Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

Paper 3 Financial Accounting **May/June 2023**

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.

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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.

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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)	**Calculate the partnership's profit for the year ended 31 March 2022.**	**2**

	$	
Interest on capital		
Alan $300 000 × 4%	12 000	**}**
Betty $240 000 × 4%	9 600	**}(1)**
Residual profit		
Alan	24 240	
Betty	16 160	
Profit for the year	62 000	**(1)**

Question	Answer	Marks
1(b)	**Prepare the partners' capital accounts to show the closing entries.**	**10**

Capital Accounts

	Alan $	Betty $			Alan $	Betty $	
Current account **W1**		5 640	**(1)**	Balance b/d	300 000	240 000	
J Ltd-8% debentures **W2**	150 000	120 000	**(1)row**	Current account **W1**	11 240	**(1)**	
J Ltd-Ordinary shares	195 000	195 000	**(1)row**	Profit on realisation **W3**	88 200	58 800	**(5)OF**
Bank	54 440 **}**			Bank		21 840**}**	**(1)OF**
	399 440	320 640			399 440	320 640	

W1 Current account
Alan ($7 000+$300 000 × 4% + $24 240 – $32 000) = $11 240 **(1)**
Betty ($2 600+$24 0000 × 4% + $16 160 – $34 000) = ($5640) **(1)**

W2 Debentures
Alan $12 000 ÷ 8% = $150 000**}**
Betty $9 600 ÷ 8% = $120 000**} (1)**

W3 Profit on realisation

	$	
Assets taken over ($570 000 – $549 000)	21 000	**(1)**
Goodwill ($62 000 × 2)	124 000	**(1)OF**
Trade payables discount	2 000	**(1)**
	147 000	
Alan $147 000 × 60%	88 200	**(1)OF**
Betty $147 000 × 40%	58 800	**(1)OF**

Question	Answer			Marks
1(c)	**Calculate the amount paid by J Limited into the partnership bank account.**			**4**
		$		
	Consideration			
	Value of assets taken over	570 000		
	Goodwill	124 000		
		694 000	**(1)OF**	
	8% debentures			
	Alan 150 000			
	Betty 120 000	(270 000)	**(1)**	
	Ordinary shares	(390 000)	**(1)**	
	Balance paid in cash	34 000	**(1)OF**	

Question	Answer	Marks
1(d)	**Prepare the partnership bank account to show the closing entries.**	4

Bank account

	$			$	
Balance b/d **W1**	35 600	**(2)CF/(1)OF**	Trade payables	37 000	
J Limited	34 000	**(1)OF**	Alan	54 440	**}(1)OF**
Betty	21 840	**}**			
	91 440			91 440	

W1

	$	
Capital accounts total	540 000	
Current accounts total at 31 March 2022 ($11 240-$5 640)	5 600	
	545 600	**(1)OF**
Book value of assets taken over	(549 000)	**}**
Trade payables	39 000	**}(1)**
Cash at bank	35 600	

Alternative answer

	$	
Capital accounts total	540 000	
Current accounts total at 1 April 2021 ($7000 + $2600)	9 600	
Profit for the year	62 000	
	611 600	**(1)OF**
Book value of assets taken over	(549 000)	**}**
Trade payables	39 000	**}**
Drawings	(66 000)	**}(1)**
Cash at bank	35 600	

Question	Answer	Marks
1(e)	**Advise whether or not J Limited should continue the expansion strategy. Justify your answer.** **Max 2** marks for 'should' comments **Max 2** marks for 'should not' comments **1 mark** for decision supported with a comment. It is only one year's time, J Limited should take the acquisition as a long-term strategy. **(1)** Acquiring businesses can bring synergy **(1)** and elimination of competitors. **(1)** J Limited pays for the goodwill in the expectation of additional future profit. **(1)** J Limited was too optimistic in its predictions. **(1)** Synergy may not succeed because there may be a culture clash between two businesses. **(1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)	**State <u>two</u> comparisons which a business may make by using ratios to assess its performance.** Trend analysis **(1)** Inter-company comparison **(1)** Industry average **(1)** **Max 2** **Accept other valid responses.**	**2**

Question	Answer	Marks
2(b)(i)	**Calculate:** **net assets at 31 December 2022** Non-current assets ($825 000÷1.6) 515 625 **(1)** Inventory 44 000 Trade receivables 76 400 Trade payables (32 900) Cash at bank 81 000 Debenture (100 000) Net assets 584 125 **(1) OF**	**2**
2(b)(ii)	**retained earnings at 31 December 2022** Equity 584 125 Ordinary share capital (300 000) **}** Share premium (30 000) **} (1)** Retained earnings 254 125 **(1) OF**	**2**
2(b)(iii)	**retained earnings at 1 January 2022.** $ Retained earnings at 31 December 2022 254 125 **(1) OF** Profit for the year **W1** (187 500) **(3) OF** Dividend paid (300 000 × $0.3) 90 000 **(1)** Retained earnings at 1 January 2022 156 625 **(1) OF** **W1** Market price per share ($0.3 + $0.15) ÷ 4% = $11.25 **(1)** Earnings per share $11.25 ÷ 18 = $0.625 **(1) OF** Profit for the year $0.625 × 300 000=$187 500 **(1) OF**	**6**

Question	Answer	Marks
2(c)(i)	**Calculate the following at 31 December 2022:** **working capital cycle (round <u>each</u> component up to the next whole day).** Trade receivable turnover **W1** 34 days **(1)** Inventory turnover **W2** 48 days **(3)** Trade payable turnover **W3** (30) days **(1)** Working capital cycle 52 days **(1) OF** **W1** ($76 400/$825 000) x 365 = 34 days **(1)** **W2** Cost of sales $825 000(1–48%) = $429 000 **(1)** Opening inventory $429 000 + $44 000 – $405 000 = $68 000 Average inventory ($44 000 + $68 000)/2 = $56 000 **(1)** Inventory turnover ($56 000/$429 000) × 365 = 48 days **(1) OF** **W3** ($32 900/$405 000) × 365 = 30 days **(1)**	**6**
2(c)(ii)	**gearing ratio (to <u>two</u> decimal places)** Gearing ratio $100 000/($100 000 + $300 000 + $30 000 + $254 125 **OF**) **(1)** =14.62% **(1) OF**	**2**

Question	Answer	Marks
2(d)	**Advise the directors of Z plc whether or not they should be concerned about the company's working capital cycle. Justify your answer.** **Max 2** marks for 'should be' comments **Max 2** marks for 'should not be' comments **1 mark** for decision supported with a comment. Should be **(max 2)** takes longer time to convert its working capital into cash. **(1)** holding too much inventory **(1)** not good enough in collecting their receivables / poor credit control **(1)** paying the payables too early **(1)** Should not be **(max 2)** not a material difference **(1)** may have different policies **(1)** there may be non-financial factors that impact the financial statements **(1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
3(a)	**Explain why a manufacturing business may provide for unrealised profit.** The unrealised profit is to be deducted from the transfer value to value the inventory at cost **(1)** which is consistent with the prudence concept. **(1)** **Accept other valid responses.**	**2**

Question	Answer	Marks
3(b)	**Prepare the manufacturing account for the year ended 31 December 2022.**	**6**

Manufacturing account for year ended 31 December 2022

	$	
Opening raw materials inventory	8 000	
Purchases	198 000	
Carriage inwards	3 100	**(1)**
Closing raw materials inventory	(10 500)	
Cost of raw materials consumed	198 600	
Direct labour	164 000	
Prime cost	362 600	**(1)**
Depreciation – factory machinery	9 000	**(1)**
Factory overheads $98 000 + ($74 000 + $6 000) × 50%	138 000	**(1)**
	509 600	
Opening work in progress inventory	17 300	**}**
Closing work in progress inventory	(16 900)	**}(1)**
Cost of goods manufactured	510 000	
Factory profit	122 400	**(1) OF**
Transfer value	632 400	

Question	Answer	Marks
3(c)	**Prepare the statement of profit or loss for the year ended 31 December 2022.**	**14**

Statement of profit or loss for year ended 31 December 2022

	$		$	
Revenue			984 000	
Cost of sales				
Opening finished goods inventory ($45 000 × 120%)	54 000	**(1)**		
Transfer value	632 400			
	686 400			
Closing finished goods inventory **W1**	(64 480)	**(2)OF**		
			621 920	
Gross profit			362 080	**(1) OF**
Factory profit	122 400	**(1)OF**		
Increase in provision for unrealised profit **W2**	(3 480)	**(3)OF**	118 920	
			481 000	
Administrative expenses **W3**			244 600	**(2)**
Selling and distribution costs **W4**			123 800	**(3)**
Profit for the year			112 600	**(1) OF**

Question	Answer	Marks
3(c)	Mark up for 2022 $122 400 OF/$510 000 = 24% **W1** $52 000 × 124% **(1OF)** = $64 480 **(1OF)** **W2** $ 31 December 2021 inventory $45 000 × 20% 9 000 **(1)** 31 December 2022 inventory $52 000 × 24% 12 480 **(1) OF** Increase in provision for unrealised profit 3 480 **(1) OF** **W3** $ Administrative expenses 223 500 Depreciation – office equipment 5 100 **(1)** Rent ($74 000 + $6 000) × 20% 16 000 **(1)** 244 600 **W4** $ Selling and distribution costs 84 000 Carriage outwards 6 200 **(1)** Depreciation – delivery van 9 600 **(1)** Rent ($74 000 + $6 000)×30% 24 000 **(1)** 123 800	

Question	Answer	Marks
3(d)	**Explain the importance of a true and fair view opinion in the auditor's report.** The financial statements are credible/reliable **(1)** The financial statements have complied with the legal requirements and accounting standards **(1)** The accounting policies adopted by the business are appropriate **(1)** It means the financial statements are free from material misstatements/errors **(1)** It means the financial statements faithfully represent the performance and financial position of the business **(1)** The shareholders have confidence that the directors have performed their duties satisfactorily **(1)** **Max 3** **Accept other valid responses.**	**3**

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