CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

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
P	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 why the partners were <u>not</u> sure of the value of the goodwill.** Because it is inherent/non-purchased goodwill **(1)** and there is no universally accepted, objective formula for calculation **/** no cash value is available **(1).**	**2**
1(b)	**State which partner would prefer the value given to the goodwill to be as low as possible. Give a reason for your answer.** Partner Andy **(1)** Reason: Because the higher the value given to goodwill the more his capital account balance will decrease/ the lower the value given to goodwill the less his capital account balance will decrease **(1)**	**2**
1(c)	**Calculate the profit on realisation made by the partnership.** Total net assets = $221 500 + $291 300 = $512 800 Profit = $620 000 – ($512 800 **(1)** – $49 900 **(1)**) – $3 000 **(1)** = $154 100 **(1)OF**	**4**

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Question	Answer	Marks
1(d)	**Discuss how Betty's decision to agree to Andy's suggestion to change the partnership agreement impacted Betty. Support your answer with calculations.** As the profit-sharing ratio had changed, Betty would have had a net increase in her capital from the value of goodwill **(1)** of [(100 000 × 50%) – (100 000 × 20%)] = $30 000 **(1)**. As the partnership had been operating for 30 years it is likely that some of the assets have increased in value, and that should have been adjusted for as well as the goodwill **(1).** Betty's share of the profit on realisation is only (154 100 × 20%) = $30 820 **(1)OF.** If the profit sharing ratio had not changed her share would have been (154 100 × 50%) = $77 050 **(1)OF.** Therefore the amount she will finally receive will be less by $46 230 **(1)OF** which more than outweighs the additional $30 000**.** Therefore, she is financially worse off than if the partnership had been sold at the end of September rather than continuing for the extra three months **(1).** However, the strategy gave the partners the opportunity to see if they could continue with the partnership themselves **(1).** An alternative strategy could have been to admit another partner **(1)** or to take on an assistant/manager **(1).** **Max 3 for comments** **Max 3 for calculations** **Accept other valid responses.**	**6**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(e)</td><td>Prepare the journal entry in the books of AD plc to record the acquisition of the partnership. A narrative <u>is</u> required.

<table>
<tr><td></td><td>Debit
$</td><td>Credit
$</td><td></td></tr>
<tr><td>Goodwill</td><td>65 400</td><td></td><td>(1)</td></tr>
<tr><td>Premises</td><td>510 000</td><td></td><td>}</td></tr>
<tr><td>Fixtures</td><td>18 000</td><td></td><td>}</td></tr>
<tr><td>Inventory</td><td>42 200</td><td></td><td>}</td></tr>
<tr><td>Trade payables</td><td></td><td>15 600</td><td>}(1)</td></tr>
<tr><td>Bank</td><td></td><td>200 000</td><td>(1)</td></tr>
<tr><td>Ordinary share capital</td><td></td><td>300 000</td><td>(1)</td></tr>
<tr><td>Share premium</td><td></td><td>120 000</td><td>(1)</td></tr>
</table>
Being the acquisition of partnership business of Andy and Betty on 31 December 2023 (1)</td><td>6</td></tr>
</table>

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Question	Answer	Marks
1(f)	**Advise Betty whether she should keep her shares in AD plc or sell them. Justify your answer.** Keep **(max 2)** She would hopefully get a steady income from dividends to replace the share of profit from the partnership **(1).** There is a chance of a profit on sale if she keeps them for some time **(1).** There would be commission involved in selling them **(1).** Sell **(max 2)** Since it is a plc there should be a ready market for the shares **(1).** She might want a good sum of money to fund a comfortable retirement **(1).** She might want to invest the funds in another business **(1).** She might be concerned that dividends/share price might decrease **(1).** **Decision supported with a comment (1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)	**Explain why the figure for coloured jackets in the receipts and payments account is different from the figure in the income and expenditure account.** The cost in the receipts and payments account is based on cash paid **(1)** whereas in the income and expenditure account it is based on change in valuations **(1).** The jackets will have been subject to wear and tear during the year, and this has been provided for **(1).** **Max 3** **Accept other valid responses.**	**3**
2(b)	**Explain why the income from grants and donations is different in the receipts and payments account from the income and expenditure account.** Not all grants and donations are released to income in the year in which they are received **(1).** Some are released to income over a period of years **(1)** in accordance with the accruals / matching concept **(1)**	**3**

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Question	Answer	Marks
2(c)	**Prepare the income and expenditure account for the year ended 31 December 2023.**	**5**

C Society
Income and Expenditure account for the year ended 31 December 2023

	$		$	
Income				
Subscriptions (3 200 + 120 – 300)			3 020	**(1)**
Grants and donations			5 000	
			8 020	
Expenditure				
Refreshments	500	**}**		
Rent	3 900	**}**		
Refuse bags	100	**}(1)**		
Depreciation of minibus (16 200 – 14 100)	2 100	**(1)**		
Depreciation of jackets	190			
Minibus expenses (3 580 – 260 + 200)	3 520	**(1)**	10 310	
Deficit			2 290	**(1)OF**

2(d)	**Complete the following table by calculating the following values for inclusion in the statement of financial position at 31 December 2023. State the section of the statement where <u>each</u> would be shown.**		**4**

	$	Section of statement of financial position
Coloured jackets	1 150 **(1)**	Non-current assets **(1)**
Deferred income	1 800 **(1)**	Current / non-current liabilities **(1)**

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Question	Answer	Marks
2(e)	**Advise the managing committee whether or not they should start to include the value of the inventory of refreshments and refuse bags in the financial statements. Justify your answer.** Include **(max 2)** The first time this is done it will reduce the expenses / increase the current assets **(1).** If the amounts vary considerably from year to year it will even out the changes in the expenses **(1).** Don't include **(max 2)** The values may well not be material **(1).** It will take some effort and is unlikely to come to an exact value **(1).** Unless the values change considerably from year to year the reduction in expenses will be a one-off **(1).** **Decision supported with a comment (1)** **Accept other valid responses.**	**5**
2(f)	**Discuss how this suggestion from the pharmaceutical company may impact C Society.** Nine jackets are worth $540 which is more than the cash donation **(1).** Since nine per year is more than currently go missing, then old jackets can be replaced **(1).** Some old jackets could be sold to raise funds **(1).** If the new jackets bear a logo they may be less likely to go missing **(1).** If they don't accept the jackets they may lose the cash donation anyway **(1).** As the bank balance is falling quickly the more urgent need may be for the cash **(1).** If only four or five jackets go missing, the replacement cost is a maximum of $300 which is less than the cash donation foregone **(1).** Members may not want to be wearing what amounts to advertising of a business **(1).** Other people may mistake society members for employees of the business **(1).** If the pharmaceutical company has a bad reputation for pollution the society may not want to display an obvious association **(1).** Donations from other sources might be reduced **(1).** It might be better to have the society's name on the jackets **(1).** If the society is a registered charity there may be legal restrictions on its ability to be involved in advertising **(1).** **Max 5** **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 a revised value for the profit from operations for the year ended 31 December 2023.
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>Original profit from operations</td><td>76 000</td><td></td></tr>
<tr><td>1 inventory</td><td>(5 000)</td><td>(1)</td></tr>
<tr><td>2 disposal proceeds</td><td>(26 000)</td><td>(1)</td></tr>
<tr><td>2 profit on disposal W1</td><td>6 000</td><td>(2) OF</td></tr>
<tr><td>2 overstated depreciation W2</td><td>2 000</td><td>(1)</td></tr>
<tr><td>3 impairment loss</td><td>(3 000)</td><td>(1)</td></tr>
<tr><td>4 allowance for irrecoverable debts</td><td>(1 000)</td><td>(1)</td></tr>
<tr><td>6 irrecoverable debt</td><td>(4 000)</td><td>(1)</td></tr>
<tr><td>Revised profit from operations</td><td>45 000</td><td>(1)OF</td></tr>
</table>
W1 accumulated depreciation = 32 000 × 0.15 × 30/12 = 12 000
net book value at disposal = 32 000 – 12 000 = 20 000 (1)
profit on disposal = 26 000 – 20 000 = $6 000 (1)OF
W2 32 000 × 0.15 × 5/12 = $2 000 (1)</td><td>9</td></tr>
</table>

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Question	Answer	Marks
3(b)	**Prepare the revised statement of cash flows for the year ended 31 December 2023 in accordance with IAS 7.**	**10**

CD plc
Statement of cash flows for the year ended 31 December 2023

	$	$	
Profit from operations		45 000	**(1)OF**
Depreciation (19 000 – 2 000)		17 000	**(1)**
Impairment loss		3 000	**(1)**
Profit on disposal		(6 000)	**(1)OF**
Increase in inventory (8 000 – 5 000)		(3 000)	**(1)**
Decrease in trade receivables (2 000 – 4 000 – 1 000)		3 000	**(1)**
Increase in trade payables		7 000	
Cash from operations		66 000	
Tax paid		(15 000)	
Net cash from operating activities		51 000	**(1)OF**
Cash flow from investing activities			
Proceeds of sale of machinery	26 000		
Purchase of fixtures and fittings	(39 000)		
Net cash used in investing activities		(13 000)	**(1)**
Cash flow from financing activities			
Loan received	20 000		
Dividends paid	(28 000)		
Net cash used in financing activities		(8 000)	**(1)**
Net increase in cash and cash equivalents		30 000	
Cash and cash equivalents on 31 December 2022		(22 000)	**}**
Cash and cash equivalents on 31 December 2023		8 000	**}(1)OF**

3(c)	**Explain how an event can be determined to be adjusting or non-adjusting.** An adjusting event is one which provides evidence of conditions existing at the end of the reporting period **(1)** A non-adjusting event is one which is indicative of conditions arising after the reporting period **(1).**	**2**
3(d)	**Explain what is meant by the term 'recoverable amount'.** The recoverable amount is the higher **(1)** of the value in use and the fair value less costs to sell **(1).**	**2**

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Question	Answer	Marks
3(e)	**State <u>two</u> reasons why the company should continue undertaking impairment reviews.** They should stop the company's assets from being overstated. **(1)** The company's audit report may otherwise be qualified / The financial statements may otherwise not show a true and fair view. **(1)** IAS 36 applies to all assets except those covered under other standards. **(1)** **Accept other valid responses.** **Max (2)**	**2**

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