CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **May/June 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.

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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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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>State <u>two</u> differences between a receipts and payments account and an income and expenditure account.

<table>
<tr><th>Receipts and payments account</th><th>Income and expenditure account</th></tr>
<tr><td>Only cash / monetary items are recorded (1)</td><td>Non-cash items such as depreciation are recorded (1)</td></tr>
<tr><td>The balance of the account is either cash at bank or overdraft at the year end / bank (1)</td><td>The balance of the account is either surplus or deficit for the year / income statement (1)</td></tr>
<tr><td>Receipts and payments are recorded regardless of the year they belong to i.e cash basis of accounting (1)</td><td>Revenue and expenses related to the current year only are recorded i.e. accrual basis of accounting (1)</td></tr>
<tr><td>Items of capital nature and revenue nature are recorded (1)</td><td>Only items of revenue nature are recorded (1)</td></tr>
</table>

Max 4
Accept other valid responses</td><td>4</td></tr>
</table>

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Question	Answer	Marks
1(b)	**Prepare the café's statement of profit or loss for the year ended 31 December 2023, showing the value of stolen cash in the expenses section.**	**10**

	$		$	
Sales revenue			264 000	
Opening inventory	11 200			
Purchases **W1**	178 200	**(1)**		
Closing inventory (balancing)	(13 400)	**(1) OF**		
Cost of sales			176 000	**(1)**
Gross profit **W2**			88 000	**(1)**
Cash stolen **W3**	1 700	**(2)**		
Café wages	34 800			
Coffee machine written off **W4**	1 200	**(2)**		
Depreciation – café equipment **W5**	7 500	**(1)**		
Café expenses	15 500			
			60 700	
Café profit for the year			27 300	**(1) OF**

W1
$29 800 + $172 000 – $23 600 = $178 200

W2
$264 000 × 50/150 = $88000

W3
$264 000 – ($34 800 + $15 500 + $212 000) **(1)** = $1 700**(1OF)**

W4
$3 000 – 1 800 **(1)** = $1 200 **(1OF)**

W5
($36 000 + $4 500 – $3 000) × 20% = $7 500

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Question	Answer	Marks
1(c)	**Prepare the Club's income and expenditure account for the year ended 31 December 2023.**	**6**

Income and expenditure account for the year ended 31 December 2023

			$	
Subscriptions **W1**			338 400	**(3)**
Profit from café			27 300	
			365 700	
Club expenses **W2**	283 700	**(1)**		
Club equipment depreciation **W3**	32 400	**(1)**		
Subscription written off	2 400			
			318 500	
Surplus for the year			47 200	**(1) OF**

W1
($4 000 + $2 400 + $336 000 + $5 600) **(1)** – ($4 800 + $1 600 + $3 200) **(1)** = $338 400 **(1) OF**

W2
$5 800 + $3 900 + $274 000 = $283 700

W3
($335 000 + $25 000 – $144 000) × 15% = $32 400

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Question	Answer	Marks
1(d)	**Advise the committee members which is the better option. Justify your answer.** **Option 1** – max **(2)** The club does not have enough cash to pay the whole amount as it only has a cash balance of $116 600 at 31 December 2023 **(1)**. Loan has to be raised and the club has to pay interest expense **(1)**. It's a capital expenditure and paid once and for all **(1)**. The annual maintenance is minimal **(1)**. This increases the assets value of the club **(1)**. More reliable as no need for a human presence. **(1)** Susceptible to breakdowns / hacking **(1)** **Option 2** – max **(2)** Members may feel safer due to physical presence **(1)**. The club is still subject to the threat at nighttime **(1)**. Paying $30 000 **each and every** year is a heavy financial burden to the club **(1)**. Option 2's annual expense of $30 000 is higher compared with Option 1's $18 000 for the first year and $16 300 for the second year **(1)**. **Decision supported by a comment (1)** **Accept other valid responses.**	**5**

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Question	Answer	Marks
2(a)(i)	**Explain how to correct the following errors made by the accounts clerk. Support your answer with calculations and with reference to the relevant international accounting standards.** **(i) depreciation on buildings** IAS 8 **(1)** *Accounting policies, changes in accounting estimates and errors* states that a new accounting policy should be applied retrospectively **(1)**. $1 600 ($80 000 × 2%) **(1)** depreciation charge for 2022 should be deducted from the opening retained earnings **(1)** and $1 600 depreciation charge for 2023 should be deducted from profit for the year **(1)** and non-current assets **(1)**. **1 mark** for IAS **4 marks** for explanations **1 mark** for calculation	**6**

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Question	Answer	Marks
2(a)(ii)	**(ii) valuation of inventory** Calculations: A further analysis of each category of inventory is: | Category	Cost	Estimated selling price	Commission 5%	NRV	Inventory value	
---	---	---	---	---	---	---
	$	$	$	$	$	
A	30 500	45 000	2 250	42 750	30 500	**(1)**
B	5 900	6 000	300	5 700	5 700	**(1)**
C	3 800	3 000	150	2 850	2 850	**(1)**
	40 200	54 000			39 050	| Difference in inventory value = $14 950 / ($54 000 – $39 050) **(1) OF**. IAS 2 **(1)** *Inventories* states that inventory should be valued at the lower of cost and net realisable value **(1).** This is in compliance with the prudence concept **(1)**. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale **(1)**. The valuation would be corrected by considering each individual category **(1)**. The profit for the year will be reduced **(1)**. **4 marks** for calculations **1 mark** for IAS **3 marks max** for explanations	**8**

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Question	Answer	Marks
2(b)	**Prepare the corrected statement of changes in equity for the year ended 31 December 2023. The <u>total</u> column is not required.**	**5**

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	
Balance b/d **W1**	400 000	32 000		149 400	**(1) OF**
Profit for the year **W2**				105 450	**(2)**
New issue	60 000	18 000			
Bonus issue	40 000	(40 000) **(1)**			
Interim dividend paid				(60 000)	
Revaluation of land			35 000 **(1)**		
	500 000	10 000	35 000	194 850	

W1
$151 000 – $1 600=$149 400
W2
$122 000 – ($1600 + $14950) **(1) OF** = $105 450 **(1) OF**

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Question	Answer	Marks
2(c)	**Prepare the corrected statement of financial position at 31 December 2023.**	**6**

Corrected statement of financial position at 31 December 2023

	$		$	
Non-current assets ($642000 – $1 600 × 2)			638 800	**(1) OF**
Current assets				
Inventory	39 050	**(1) OF**		
Trade receivables	226 000			
Cash and cash equivalents	60 500			
Total current assets			325 550	
Total assets			964 350	
Equity				
Ordinary shares	500 000			
Share premium	10 000			
Revaluation reserve	35 000			
Retained earnings	194 850			
			739 850	**(1) OF**
Non-current liabilities				
8% debenture			50 000	**(1)**
Current liabilities				
Trade payables	152 000			
Other payables $63 000 – ($42 500 **–** 2 000) **(1)**	22 500	**(1) OF**		
Total current liabilities			174 500	
Total equity and liabilities			964 350	

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Question	Answer	Marks
3(a)	**Explain <u>three</u> benefits of a merger.** Benefits of a merger: • Economies of scale / synergy **(1)** taking advantage of bulk buying discounts / reduction of cost / higher profit **(1)** • Pooling of experience / skill / resources **(1)** as new owners may bring new experience / skills / resources **(1)** • Diversification of products / services **(1)** will open up new / different markets **(1)** • Vertical integration / division of work **(1)** gives better control of production / sales **(1)** • Reduce competition / increase market share **(1)** to increase sales / profit **(1)**. **Max 3** benefits × **2** marks (1 mark for benefit and 1 mark for development) **Accept other valid responses**	**6**

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Question	Answer	Marks
3(b)	**Complete the following statement to calculate the capital account balance of <u>each</u> partner in the new partnership on 1 January 2023.**	**10**

	Ray $		Steve $		Tina $	
Balance at 31 December 2022	198 000		177 000		186 00 0	
Goodwill **W1**	83 000	**(1)**	83 000	**(1)**	46 000	**(1)**
Adjustment of assets value	20 000	**(1)**	20 000	**(1)**	17 500	**(1)**
Goodwill eliminated **W2**	(84 800)	**(1) OF**	(84 800)	**(1) OF**	(42 400)	**(1) OF**
Capital account at 1 January 2023	216 200		195 200		207 100	**(1) OF row**

W1
Ray and Steve average profit ($97 000 + $74 000 + $78 000)/3 = $83 000; goodwill 2 × $83 000 = $166 000
Ray's share $166 000 × 50% = $83 000 Steve's share $166 000 × 50% = $83 000
Tina's average profit ($19 000 + $22 000 + $28 000)/3=$23 000; goodwill 2 × $23 000 = $46 000

W2
Total goodwill $166 000 + $46 000 = $212 000
Ray $212 000 × 40% = $84 800 Steve $212 000 × 40% = $84 800 Tina $212 000 × 20% = $42 400

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Question	Answer	Marks
3(c)	**Prepare the statement of financial position of the new partnership on 1 January 2023.**	**4**

Statement of financial position at 1 January 2023

	$		$	
Non-current assets				
Land and buildings			410 000	**(1)**
Plant and machinery			99 000	
			509 000	
Current assets				
Inventory	56 500	**(1)**		
Trade receivables	111 000	**(1)**		
Cash at bank	30 000			
			197 500	
Total assets			706 500	
Capital account				
Ray	216 200	**}**		
Steve	195 200	**}**		
Tina	207 100	**}**		
			618 500	**(1) OF**
Current liabilities				
Trade payables			88 000	
Total capital and liabilities			706 500	

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Question	Answer	Marks
3(d)	**Discuss whether or not Tina has made the right decision to merge her business with Ray and Steve's business. Justify your answer.** For (Max 2) Tina's share of profit is $30 000 ($150 000 × 20%) **(1)**. The shared profit exceeds the annual profit when she was in the sole trader business **(1)**. Tina's business profit is on a declining trend **(1)**. Against (Max 2) She may have conflicts with other partners **(1)**. According to the profit and loss sharing ratio, she is only a minor partner **(1)** and has little control **(1)**. **Decision supported by a comment (1)** **Accept other valid responses.**	**5**

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