Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Financial Accounting **October/November 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 October/November 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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.

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.

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.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>
Calculate the revised profit for the year which would be recorded if amendments were made for any of the matters 1 to 5.
<table>
<tr><td>Draft profit</td><td>148 250</td><td></td></tr>
<tr><td>1 damages</td><td>(12 000)</td><td>(1)</td></tr>
<tr><td>2 irrecoverable debt</td><td>(3 800)</td><td>(1)</td></tr>
<tr><td>3 impairment</td><td>(4 000)</td><td>(1)</td></tr>
<tr><td>4 depreciation [5 120 (1) – 4 000 (1)]</td><td>(1 120)</td><td></td></tr>
<tr><td>5 sale or return</td><td>(2 500)</td><td>(1)</td></tr>
<tr><td>Revised profit</td><td>124 830</td><td>(1) OF</td></tr>
</table>
</td><td>7</td></tr>
<tr><td>1(b)</td><td>
Calculate, to <u>two</u> decimal places, the change between the price/earnings ratio which the directors calculated and the price/earnings ratio based on the published financial statements.
<table>
<tr><td></td><td>ratio calculated by directors</td><td></td><td>ratio based on published financial statements</td><td></td></tr>
<tr><td>earnings per share</td><td>$\frac{148\,250}{400\,000}$
= 37.06 cents</td><td>(1)</td><td>$\frac{124\,830}{400\,000}$
= 31.21 cents</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>price / earnings</td><td>$\frac{390}{37.06}$
= 10.52</td><td>(1) OF</td><td>$\frac{310}{31.21}$
= 9.93</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Change: decrease of 0.59 (1) OF</td></tr>
</table>
</td><td>5</td></tr>
</table>

Question	Answer	Marks
1(c)	**Advise the directors whether or not they should be concerned about the change in the price/earnings ratio. Justify your answer.** **Not concerned** The decrease in the ratio is small and may not be significant **(1)**. The price earnings ratio indicates the demand for the company's shares and if there is no immediate plan to issue new shares a change will not have a direct effect **(1).** **Concerned** The market is less confident in the prospects of the company **(1)**. The percentage change is higher for the earnings per share **(1)**. **Accept other valid responses.** **Max 3** for comments. **1 mark** for decision supported with comment	**4**
1(d)	**Explain <u>three</u> measures which the company could take which would cause the gearing ratio to decrease.** Issue new shares **(1)** to strengthen the equity base of the business / to raise cash to repay long term loans or debentures. **(1)** Revalue non-current assets upwards **(1)** to increase the reserves of the company. **(1)** Reduce the dividends paid / increase sales volume/increase selling price/control expenses **(1)** to increase the retained earnings. **(1)** Use any surplus funds / reduce funds tied up in assets **(1)** to reduce the non-current liabilities of the company. **(1)** Convert long term loans **(1)** by negotiating with lenders to accept shares in place of their loans. **(1)** **Accept other valid responses.** **Any three measures for max (2) each** **(1 mark for identifying and 1 mark for development)**	**6**
1(e)	**State <u>three</u> other reasons a limited company has for preparing a statement of profit or loss.** It is required by company law **/** forms part of the statutory accounts **(1)**. It is required by the tax authorities **(1)**. It reports to shareholders about how their investment is performing **(1)**. It provides information for decision making **(1)**. It can be compared with prior years and with other businesses / ratio analysis **(1)**. **Accept other valid responses.** **Max (3)**	**3**

Question	Answer	Marks
2(a)	**Advise Suhail whether or not he should have his accounts audited before HJ Limited inspected them. Justify your answer.** **For (max 2)** The purchasing company would be assured that the accounts give a true and fair view **(1)**. It could make the negotiations proceed more smoothly **(1)**. It might be insisted upon by the purchasing company **(1)**. Increased certainty might enable Suhail to negotiate a better purchase consideration **(1)**. It might reassure HJ plc about the existence of the assets **(1)**. **Against (max 2)** A cost would be incurred **(1)**. Limited assurance might be given if the auditor was not professionally qualified **(1)**. HJ Limited might have their own internal auditors who could check the validity of the accounts **(1)**. An audit is not a requirement for a sole trader's business **(1)**. The auditor might decide that some assets were overstated **(1)**. **1 mark** for decision supported with a comment. **Accept other valid responses.**	**5**
2(b)(i)	**Prepare the following accounts in Suhail's books.** **(i) Realisation account**	**7**

Realisation account

	$			$	
Non-current assets	76 000	**(1)**	Trade payables	15 800	**(1)**
Inventory	11 200	}**(1)**	HJ Limited	135 000	**(1)**
Trade receivables	16 400		Capital (vehicle)	10 000	**(1)**
Bank (fees)	2 000	**(1)**			
Capital (profit on realisation)	55 200	**(1)OF**			
	160 800			160 800	

Question	Answer	Marks
2(b)(ii)	**Prepare the following accounts in Suhail's books.** **(ii) Capital account** Capital account HJ Limited (shares) 110 000 **(1)** | Balance b/d 90 900 **(1)** Bank **W1** 26 100 **(3)** | Realisation 55 200 **(1)OF** Realisation 10 000 **(1)** 146 100 | 146 100 **W1** 3 100**(1)** + 25 000**(1)** – 2 000**(1)**	**7**
2(c)	**Prepare the journal entry in HJ Limited's books to record the purchase of Suhail's business. A narrative is <u>not</u> required.** Debit $ | Credit $ Non-current assets 114 000 Inventory 9 700 **}(1)** Trade receivables 13 200 Trade payables 15 800 **(1)** Bank 25 000 **(1)** Ordinary share capital 50 000 **(1)** Share premium 60 000 **(1)** Goodwill 13 900 **(1)**	**6**

Question	Answer	Marks
3(a)	**Prepare the statement of cash flows for the year ended 30 June 2023 in accordance with IAS 7.**	**17**

ZZ plc
Statement of cash flows for the year ended 30 June 2023

	$000	$000	
Profit from operations (118 + 40 + 52)		210	**(1)**
Depreciation		33	**(1)**
Profit on disposal		(13)	**(1)**
Increase in inventory		(17)	**}**
Increase in trade receivables		(19)	**}(1)**
Decrease in trade payables		(11)	**}**
Cash from operations		183	
Tax paid		(62)	**(1)**
Interest paid		(51)	**(1)**
Net cash from operating activities		70	**(1)OF**
Cash flow from investing activities			
Purchase of plant and machinery	(200)		**(1)**
Proceeds of sale of plant and machinery	91		**(1)**
Net cash used in investing activities		(109)	**(1)OF**
Cash flow from financing activities			
Loan repayment	(20)		**(1)**
Proceeds of issue of ordinary shares	200		**(1)**
Dividends paid **W1**	(64)		**(2)**
Net cash from financing activities		116	**(1)OF**
Net increase in cash and cash equivalents		77	**(1)OF**
Cash and cash equivalents on 1 July 2022		(46)	
Cash and cash equivalents on 30 June 2023		31	**(1)OF**

W1 200 000/1.25 = 160 000 new shares
640 000 + 160 000 = 800 000 **(1)**
800 000 × 0.08 = 64 000 **(1)OF**

Question	Answer	Marks
3(b)	**Discuss how shareholders are likely to view the changes in the capital employed of the company. Calculations are not required.** **Your answer should consider separately each element of capital employed.** Share capital and premium **(max 2)** The proceeds of the share issue were used to increase the revenue generating ability of the business **(1)**. Control of the business may be diluted **(1)**. This will have reduced the gearing ratio **(1)** and the risk of the business **(1)**. Unless the profit can increase to compensate the increased number of shares in issue this will tend to decrease the earnings per share/dividend per share **(1)**. Revaluation reserve **(max 2)** The revaluation increased the equity of the business but as no new assets were acquired it will not increase the revenue generating ability of the business **(1)** and therefore will not affect the shareholders. The increase in the recorded value of net assets may encourage an increase in the market price of the shares **(1)** which may increase the price earnings ratio **(1)**. Retained earnings **(max 2)** The profit for the year is higher than the dividend paid **(1)** which means that the dividend could have been higher **(1)** but some profit has been ploughed back into the business **(1)**. This portion of the profit is therefore available for reinvestment in the business, so that it can expand and earn more profits in the future **(1)**. Shareholders will want to calculate the earnings per share **(1)**. Loan repayment **(max 2)** The repayment will decrease the amount of interest payable **(1)** which will increase future profits/decrease cash outflows **(1)**. The repayment of a long-term loan decreases capital employed which increases ROCE **(1)**. **Accept other valid responses.**	**8**