Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **October/November 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 values of the following <u>at cost</u>.** Inventory of finished goods at 1 July 2022 = 20 000 **(1)** Cost of production = 190 000 **(1)** Inventory of finished goods at 30 June 2023 = 22 000 **(1)**	**3**
1(b)	**Prepare a corrected statement of profit or loss for the year ended 30 June 2023.**	**13**

H plc
Statement of profit or loss for the year ended 30 June 2023

	$		$	
Revenue (370 – 3)			367 000	**(1)**
Inventory of finished goods at 1 July 2022	25 000			
Cost of production **W1**	252 500	**(2)**		
Inventory of finished goods at 30 June 2023 **W2**	<u>(29 250)</u>	**(2)**		
Cost of sales			<u>248 250</u>	
Gross profit			118 750	
Factory profit **W3**			50 500	**(2)**
Administrative expenses **W4**	28 850	**(4)**		
Distribution costs **W5**	<u>35 000</u>	**(1)**	<u>(63 850)</u>	
Profit for the year			<u>105 400</u>	**(1)OF**

W1 (190 000 + 12 000) **(1)** × 1.25 = 252 500 **(1)**
W2 (22 000 + 1400) **(1)** × 1.25 = 29 250 **(1)**
W3 47 500 + (12 000 **(1)** × 0.25 **(1)**) = 50 500
W4 40 500 – 12 000 **(1)** + (850 **(1)** – 500 **(1)** = 28 850 **(1)OF**
W5 31 000 + 4000 = 35 000 **(1)**

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Question	Answer	Marks
1(c)	**State the accounting concept being applied in the treatment of the goods sent on a sale or return basis in item 2.** realisation **(1)** **OR** prudence **(1)**	**1**
1(d)	**Explain your treatment of the legal proceedings in item 4.** Because the likelihood of having to pay the fine is less than 50% / possible or not probable **(1)** then this is a contingent liability **(1)** and should be disclosed in a note **(1)** to comply with IAS37 **(1)**. **Max 3**	**3**
1(e)	**Advise the directors whether or not to stop the application of factory profit. Justify your answer.** **Not stopping (max 2)** It can be a motivator **(1)** and help in setting staff bonuses / performance appraisal **(1)**. It enables the transfer cost to shadow the costs of buying goods in / can be used to set selling price **(1)**. **Stopping (max 2)** The rate can be arbitrary **(1)** and its application can increase administration and accounting costs **(1)**. It does not affect the overall profit of the business as it is included both as an extra cost and an extra income **(1)**. **Accept other valid responses.** **Decision supported by a comment (1)**	**5**

Question	Answer	Marks
2(a)	**Calculate the balance on the life membership fund after the transfer to the income and expenditure account on 31 May 2023.** 5100 + 4000 **(1)** – 1100 **(1)** = 8000	**2**

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Question	Answer	Marks
2(b)	**Calculate the surplus or deficit for the year ended 31 May 2023 by comparing the values of the accumulated fund.** |	$		 | At 31 May 2022	77 120	**(1)** | At 31 May 2023	76 500	**(1)OF** | Deficit	620	**(1)OF**	**3**
2(c)	**Calculate the profit or loss made on holding tournaments for the year ended 31 May 2023.** |	$	| | Income	15 200	**(1)** | Cost of prizes **W1**	(3 150)	**(2)** | Expenses **W2**	(11 940)	**(3)** | Profit	110	**(1)OF** **W1** 2800 **(1)** + (980 – 630) **(1)** = 3150 **W2** 11 520 **(1)** + (520 – 115) **(1)** + (445 – 430) **(1)** = 11 940	**7**

Question	Answer	Marks
2(d)	**Prepare the income and expenditure account for the year ended 31 May 2023. The balancing figure is to be called 'other operating expenses'.**	**10**

BU Club
Income and expenditure account for the year ended 31 May 2023

	$	$	
Income			
Subscriptions **W1**		28 800	**(4)**
Life membership fees		1 100	**(1)**
Profit from tournaments		110	**(1)OF**
		30 010	
Expenditure			
Depreciation	8 050		**}**
Wages	16 970		**}(1)**
Irrecoverable debts	500		**(1)**
Other operating expenses	5 110		**(1)OF**
		30 630	
Deficit		620	**(1)OF**

W1 28 600 **(1)** + 500 **(1)** + (250 – 150) **(1)** + (450 – 850) **(1)** = 28 800

Question	Answer	Marks
2(e)	**Advise the committee whether or not it should increase the entry fee for the tournament by 10%. Justify your answer.** **For (max 1)** If the number of entrants remained the same this would increase the profit from holding the tournaments **(1)** and eliminate the deficit **(1)**. An increase of 5% might be more reasonable and still eliminate the deficit **(1)**. **Against (max 1)** This might reduce the popularity of the tournaments **(1)** or even discourage membership of the club **(1)**. **Accept other valid responses.** **Decision supported by a comment (1)**	**3**

Question	Answer	Marks
3(a)	**Prepare the corrected statement of cash flows for the year ended 31 December 2022 in accordance with IAS 7.**	**15**

TG plc
Statement of cash flows for the year ended 31 December 2022

	$	$	
Profit from operations (76000 + 15000 + 32000)		123 000	**(1)**
Depreciation **W1**		120 000	**(3)**
Profit on disposal		(15 000)	**(1)**
Increase in inventory		(14 000)	**}**
Increase in trade receivables		(19 000)	**}(1)**
Increase in trade payables		11 000	**}**
Cash from operations		206 000	
Tax paid		(26 000)	**(1)**
Interest paid		(18 000)	**(1)**
Net cash from operating activities		162 000	**(1) OF**
Cash flow from investing activities			
Purchase of machinery	(348 000)		
Proceeds of sale of motor vehicles	71 000		
Net cash used in investing activities		(277 000)	**(1)**

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Question	Answer	Marks
3(a)	Cash flow from financing activities Loan received 30 000 **(1)** Proceeds of rights issue of ordinary shares 150 000 **(1)** Dividends paid (54 000) **(1)** Net cash from financing activities 126 000 **(1) OF** Net increase in cash and cash equivalents 11 000 Cash and cash equivalents on 1 January 2022 17 000 **}** Cash and cash equivalents on 31 December 2022 28 000 **} (1)both w+f** **W1** 300 000 **(1)** + (348 000 – 56 000) **(1)** – 472 000 **(1)** = 120 000	
3(b)(i)	**Discuss, without making calculations, why the following changes might take place.** **Decrease in earnings per share** Any increase in profit is likely to be less than proportional to the increase in the number of shares **(1)**. Investment in new non-current assets will take time to turn into profit increases **(1)**. The majority of the increase in shares arises from a bonus issue which did not bring in funds to increase the asset base and production capability of the business **(1)**. The bank loan will increase interest payable / other expenses which will tend to reduce profit **(1).** **Accept other valid responses.** **Max 3**	**3**

Question	Answer	Marks
3(b)(ii)	**Increase in price earnings ratio** The expansion will cause increased investor interest in the company and confidence will rise **(1)** causing an increase in the market price of the shares **(1)**. Earnings per share is expected to fall which would tend to increase the price earnings ratio **(1).** **Accept other valid responses.** **Max 2**	**2**
3(b)(iii)	**Decrease in dividend yield** The increased number of shares may well cause the dividend per share to be lower **(1)**, especially if the benefit from the capital expenditure has not yet arisen **(1)**. If confidence increases the market price of the shares will increase **(1)**. **Accept other valid responses.** **Max 2**	**2**
3(c)	**Advise the directors whether or not another bonus issue would be beneficial. Justify your answer.** **For (max 1)** It might help keep shareholders happy / increase confidence **(1)**. It avoids having to pay cash dividends, especially when the bank balance is not high in relation to dividends paid **(1)** It utilises capital reserves if available **(1)** **Against (max 1)** It will further deplete reserves **(1)**. It would further depress earnings per share and dividend yield. **(1)** It does not raise cash which might limit dividend payments later **(1)**. **Decision supported by a comment (1)** **Accept other valid responses.**	**3**

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