



**Cambridge Assessment  
International Education**

Example Candidate Responses – Paper 3

**Cambridge International AS & A Level  
Accounting 9706**

For examination from 2023



© Cambridge University Press & Assessment 2023 v1

Cambridge Assessment International Education is part of the Cambridge University Press & Assessment. Cambridge University Press & Assessment is a department of the University of Cambridge.

Cambridge University Press & Assessment retains the copyright on all its publications. Registered centres are permitted to copy material from this booklet for their own internal use. However, we cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within a centre.

---

# Contents

---

Introduction.....	4
Question 1.....	6
Example Candidate Response – high.....	6
Example Candidate Response – middle.....	9
Example Candidate Response – low.....	12
Question 2.....	15
Example Candidate Response – high.....	15
Example Candidate Response – middle.....	17
Example Candidate Response – low.....	19
Question 3.....	21
Example Candidate Response – high.....	21
Example Candidate Response – middle.....	25
Example Candidate Response – low.....	28

---

## Introduction

---

The main aim of this booklet is to exemplify standards for those teaching Cambridge International AS & A Level Accounting, and to show how different levels of candidates' performance (high, middle or low) relate to the syllabus requirements. This document helps teachers to assess the standards required to achieve marks beyond the guidance of the mark scheme.

In this booklet candidate responses have been chosen from the June 2023 exam series to exemplify a range of answers.

For each question, the response is annotated with examiner comments about where and why marks were awarded or omitted. This is followed by comments on how the answer could be improved. There is also a list of common mistakes and guidance for candidates for each question.

Please refer to the June 2023 Examiner Report for further details and guidance.

The mark scheme is available on the [School Support Hub](#)

**9706 June 2023 Question Paper 32**

**9706 June 2023 Mark Scheme 32**

**9706 June 2023 Insert 32**

Past exam resources and other teaching and learning resources are available on the [School Support Hub](#)

## How to use this booklet

This booklet goes through the paper one question at a time, showing you the high-, middle- and low level response for each question. In the left-hand column are the candidate responses, and in the right-hand column are the examiner comments.

Example Candidate Response – high	Examiner comments																					
<p>1 Read Source A in the insert.</p> <p>(a) Prepare a statement to show the profit or loss for the year ended 31 December 2022 for the café.</p> <p style="text-align: center;"><i>Statement to show profit/loss for year ended 31 December 2022</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">\$</th> <th style="width: 20%; text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">69400</td> </tr> <tr> <td>Cost of sales: Inventory at 1 Jan 2022</td> <td style="text-align: right;">5900</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">29500</td> <td></td> </tr> <tr> <td>Closing inventory at 31 Dec 2022</td> <td style="text-align: right;">(4500)</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;">(31200)</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">38200</td> </tr> </tbody> </table>		\$	\$	Revenue		69400	Cost of sales: Inventory at 1 Jan 2022	5900		Purchases	29500		Closing inventory at 31 Dec 2022	(4500)		Cost of sales		(31200)	Gross profit		38200	<p><b>1</b> All items in the statement, both labels and figures, are fully correct. Mark for (a) = 8 out of 8</p>
	\$	\$																				
Revenue		69400																				
Cost of sales: Inventory at 1 Jan 2022	5900																					
Purchases	29500																					
Closing inventory at 31 Dec 2022	(4500)																					
Cost of sales		(31200)																				
Gross profit		38200																				
<p><b>Answers</b> are by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with learners in the classroom to improve their skills.</p>	<p><b>Examiner comments</b> are alongside the answers. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams so you can help your learners to refine their exam technique.</p>																					

## How the candidate could improve their answer

(d) One further mark would have been awarded for mentioning that a bank loan would require more formalities.

This section explains how the candidate could have improved each answer. This helps you to interpret the standards of Cambridge exams and helps your learners to refine their exam technique.

## Common mistakes and guidance

- **(a)** Candidates must be able to prepare an account for a trading activity of a club. A common mistake was the incorrect inclusion of a capital item.
- **(b)** Terminology for an income and expenditure account must be learnt with the bottom line being 'surplus / deficit for the year', along with ensuring that capital expenditure is not wrongly included.
- **(c)** A common mistake was the inclusion of life members addressing the question requirement to show the movement

This section lists common mistakes as well as helpful guidance from the examiner. This will help your learners to avoid these mistakes. You can use this alongside the relevant Examiner Report to guide your learners.



## Question 1

### Example Candidate Response – high

### Examiner comments

1 Read Source A in the insert.

(a) Prepare a statement to show the profit or loss for the year ended 31 December 2022 for the café.

Statement to show profit/loss for year ended 31 December 2022

	\$	\$
Revenue		69400
Cost of sales: Inventory at 1 Jan 2022	5900	
Purchases	29500	
Closing inventory at 31 Dec 2022	(4500)	
Cost of sales		(31200)
Gross profit		38200
Expenses: Café wages	14920	
(14400 + 3250 - 2730)		
Rent	7200	
Heating and lighting	3400	
Depreciation of café equipment	6160	(31600)
( $\frac{20}{100} \times 22000 + \frac{20}{100} \times 8800$ )		
Profit for the year		<u>6520</u>

1 All items in the statement, both labels and figures, are fully correct. Mark for (a) = 8 out of 8

Workings:

Café sales:  $55000 + 14400 = 69400$

Revised closing inventory:  $6400 - 2200 + 300 = 4500$

Purchases:  $14800 + 31600 - 16600 = 29500$

**Example Candidate Response – high, continued**

**Examiner comments**

(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

Income	£	£
Annual subscriptions	69200	
Life membership fees	5600	
Profit on cafe	6520	
		81320
Expenditure: Rent	10500	
Administrative expenses	40150	
Heat and lighting	5100	
Loss on disposal of club equipment	2500	
Depreciation of club equipment	16540	
( $71200 \times \frac{20}{100} + \frac{25}{100} \times 13000$ )		75690
Surplus for the year		5630

2

Workings: Subscriptions:  $65000 + 3400 - 1400 + 1200 - 2000 = 71200$   
 Life subs:  $1200 + 2000 + 2400 = 5600$   
 142400

2 Again, all fully correct. Mark for (b) = 9 out of 9

(c) Prepare a statement showing the movement in the accumulated fund for the year 2022.

	£
Accumulated fund at 1 Jan 2022	136470
Surplus for the year	5630
Accumulated fund at 31 December 2022	142100

3

Workings: Accumulated fund at 1 Jan 2022:  
 $76000 + 22000 - 2730 + 1900 + 2000 - 1200 - 16600 + 5900 + 76800 - [9600 + 18000] = 136470$

[3]

12000      20000  
 (1200)      (2000)  
 (1200)      —  
 9600      18000  
 184600  
 48130  
 136470

3 The opening accumulated fund is calculated correctly, the surplus for the year is added and the closing accumulated fund is correct. Mark for (c) = 3 out of 3

## Example Candidate Response – high, continued

## Examiner comments

The management committee would like to buy the club's own premises but additional finance is required to carry out this plan. They are considering two options:

Option 1: Apply for a long-term loan from a bank.

Option 2: Obtain a personal loan from a wealthy member.

(d) Advise the management committee which option they should choose. Justify your answer.

A long term loan may promote ~~for~~ responsibility accounting and it may hereby ensure that proper budgeting is followed. However, high interest payments will have to be made and this could potentially harm the surplus of NT, who may fail to continue providing gym facilities to other members. Option 2 would allow more flexible term in terms of no collateral requirement and also potentially lower interest charges. However, the wealthy member may seek to influence the decision making process of the club due to his personal investment tied to it, creating barriers for the management committee. The member may also ~~increase~~ <sup>pay interest on</sup> late subscriptions or even nothing at all. ~~lately and require beneficiary status~~.

The committee should choose option 2 **4** as the bank may refuse to provide a long-term loan to a not for profit organisation, due to the absence of profit maximisation as an aim.

**4** There are three valid points and a decision resulting in the award of 4 marks.

Mark for (d) = 4 out of 5

**Total mark awarded = 24 out of 25**

### How the candidate could improve their answer

(d) One further mark would have been awarded for mentioning that a bank loan would require more formalities.



**Example Candidate Response – middle**

**Examiner comments**

1 Read Source A in the insert.

(a) Prepare a statement to show the profit or loss for the year ended 31 December 2022 for the café.

	\$	\$
<u>Sales</u>		55,000
<u>Less C.O.S</u>		
Opening Inventory	5900	
Purchases	29,800	
Less Closing Inventory	(4500)	(31,200)
Gross Profit		38,200
<u>Less Expenses</u>		
Cafe Wages	13,880	
Heating & Lighting	3400	
Rent	7200	
Purchase of cafe equipment	8880	39,440
Cafe Depreciation	6160	(30,640)
Surplus Profit from Cafe Loss		7560 (1240) <b>1</b>

**1** The wages are calculated incorrectly and the purchase of cafe equipment is erroneously included. Mark for (a) = 6 out of 8

Workings:

Sales = 55,000 + 14,400  
= 69,400

Wages = 14,400

Closing Inventory = 6400 - 2200 + 200  
= 4500

L.M = 5600

Cafe Rent = 18,000 x 40%  
= 7200

Less sales	8500
Cafe Dep. 6160	
14,600	31,600
29,800	14,800
46,400	46,400

**Example Candidate Response – middle, continued**

**Examiner comments**

(b) Prepare the club's income and expenditure account for the year ended 31 December

Income		\$
<del>Profit from Cafe</del>		<del>7560</del>
Subscriptions		69,200
Life time Membership Fees		5600
		<del>87,360</del> 74,800
Expenditure		
Rent	(10,800)	
Heat & Lighting	(5100)	
Club Equipment Depreciation	(16,840)	
Club Administrative Expenses	(40,150)	
Loss on Sale of Club Equipment	(2800)	
Purchase of Club Equipment	(13,000)	
Loss from Cafe	(1240)	
Deficit	(15,130)	2

2 All entries are correct but the purchase of club equipment is wrongly included as an item of expenditure.

Mark for (b) = 8 out of 9

Workings:

Subscription	
2000	1200
69,200	68000
1400	3400
	<u>72,600</u>

Rent =  $18000 \times 60\%$   
 = 10,800

Heat & Lighting:

Club Dep.	
$13,000 + 76,000 - 4800$	
$= 84,200 \times 20\%$	
$= 16,840$	

(c) Prepare a statement showing the movement in the accumulated fund for the year 2022.

Accumulated Fund = Opening Assets - Opening Liabilities
= (76,000 + 22,000 + 1900 + 2000 + 5900 - 76,800)
= \$184,600 - (2730 + 1200 + 16,600 + 28,800)
= \$184,600 - \$49,330
= \$135,270

3 The candidate does not attempt to show the movement in the accumulated fund and the opening balance of the fund is incorrect.

Mark for (c) = 0 out of 3

## Example Candidate Response – middle, continued

## Examiner comments

### Additional information

The management committee would like to buy the club's own premises but additional finance is required to carry out this plan. They are considering two options:

Option 1: Apply for a long-term loan from a bank.

Option 2: Obtain a personal loan from a wealthy member.

(d) Advise the management committee which option they should choose. Justify your answer.

If the management committee apply for a long-term loan from a bank, they will have to pay interest on it. Expenses will increase. Also the club is already going in Deficit. On the other hand a personal loan from a wealthy member would not necessarily require to pay interest. Maybe the club will have to remove that member's & subscription fee. Not a big loss for club as paying interest to bank for as much time as loan is not repaid. There is a possibility that wealthy member of club recommends membership of this club for to more people. By this way club will get more subscription than they did fee for that member. Option 2 should be chosen. [5]

4

[Total: 25]

4 The candidate states a clear decision, supported by one point regarding different interest rates. Mark for (d) = 2 out of 5

**Total mark awarded =  
16 out of 25**

### How the candidate could improve their answer

- (a) The candidate should have ensured that accruals and prepayments were dealt with correctly and that capital items were not wrongly included in a profit statement.
- (b) This was a good income and expenditure account, however, the candidate needed to understand that capital items should not be included here.
- (c) The candidate should have taken careful note of the question requirement – it was necessary to show the change in the fund.
- (d) The candidate should have provided more support to justify the decision. There was only one valid point and both options need to be considered.

**Example Candidate Response – low**

**Examiner comments**

1 Read Source A in the insert.

(a) Prepare a statement to show the profit or loss for the year ended 31 December 2022 for the café.

Trading account sales	\$	\$ 40600
Cost of goods		<del>55000</del>
Opening inventory	5900	
Purchases	31600	
Closing inventory	(4500)	(3300)
Gross profit		33000
Equipment	8800	
Rent	7200	
Heating and lighting	1600	
Depreciation	12800	(44860)
Loss		(11860) ①

Workings

6400 - 2200 + 300 = 4500

55000 - 14000 = 40600

① The only correct entries are closing inventory and rent so only 2 marks are awarded. A capital item is incorrectly included. Mark for (a) = 2 out of 8

**Example Candidate Response – low, continued**

**Examiner comments**

(b) Prepare the club's income and expenditure account for the year ended 31 December 2022.

Income	\$	\$
<del>Profit from</del>		
Subscription	65,200	
Life membership	29,600	
		94,800
Expenditure		
Rent	10800	
Admin. expenses	40150	
Heating and lighting	4500	
Loss on disposal	2800	
loss on trading	11860 (70110)	
Income £		24690

2

2 There are some correct entries but also a range of errors, largely as a result of incorrect treatment of opening and closing balances. The bottom line label is incorrect. Mark for (b) = 4 out of 9

Workings:

Subscrip	
2000	1200
3400	1400
5400	5400
Bal c/d 2800	

(c) Prepare a statement showing the movement in the accumulated fund for the year 2022.

	24690	-	11860	=	12830
--	-------	---	-------	---	-------

3

3 There is no realistic attempt to produce a statement. Mark for (c) = 0 out of 3

Example Candidate Response – low, continued	Examiner comments
<p><b>Additional information</b></p> <p>The management committee would like to buy the club's own premises but additional finance is required to carry out this plan. They are considering two options:</p> <p>Option 1: Apply for a long-term loan from a bank.</p> <p>Option 2: Obtain a personal loan from a wealthy member.</p> <p>(d) Advise the management committee which option they should choose. Justify your answer.</p> <p><i>If they apply for a bank loan, they will have to pay fixed amount of market value of interest every year and they would also need to give security to the bank in the form of assets. In option 2, they can negotiate with their wealthy member and can extend the loan period or interest rather easily than a bank. Also, the club may be free from giving any security to the wealthy member so option 2 is better.</i> [5]</p> <p style="text-align: right;">4 [Total: 25]</p>	<p>4 There are three valid points and a decision resulting in the award of 4 marks. Mark for (d) = 4 out of 5</p> <p><b>Total mark awarded = 10 out of 25</b></p>

### How the candidate could improve their answer

- (a) The candidate identified most of the items to be included, however, did not apply the required adjustments properly, for example, adding wages to takings instead of subtracting. These are common types of accounting adjustments, so it is worth revising the accounting treatment.
- (b) As for part (a), it would be worth going over the treatment of subscriptions and other adjustments, as well as learning the correct terminology for financial statements of clubs and societies.
- (c) The candidate needed to provide a statement which calculated the opening accumulated fund and added the surplus figure to this.
- (d) Just one further valid point would have resulted in the award of full marks.

### Common mistakes and guidance

- (a) Candidates must be able to prepare an account for a trading activity of a club. A common mistake was the incorrect inclusion of a capital item.
- (b) Terminology for an income and expenditure account must be learnt with the bottom line being 'surplus / deficit for the year', along with ensuring that capital expenditure is not wrongly included.
- (c) A common mistake was the inclusion of life membership fees as part of the movement, and also not fully addressing the question requirement to show the movement in the fund.
- (d) Where there are 5 available marks for questions of this type, there will be 1 mark for a decision and then 1 mark for each valid justification point, therefore, candidates should consider whether they have provided enough suitable separate points for the marks available.

## Question 2

### Example Candidate Response – high

### Examiner comments

2 Read Source B in the insert.

- (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.

IAS 8: Accounting Policies, estimations and errors:

The following IAS states that the co. can change its accounting policies if the new policy is more relevant, realistic, reliable and provides a true + fair view. Also, the change has to be applied retrospectively. Hence, a prior period adjustment was made to comply with the IAS and the accounting treatment would be charge dep for the building in the previous and update its value. [4]

- (b) Calculate the profit for the year ended 31 December 2022.

Retained Earnings:

$$\begin{aligned} & \text{+ P} - 48000 = 88000 = 34900 \\ & P = 190700 - 191700 \\ \text{Profit} &= \boxed{190900} - 1710 \\ &= \boxed{171700} - \boxed{191700} \end{aligned}$$

$$\frac{1}{10} \times = 60000$$

$$\times = 600000$$

1 The candidate identifies the change in accounting policy and states the correct International Accounting Standard. Mark for (a) = 2 out of 4

2 The calculation is fully correct. Mark for (b) = 4 out of 4

Example Candidate Response – high, continued

Examiner comments

(c) Prepare a statement of cash flows for the year ended 31 December 2022 in accordance with IAS 7.

Statement of Cash Flows		£	£
<u>Operating Activities:</u>			
Operating Profit	11	116100	116100
Add: Dep for the year		6800	
Less: Gain on disposal		(900)	
Add: Decrease in inventory		2600	
Less: Increase in TR		(5900)	
<del>Less:</del> <del>Increase in TP</del>		<del>5600</del>	<del>267300</del>
Cash generated from operating activities		<del>247300</del>	267300
Less: Interest Paid		(4100)	
Net cash generated from operating activities		<del>243200</del>	263200
<u>Investing Activities:</u>			
Acquisition of NCA	160600	(160600)	
Disposal of NCA	29500	(29500)	
Net cash from Investing Activities		(131100)	
<u>Financing Activities:</u>			
Issue of Shares	120000	120000	
Dividend Paid	(136800)	(136800)	
Loan Repayment	(60000)	(60000)	
Net cash from Financing		(76800)	
Net cash		55000	
Opening cash + cash Eq		42000	
Closing cash + cash Eq		97000	

3 The statement is fully correct. Mark for (c) = 17 out of 17

Workings:

$$FC = (100000 \times 8\% \times \frac{3}{12}) + (20000 \times 8\% \times \frac{9}{12}) = 2000 + 2400 = 4400$$

$$Operating Profit = 111700 + 4400 = 116100$$

$$\times 5\% = 6200$$

$$K = 124000$$

$$Shares = 140 - 60 = 80$$

$$80000 \times 1.5 = 120000$$

$$ACL = 124000 + 36600 = 160600$$

Total mark awarded = 23 out of 25

How the candidate could improve their answer

(a) A further 2 marks would have been awarded for addressing the accounting treatment by calculating the depreciation charge and stating that it is adjusted against the brought forward retained earnings balance.



**Example Candidate Response – middle**

**Examiner comments**

2 Read Source B in the insert.

(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.

As per IAS 10 that is Report after Post event the Prior Period adjustment has been made as it is an adjusting event so \$26200 depreciation would be recorded. Secondly, IAS 16 could also be applied as depreciation is taking place while IAS 18 that is Accounting policies could also be applied that is accounting policies

1

1 The candidate correctly identifies the relevant International Accounting Standard but does not relate this to the question details. Mark for (a) = 1 out of 4

(b) Calculate the profit for the year ended 31 December 2022.

	\$	
retained earnings increased	34900	
interim dividend paid	88800	
final dividend Paid	48000	
Profit for the year	11700	2

2

2 The prior period adjustment is missing but the dividends are added correctly. Mark for (b) = 3 out of 4

(c) Prepare a statement of cash flows for the year ended 31 December 2022 in accordance with IAS 7.

	\$	\$
Profit from Operation	167300	
+ Depreciation for the year	26200	68800
- Gain on Disposal	(900)	
- Increase in Trade Receivable	(5900)	
+ decrease in Inventory	2600	
+ increase in Trade Payable	5600	
cashflow from operation	239500	
- finance charges	(4400)	
	234800	234800
Investing activity		
+ Sale of machinery	29500	
- Purchase of building	(132000)	(102500)
Financing Activity		
issue of shares	120000	
- dividend Paid	(136800)	
- bank loan	(60000)	(54800)
net increase in cashflow		55000
+ cash at start		42000
cash at end		97000

3

3 The statement is prepared in accordance with International Accounting Standard 7 but there are some errors. Mark for (c) = 12 out of 17

Example Candidate Response – middle, continued

Examiner comments

Workings:

	T	
		OP
NCA		8000
Bot at year start	4000	
+ Addition	<u>1320</u>	
	5320	
		n x s = 6600

Total mark awarded =  
16 out of 25

How the candidate could improve their answer

- (a) The candidate did identify the relevant accounting standard (whilst also referring to other incorrect standards) but should have supported this by explaining why a prior period adjustment was necessary, along with the calculation of the depreciation charge and an explanation of the accounting treatment provided.
- (b) The prior period adjustment should have been added to receive the full mark.
- (c) The correct calculation of the profit from operations and the purchase of the building and the inclusion of the purchase of the machine would have resulted in the award of full marks.

**Example Candidate Response – low**

**Examiner comments**

2 Read Source B in the insert.

(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.

According to IAS 8, Depreciation of building was not recorded so it is recorded in 2022. The depreciation of 20000 of 2021 should also be included in the expense in income statement. **1**

**1** The candidate identifies the correct International Accounting Standard and calculates the depreciation charge. Mark for (a) = 2 out of 4

(b) Calculate the profit for the year ended 31 December 2022.

Retained earnings 34900 **2**  
Profit for the year

**2** The candidate uses the given figure for retained earnings only but does not continue with any further calculation. Mark for (b) = 0 out of 4

(c) Prepare a statement of cash flows for the year ended 31 December 2022 in accordance with IAS 7.

Profit from operations		
Depreciation for the year	46200	
building made	42600	
gain on disposal	(900)	
dec in Inv	3600	
in in trade rec	(5900)	
in in trade payable	5600	91200 + 7
cashflow from operat		91200 + 7
low int paid (2000 + 2400)		(4400)
net from operat		
cashflow from invest		
Sale of NCA	29500	
Purchase of NCA	(124000)	€94
net cashflow from invest		(94500)
cashflow from financ		
iss of shares		
bank loan paid	(60000)	

**3** There is a partially constructed statement but there are errors and omissions. Mark for (c) = 7 out of 17

Example Candidate Response – low, continued	Examiner comments
<p>Workings:</p> $  \begin{array}{r l}  42000 & 124000 \\  29500 & 60000 \\  \text{o.s. } 149500 & \\  209500 & 97000 \\  \hline  & 221000  \end{array}  $ $  \begin{aligned}  6000x + y &= 140000 \\  y &= 140000 - 6000x \\  0.50y - 6000x &= 20000 \\  0.50 & \\  140000 & \quad 20000 - 3000x - 6000x = 20  \end{aligned}  $	<p><b>Total mark awarded = 9 out of 25</b></p>

### How the candidate could improve their answer

- **(a)** The other two available marks would have been obtained by the identification of the change in accounting policy and the recognition that the adjustment is made against the retained earnings brought forward.
- **(b)** The candidate did not complete any attempt at the calculation so improvement would have been the addition of the final and interim dividends and the prior period adjustment.
- **(c)** The profit from operations and depreciation should have been calculated correctly showing workings where appropriate. The purchase of the machine, the share issue and the dividends paid should have all been included. Additionally, the candidate could have earned marks by showing the increase in cash and cash equivalents as well as the opening and closing balances.

### Common mistakes and guidance

- **(a)** The question required an explanation of the accounting treatment and the relevant standard so the answer should address both, along with the relevant calculation.
- **(b)** A common mistake was the omission of the prior period adjustment.
- **(c)** The question required the statement to be prepared in accordance with International Accounting Standard 7 so the answer should have been laid out in the prescribed format, making use of all of the available information.

### Question 3

#### Example Candidate Response – high

#### Examiner comments

3 Read Source C in the insert.

(a) State two reasons why a business may acquire another business.

1. To eliminate a rival and reduce direct competition
2. To gain economies of scale as the scale of operation is increased

1

1 There are two valid reasons. Mark for (a) = 2 out of 2

(b) Prepare the realisation account at 1 January 2023.

Penses	124000	Purchase consideration	420000
Equipment	38000	Capital - A	23800
Vehicle	23000	Trade Payables	44000
Inventory	32000		
T.P	73000		
Vehicle	25000		
Bank - T.P	41800		
Capital - A	78600		
Capital - B	52400		
	<u>481800</u>		<u>481800</u>

2

2 The realisation account is prepared without errors and the profit is split correctly. Mark for (b) = 4 out of 4

(c) Prepare, on page 10, the partners' capital accounts at 1 January 2023 to close the partnership books of account.

Example Candidate Response – high, continued

Examiner comments

Capital account

	Alice \$	Bob \$		Alice \$	Bob \$
Vehicle	23800		b/d	150,000	109,000
Ordinary shares	160,000	160,000	Profit for realisation	78600	52400
<del>Bank</del>	<del>40000</del>	<del>10000</del>	current A/c	<del>40000</del> 32000	<del>10000</del> 16000
Bank	76800	8400			
	<u>260,600</u>	<u>168,400</u>		<u>260,600</u>	<u>168,400</u>

Workings:

Capital at start  $\Rightarrow 290 + 25 - 44 = \Rightarrow 271,000 + \text{Bank } 271,000 + 27,000 = 298,000$

Net Assets - liabilities  $\Rightarrow$  capital

~~298 - 271 = 27  $\Rightarrow$  71  $\rightarrow$  current A/c value~~

$298,000 \Rightarrow 250,000 + \text{current A/c}$

current A/c  $\Rightarrow 48,000$

3 Alice  $\Rightarrow 48,000 \times \frac{2}{3} \Rightarrow 32,000$  Bob  $\Rightarrow 48,000 \times \frac{1}{3} \Rightarrow 16,000$

3 The capital accounts are fully correct.  
Mark for (c) = 10 out of 10

Example Candidate Response – high, continued

Examiner comments

(d) Prepare journal entries in the books of X Limited to record the acquisition of the partnership. Narratives are not required.

	Dr	Cr
Premises	126000	
Equipment	32000	
Vehicle	18000	
Inventory	45000	
Tax	71000	
Goodwill	68000	
	<u>420000</u>	
Ordinary share		200000
Share premium		120000
Cash		100000
		<u>420000</u>

[4]

4

Additional information

With the cash she has received, Alice is considering setting up a new business trading in wood on her own.

(e) Advise Alice whether or not she should set up this new business. Justify your answer.

Alice has recently sold her business to another competitor (a trader of wood) and it would be difficult to compete with X Limited that will be gaining economies as a result of the takeover. She has received 16,300 from the takeover and she might have to invest more in order to buy assets and to have sufficient working capital. Moreover she would have a large risk of any losses as she is a sole trader. Alice, however, will have sole ownership and control over the business and will be able to enjoy all the profits by herself. As trading in the woods has proved to be profitable for Alice as she had earned a 73600 ~~profit~~ on just the sale, she should open her new business.

[5]

Blank page

[Total: 25]

4 The journal entries are fully correct.  
Mark for (d) = 4 out of 4

Example Candidate Response – high, continued	Examiner comments
<p>Q2a - Moreover as per IAS 16 - Property Plant &amp; Equipment if any change is made to the accounting policies of a class of assets it should follow <del>the</del> all assets in that class.</p> <p>Q2e continued → open the new business</p> <p style="text-align: right;"><b>5</b></p>	<p><b>5</b> There is a decision with a balanced justification and full marks have been awarded. Mark for (e) = 5 out of 5</p> <p><b>Total mark awarded = 25 out of 25</b></p>

### How the candidate could improve their answer

Full marks were awarded.



**Example Candidate Response – middle**

**Examiner comments**

3 Read Source C in the insert.

(a) State two reasons why a business may acquire another business.

- 1 To remove competition from the market.
- 2 To get the synergy or economies of scale benefit.

[2]

(b) Prepare the realisation account at 1 January 2023.

$$\begin{array}{r} 356800 \\ 131000 \\ \hline 487800 \end{array}$$

Realisation account.

Premises	124000		Trade payables	44000
Equipment	38000		Purchase considered	420000
Vehicle	48000		Vehicle (Alice)	23800
Inventory	32000			
Trac	73000			
Trade payable	41800			
Part on A	7800			
Part on B	52400			
	<u>487800</u>			
			<u>487800</u>	

1 There are two valid reasons. Mark for (a) = 2 out of 2

2 The realisation account is prepared without errors and the profit is split correctly. Mark for (b) = 4 out of 4

Example Candidate Response – high, continued

Examiner comments

Capital account

	Alice \$	Bob \$		Alice \$	Bob \$
current amount	2x	y	bal b/d	150000	100000
Vehicle	23800		Profit on realisation	78600	52400
ordinary shares	160000	160000			
Cash	50000	50000			

Workings:

bal b/d	270000	Profit on realisation	41800
Cash	100000	85200	

$$x + 210000 = y + 152400$$

$$2x + 233800 = 228600$$

3

3 There are four correct entries – the opening balances, profit on realisation, ordinary shares and the vehicle.  
Mark for (c) = 4 out of 10

**Example Candidate Response – middle, continued**

**Examiner comments**

(d) Prepare journal entries in the books of X Limited to record the acquisition of the partnership. Narratives are **not** required.

Premises	186000	
Equipment	32000	
Vehicle	18000	
Inventory	45000	
Trade Goodwill	71000	
	68000	
O.S.C		200000
Share Premium		120000
Cash		100000
Bank		100000
	420000	420000

4

4 The journal entries are fully correct.  
Mark for (d) = 4 out of 4

[4]

**Additional information**

With the cash she has received, Alice is considering setting up a new business trading in wood on her own.

(e) Advise Alice whether or not she should set up this new business. Justify your answer.

As she will set up the business as sole trader all profit will belong to her however she would need more finance to set up the business as X Limited has taken over the business so there is competition in wood industry so Alice has to make sure that her & does her best would be able to survive in this competition.

5

5 There is a decision and two valid points of justification resulting in the award of 3 marks.  
Mark for (e) = 3 out of 5

**Total mark awarded = 17 out of 25**

**How the candidate could improve their answer**

- (c) The candidate should have calculated and entered the current account balances and then entered the balancing bank amounts to close the accounts.
- (e) Two extra justification points, one for setting up the new business and one against, would have resulted in full marks being awarded.

### Example Candidate Response – low

### Examiner comments

3 Read Source C in the insert.

(a) State two reasons why a business may acquire another business.

- 1 To eliminate any competition from the market.
  - 2 To expand or grow more.
- 1 [2]

(b) Prepare the realisation account at 1 January 2023.

\$		\$	
NRV of net assets	271000	Purchase consideration	420000
NRV of net assets	271000	Trade payable	41800
		Loss on realisation:	
		Alice	277080
		Bob	184720
	461800		461800

2

Capital account

	Alice \$	Bob \$		Alice \$	Bob \$
loss on realisation	277080	184720	bal old	150000	100000
Vehicle	23800				
			pay into partnership bank account	150880	84720
	30080			30080	184720

3

1 There are two valid reasons. Mark for (a) = 2 out of 2

2 The entries are incorrect, the vehicle is omitted and the account is not balanced so the profit split mark is not awarded. Mark for (b) = 0 out of 4

3 The opening balances, the loss on realisation, the vehicle and the balancing bank balances are entered correctly. Mark for (c) = 5 out of 10

**Example Candidate Response – low, continued**

**Examiner comments**

(d) Prepare journal entries in the books of X Limited to record the acquisition of the partnership. Narratives are **not** required.

	£	£
Purchase consideration	420,000	
Ordinary shares		320,000
Cash paid		100,000
Goodwill	112,000	

[4]

4 The cash paid is the only correct journal entry. Mark for (d) = 1 out of 4

**Additional information**

With the cash she has received, Alice is considering setting up a new business trading in wood on her own.

(e) Advise Alice whether or not she should set up this new business. Justify your answer.

The cash which Alice has received is \$60,000, she can set up her new business as she has previously experience of this trading in wood business. This may benefit her because as she was in partnership before so the profit has to be shared now it will be all to herself but the loss has to be also beared by her only now so the rick is higher than it in partnership.

5 There are just two points in favour of setting up the business although no clear decision has been stated. Mark for (e) = 2 out of 5

**Total mark awarded = 10 out of 25**

## How the candidate could improve their answer

- **(b)** The assets taken over, the consideration and the vehicle taken over all needed to be accounted for. The account should have been balanced and the profit on realisation must then have been derived (and the split then shown).
- **(c)** The current account balances should have been calculated and included and the ordinary shares must also be entered.
- **(d)** The 'ordinary shares' must be split between share capital and share premium, the assets must be entered individually and the goodwill calculated correctly.
- **(e)** A decision must be given and then two points against setting up the business would have resulted in a balanced justification and the award of the remaining 3 marks.

## Common mistakes and guidance

- **(a)** There were no common mistakes and nearly all candidates gave two valid reasons.
- **(b)** The question required an account so the answer should be in the prescribed format. The purchase consideration was sometimes incorrectly treated.
- **(c)** The capital accounts should be prepared in columnar format. The current account balances were frequently omitted and the bank transfer to close the accounts was often incorrect.
- **(d)** Journal entries must be presented with two distinct columns and the entries must be labelled appropriately, ensuring that all relevant ledger accounts are identified.
- **(e)** A decision is required along with balanced points of justification.

Cambridge Assessment International Education  
The Triangle Building, Shaftesbury Road, Cambridge, CB2 8EA, United Kingdom  
t: +44 1223 553554  
e: [info@cambridgeinternational.org](mailto:info@cambridgeinternational.org) [www.cambridgeinternational.org](http://www.cambridgeinternational.org)

© Cambridge University Press & Assessment 2023 v1