CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **October/November 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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Question	Answer	Marks
1(a)(i)	**Prepare the following for the year ended 30 September 2024:** **the manufacturing account**	**6**

H plc
Manufacturing account for the year ended 30 September 2024

	$		$	
Raw materials at 1 October 2023			23 000	
Purchases	141 000			
Carriage inwards	4 900	**(1)**	145 900	
			168 900	
Raw materials at 30 September 2024			(21 000)	
Cost of raw materials consumed			147 900	**(1)OF**
Direct labour			180 900	
Prime cost			328 800	**(1)OF**
Factory overheads			191 100	**(1)**
Cost of production			519 900	
Factory profit			98 781	**(1)OF**
Transfer price of manufactured goods			618 681	**(1)OF**

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Question	Answer	Marks
1(a)(ii)	**Prepare the following for the year ended 30 September 2024:** **the statement of profit or loss.** Statement of profit or loss for the year ended 30 September 2024 Revenue — $ 866 000 Inventory of finished goods at 1 October 2023 — 28 080 Transfer price of manufactured goods — 618 681 646 761 Inventory of finished goods at 30 September 2024 — (17 850) **(1)** Cost of sales — 628 911 **(1)OF** Gross profit — 237 089 **(1)OF** Factory profit — 98 781 **(1)OF** Decrease in provision for unrealised profit **W1** — 1 230 **(1)** Administrative expenses **W2** — 120 300 **(1)** Distribution costs **W3** — 99 360 **(1)** — 219 660 Profit from operations — 117 440 Finance costs — 16 000 **(1)** Profit for the year — 101 440 **(1)OF** **W1** 4 080 – (0.19 × 15 000) = $1 230 **W2** 109 800 + 10 500 = 120 300 **W3** 87 200 + 12 160 = 99 360	**9**
1(b)	**Suggest why the depreciation correctly charged on factory machinery is only $23 600 when the depreciation is calculated at 10% per annum on cost.** Some machinery may have been acquired during the year **(1)** and depreciation may be based on a time basis / not provided in the year of acquisition **(1)**	**2**

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Question	Answer	Marks
1(c)	**Calculate, to <u>two</u> decimal places, the rate of factory profit which the company will apply in the year ending 30 September 2025.** **The transfer price is to remain equivalent to the buy-in price. Assume that production volumes and production costs, other than direct labour, will be unchanged.** New buy-in price (new transfer price) = 618 681 × 110% = $680 549 **(1)OF** New cost of production = 519 900 + (180 900 × 20%) = $556 080 **(1)OF** New rate of profit = (680 549 – 556 080)/556 080 × 100 = 22.38% **(1)OF**	**3**
1(d)	**Advise the directors whether or not depreciation of premises should be included when calculating factory profit. Justify your answer.** Including **(max 2)** The depreciation charge would increase factory overheads / cost of production **(1).** Therefore, factory profit would increase **(1).** If the factory profit is used to set staff bonuses it might mean that they are more realistic **(1).** It would match the cost of using the premises with the revenue earned from their use **(1).** It would comply with IAS 16 **(1).** Not including **(max 2)** An increase in factory profit does not increase the overall profit of the business **(1).** If the rate of factory profit is based on the buy-in price, then the increase in factory overheads would be matched with a decrease in the rate of factory profit **(1).** It would involve the value of the premises being split between land and buildings **(1).** The life of the buildings would be an estimate **(1).** **Decision supported with a comment (1)** **Accept other valid responses.**	**5**

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Question	Answer	Marks
2(a)	**Calculate the correct division of profit between the two periods. Assume that revenue and other expenses accrued evenly throughout the year.** Adjustments = 13 000 + 5 000 = $18 000 **(1)** January to June (124 000 + 18 000)/2 = $71 000 **(1) OF** July to December (124 000 – 18 000)/2 = $53 000 **(1) OF**	**3**
2(b)(i)	**Prepare:** **corrected capital accounts for the year**	**4**

Capital accounts

	Amina	Belinda	Nigel		Amina	Belinda	Nigel
	$	$	$		$	$	$
Goodwill	38 000	38 000	38 000	Balance b/d	60 000	60 000	}
				Bank			80 000}**(1)**
Balance c/d	79 000**(1)**	79 000**(1)**	42 000**(1)**	Goodwill	57 000	57 000	
	117 000	117 000	80 000		117 000	117 000	80 000

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Question	Answer	Marks
2(b)(ii)	**Prepare:** **corrected current accounts for the year.**	**13**

Current accounts

	Amina $	Belinda $	Nigel $		Amina $	Belinda $	Nigel $
Balance b/d		1 100		Balance b/d	4 900		
Drawings	38 500	47 100	18 200	Interest on capital (first period)	1 500 **(1)**	1 500 **(1)**	
				Interest on capital (second period)	1 975 **(1)OF**	1 975 **(1)OF**	1 050 **(1)OF**
				Share of profit (first period)	34 000 **(1)OF**	34 000 **(1)OF**	
				Share of profit (second period)	16 000 **(1)OF**	16 000 **(1)OF**	16 000 **(1)OF**
Balance c/d	19 875 **(1)OF**	5 275 **(1)OF**		Balance c/d			1 150 **(1)OF**
	58 375	53 475	18 200		58 375	53 475	18 200

Question	Answer	Marks
2(c)	**Advise the partners whether or not they should appoint a new accountant. Justify your answer.** Pyotr will be very familiar with the workings and accounts of the partnership **(1).** Pyotr may have a good working relationship with the partners **(1).** Pyotr may work for the partners at a very competitive price / a new accountant may increase costs **(1).** If Pyotr made these errors inadvertently then he has infringed the fundamental principle of professional competence and due care **(1).** If he made these errors deliberately to benefit his relation then he has infringed the principles of integrity (independence) **/** professional behaviour **(1).** He may have a conflict of interest / be biased **(1).** Max **(4)** for comments **Decision supported with a comment (1)** **Accept other valid responses.**	**5**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Calculate for X plc the required year-end balances and the required ratios to <u>two</u> decimal places for <u>each</u> year 2022 and 2023.
<table>
<tr><td></td><td>2022</td><td></td><td>2023</td><td></td></tr>
<tr><td>ordinary share capital ($)</td><td>300 000</td><td></td><td>390 000</td><td>(1) both</td></tr>
<tr><td>share premium ($)</td><td>60 000</td><td>(1)</td><td>0</td><td>(1)</td></tr>
<tr><td>retained earnings ($)</td><td>187 500</td><td>(1)</td><td>208 200</td><td>(1)OF</td></tr>
<tr><td>non-current liabilities ($)</td><td>205 000</td><td>(1)</td><td>395 000</td><td>(1)OF</td></tr>
<tr><td>gearing ratio</td><td>27.24%</td><td>(1)OF</td><td>39.77%</td><td>(1)OF</td></tr>
<tr><td>earnings per share ($)</td><td>0.60</td><td>(1)OF</td><td>0.66</td><td>(1)OF</td></tr>
<tr><td>dividend per share ($)</td><td>0.45</td><td>(1)OF</td><td>0.40</td><td>(1)OF</td></tr>
<tr><td>price earnings ratio</td><td>4</td><td></td><td>5</td><td>(1) OF both</td></tr>
</table></td><td>14</td></tr>
</table>

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Question	Answer	Marks
3(a)		

workings	2022	2023
ordinary share capital	100 000 + 50 000 = 150 000 150 000 × 2 = $300 000	150 000 × 13/10 = 195 000 195 000 × 2 = $390 000
share premium	20 000 + [140 000 – (50 000 × 2)] = $60 000	60 000 – 60 000 = $0
retained earnings	165 000 + 90 000 – 67 500 = $187 500	187 500 + 128 700 – 78 000 – 30 000 = $208 200
non-current liabilities	215 000 – 10 000 (transfer to CL) = $205 000	205 000 + 190 000 = $395 000
gearing ratio	205 000/(300 000 + 60 000 + 187 500 + 205 000)	395 000/(390 000 + 208 200 + 395 000)
earnings per share	90 000/150 000	128 700/195 000
dividend per share	67 500/150 000	78 000/195 000
price earnings ratio	2.40/0.60	3.30/0.66

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Question	Answer	Marks
3(b)	**Discuss the performance of Vinisha's investment in relation to <u>each</u> of her three objectives**. **Objective 1** – risk **(max 3)** The company's gearing ratio was 35.83% **(1)** in 2021. This fell in 2022 but rose in 2023, and was very close to her target limit in 2023 **(1).** However, the company would still be considered to have low gearing as it is below 50% / a low risk company **(1).** **Objective 2** – dividends **(max 3)** When Vinisha invested she wanted to receive dividend income of $1600 / $0.32 per share **(1).** Vinisha received dividends of $2 250 in 2022 and $2 600 in 2023 **(1).** In both years this was above her target income **(1).** The dividend per share fell between 2022 and 2023 but because of the bonus issue the number of shares she held was increased which more than compensated **(1).** **Objective 3** – profit on sale **(max 3)** Vinisha paid $3.20 per share in 2021 **(1).** If she sold her shares at the end of 2023 she would have made a profit **(1).** The share price rose despite the bonus issue **(1).** The PE ratio is increasing which indicates that confidence in the performance of the company is increasing **(1)** which indicates that the share price may well increase further **(1).** Overall**, Max 8 marks. OF basis** **Accept other valid responses.**	**8**
3(c)	**Suggest another solvency ratio which might be affected as the gearing ratio changes. Give a reason for your answer.** Interest cover **(1)** The investment of the borrowed funds should increase profits **(1)** and increased interest will be payable **(1).** **Accept other valid responses.**	**3**

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