CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Financial Accounting **May/June 2025**

MARK SCHEME

Maximum Mark: 75

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2025 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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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 guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
	Correct and relevant point made in answering the question.
	Incorrect point or error made.
LNK	Two statements are linked.
REP	Repeat
A0	An extraneous figure
N0	No working shown
AE	Addition error (Arithmetic error)
R1	Required item 1
R2	Required item 2
OF	Own figure

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Annotation	Meaning
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 club adopts the policy of spreading life membership fees over ten years equally.** Accrual / matching concept is applied **(1)** to match life membership over the years used. **(1)** The number of years to spread over is the accounting policy of the club. **(1)** **Accept other valid responses.**	**3**
1(b)	**Calculate the profit/loss from operating the vending machine for the year ended 31 December 2024.** Soft drink revenue — $ — $ 36 000 Cost of sales Opening inventory — 1 680 **}*** Purchases **W1** — 20 000 **(1)** Closing inventory — (1 900) **}* (1)** — 19 780 Gross profit — 16 220 Vending machine rental $800 x12 — 9 600 **(1)** Profit from vending machine — 6 620 **(1)OF** **W1** $20 800 + $6 500 – $7 300 = $20 000	**4**

Question	Answer	Marks
1(c)	**Prepare the income and expenditure account for the year ended 31 December 2024.**	**9**

Income and expenditure account for year ended 31 December 2024

	$		$	
Income				
Subscription fee **W1**			125 300	**(1)**
Life membership **W2**			1 300	**(2)**
Profit from vending machine			6 620	
			133 220	
Expenditure				
Loss on disposal of equipment **W3**	350	**(1)**		
Depreciation – club equipment **W4**	9 700	**(2)**		
Club expenses **W5**	65 900	**(1)**		
Social activities **W6**	36 300	**(1)**	112 250	
Surplus			20 970	**(1)OF**

W1 $124 000 + (1 900 – $2 200) + (2 800 – 1 200) = 125 300
W2 ($5 000 × 10%) = $500**(1)** + ($8 000 × 10%)= $800 **(1) =** $1 300
W3 $3 500 – $3 150 = $350
W4 $37 600 + $14 400 – $38 800 **(1) –** $3 500 = $9 700 **(1)OF**
W5 $69 300 + $5 400 – $8 800 = $65 900
W6 $41 000 – $4 700 = $36 300

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Question	Answer	Marks
1(d)	**Prepare a statement showing the changes in the accumulated fund during the year ended 31 December 2024.** |	$	| |---|---|---| | Accumulated fund at 1 January 2024 **W1**	45 780	**(2)OF** | | Surplus for the year	20 970	**(1)OF** | | Accumulated fund at 1 January 2024	66 750	**(1)OF** | **W1** |	$	| |---|---|---| | Club equipment – carrying value	37 600	| | Soft drinks inventory	1 680	| | Subscriptions received in advance	(1 900)	| | Subscriptions in arrear	2 200	| | Soft drinks supplier payable	(7 300)	| | Club expenses accrued	(8 800)	| | Cash at bank	26 800	| | Life membership ($500/10%) x 90%	(4 500)	**(1)** | | Accumulated fund at 1 January 2024	45 780	**(1)OF**		**4**
1(e)	**Advise the managing committee whether or not Meena's offer should be accepted. Justify your answer.** For **(Max 2)** No need to repay the donation Otherwise, the club need to obtain finance such as a bank loan / interest will reduce the surplus No rent to be paid Against **(Max 2)** The club will lose its identify of being a local club for the community Meena may exercise undue influence over the affairs of the club Membership may decline **Decision supported by a comment (1)** **Accept other valid responses**	**5**

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Question	Answer	Marks
2(a)	**Prepare the statement of changes in equity for the year ended 31 December 2024.** **A total column is required.** Ordinary shares $ / Share premium $ / Retained earnings $ / Total $ Balance at 1 January 2024: 400 000 / 23 000 / 199 000 / 622 000 Dividend – 2023 final **W1**: (70 000) **(1)** / (70 000) Bonus: 40 000 **(1)** / (23 000) **}** / (17 000) **}(1)OF** / 0 Dividend – 2024 interim **W2**: (35 200) **(1)** / (35 200) Profit for the year: 180 400 / 180 400 Balance at 31 December 2024: 440 000 / 0 / 257 200 / 697 200 **(1)OF** **W1** 200 000 × \$0.35 = \$70 000 **W2** 220 000 × \$0.16 = \$35 200	**5**
2(b)	**Calculate, to two decimal places, the return on capital employed for the year 2024.** (\$180 400 + \$36 000) **(1)**/(\$697 200 + \$700 000) × 100 = 15.49% **(1)OF** Debenture interest \$300 000 × 6% + \$400 000 × 6% × 3/4 = \$36 000	**2**
2(c)(i)	**Calculate, to two decimal places, the gearing ratio for both the years 2023 and 2024.** Gearing ratio for 2023 \$300 000/(\$622 000 + \$300 000) × 100 = 32.54% **(1)** Gearing ratio for 2024 \$700 000/(\$697 200 + \$700 000) × 100 =50.10% **(1)OF**	**2**

Question	Answer	Marks
2(c)(ii)	**Comment on the gearing ratio with reference to the calculations in (c)(i).** In 2023, 32.54% of capital employed was provided in the form of a long-term loan rather than from shareholders / the company is regarded as low geared. **(1)** This ratio increased to 50.10%, in excess of 50% which is regarded as high geared. **(1)** A high geared company is perceived as more risky than a low geared company. **(1)** TN plc may have difficulty to borrow further funds/ to repay non-current liabilities /have heavy burden on interest payment **(1)** **Max 4** **Accept other valid responses.**	**4**
2(d)(i)	**Calculate the proposed 2024 final dividend per share.** Dividend for 2024 $180 400/2 = $90 200 **(1)** $90 200/220 000 = $0.41 **(1)OF** $0.41 – $0.16 = $0.25 **(1)OF**	**3**
2(d)(ii)	**Explain why the directors want to increase the dividend cover for 2024.** To increase the dividend cover means that the directors wish to reinvest more profit into the business **(1)** that will lead to business expansion **(1)** and a further increase in profit in the future **(1)** The directors want to be sure that the company will be able to maintain the current level in the future if profit falls / there are less funds available for distribution. **(1)** **Max 4** **Accept other valid responses.**	**4**

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Question	Answer	Marks
2(e)	**Comment on the company's 2024 price/earnings (PE) ratio as compared to the company's PE ratio in 2023. Support your answer with calculations.** 2023 Total dividend ($0.35 + $0.05) × 200 000 = $80 000 Earnings per share ($80 000 × 1.8)/200 000 = $0.72 PE ratio $3.72/$0.72 = 5.17 **(1)** 2024 Earnings per share $180 400/220 000 = $0.82 PE ratio $4.65/$0.82=5.67 **(1)** PE ratio of 2024 is better than 2023 **(1)** There is a higher market price in relation to earnings. **(1)** This suggests that the investors are confident in the future growth of the business. **(1)** TN plc should also compare with the industry's PE ratio. **(1)** **Max. 2 marks for calculations.** **Max. 3 marks for comments.** **Accept other valid responses.**	**5**

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Question	Answer	Marks
3(a)	**State <u>four</u> uses of a statement of cash flows.** • To explain why profits are different from changes in cash and cash equivalents • To show cash inflows and outflows during a period • To show sources of internal and external financing • To enable users to assess the efficiency of how cash has been used • To help assess the liquidity of the business • To allow comparisons year on year / with other businesses **Max 4** **Accept other valid responses.**	**4**
3(b)	**Calculate the profit from operations for the year ended 31 December 2024.** **$** Retained earnings b/d 205 900 Profit for the year (Balancing) 87 150 **(1)OF** Dividend paid (114 000) **}** Transferred to general reserve (8 000) **}(1)** Revaluation reserve 52 000 **(1)** Retained earnings c/d 223 050 Profit for the year 87 150 Loan interest 8 900 **(1)** Profit from operations 96 050 **(1)OF**	**5**

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Question	Answer	Marks
3(c)	**Prepare the statement of cash flows for the year ended 31 December 2024 in accordance with IAS 7.**	**11**

Statement of cash flow for the year ended 31 December 2024

	$		$	
Cash flows from operating activities				
Profit from operations			96 050	
Depreciation charge – Office buildings	26 800	}		
– Office equipment	14 400	}(1)	41 200	
Profit on disposal of office building ($375 000 – $360 000)			(15 000)	(1)
Decrease in inventory			9 400	}
Increase in trade receivables			(12 700)	}
Increase in trade payables			12 000	}(1)
Cash from operations			130 950	
Interest paid ($8 900 + $550)			(9 450)	(1)
Net cash from operating activities			121 500	
Cash flows from investing activities				
Purchase of office building ($670 000 + $360 000 – $580 000)	(450 000)	(1)		
Proceeds from sale of office building	375 000	}		
Purchase of office equipment	(10 000)	}(1)		
Net cash used in investing activities			(85 000)	(1)OF
Cash flows from financing activities				
Proceeds from issue of share capital	60 000	(1)		
Dividend paid	(114 000)	}		
Repayment of bank loan	(15 000)	}(1)		
Net cash used in financing activities			(69 000)	(1)OF
Net decrease in cash and cash equivalents			(32 500)	
Cash and cash equivalents at 1 January 2024			25 600	
Cash and cash equivalents at 31 December 2024			(6 900)	(1)OF

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Question	Answer	Marks
3(d)	**Advise the directors whether or not they should carry out their plan. Justify your answer.** **For (Max 2)** KM plc gets immediate cash. KM plc retains full use of the office building. There will be no maintenance / depreciation costs. Extra cash can be used to repay the loan to reduce the interest expense. **Against (Max 2)** Profit will be reduced due to rent payments. KM plc will be evicted from the property if the company cannot pay rent. KM plc has little flexibility to deal with the property, for example, permission from the landlord is necessary for any major renovations. KM plc cannot enjoy the increase in value of the property. The purchaser may increase the rent. **Decision supported by a comment (1)** **Accept other valid responses**	**5**

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