Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **February/March 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)	**Explain <u>two</u> reasons why a business may apply a rate of factory profit.** The transfer price can benchmark with the price at which goods could be bought from external suppliers. **(1)** This provides relevant information to the business to make decision whether goods should be produced by the business or bought from external suppliers. **(1)** This allows responsibility accounting in the business. **(1)** The manufacturing department is treated as a profit centre so that costs can be controlled. **(1)** **Max 2** for each reason (**(1)** mark for each identification up to a maximum of two plus one further mark for each explanation.) **Accept other valid responses.**	**4**
1(b)	**Prepare the provision for unrealised profit account for the year ended 31 December 2022.** Provision for unrealised profit |	\$			\$	| | Balance c/d | 5 000 **(1)** | Balance b/d **W1** | 4 400 **(1)** | | | Profit or loss | 600 | | 5 000 | | 5 000 | | | Balance b/d | 5 000 **W1** \$26 400 × 20/120=\$4400	**2**

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

Manufacturing account for the year ended 31 December 2022

	$	
Direct materials consumed ($216 000 – $1 160)	214 840	**(1)**
Direct labour ($196 200 – $3 000)	193 200	**(1)**
Prime cost	408 040	
Factory overheads ($85 000 + $3 000 – $1 000)	87 000	**(1)**
	495 040	
Decrease in work in progress inventory	960	**(1)**
Cost of goods manufactured	496 000	
Factory profit	99 200	**(1)OF**
Transfer value	595 200	**(1)OF**

Question	Answer	Marks
1(d)	**Prepare the statement of profit or loss or the year ended 31 December 2022.**	**8**

Statement of profit or loss for the year ended 31 December 2022

	$	
Sales revenue	936 000	
Cost of sales		
Finished goods opening inventory	26 400	
Goods at transfer value	595 200	**(1)OF**
Finished goods closing inventory ($5 000 OF × 120 / 20)	(30 000)	**(1)OF**
	591 600	
Gross profit	344 400	**(1)OF**
Factory profit	99 200	**}OF**
Increase in provision for unrealised profit	(600)	**} (1)**
	443 000	
Administrative expenses ($234 000 + $1 000)	235 000	**(1)**
Distribution costs ($97 000 – $4 000)	93 000	**(1)**
Profit from operations	115 000	
Finance costs	4 000	**(1)**
Profit for the year	111 000	**(1)OF**

Question	Answer	Marks
1(e)	**Advise the sales manager whether or not J Limited should accept the sales order. Justify your answer and support your answer with relevant calculations.** **Max 1** marks for agree comments **Max 1** marks for disagree comments **1 mark** for decision supported with comment **Calculations (max 2)** The effective gross profit margin is 47.33% ($443 000 / $936 000). **(1)OF** From the order, J Limited can get an increase in profit of ($40 000 × 47.33% – $9 500) =$9 432. **(1)OF** **Agree (max 1)** J Limited will get an increase in profit **(1)** J Limited can have the opportunity to expand the business in a new market. **(1)** **Disagree (max 1)** However, entering a new market may be risky, i.e. political reason, foreign currency issue **(1)** There may be an increase in other administrative costs **(1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)(i)	**Calculate to <u>two</u> decimal places:** **price/earnings ratio** Dividend paid ($800 000 / $2) × $0.12 = $48 000 **(1)** Profit for the year $24 000 + $48 000 = $72 000 **(1)OF** Earnings per share $72 000 / ($800 000/$2) = $0.18 **(1)OF** Price/earnings ratio = $3.35/$0.18 **(1)OF** = 18.61 **(1)OF**	**5**

Question	Answer	Marks
2(a)(ii)	**Calculate to <u>two</u> decimal places:** **dividend yield** $0.12/$3.35 = 3.58% **(1)**	**1**
2(a)(iii)	**Calculate to <u>two</u> decimal places:** **gearing ratio** ($100 000 / $1 054 000) **(1) OF** = 9.49% **(1) OF** $800 000 + $60 000 + $70 000 + $24 000 + $100 000 = $1 054 000 **(1)**	**3**
2(a)(iv)	**Calculate to <u>two</u> decimal places:** **return on capital employed** ($72 000 + $2 500) / $1054 000 **(1) OF** = 7.07% **(1) OF** $100 000 × 5% × 6 / 12 = $2 500 **(1)**	**3**
2(b)(i)	**Analyse the performance of X plc, comparing the results with the industry average in respect of:** **price/ earnings ratio** X plc has a better PE ratio (18.61) than the industry average (16). **(1)** This would indicate that the investors have more confidence in the company. **(1)** It may indicate that the share price of X plc has been overvalued compared to the share price of other companies. **(1)** It also means that investors are willing to pay a higher share price in the expectation of future earnings growth. **(1)** **Accept other valid responses.** **Accept OF comments.**	**4**

Question	Answer	Marks
2(b)(ii)	**Analyse the performance of X plc, comparing the results with the industry average in respect of:** **gearing ratio** X plc has a lower gearing ratio (9.49%) than the industry average (25%). **(1)** A low-geared business is perceived as low risk. **(1)** Low gearing also means that low fixed interest is paid. **(1)** More residual profit available for distribution. **(1)** **Max 4** **Accept other valid responses.** **Accept OF comments**	**4**
2(c)	**Advise whether or not the directors should propose a final dividend for 2022. Justify your answer**. **Max 2** marks for agree comments **Max 2** marks for disagree comments **1 mark** for decision supported with comment Agree to propose dividend (**max 2**) • To fulfil the expectation of shareholders **(1)** • The dividend yield, 3.58%, is lower than the debenture interest **(1),** the return of shareholders is inferior to outsiders **(1)** • To reinforce the share price **(1)** Disagree (**max 2**) • Business is short of cash to pay dividend **(1)** • Business is still at an early stage, it should keep more cash for future development **(1)** • A higher price/earnings ratio suggests that the business is expected to be a growth prospect **(1)**, shareholders should forgo the short-term gain in exchange for a future long-term gain. **(1)** **Accept OF comments** **Accept other valid responses**	**5**

Question	Answer	Marks
3(a)(i)	**Explain, with reference to the relevant International Accounting Standards, the appropriate accounting treatments for the items in:** **information 4 (Support your answer with calculations.)** IAS 36 Impairment of assets **(1)** Recoverable amount is the higher of fair value less costs to sell ($24 500 – $1 800 = $22 700) and value in use ($23 200). **(1)** Impairment loss $3 800, **(1)** which is the amount of carrying value ($27 000) exceeding the recoverable amount ($23 200), should be recognised in the statement of profit or loss **(1)** and the carrying value is reduced accordingly. **(1)**	**5**
3(a)(ii)	**Explain, with reference to the relevant International Accounting Standards, the appropriate accounting treatments for the items in:** **information 5.** IAS 37 Provisions, contingent liabilities and contingent assets. **(1)** The incident occurring in December 2022 is a past event. **(1)** On the basis of the legal advice that T Limited is probably liable for the compensation, it is a liability. **(1)** A provision for $9 000 should be made for the year ended 31 December 2022. **(1)**	**4**
3(b)	**Prepare a statement showing the adjusted retained earnings at 31 December 2022.** $ Draft retained earnings 86 000 Proposed dividend 20 000 **(1)** Repairing $8000 × 6 / 48 (1 000) **}** Depreciation overcharged $8 000 × 20% 1 600 **}(1)** Revaluation loss 35 000 **(1)** Impairment loss (3 800) **(1)OF** Provision for compensation (9 000) **(1)** Adjusted retained earnings 128 800 **(1) OF**	**6**

Question	Answer	Marks
3(c)	**Prepare an adjusted statement of financial position at 31 December 2022.**	**7**

Statement of financial position at 31 December 2022

	$	
Non-current assets		
Property, plant and equipment **W1**	414 800	**(3)**
Current assets		
Inventories	42 000	
Trade receivables	225 000	
Other receivables ($6000+$7000)	13 000	**(1)**
Cash and cash equivalents	74 000	
	354 000	
Total assets	768 800	
Equity		
Ordinary share capital ($1 shares)	400 000	
Share premium	35 000	
Revaluation reserve ($60 000-$35 000)	25 000	**(1)**
Retained earnings	128 800	
	588 800	
Current liabilities		
Trade payables	152 000	
Other payables **W2**	28 000	**(2)**
	180 000	
Total equity and liabilities	768 800	

W1: ($425 000 – $8 000**(1)** + $1 600**(1)** – $3 800**(1)OF**)
W2: ($39 000 – $20 000**(1)** + $9 000**(1)**)

Question	Answer	Marks
3(d)	**State <u>three</u> responsibilities of an external auditor.** To examine the books and accounts **(1)** To ensure the financial statements comply with legal requirements and accounting standards **(1)** To verify the value and existence of assets and liabilities **(1)** To carry out audit tests **(1)** To prepare an audit report on whether the financial statements give a true and fair view **(1)** **Max 3** **Accept other valid responses.**	**3**

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