CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

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)	**Calculate the profit for the period for <u>both</u> the six months ended 30 June 2023 and the six months ended 31 December 2023.**	**8**

	Jan – June $		July – Dec $	
Gross profit	44 900	**(1)**	55 210	**(1)**
Less:				
Depreciation – premises	900	**}**	1 500	**}***
– other	1 600	**}(1)**	1 600	**}*(1)**
Wages and salaries				
19 700 – 5 000	14 700	**(1)**		
27 320 – 5 000 – 6 000			16 320	**(1)**
Other operating costs	22 100		23 200	
Profit for the period	5 600	**(1)OF**	12 590	**(1)OF**

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Question	Answer	Marks
1(b)	**Prepare appropriation accounts for <u>both</u> the six months ended 30 June 2023 and the six months ended 31 December 2023.**	**13**

		Jan – June $			July-Dec $	
Profit for the period		5 600			12 590	
Less interest on capital						
Angie	2 500		**}**	3 872		
Harry	1 500	4 000	**}(1)**	3 623	7 495	**W1**
Less salary						
Angie	5 000		**}**	5 000		**}**
Harry	0	5 000	**}(1)**	6 000	11 000	**}(1)**
Residual loss		(3 400)			(5 905)	
Share of loss						
Angie	(1 700)		**(1)OF**	(4 429)		**(1)OF**
Harry	(1 700)	(3 400)	**(1)OF**	(1 476)	(5 905)	**(1)OF**

W1

	Angie $		Harry $	
Original capital	50 000		30 000	
Revaluation (150 000 – 80 100)	34 950	**(1)**	34 950	**(1)OF**
Goodwill added	15 000		15 000	**(1) both**
Goodwill removed	(22 500)		(7 500)	**(1) both**
Revised capital	77 450		72 450	
Interest on capital 10% × 6/12	3 872	**(1)OF**	3 623	**(1)OF**

1(c)	**Calculate, to <u>two</u> decimal places, the profit margin of the partnership for the six months ended 31 December 2023.** 12590/119000 × 100 = 10.58% **(1)OF**	**1**

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Question	Answer	Marks
1(d)	**Discuss whether Harry should be comparing the profit margin of the company with that of the partnership.** As the audit report is qualified the financial statements may well **not** give a true and fair view **(1)** and the profit margin he has calculated may not be reliable **(1).** Because the company is in a different industry it may not be useful to compare the results of the two businesses **(1).** However a review of the financial statements may help him to identify areas in the partnership where improvements could be made **(1).** **Max 3** **Accept other valid responses.**	**3**

Question	Answer	Marks
2(a)(i)	**Calculate at 31 December <u>2022</u>:** **the accumulated depreciation on Machine A** 90 000 × 0.1 × 3.5 years = $31 500 **(1)**	**1**
2(a)(ii)	**Calculate at 31 December <u>2022</u>:** **the carrying value of Machine B** 151 500 – (90 000 – 31 500) = $93 000 **(1)OF**	**1**
2(a)(iii)	**Calculate at 31 December <u>2022</u>:** **the original cost of Machine B.** $\frac{93\,000}{1-(2.25\times 0.1)}$ = $120 000 **(1)OF**	**1**

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Question	Answer	Marks
2(b)	**Prepare the schedule of non-current assets at 31 December 2023.** T plc Schedule of non-current assets at 31 December 2023 Property, plant and equipment |	Plant and machinery $		Motor vehicles $		Total $ | |---|---|---|---|---|---| | Cost | | | | | | | At 1 January 2023 | **W1** 210 000 | **(1)OF** | 40 000 | | 250 000 | | Additions | 150 000 | | | | 150 000 | | Disposals | (90 000) | | | | (90 000) | | At 31 December 2023 | 270 000 | **(1)OF** | 40 000 | | 310 000 | | Depreciation and impairment | | | | | | | At 1 January 2023 | 58 500 | **(1)OF** | 14 400 | **(1)** | 72 900 | | Disposals | **W2** (32 250) | **(1)OF** | | | (32 250) | | Charge for year | **W3** 26 500 | **(1)OF** | 5 120 | **(1)** | 31 620 | | Impairment loss | | | 2 480 | **(1)** | 2 480 | | At 31 December 2023 | 52 750 | | 22 000 | | 74 750 | | Carrying amount at 31 December 2023 | 217 250 | | 18 000 | **(1)OF** | 235 250 | | Carrying amount at 1 January 2023 | 151 500 | | 25 600 | **(1)** | 177 100 | **W1** 90 000 + 120 000 (OF) = 210 000 **W2** 31 500 OF + 750 = 32 250 **W3** 750 + (12 000 + 13 750) = 26 500	**10**
2(c)	**Name the efficiency ratio which would be affected by the outcome of the impairment review.** non-current asset turnover **(1)**	**1**

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Question	Answer	Marks
2(d)	**Calculate the net working assets to revenue ratio for 31 December <u>2023</u> using year end balances.** 129 000/322 500 **(1)** × 100 **whole formula** = 40% **(1)OF**	**2**
2(e)(i)	**Assess the effect the change in formula would have on:** **the net working assets to revenue ratio** Because the value of the net working assets has increased during the year, the average value would be lower than the closing value **(1).** This would cause the ratio to be lower **(1).**	**2**
2(e)(ii)	**Assess the effect the change in formula would have on:** **the perceived performance of the company.** The lower ratio makes the business look more efficient **(1)** as the business seems to require fewer net working assets to generate the same amount of revenue **(1).**	**2**
2(f)	**Advise the directors whether or not they should use average figures when calculating the net working assets to revenue ratio in the future. Justify your answer.** **For (Max 2)** Sales take place throughout the year not just at the year end. **(1)** Changes arising late on in the year would distort the result less if an average was used. **(1)** It would give a more adequate comparison of the use of net working assets through the year with sales made through the year. **(1)** **Against (Max 2)** Changes in net working assets do not take place evenly over the year. **(1)** Change in calculation would not have any effect on actual performance. **(1)** The assessment of performance requires consistency in calculation. **(1)** **Decision supported with a comment (1)** **Accept other valid responses.**	**5**

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Question	Answer	Marks
3(a)	**Suggest <u>one</u> reason why the rate of factory profit had changed between 2022 and 2023.** The rate of factory profit is set so that the transfer price reflects the buy in price/to enable true comparisons with other businesses trading in the same product **(1)** and the difference between production cost and buy-in price had increased **(1).** **Accept other valid responses.**	**2**
3(b)	**Prepare a corrected provision for unrealised profit account for the year ended 31 December 2023.** Provision for unrealised profit account	**2**

	$			$
Statement of profit or loss	500	**(1)OF**	Balance b/d	13 300
Balance c/d	12 800	**(1)**		
	13 300			13 300
			Balance b/d	12 800

Question	Answer	Marks
3(c)(i)	**Prepare a corrected statement of profit or loss for the year ended 31 December 2023.**	**8**

	$	$	
Revenue		681 000	
Opening inventory of finished goods (at transfer price)	83 300		
Transfer price of manufactured goods **W1**	337 440 **(1)**		
	420 740		
Closing inventory of finished goods (at transfer price)	(76 800)		
Cost of sales		343 940	
Gross profit		337 060	**(1)OF**
Factory profit **W2**		56 240	**(1)OF**
Provision for unrealised profit		500	**(1)OF**
Administrative expenses **W3**		(41 700)	**(1)**
Distribution costs **W4**		(46 300)	**(1)**
Profit from operations		305 800	
Finance costs **W5**		(25 100)	**(1)**
Profit for the year		280 700	**(1)OF**

W1 (273 200 – 2 000 +10 000) × 120% = 337 440
W2 337 440 × 20/120 = 56 240
W3 51 700 – 10 000 = 41 700
W4 44 200 + (22 000 –19 900) = 46 300
W5 21 600 + 3 500 = 25 100

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Question	Answer	Marks
3(c)(ii)	**Prepare a corrected statement of financial position at 31 December 2023.**	**8**

	$	
Non-current assets **W1**	759 900	**(1)**
Current assets		
Inventory – raw materials	72 000	**(1)**
– work in progress	11 800	**(1)**
– finished goods at transfer price	76 800	
less provision for unrealised profit	(12 800)	**(1)OF**
	147 800	
Trade receivables	101 100	
	248 900	
Total assets	1 008 800	**(1)OF**
Equity		
Ordinary share capital	500 000	
Retained earnings **W2**	234 300	**(1)OF**
	734 300	
Non-current liabilities		
7% debentures	200 000	
Current liabilities		
Trade and other payables **W3**	73 500	**(1)**
Bank overdraft	1 000	
	74 500	
Total equity and liabilities	1 008 800	**(1)OF**

W1 762 000 – (22 000 – 19 900) = 759 900 **(1)**
W2 (182 760 – 229 160) **(1)** + 280 700 **(1)OF** = 234 300
W3 70 000 + 3 500 **(1)** = 73 500

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Question	Answer	Marks
3(d)	**Advise the directors whether or not the balance on the retained earnings account is too low as a result of paying excessive dividends. Justify your answer.** The balance on the account is less than the profit for the year for 2023 **(1).** This may not necessarily be because of dividends **(1)** as the company might have made losses in earlier years / had accumulated losses brought forward **(1).** Alternatively, the company might have used retained earnings to fund a bonus issue of shares **(1).** It may indicate that profits are being ploughed back into the business and funding expansion **(1).** It also provides a buffer against any future year when performance is poorer **(1).** Shareholders will have expectations of a reasonable rate of return **(1)** and the dividend policy of the company could be compared with that of similar businesses **(1).** Accept other valid points **Max (4)** **Accept other valid responses.** **Decision supported with a comment (1)**	**5**

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