<tr><td>has joint and several liability (1)</td><td>enjoys limited liability (1)</td></tr>
<tr><td>receives appropriations of profit (1)</td><td>receives dividends (1)</td></tr>
<tr><td>death of partner causes legal end of partnership (1)</td><td>death of shareholder does not affect legal existence of company (1)</td></tr>
<tr><td>has control of the business (1)</td><td>has voting rights/ appoints board of directors (1)</td></tr>
</table>
Accept other valid points
Any three pairs, Max 6</td><td>6</td></tr>
<tr><td>3(c)</td><td>
<table>
<tr><td></td><td>Eunice
$</td><td></td><td>Malcolm
$</td><td></td></tr>
<tr><td>Capital</td><td>80 000</td><td></td><td>15 000</td><td>(1) both</td></tr>
<tr><td>Current</td><td>10 000</td><td></td><td>(5 000)</td><td>(1) both</td></tr>
<tr><td>Profit on realisation</td><td>60 000</td><td>(1)</td><td>15 000</td><td>(1)</td></tr>
<tr><td></td><td>150 000</td><td></td><td>25 000</td><td>(1)OF both</td></tr>
<tr><td>Number of shares</td><td>120 000</td><td></td><td>20 000</td><td>(1)OF both</td></tr>
</table>
</td><td>6</td></tr>
</table>

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Question	Answer	Marks
3(d)	FD Limited has been paying a dividend per share of $0.20 **(1)** per year. If this continues Malcolm will receive $4 000 a year **(1)OF** as a shareholder. As a partner his share of profit was $6 000 a year **(1).** It would therefore appear that his income will be lower **(1)OF**. However he is no longer providing labour to the partnership and so is free to work and earn elsewhere **(1).** The debit balance on his current account suggests his need for funds was higher than his share of profit **(1).** He now has the possibility of capital growth in the value of his shares **(1).** He now will have limited liability **(1).** He has less control **(1).** **Accept other valid points.** Comments **Max 3** Calculations **Max 3** Decision **(1)**	**7**
3(e)	Debit $ / Credit $ Tangible non-current assets 130 000 **(1)** Goodwill 33 000 **(1)** Trade receivables 19 600 Bank 100 Trade payables 7 700 Ordinary share capital 140 000 **(1)** Share premium 35 000 **(1)**	**4**

Question	Answer	Marks
4(a)	There is no value for cost of sales **(1)** as there have been no purchases **(1).** No value is ascribed to inventory held in the shop **(1)** which is prudent **(1)** and as the goods are donated cost will always be less than net realisable value **(1).** No wages are payable as the society is run by volunteers **(1).** **Accept other valid points.** **Max 4**	**4**

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Question	Answer	Marks
4(b)	X Soc Income and expenditure account for the year ended 31 December 2020 $ $ Grants 80 000 **}(1)** Cash donations 96 520 **}** Profit from shop 90 600 **(1)** 267 120 Cost of wheelchairs 173 260 **(1)** Administrative expenses 14 670 **(1)** Advertising and fundraising 22 440 **(1)** Depreciation of computer 1 400 **(1)** 211 770 Surplus/excess of income over expenditure 55 350 **(1)OF**	**7**
4(c)	X Soc Statement of financial position at 31 December 2020 $ Non-current asset Computer 5 600 **(1)** Current assets Other receivables **W1** 45 200 **(3)** Bank 7 720 **(1)** Total assets 58 520 Accumulated fund 55 350 **(1)OF** Current liabilities Other payables **W2** 3 170 **(2)** 58 520 **W1** shop rent 1 000 **(1)** + advertising 4 800 **(1)** + deposits 39 400 **(1)** = $45 200 **W2** administrative expenses 450 **(1)** + shop operating costs 2 720 **(1)** = $3 170	**8**

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Question	Answer	Marks
4(d)	Keep cash in a deposit account to earn interest **(1)** Open shops in different towns **(1)** Undertake fundraising activities **(1)** Seek sponsorship **(1)** **Accept other valid points** **Max 2**	**2**
4(e)	The accumulated fund represents total surpluses and deficits **(1)** but the balance on the bank account represents net cash paid in to the account **(1).** **Accept other valid points**	**2**
4(f)	These organisations have members **(1)** who pay a subscription to pay for the facilities that they are using **(1).** **Accept other valid points**	**2**

Question	Answer	Marks
5(a)		**6**

	February	March	April	
	$	$	$	
Production	5200	5920	6360	**(1) row**
Closing inventory	1480	1590	1380	**(1) row**
	6680	7510	7740	
Opening inventory	(1300)	(1480)	(1590)	**(1) row**
Purchases	5380 **(1)OF**	6030 **(1)OF**	6150 **(1)OF**	

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Question	Answer	Marks
5(b)		**14**

	March $		April $	
Receipts				
Cash sales	7 500		8 000	**(1) both**
Credit sales	19 500	**(1)**	22 500	**(1)**
Sale of machinery	0		2 000	*
	27 000		32 500	
Payments				
Purchases	5 380		6 030	**(1)OF both**
Labour – basic	11 840	**(1)**	12 720	**(1)**
– overtime	80	**(1)**	190	**(1)**
Variable overheads	3 700	**(1)**	3 975	**(1)**
New machinery	0		13 000	**(1)*both**
Other costs	3 800		3 800	**(1) both**
	24 800		39 715	
Net cash	2 200		(7 215)	
Balance b/f	1 700	**(1)**	3 900	
Balance c/f	3 900		(3 315)	**(1)OF**

5(c)	April is the busiest month in terms of units of production **(1)** and therefore the one in which the company is least able to cope with a possible disruption of production **(1).** The funds are not available in April to pay for the new machinery without the bank account becoming overdrawn **(1).** As there may be a cash surplus in future a short delay could avoid the need to go overdrawn **(1).** April may be the only month in which the manufacturer can supply/install the machinery **(1).** **Accept other valid points** **Max 2**	**2**

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Question	Answer	Marks
5(d)	The company could restrict production and still manage the level of sales **(1).** If production was restricted then the inventory of units of finished goods at the end of April would be 6 rather than 33 **(1).** The risk of a shortage of finished goods would be increased as there would be less of a buffer against any problem which might arise **(1).** The cost of overtime is very small in relation to the whole of the labour cost and might be considered immaterial **(1).** Overtime payments are only necessary because of the rigid inventory policy **(1).** Even when overtime is paid the product still has a positive contribution **(1).** **Accept other valid points** Comments **Max 2** Decision **(1)**	**3**

Question	Answer				Marks
6(a)		Small $	Larg $		**6**
	Direct material	5	20		
	Direct labour	2	6		
		7	26	**(1) both**	
	Production overheads	5	5	**(1) both**	
	Production cost per unit	12	31	**(1)OF both**	
	Selling and administrative overheads	4	4	**(1) both**	
	Total cost	16	35		
	Mark-up (50%)	8	17.50	**(1)OF both**	
	Selling price per unit	24	52.50	**(1)OF both**	

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Question	Answer					Marks
6(b)		Small		Large		**8**
		$	$	$	$	
	Direct material and labour		7		26	*
	Production overheads					
	Machine set ups total	7 200		3 000		**(1) both**
	Order processing total	8 400		4 200		**(1) both**
	Quality inspections total	3 600		3 600		**(1) both**
		19 200		10 800		
	Per unit		3.84		10.80	**(1)OF both**
	Production cost per unit		10.84		36.80	**(1)OF both**
	Selling and administrative overheads		4		4	**(1*) both**
	Total cost		14.84		40.80	
	Mark-up (50%)		7.42		20.40	**(1)OF both**
	Selling price per unit		22.26		61.20	**(1)OF both**
	* both costs for both sizes needed for mark					

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Question	Answer			Marks
6(c)		$	$	6
	Sales revenue			
	4 600 × 22.26 = 102 396 **(1)OF**		151 356	
	+ 800 × 61.20 = 48 960 **(1)OF**			
	Cost of production			
	(54 200 + 36 800)	91 000	**(1)**	
	Closing inventory			
	400 × 10.84 **(1)OF** + 200 × 36.80**(1)OF**	(11 696)		
	Cost of sales		79 304	
	Gross profit		72 052	
	Selling and administrative		24 000	
	Profit		48 052 **(1)OF**	
	OR			
	Sales revenue		151 356 **(2)**	
	Cost of sales **W1**		79 304 **(3)**	
	Gross profit		72 052	
	Selling and administrative		24 000	
	Profit		48 052 **(1)OF**	
	W1			
	4 600 × 10.84 = 49 864 **(1)OF**			
	800 × 36.80 = 29 440 **(1)OF**			
	79 304 **(1)OF**			

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Question	Answer	Marks
6(d)	The value for production cost is more realistic when it takes the level of activity into account **(1).** However the split of the selling and administrative costs is still arbitrary **(1)** as is the rate of mark-up **(1)** which does not take market conditions into account **(1).** As the small product seems to be selling well at $24 there is no reason to drop the price **(1).** However the price for the large product could possibly be increased **(1).** If the prices of both products were changed as per part (b) then profit would fall. **(1)OF** The change in inventory value has only short term significance/is only relevant until the items are sold **(1).** The directors should undertake some market research **(1)** and consider what competitors are charging **(1).** It can be costly/time consuming to split overheads by activity **(1).** **Accept other valid points** Comments **Max 4** Decision **(1)**	**5**

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