



Cambridge International AS & A Level

ACCOUNTING

9706/32

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.

Cambridge International is publishing the mark schemes for the May/June 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

PUBLISHED**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.

PUBLISHED**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.

PUBLISHED**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).

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.

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

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 a statement to show the profit or loss for the year ended 31 December 2022 for the café. Statement of profit or loss for the café for year ended 31 December 2022 <table><thead><tr><th></th><th style="text-align: right;">\$</th><th style="text-align: right;">\$</th><th></th></tr></thead><tbody><tr><td>Revenue W1</td><td></td><td style="text-align: right;">69 400</td><td style="text-align: right;">(1)</td></tr><tr><td>Opening inventory</td><td style="text-align: right;">5 900</td><td></td><td></td></tr><tr><td>Purchases W2</td><td style="text-align: right;">29 800</td><td></td><td style="text-align: right;">(1)</td></tr><tr><td>Closing inventory W3</td><td style="text-align: right;"><u>(4 500)</u></td><td></td><td style="text-align: right;">(1)</td></tr><tr><td>Cost of sales</td><td></td><td style="text-align: right;"><u>31 200</u></td><td></td></tr><tr><td>Gross profit</td><td></td><td style="text-align: right;">38 200</td><td></td></tr><tr><td>Wages W4</td><td style="text-align: right;">14 920</td><td></td><td style="text-align: right;">(1)</td></tr><tr><td>Rent W5</td><td style="text-align: right;">7 200</td><td></td><td style="text-align: right;">(1)</td></tr><tr><td>Heating and lighting W6</td><td style="text-align: right;">3 400</td><td></td><td style="text-align: right;">(1)</td></tr><tr><td>Depreciation of café equipment W7</td><td style="text-align: right;"><u>6 160</u></td><td></td><td style="text-align: right;">(1)</td></tr><tr><td></td><td></td><td style="text-align: right;"><u>31 680</u></td><td></td></tr><tr><td>Profit for the year</td><td></td><td style="text-align: right;"><u>6 520</u></td><td style="text-align: right;">(1) OF</td></tr></tbody></table> W1: \$55 000 + \$14 400 = 69 400 (1) W2: \$31 600 + 14 800-\$16 600 = 29 800 (1) W3: \$6 400 – \$2 200+\$300 = 4 500 (1) W4: \$14 400 – \$2 730+\$3 250 = 14 920 (1) W5: \$18 000 × 40% = 7200 (1) W6: (\$7 500 – \$900 + \$1 900) × 40% = 3400 (1) W7: (\$22 000+\$8 800) × 20%= 6160 (1)		\$	\$		Revenue W1		69 400	(1)	Opening inventory	5 900			Purchases W2	29 800		(1)	Closing inventory W3	<u>(4 500)</u>		(1)	Cost of sales		<u>31 200</u>		Gross profit		38 200		Wages W4	14 920		(1)	Rent W5	7 200		(1)	Heating and lighting W6	3 400		(1)	Depreciation of café equipment W7	<u>6 160</u>		(1)			<u>31 680</u>		Profit for the year		<u>6 520</u>	(1) OF	8
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1(b)	Prepare the club’s income and expenditure account for the year ended 31 December 2022. Income and expenditure account for year ended 31 December 2022 <table><tr><td></td><td style="text-align: right;">\$</td><td style="text-align: right;">\$</td><td></td></tr><tr><td>Subscriptions W1</td><td></td><td style="text-align: right;">69 200</td><td>(3) OF</td></tr><tr><td>Life membership W2</td><td></td><td style="text-align: right;">5 600</td><td>(1)</td></tr><tr><td>Profit from café</td><td></td><td style="text-align: right;"><u>6 520</u></td><td></td></tr><tr><td></td><td></td><td style="text-align: right;">81 320</td><td></td></tr><tr><td> Rent W3</td><td style="text-align: right;"> 10 800</td><td></td><td> (1)</td></tr><tr><td>Heating and lighting W4</td><td style="text-align: right;">5 100</td><td></td><td>(1)</td></tr><tr><td>Club administrative expenses</td><td style="text-align: right;">40 150</td><td></td><td></td></tr><tr><td>Loss on sale of club equipment W5</td><td style="text-align: right;">2 800</td><td></td><td>(1)</td></tr><tr><td>Depreciation of club equipment W6</td><td style="text-align: right;"><u>16 840</u></td><td></td><td>(1)</td></tr><tr><td></td><td></td><td style="text-align: right;"><u>75 690</u></td><td></td></tr><tr><td>Surplus for the year</td><td></td><td style="text-align: right;"><u>5 630</u></td><td>(1) OF</td></tr></table> W1: <table><tr><td colspan="4" style="text-align: center;">Subscription account</td></tr><tr><td></td><td style="text-align: right;">\$</td><td></td><td style="text-align: right;">\$</td></tr><tr><td>Bal b/d</td><td style="text-align: right;">2 000</td><td>Bal b/d</td><td style="text-align: right;">1 200</td></tr><tr><td></td><td></td><td></td><td style="text-align: right;">(1) the row</td></tr><tr><td>I&E</td><td style="text-align: right;">69 200</td><td>Bank</td><td style="text-align: right;">68 000</td></tr><tr><td>Bal c/d</td><td style="text-align: right;">1 400</td><td>Bal c/d</td><td style="text-align: right;">3 400</td></tr><tr><td></td><td></td><td></td><td style="text-align: right;">(1) the row</td></tr><tr><td></td><td style="text-align: right;"><u>72 600</u></td><td></td><td style="text-align: right;"><u>72 600</u></td></tr></table> W2: (28×\$2 000) × 1/10 = 5 600 (1) W3: \$18 000 × 60% =10 800 (1) W4: (\$7 500 – \$900 + \$1 900) × 60% = 5 100 (1) W5: \$4 800 – \$2 000) = 2800 (1) W6: (\$76 000 – \$4 800+13 000) × 20% = 16 840 (1)		\$	\$		Subscriptions W1		69 200	(3) OF	Life membership W2		5 600	(1)	Profit from café		<u>6 520</u>				81 320		 Rent W3	 10 800		 (1)	Heating and lighting W4	5 100		(1)	Club administrative expenses	40 150			Loss on sale of club equipment W5	2 800		(1)	Depreciation of club equipment W6	<u>16 840</u>		(1)			<u>75 690</u>		Surplus for the year		<u>5 630</u>	(1) OF	Subscription account					\$		\$	Bal b/d	2 000	Bal b/d	1 200				(1) the row	I&E	69 200	Bank	68 000	Bal c/d	1 400	Bal c/d	3 400				(1) the row		<u>72 600</u>		<u>72 600</u>	9
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Question	Answer	Marks																											
1(c)	Prepare a statement showing the movement in the accumulated fund for the year 2022. <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Accumulated fund at 1 January 2022 W1</td><td>136 470</td><td>(2)</td></tr> <tr> <td>Surplus for the year</td><td><u>5 630</u></td><td></td></tr> <tr> <td>Accumulated fund at 31 December 2022</td><td><u>142 100</u></td><td>(1)OF</td></tr> </table> W1: <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Book value of given balances</td><td>87 270</td><td></td></tr> <tr> <td>Life member ($6 \times \\$2\,000 \times 8/10$) + ($10 \times \\$2\,000 \times 9/10$)</td><td>(27 600)</td><td>(1)</td></tr> <tr> <td>Bank</td><td><u>76 800</u></td><td></td></tr> <tr> <td>Accumulated fund at 1 January 2022</td><td><u>136 470</u></td><td>(1)OF</td></tr> </table>		\$		Accumulated fund at 1 January 2022 W1	136 470	(2)	Surplus for the year	<u>5 630</u>		Accumulated fund at 31 December 2022	<u>142 100</u>	(1)OF		\$		Book value of given balances	87 270		Life member ($6 \times \$2\,000 \times 8/10$) + ($10 \times \$2\,000 \times 9/10$)	(27 600)	(1)	Bank	<u>76 800</u>		Accumulated fund at 1 January 2022	<u>136 470</u>	(1)OF	3
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1(d)	Advise the management committee which option they should choose. Justify your answer. Max 4 marks for comments 1 mark for decision supported with a comment Security is required for the long-term loan / not for the personal loan (1) Lower interest rate because of the security in case of long-term loan/ higher interest rate for personal loan (1) Long-term loan takes longer time because of the paper work/ personal loan is quicker to get because of little formalities involved (1) Long-term loan has a fixed term/ Personal loan can be recalled anytime (1) Accept other valid responses.	5																											
2(a)	Explain why M Limited made a prior period adjustment in information 2. Support your answer by stating the relevant international accounting standard and the accounting treatment. Depreciation \$20 000 ($\\$400\,000 \times 5\%$) on the existing building should have been made for 2021. (1) This is a change in accounting policy. (1) IAS 8 Accounting policies, changes in accounting estimates and errors (1) The prior period error is adjusted against the retained earnings brought forward on 1 January 2022. (1)	4																											

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Question	Answer	Marks																					
2(b)	Calculate the profit for the year ended 31 December 2022. <table> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Increase in retained earnings</td><td style="text-align: right;">34 900</td><td></td></tr> <tr> <td>Prior period adjustment W1</td><td style="text-align: right;">20 000</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Dividend paid</td><td></td><td></td></tr> <tr> <td> 2021 final W2</td><td style="text-align: right;">48 000</td><td style="text-align: right;">(1)</td></tr> <tr> <td> 2022 interim W3</td><td style="text-align: right;">88 800</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Profit for the year</td><td style="text-align: right;"><u>191 700</u></td><td style="text-align: right;">(1) OF</td></tr> </table> W1: $\\$400\,000 \times 5\% = 20\,000$ (1) W2: $(60\,000 \div 1/10) \times \\$0.08 = 48\,000$ (1) W3: $(600\,000 + 140\,000) \times \\$0.12 = 88\,800$ (1)		\$		Increase in retained earnings	34 900		Prior period adjustment W1	20 000	(1)	Dividend paid			2021 final W2	48 000	(1)	2022 interim W3	88 800	(1)	Profit for the year	<u>191 700</u>	(1) OF	4
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2(c)	Prepare a statement of cash flows for the year ended 31 December 2022 in accordance with IAS 7. Statement of cash flows for the year ended 31 December 2022 \$ <table> <tr> <td>Cash flows from operating activities</td><td></td><td></td></tr> <tr> <td>Profit from operations W1</td><td>196 100</td><td>(3)OF</td></tr> <tr> <td>Depreciation (\$26 200 + \$42 600)</td><td>68 800</td><td>(1)</td></tr> <tr> <td>Gain on disposal of machine (\$29 500 – \$28 600)</td><td>(900)</td><td>(1)</td></tr> <tr> <td>Decrease in inventory</td><td>3 600</td><td rowspan="3">}</td></tr> <tr> <td>Increase in trade receivables</td><td>(5 900)</td></tr> <tr> <td>Increase in trade payables</td><td>5 600</td></tr> <tr> <td></td><td><u>267 300</u></td><td>(1)</td></tr> <tr> <td>Interest paid</td><td><u>(4 400)</u></td><td>(1)OF</td></tr> <tr> <td>Net cash from operating activities</td><td><u>262 900</u></td><td></td></tr> <tr> <td>Cash flows from investing activities</td><td></td><td></td></tr> <tr> <td>Purchase of building W2</td><td>(124 000)</td><td>(1)</td></tr> <tr> <td>Sale proceeds of a machine</td><td>29 500</td><td>(1)</td></tr> <tr> <td>Purchase of machine W3</td><td><u>(36 600)</u></td><td>(1)</td></tr> <tr> <td>Net cash used in investing activities</td><td>(131 100)</td><td>(1)OF</td></tr> <tr> <td>Cash flows from financing activities</td><td></td><td></td></tr> <tr> <td>Issue of shares W4</td><td>120 000</td><td>(1)</td></tr> <tr> <td>Repayment of bank loan</td><td>(60 000)</td><td>(1)</td></tr> <tr> <td>Dividend paid</td><td><u>(136 800)</u></td><td>(1)OF</td></tr> <tr> <td>Net cash used in financing activities</td><td><u>(76 800)</u></td><td>(1)OF</td></tr> <tr> <td>Net increase in cash and cash equivalents</td><td>55 000</td><td>(1)</td></tr> <tr> <td>Cash and cash equivalents at the beginning of the year</td><td><u>42 000</u></td><td></td></tr> <tr> <td>Cash and cash equivalents at the end of the year</td><td><u>97 000</u></td><td>(1)</td></tr> </table>	Cash flows from operating activities			Profit from operations W1	196 100	(3)OF	Depreciation (\$26 200 + \$42 600)	68 800	(1)	Gain on disposal of machine (\$29 500 – \$28 600)	(900)	(1)	Decrease in inventory	3 600	}	Increase in trade receivables	(5 900)	Increase in trade payables	5 600		<u>267 300</u>	(1)	Interest paid	<u>(4 400)</u>	(1)OF	Net cash from operating activities	<u>262 900</u>		Cash flows from investing activities			Purchase of building W2	(124 000)	(1)	Sale proceeds of a machine	29 500	(1)	Purchase of machine W3	<u>(36 600)</u>	(1)	Net cash used in investing activities	(131 100)	(1)OF	Cash flows from financing activities			Issue of shares W4	120 000	(1)	Repayment of bank loan	(60 000)	(1)	Dividend paid	<u>(136 800)</u>	(1)OF	Net cash used in financing activities	<u>(76 800)</u>	(1)OF	Net increase in cash and cash equivalents	55 000	(1)	Cash and cash equivalents at the beginning of the year	<u>42 000</u>		Cash and cash equivalents at the end of the year	<u>97 000</u>	(1)	17
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Question	Answer	Marks
2(c)	W1 \$191 700 OF+\$2 000 (1)+2 400 (1)=\$196100 (1)OF (\$100 000 × 8% × 3/12)=\$2 000 (\$40 000 × 8% × 9/12) = \$2 400 W2 \$77 800 + (\$26 200 + \$20 000) = \$124 000 (1)OF or \$26 200 ÷ 5% – \$400 000 = \$124 000 (1)OF W3 \$28 600 +\$42 600 – \$34 600 = \$36 600 (1) W4 Share capital (\$140 000 – \$60 000) \$80 000 Share premium (\$60 000 – \$20 000) \$40 000 \$120 000 OR (\$140 000 – \$60 000) x \$1.50 = \$120 000 (1)	

Question	Answer	Marks
3(a)	State <u>two</u> reasons why a business may acquire another business. Synergy (1) Growth (1) Elimination of competitors (1) Increase market share (1) Enter into a new market (1) Max 2 Accept other valid responses.	2

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Question	Answer				Marks
3(b)	Prepare the realisation account at 1 January 2023.				4
	Realisation account \$ Assets (taken over by X Limited) 290 000 Vehicle (taken over by Alice) 25 000 Profit on realisation Alice 78 600 Bob 52 400 446 000 \$ X Limited (consideration) Capital -Alice (take over vehicle) 420 000 Discount received 2 200 23 800 (1) (1)				

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Question	Answer							Marks
3(c)	Prepare the partners' capital accounts at 1 January 2023 to close the partnership books of account.							10
Capital account								
	Alice		Bob		Alice		Bob	
	\$		\$		\$		\$	
X Limited-ordinary shares	160 000		160 000	(1) row	Balance b/d	150 000	100 000	(1) row
Vehicle	23 800			(1)	Current account W1	32 000	16 000	(4) OF
Bank	<u>76 800</u>	(1OF)	<u>8 400</u>	(1OF)	Profit on realisation	<u>78 600</u>	<u>52 400</u>	(1)OF row
	<u>260 600</u>		<u>168 400</u>			<u>260 600</u>	<u>168 400</u>	
W1								
					\$			
Book value of assets taken over by X Limited					290 000			
Book value of vehicle taken over by Alice					25 000			
Cash at bank					27 000			
Trade payables					<u>(44 000)</u>			
Net assets book value					298 000	(1)		
Capital accounts total					<u>250 000</u>			
Current accounts total					<u>48 000</u>	(1)		
Alice \$48 000 × 2/3 = \$32 000 (1)OF								
Bob \$48 000 × 1/3 = \$16 000 (1)OF								

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Question	Answer	Marks																																										
3(d)	Prepare journal entries in the books of X Limited to record the acquisition of the partnership. Narratives are <u>not</u> required. <table><tr><td></td><td>Dr</td><td></td><td>Cr</td></tr><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Premises</td><td>186 000</td><td rowspan="4">}</td><td></td></tr><tr><td>Equipment</td><td>32 000</td></tr><tr><td>Vehicle</td><td>18 000</td></tr><tr><td>Inventory</td><td>45 000</td></tr><tr><td>Trade receivables</td><td>71 000</td><td>(1)</td><td></td></tr><tr><td>Goodwill W1</td><td>68 000</td><td>(1)</td><td></td></tr><tr><td>Ordinary shares capital</td><td></td><td></td><td>200 000</td></tr><tr><td>Share premium</td><td></td><td></td><td>120 000</td></tr><tr><td>Bank / Cash</td><td></td><td></td><td>100 000</td></tr><tr><td></td><td></td><td></td><td>(1)</td></tr></table> W1: \$420 000 – \$352 000 = 68000 (1)		Dr		Cr		\$		\$	Premises	186 000	}		Equipment	32 000	Vehicle	18 000	Inventory	45 000	Trade receivables	71 000	(1)		Goodwill W1	68 000	(1)		Ordinary shares capital			200 000	Share premium			120 000	Bank / Cash			100 000				(1)	4
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			(1)																																									

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Question	Answer	Marks
3(e)	Advise Alice whether or not she should set up this new business. Justify your answer. Max 2 marks for 'For' comments Max 2 marks for 'Against' comments 1 mark for decision supported with a comment For (max 2) She has experience and knowledge in the trade. (1) She now has time to run her own business (1) She can supplement her income from X Limited. (1) She takes all the profit from her own business. (1) Against (max 2) She will be in competition with X Limited. (1) She will have start up costs (1) She must consider whether the cash received is sufficient. (1) She has unlimited liability. (1)	5