



Cambridge International AS & A Level

ACCOUNTING

9706/31

Paper 3 Financial Accounting

May/June 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 May/June 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **19** printed pages.

PUBLISHED**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.

PUBLISHED**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.

Question	Answer	Marks																					
1(a)	<p>Calculate the partnership's profit for the year ended 31 March 2022.</p> <p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Interest on capital</td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td>Alan \$300 000 × 4%</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Betty \$240 000 × 4%</td> <td style="text-align: right;">9 600</td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td>Residual profit</td> <td></td> <td></td> </tr> <tr> <td>Alan</td> <td style="text-align: right;">24 240</td> <td></td> </tr> <tr> <td>Betty</td> <td style="text-align: right;"><u>16 160</u></td> <td></td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>62 000</u></td> <td style="text-align: right;">(1)</td> </tr> </table>	Interest on capital			Alan \$300 000 × 4%	12 000	}	Betty \$240 000 × 4%	9 600	}(1)	Residual profit			Alan	24 240		Betty	<u>16 160</u>		Profit for the year	<u>62 000</u>	(1)	2
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Question	Answer	Marks																																																												
1(c)	<p>Calculate the amount paid by J Limited into the partnership bank account.</p> <p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Consideration</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Value of assets taken over</td> <td></td> <td style="text-align: right;">570 000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Goodwill</td> <td></td> <td style="text-align: right;"><u>124 000</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">694 000</td> <td></td> <td></td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>8% debentures</td> <td style="text-align: right;">150 00</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Alan</td> <td style="text-align: right;">0</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">120 00</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Betty</td> <td style="text-align: right;"><u>0</u></td> <td style="text-align: right;">(270 000)</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Ordinary shares</td> <td></td> <td style="text-align: right;"><u>(390 000)</u></td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Balance paid in cash</td> <td></td> <td style="text-align: right;"><u>34 000</u></td> <td></td> <td></td> <td style="text-align: right;">(1)OF</td> </tr> </table>	Consideration						Value of assets taken over		570 000				Goodwill		<u>124 000</u>						694 000			(1)OF	8% debentures	150 00					Alan	0						120 00					Betty	<u>0</u>	(270 000)			(1)	Ordinary shares		<u>(390 000)</u>			(1)	Balance paid in cash		<u>34 000</u>			(1)OF	4
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Question	Answer	Marks
1(e)	<p>Advise whether or not J Limited should continue the expansion strategy. Justify your answer.</p> <p>Max 2 marks for 'should' comments Max 2 marks for 'should not' comments</p> <p>1 mark for decision supported with a comment.</p> <p>It is only one year's time, J Limited should take the acquisition as a long-term strategy. (1) Acquiring businesses can bring synergy (1) and elimination of competitors. (1) J Limited pays for the goodwill in the expectation of additional future profit. (1) J Limited was too optimistic in its predictions. (1) Synergy may not succeed because there may be a culture clash between two businesses. (1)</p> <p>Accept other valid responses.</p>	5

Question	Answer	Marks
2(a)	<p>State <u>two</u> comparisons which a business may make by using ratios to assess its performance.</p> <p>Trend analysis (1) Inter-company comparison (1) Industry average (1)</p> <p>Max 2 Accept other valid responses.</p>	2

Question	Answer	Marks																					
2(b)(i)	<p>Calculate:</p> <p>net assets at 31 December 2022</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Non-current assets (\$825 000 ÷ 1.6)</td> <td style="width: 20%; text-align: right;">515 625</td> <td style="width: 20%; text-align: right;">(1)</td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">44 000</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">76 400</td> <td></td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">(32 900)</td> <td></td> </tr> <tr> <td>Cash at bank</td> <td style="text-align: right;">81 000</td> <td></td> </tr> <tr> <td>Debenture</td> <td style="text-align: right;"><u>(100 000)</u></td> <td></td> </tr> <tr> <td>Net assets</td> <td style="text-align: right;"><u>584 125</u></td> <td style="text-align: right;">(1) OF</td> </tr> </table>	Non-current assets (\$825 000 ÷ 1.6)	515 625	(1)	Inventory	44 000		Trade receivables	76 400		Trade payables	(32 900)		Cash at bank	81 000		Debenture	<u>(100 000)</u>		Net assets	<u>584 125</u>	(1) OF	2
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2(b)(ii)	<p>retained earnings at 31 December 2022</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Equity</td> <td style="width: 20%; text-align: right;">584 125</td> <td style="width: 20%;"></td> </tr> <tr> <td>Ordinary share capital</td> <td style="text-align: right;">(300 000)</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Share premium</td> <td style="text-align: right;"><u>(30 000)</u></td> <td style="text-align: right;">} (1)</td> </tr> <tr> <td>Retained earnings</td> <td style="text-align: right;"><u>254 125</u></td> <td style="text-align: right;">(1) OF</td> </tr> </table>	Equity	584 125		Ordinary share capital	(300 000)	}	Share premium	<u>(30 000)</u>	} (1)	Retained earnings	<u>254 125</u>	(1) OF	2									
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2(b)(iii)	<p>retained earnings at 1 January 2022.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%; text-align: center;">\$</td> <td style="width: 20%;"></td> </tr> <tr> <td>Retained earnings at 31 December 2022</td> <td style="text-align: right;">254 125</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Profit for the year W1</td> <td style="text-align: right;">(187 500)</td> <td style="text-align: right;">(3) OF</td> </tr> <tr> <td>Dividend paid (300 000 × \$0.3)</td> <td style="text-align: right;"><u>90 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Retained earnings at 1 January 2022</td> <td style="text-align: right;"><u>156 625</u></td> <td style="text-align: right;">(1) OF</td> </tr> </table> <p>W1</p> <p>Market price per share $(\\$0.3 + \\$0.15) \div 4\% = \\$11.25$ (1)</p> <p>Earnings per share $\\$11.25 \div 18 = \\0.625 (1) OF</p> <p>Profit for the year $\\$0.625 \times 300\,000 = \\$187\,500$ (1) OF</p>		\$		Retained earnings at 31 December 2022	254 125	(1) OF	Profit for the year W1	(187 500)	(3) OF	Dividend paid (300 000 × \$0.3)	<u>90 000</u>	(1)	Retained earnings at 1 January 2022	<u>156 625</u>	(1) OF	6						
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Question	Answer	Marks												
2(c)(i)	<p>Calculate the following at 31 December 2022:</p> <p>working capital cycle (round <u>each</u> component up to the next whole day).</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Trade receivable turnover W1</td> <td style="width: 20%; text-align: right;">34 days</td> <td style="width: 20%; text-align: right;">(1)</td> </tr> <tr> <td>Inventory turnover W2</td> <td style="text-align: right;">48 days</td> <td style="text-align: right;">(3)</td> </tr> <tr> <td>Trade payable turnover W3</td> <td style="text-align: right;"><u>(30)</u> days</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Working capital cycle</td> <td style="text-align: right;"><u>52</u> days</td> <td style="text-align: right;">(1) OF</td> </tr> </table> <p>W1 $(\\$76\,400/\\$825\,000) \times 365 = 34 \text{ days (1)}$</p> <p>W2 Cost of sales $\\$825\,000(1-48\%) = \\$429\,000 \text{ (1)}$ Opening inventory $\\$429\,000 + \\$44\,000 - \\$405\,000 = \\$68\,000$ Average inventory $(\\$44\,000 + \\$68\,000)/2 = \\$56\,000 \text{ (1)}$ Inventory turnover $(\\$56\,000/\\$429\,000) \times 365 = 48 \text{ days (1) OF}$</p> <p>W3 $(\\$32\,900/\\$405\,000) \times 365 = 30 \text{ days (1)}$</p>	Trade receivable turnover W1	34 days	(1)	Inventory turnover W2	48 days	(3)	Trade payable turnover W3	<u>(30)</u> days	(1)	Working capital cycle	<u>52</u> days	(1) OF	6
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Trade payable turnover W3	<u>(30)</u> days	(1)												
Working capital cycle	<u>52</u> days	(1) OF												
2(c)(ii)	<p>gearing ratio (to <u>two</u> decimal places)</p> <p>Gearing ratio $\\$100\,000/(\\$100\,000 + \\$300\,000 + \\$30\,000 + \\$254\,125 \text{ OF}) \text{ (1)}$ $=14.62\% \text{ (1) OF}$</p>	2												

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Question	Answer	Marks
2(d)	<p>Advise the directors of Z plc whether or not they should be concerned about the company's working capital cycle. Justify your answer.</p> <p>Max 2 marks for 'should be' comments Max 2 marks for 'should not be' comments</p> <p>1 mark for decision supported with a comment.</p> <p>Should be (max 2)</p> <p>takes longer time to convert its working capital into cash. (1) holding too much inventory (1) not good enough in collecting their receivables / poor credit control (1) paying the payables too early (1)</p> <p>Should not be (max 2)</p> <p>not a material difference (1) may have different policies (1) there may be non-financial factors that impact the financial statements (1)</p> <p>Accept other valid responses.</p>	5

Question	Answer	Marks
3(a)	<p>Explain why a manufacturing business may provide for unrealised profit.</p> <p>The unrealised profit is to be deducted from the transfer value to value the inventory at cost (1) which is consistent with the prudence concept. (1)</p> <p>Accept other valid responses.</p>	2

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3(b)	<p>Prepare the manufacturing account for the year ended 31 December 2022.</p> <p style="text-align: center;">Manufacturing account for year ended 31 December 2022</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Opening raw materials inventory</td> <td style="text-align: right;">8 000</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">198 000</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">3 100</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Closing raw materials inventory</td> <td style="text-align: right;"><u>(10 500)</u></td> <td></td> </tr> <tr> <td>Cost of raw materials consumed</td> <td style="text-align: right;">198 600</td> <td></td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;"><u>164 000</u></td> <td></td> </tr> <tr> <td>Prime cost</td> <td style="text-align: right;">362 600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation – factory machinery</td> <td style="text-align: right;">9 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Factory overheads $\\$98\,000 + (\\$74\,000 + \\$6\,000) \times 50\%$</td> <td style="text-align: right;"><u>138 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right;">509 600</td> <td></td> </tr> <tr> <td>Opening work in progress inventory</td> <td style="text-align: right;">17 300</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Closing work in progress inventory</td> <td style="text-align: right;"><u>(16 900)</u></td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td>Cost of goods manufactured</td> <td style="text-align: right;">510 000</td> <td></td> </tr> <tr> <td>Factory profit</td> <td style="text-align: right;"><u>122 400</u></td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Transfer value</td> <td style="text-align: right;"><u>632 400</u></td> <td></td> </tr> </table>		\$		Opening raw materials inventory	8 000		Purchases	198 000		Carriage inwards	3 100	(1)	Closing raw materials inventory	<u>(10 500)</u>		Cost of raw materials consumed	198 600		Direct labour	<u>164 000</u>		Prime cost	362 600	(1)	Depreciation – factory machinery	9 000	(1)	Factory overheads $\$98\,000 + (\$74\,000 + \$6\,000) \times 50\%$	<u>138 000</u>	(1)		509 600		Opening work in progress inventory	17 300	}	Closing work in progress inventory	<u>(16 900)</u>	}(1)	Cost of goods manufactured	510 000		Factory profit	<u>122 400</u>	(1) OF	Transfer value	<u>632 400</u>		6
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