CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **February/March 2024**

MARK SCHEME

Maximum Mark: 75

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 February/March 2024 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 descriptions 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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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)

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).

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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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ANNOTATIONS

The following annotations are used in marking this paper and should be used by examiners.

Annotation	Use or meaning
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A	An extraneous figure
N0	No working shown
AE	Attempts evaluation
R1	Required item 1
R2	Required item 2
OF	Own figure
EVAL	Evaluation
NAQ	Not answered question
BOD	Benefit of the doubt given.
SEEN	Noted but no credit given
Highlight	Highlight
Off page Comment	Off page comment

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Abbreviations and guidance
The following abbreviations may be used in the mark scheme:

OF = own figure. The answer will be marked correct if a candidate has correctly used their own figure from a previous part or calculation.

W = working. The working for a figure is given below. Where the figure has more than one mark associated with it, the working will show where individual marks are to be awarded.

CF = correct figure. The figure has to be correct i.e. no extraneous items have been included in the calculation

Extraneous item = an item that should not have been included in a calculation, including indirect expenses such as salaries in calculation of gross profit when there is one **OF** mark for gross profit'

Curly brackets, }, are used to show where one mark is given for more than one figure. If the figures are not adjacent, each is marked with a curly bracket and a symbol e.g. **}***

row = all figures in the row must be correct for this mark to be awarded

Marks for figures are dependent on correct sign/direction

Accept other valid responses. This statement indicates that marks may be awarded for answers that are not listed in the mark scheme but are equally valid.

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Question	Answer	Marks
1(a)	**Prepare, showing the adjustments made during the acquisition on 1 January 2024, the capital accounts of Ada and Brian. Show the final settlement to or from <u>each</u> partner.**	**11**

Capital account

	Ada $		Brian $			Ada $	Brian $	
Current account	3 900	}	7 800	}(1)	Balance b/d **W1**	160 000	160 000	**(4) row**
					Profit on realisation			
X Limited	180 000	}	180 000	}(1)	**W2**	25 850	25 850	**(3) row**
Brian	1 950	(1)OF			Ada		1 950	**(1)OF**
	185 850		187 800			185 850	187 800	

W1

	$	
Non-current assets	230 000	
Inventory	52 000	
Trade receivables	72 000	
Cash and cash equivalents	18 300	
Trade payables	(64 000)	
Net assets	308 300	**(1)**
Current account		
Ada	3 900	}
Brian	7 800	}(1)
Total capital account	320 000	
Ada's capital account	160 000	**(1)OF**
Brian's capital account	160 000	**(1)OF**

W2

	$	
Purchase consideration	360 000	
Book value of net assets	(308 300)	
Profit on realisation	51 700	**(1)**
Ada	25 850	**(1)OF**
Brian	25 850	**(1)OF**
	51 700	

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Question	Answer	Marks
1(b)	**Prepare the statement of financial position of X Limited at 1 January 2024.**	**7**

X Limited
Statement of financial position at 1 January 2024

	$		$	
Non-current assets				
Goodwill **W1**	43 200	**(1)**		
Equipment	241 500	**(1)**	284 700	
Current assets				
Inventory	50 440	**(1)**		
Trade receivables	70 560	**(1)**		
Cash and cash equivalents ($18 300+$40 000)	58 300	**(1)**	179 300	
Total assets			464 000	
Equity and liabilities				
Ordinary shares capital			400 000	**(1)**
Current liabilities				
Trade payables			64 000	**(1)**
Total equity and liabilities			464 000	

W1

	$	
Equipment	241 500	$230 000 × 105%
Inventory	50 440	$52 000 × 97%
Trade receivables	70 560	$72 000 × 98%
Cash	18 300	
Trade payables	(64 000)	
	316 800	
Consideration	360 000	
Goodwill	43 200	

1(c)	**Calculate the amount of debenture to be issued in Option 1.** $320 000 × 6% = $19 200 **(1)OF** $19 200/4% = $480 000 **(1)OF**	**2**

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Question	Answer	Marks
1(d)	**Advise the directors which option they should choose. Justify your answer.** Option 1 – max **(2)** If the return of investment exceeds 4%, the shareholders of X Limited will benefit **(1)**. High gearing ratio is perceived risky **(1)**. Debenture interest is a financial charge that reduces profit **(1)**. May require security **(1)**. Option 2 – max **(2)** Calvin will take control of X Limited (480 000 shares vs 400 000 shares) / Ada and Brian may lose management control **(1)**. Calvin may contribute his knowledge and experience to the project **(1)**. Dividend may have to be paid to Calvin **(1)**. **Decision supported by a comment (1)** **Accept other valid responses.**	**5**

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Question	Answer	Marks
2(a)	**Explain <u>one</u> reason why the information in the statement of cash flows of a business is important to its shareholders** The business has enough cash to conduct its operations **(1)** so that the business can generate profit to provide returns to the shareholders **(1)**. The business has enough cash to pay its obligations **(1)** so that the business will not go bankrupt which will result in the shareholders losing their investments in the business **(1)**. It shows how the constituent activities of the business each contribute to the net cash movement **(1)** so the shareholders can consider whether to continue with their investment **(1)** Max **2** **Accept other valid responses.**	**2**
2(b)	**Calculate the profit for the year for 2023.** $$\begin{array}{lrl} & \$ & \\ \text{Retained earnings c/d (\$25 100 + \$9 600)} & 34\,700 & \\ \text{Retained earnings b/d} & (25\,100) & \textbf{(1both)} \\ \text{Dividend paid} & 22\,000 & \textbf{(1)} \\ \text{Profit for the year} & 31\,600 & \textbf{(1)OF} \end{array}$$	**3**

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Question	Answer	Marks
2(c)	**Prepare the statement of cash flows for the year ended 31 December 2023 in accordance with IAS7.**	**14**

Statement of cash flows for the year ended 31 December 2023

	$	$	
Operating activities			
Profit from operations **W1**		33 800	**(3)**
Loss on disposal of office equipment (9 000-6 200)		2 800	**(1)**
Depreciation **W2**		28 800	**(2)**
Decrease in inventory		2 000	**}**
Increase in trade receivables		(7 000)	**}**
Decrease in trade payables		(1 500)	**}(1)**
Cash from operations		58 900	
Interest paid		(1 600)	**(1)**
Net cash from operating activities		57 300	**(1OF)**
Investing activities			
Purchase of office equipment	(48 000) **(1)**		
Sale proceeds of office equipment	6 200		
Net cash used in investing activities		(41 800)	**(1OF)**
Financing activities			
Issue of ordinary shares	25 000 **}**		
Receipts from 8% loan	10 000 **}(1)**		
Dividend paid	(22 000) **(1)**		
Net cash from financing activities		13 000	**(1OF)**
Increase in cash and cash equivalents		28 500	
Cash and cash equivalents at the start of the year		38 900	
Cash and cash equivalents at the end of the year		67 400	

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Question	Answer	Marks
2(c)	**W1** |	| | $ | | | | Profit for the year | 31 600 | **OF** | | Add : Loan interest * | 2 200 | **(2)** | | Profit from operations | 33 800 | **(1OF)** | | * | $ | | | Accrued interest c/d ($800+$600) | 1400 | | | Accrued interest b/d | (800) | **(1both)** | | Bank – interest paid | 1 600 | | | Charge for the year | 2 200 | **(1)** | **W2** Cost of office equipment sold $9 000÷60%= $15 000 Provision for depreciation $15 000 × 20% × 2 = $6 000 | | Provision for depreciation | | | | | | Disposal | 6 000 | **(1)** | Bal b/d | 195 000 | | | Bal c/d | 217 800 | | Charge | 28 800 | **(1)** | | | 223 800 | | | 223 800 | |	
2(d)	**Analyse the changes in the cash position of K plc during the year 2023.** K plc generates positive net cash from operations **(1)**. This suggests that the company can maintain the operating capability **(1)**. K plc raised more finance from issuing new shares / loan **(1)**. The further loan resulted in higher finance charges **(1)**. Net cash from operations, together with further loan and further issuing of shares, enables K plc to pay dividend **(1)**, pay interest **(1)** and make new investment in buying non-current assets **(1)**. There is a net increase in cash and cash equivalents at the year-end **(1)**. K plc has a good liquidity/cash position in 2023 **(1)**. Max **6** for comments **Accept other valid responses.**	**6**

Question	Answer	Marks
3(a)	**Prepare the manufacturing account for the year ended 31 December 2023.** Manufacturing account for the year ended 31 December 2023 $ Direct materials opening inventory 46 000 Purchases 133 000 Carriage inwards 6 900 Direct materials closing inventory (36 200) Cost of direct materials consumed 149 700 **(1)** Direct wages 148 000 Prime cost 297 700 **(1)OF** Manufacturing expenses 45 400 Depreciation - machinery 17 700 **(1)** 360 800 Work in progress opening inventory 21 000 Work in progress closing inventory (25 800) Cost of goods manufactured 356 000 **(1)OF** Factory profit 20% 71 200 Transfer price 427 200 **(1)OF**	**5**
3(b)(i)	**Prepare a statement to calculate, showing clearly the cost of sales, how much of this amount was derived from:** **(i) importing** Imported goods $ $ Sales revenue 378 400 Cost of sales Finished goods opening inventory 36 000 Purchases 226 000 Carriage inwards 4 200 **(1)** Finished goods closing inventory (39 600) 226 600 **(1OF)** Profit from importing 151 800 **(1OF)**	**3**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)(ii)</td><td>

Prepare a statement to calculate, showing clearly the cost of sales, how much of this amount was derived from:

(ii) manufacturing

<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Manufactured goods</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Sales revenue</td><td></td><td></td><td>498 000</td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Finished goods opening inventory</td><td>56 400</td><td></td><td></td><td></td></tr>
<tr><td>Transfer value of goods manufactured</td><td>427 200</td><td>(1OF)</td><td></td><td></td></tr>
<tr><td>Finished goods closing inventory</td><td>(51 600)</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>432 000</td><td>(1OF)</td></tr>
<tr><td></td><td></td><td></td><td>66 000</td><td></td></tr>
<tr><td>Factory profit</td><td>71 200</td><td>(1OF)</td><td></td><td></td></tr>
<tr><td>Decrease in provision for unrealised profit W1</td><td>800</td><td>(1)</td><td>72 000</td><td></td></tr>
<tr><td>Profit from manufacturing</td><td></td><td></td><td>138 000</td><td>(1OF)</td></tr>
</table>

W1 ($56 400 – $51 600) × 20 / 120 = $800

</td><td>5</td></tr>
<tr><td>3(c)</td><td>

Calculate the profit for the year ended 31 December 2023.

<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Profit excluding expenses</td><td>289 800</td><td></td></tr>
<tr><td>Office expenses</td><td>(204 000)</td><td></td></tr>
<tr><td>Depreciation of office equipment</td><td>(7 500)</td><td>(1)</td></tr>
<tr><td>Profit for the year</td><td>78 300</td><td>(1)OF</td></tr>
</table>

</td><td>2</td></tr>
</table>

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Question	Answer	Marks
3(d)	**Explain the impact on the profit for the year for 2023 of increasing the rate of factory profit to 25% in 2023.** Profit from manufacturing and expenses are unaffected by the change **(1)** The transfer price will increase **(1)** The factory profit will increase by an equal amount **(1)** The value of finished goods inventory will increase **(1)** The balance on the provision for unrealised profit will increase **(1)** These changes compensate for one another and there is no impact on the profit for the year for 2023. **(1)** **Max 5**	**5**
3(e)	**Advise the directors whether or not they should manufacture home appliances for the high-income customers to maintain the profits. Justify your answer.** For (**max 2**) G Limited manufacturing home appliances for both the high-income and low-income customers will become a wholly manufacturing business. The synergy can improve the productivity and efficiency and keep costs and prices low. **(1)** G Limited has experience of manufacturing home appliances and will not incur start-up costs **(1)** The high-income customers may buy the manufactured appliances and this will maintain G Limited's profits. **(1)** G Limited can control the quality of the products to reduce sales returns. **(1)** Against (**max 2**) Additional capital **(1)** will be needed to purchase additional machines and to expand the production capacity. **(1)** G Limited may need to take a loan and pay interest cost **(1)** G Limited may need to incur advertising expenditure to attract the high-income customers. **(1)** New skilled workers need to be employed at higher wages/ existing workers need training. **(1)** **Decision supported by a comment (1)** **Accept other valid responses.**	**5**

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