Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2022**

MARK SCHEME

Maximum Mark: 150

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 2022 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 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.

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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
✓	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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Question	Answer					Marks
1(a)	Amit					**11**
	Manufacturing account for the year ended 31 December 2021					
		$		$		
	Inventory of raw materials at 1 January 2021			2 810		
	Purchases of raw materials			81 750		
	Carriage inwards			400	**(1)**	
				84 960		
	Inventory of raw materials at 31 December 2021			2 350		
	Cost of raw materials consumed			82 610	**(1)OF**	
	Direct costs					
	Machine operators' wages			53 000	**(1)**	
	Prime cost			135 610	**(1)OF**	
	Factory overheads					
	Factory supervisor's salary	26 000				
	Rent and rates	6 760	**(1)**			
	Depreciation of factory machinery	14 520	**(1)**			
	General expenses	7 140	**(1)**	54 420		
				190 030		
	Inventory of work in progress at 1 January 2021	1 190				
	Inventory of work in progress at 31 December 2021	1 100		90	**(1)**	
	Cost of production			190 120	**(1)OF**	
	Factory profit (25%)			47 530	**(1)OF**	
	Transfer to income statement			237 650	**(1)OF**	

Question	Answer	Marks
1(b)	Amit Income statement for the year ended 31 December 2021 $ $ Revenue 288 830 Inventory of finished goods at 1 January 2021 6 700 Cost of production at transfer price 237 650 **(1OF)** 244 350 Inventory of finished goods at 31 December 2021 6 900 Cost of sales 237 450 **(1)OF** Gross profit 51 380 Factory profit 47 530 **(1)OF** Administrative salaries 28 500 Increase in provision for unrealised profit 40 **(1)** Rent and rates 3 640 **(1)** Depreciation of office equipment 1 710 **(1)** Selling and distribution costs 14 700 Administrative expenses 16 100 General expenses 3 060 **(1)** 67 750 Profit from operations 31 160 Finance costs 1 080 **(1)** Profit for the year 30 080 **(1)OF**	**9**
1(c)	600 m^2 **(1)**	**1**
1(d)	current assets **(1)**	**1**
1(e)	Health and safety of visitors in an area with machinery **(1)** Possibility of contamination of food stuffs in the factory **(1)** Costs of staff to act as guides during the tours **(1)** Prices he could charge in the gift shop **(1)** Costs of staff to work in the gift shop **(1)** Anticipated level of sales in the gift shop **(1)** **Accept other valid points** **Max 3**	**3**

Question	Answer			Marks
2(a)	NM plc Statement of financial position at 31 December 2021			**18**
		$		
	Assets			
	Non-current assets			
	Property, plant and equipment **W1**	609 340	**(2)**	
	Current assets			
	Inventory	18 900		
	Trade receivables **W2**	37 400	**(2)**	
		56 300		
	Total assets	665 640		
	Equity			
	Ordinary share capital ($1 shares)	250 000	**(1)**	
	Share premium	65 000	**(1)**	
	Revaluation reserve	72 000	**(1)**	
	General reserve	45 000	**(1)**	
	Retained earnings **W3**	171 140	**(7)**	
		603 140		
	Non-current liabilities			
	Bank loan	32 000	**(1)**	
	Current liabilities			
	Trade payables	21 900		
	Bank loan	8 000	**(1)**	
	Bank overdraft	600	**(1)**	
		30 500		
	Total equity and liabilities	665 640		
	W1 612 000 – impairment losses **(**1 300 **(1)** + 1 360 **(1))** = 609 340 **W2** 36 200 – 800 **(1)** + 2 000 **(1)** = 37 400 **W3** 267 500 +25 000 **(1)** – 72 000 **(1)** – 45 000 **(1)** – impairment losses 2 660 **(1)OF** –900 **(1)** – 800 **(1)** = 171 140 **(1)OF**			

Question	Answer	Marks
2(b)	5 January 2022 – non-adjusting **(1)** 6 January 2022 – adjusting **(1)**	**2**
2(c)	To make its statement of financial position more realistic **(1)** so that depreciation charges to be based on the revalued amounts giving a more meaningful cost **(1)** **Accept other valid answers.**	**2**
2(d)	A provision for doubtful debts would not stop irrecoverable debts **(1)** as it is only a paper entry which does not stop credit customers from defaulting **(1).** However, a provision would match the loss arising from irrecoverable debts with the income from the sales which generated the debts **(1)** and would stop assets from being overstated **(1),** applying matching/prudence **(1).** Decision **(1)** **Accept other valid points** **Max (2) for comments plus (1) for decision**	**3**

Question	Answer	Marks
3(a)	It measures the time between a business paying its trade payables for inventory and receiving funds from its trade receivables arising from the sale of that inventory **(1)** **OR** the time taken for cash to travel through the working capital of a business **(1)**	**1**
3(b)	AB plc has a longer inventory turnover period **(1)** which may be due to holding a higher level of inventory **(1).** It has a longer trade receivables turnover period **(1)** as it receives payments slower **(1).** It has a shorter trade payables turnover period **(1)** as it pays its credit suppliers faster **(1).** **Any two reasons, (1) mark for identification of effect on ratio plus (1) mark for development**	**4**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
<table>
<tr><td></td><td>Formula</td><td>2021</td><td>2020</td></tr>
<tr><td>Earnings per share</td><td>Profit for the year / Number of shares (1)</td><td>$0.46(1)</td><td>$0.49(1)</td></tr>
<tr><td>Dividend per share</td><td>Dividend paid / Number of shares (1)</td><td>$0.23 (1)</td><td>$0.24 (1)</td></tr>
<tr><td>Price earnings ratio</td><td>Market price of share / Earnings per share (1)</td><td>4.76 (1)OF</td><td>3.94 (1)OF</td></tr>
<tr><td>Dividend yield</td><td>Dividend paid and proposed per share/ Market price of share × 100 (1)</td><td>10.50% (1)OF</td><td>12.44% (1)OF</td></tr>
</table>
</td><td>12</td></tr>
<tr><td>3(d)</td><td>Earnings per share has fallen. Although profit for the year has increased, it has not increased in proportion with the increase in the number of shares (1).

Dividend per share has fallen. Although the dividend has increased in absolute terms it has not increased in proportion with the increase in the number of shares (1).

The price earnings ratio has increased which suggests an increase in investor confidence (1)

The dividend yield has fallen because of the increase in the share price and the fall in the dividend per share (1).

The market value has risen because investors feel positive about the expansion of the business which is taking place (1). The benefits from the expansion are not yet being fully felt as the expansion is not yet ‘bedded in’ (1) and investors expect an increase in dividends and profits in the future (1).

Accept other valid points
Max (6)</td><td>6</td></tr>
</table>

Question	Answer	Marks
3(e)	Information needs to be timely to be useful **(1).** Performance of the business may already have changed **(1).** There is almost a full year of performance about which the investor knows nothing **(1).** **Accept other valid points.** **1 mark for identification and 1 mark for development.**	**2**

Question	Answer				Marks
4(a)			$		**8**
	2020 subscriptions (6 × 50)		300	**(1)**	
	Receipts from new members (8 × 50 + 11 × 30)		730	**(1)**	
	Receipts from existing members				
	Members at start	210			
	Resigned	(1) **}(1)**			
	Paid previously	(8) **}**			
	Transferred to life membership	(5) ***}(1)**			
	Not yet paid	(4) ***}**			
		192 × 50	9 600	**(1)OF**	
	2022 subscriptions (14 × 55)		770	**(1)**	
			11 400		
	Life membership (5 × 750)		3 750	**(1)**	
	Total receipts		15 150	**(1)OF**	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
<table>
<tr><td colspan="6">Subscriptions account</td></tr>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Balance b/d</td><td>350</td><td>*</td><td>Balance b/d</td><td>400</td><td>*(1) both</td></tr>
<tr><td>Income and expenditure (1)</td><td>10 930</td><td>(1)OF</td><td>Receipts and payments</td><td>11 400</td><td>(1)OF</td></tr>
<tr><td></td><td></td><td></td><td>Irrecoverable debt</td><td>50</td><td>(1)</td></tr>
<tr><td>Balance c/d</td><td>770</td><td>**</td><td>Balance c/d</td><td>200</td><td>**(1) both</td></tr>
<tr><td></td><td>12 050</td><td></td><td></td><td>12 050</td><td></td></tr>
</table>
Marking guidance – income and expenditure figure may be a balancing figure for (1of) or, should anyone calculate it,
(210 – 1 – 5 + 8) × 50 plus (11 × 30) = 10 930
</td><td>6</td></tr>
<tr><td>4(c)(i)</td><td>8 × 750 × 1/10 = $600 (1)</td><td>1</td></tr>
<tr><td>4(c)(ii)</td><td>
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>joining in 2020</td><td>3 × 750 × 8/10</td><td>1800</td><td>(1)</td></tr>
<tr><td>joining in 2021</td><td>5 × 750 × 9/10</td><td>3375</td><td>(1)</td></tr>
<tr><td></td><td></td><td>5175</td><td>(1)OF</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>4(d)</td><td>Grants (1)
Donations (1)
Profit from trading activity (1)
Fund raising/special events (1)

Accept other valid points
Max 2</td><td>2</td></tr>
</table>

Question	Answer	Marks
4(e)	This would bring in additional income **(1)** but there may be increased costs. **(1)** Junior members may go on to become regular members in time. **(1)** This may raise the club's profile in the community. **(1)** Junior members may require more supervision. **(1)** With a lower subscription regular members may be subsidising the junior section of the club. **(1)** Decision **(1)** **Accept other valid points** **Max (4) for comments plus (1) for decision**	**5**

Question	Answer	Marks
5(a)	Cash flows in payback are not discounted **(1)**. Although net cash flows may cover the purchase price in absolute terms **(1)** they may not do so once discounted **(1)** especially if the distribution of cash flows is biased towards the later years of the project's life **(1).** **Max (2)** **Accept other valid answers.**	**2**
5(b)	<table><tr><th></th><th>Decrease in number of services</th><th>Cost savings $</th><th>Repairs $</th><th>Total change $</th></tr><tr><td>1</td><td>27 **}**</td><td>8 100</td><td>(2 000)</td><td>6 100</td></tr><tr><td>2</td><td>30 **}(1)**</td><td>9 000</td><td>(5 600)</td><td>3 400</td></tr><tr><td>3</td><td>39 ***}**</td><td>11 700</td><td>(12 600)</td><td>(900)</td></tr><tr><td>4</td><td>36 ***}(1)**</td><td>10 800</td><td>(19 900)</td><td>(9 100)</td></tr><tr><td></td><td></td><td>**(1)OF** column</td><td>**(1)** column</td><td>**(1)OF** column</td></tr></table>	**5**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(c)</td><td>
<table>
<tr><td></td><td>Total change
$</td><td>Discount factor</td><td>Discounted cash flow
$</td><td></td></tr>
<tr><td>1</td><td>6 100</td><td>0.909</td><td>5 545</td><td>}</td></tr>
<tr><td>2</td><td>3 400</td><td>0.826</td><td>2 808</td><td>} (1)OF</td></tr>
<tr><td>3</td><td>(900)</td><td>0.751</td><td>(676)</td><td>}*</td></tr>
<tr><td>4</td><td>(9 100)</td><td>0.683</td><td>(6 215)</td><td>}*(1)OF</td></tr>
<tr><td></td><td colspan="2">Increase in NPV</td><td>1 462</td><td>(1)OF</td></tr>
<tr><td></td><td colspan="2">Existing NPV</td><td>(180)</td><td>(1)</td></tr>
<tr><td></td><td colspan="2">Revised NPV</td><td>1 282</td><td>(1)OF</td></tr>
</table>
</td><td>5</td></tr>
<tr><td>5(d)</td><td>The NPV is now positive (1)OF
However, breakdowns become more likely involving disruption to production/increased repair costs (1) which might mean that some orders are not fulfilled on time (1) with loss of reputation amongst customers (1). If spare parts are not available delays in repairs will be inevitable (1).
Workers may need to be paid overtime premiums in order to catch up once the machine is fixed (1)
Decision (1)

Accept other valid answers
Max (4) for comments plus (1) for decision</td><td>5</td></tr>
<tr><td>5(e)</td><td>$\frac{1\,282}{0.683}$ (1)OF = 1 877(1)OF (1)

16 000 – 1 877 = $14 123 (1)OF</td><td>4</td></tr>
<tr><td>5(f)</td><td>IRR involves the use of two different discount rates (1) to calculate two separate NPV values (1), usually one positive and one negative (1). An intermediate point is then calculated where the NPV would be zero (1).</td><td>4</td></tr>
</table>

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Question	Answer	Marks
6(a)(i)	96 000 / (3 × 10 000) = $3.2 **(1)**	**1**
6(a)(ii)	$$\begin{array}{lll} & & \$ \\ \text{Direct materials} & (2 \times 8 \times 9\,000) & 144\,000 \quad \textbf{\}(1)} \\ \text{Direct labour} & (3 \times 10 \times 9\,000) & 270\,000 \quad \textbf{\}} \\ \text{Fixed overhead} & (3.2 \times 3 \times 9\,000) & 86\,400 \quad \textbf{(1OF)} \\ \text{Total standard cost} & & 500\,400 \quad \textbf{(1OF)} \end{array}$$	**3**
6(b)	$$\begin{array}{lllll} & \$ & \$ & \$ & \\ \text{Total standard cost} & & & 500\,400 & \\ \text{Variance} & \text{Favourable} & \text{Adverse} & & \\ \text{Materials price} & & & & \\ 19\,800 \times (8 - 7.5) & 9\,900 & & & \textbf{(2)} \\ \text{Materials usage} & & & & \\ 8 \times (18\,000 - 19\,800) & & 14\,400 & & \textbf{(2)} \\ \text{Labour rate} & & & & \\ 31\,500 \times (10 - 9) & 31\,500 & & & \textbf{(2)} \\ \text{Labour efficiency} & & & & \\ 10 \times (27\,000 - 31\,500) & & 45\,000 & & \textbf{(2)} \\ \text{Fixed overhead expenditure} & & & & \\ 96\,000 - 94\,000 & 2\,000 & & & \textbf{(2)} \\ \text{Fixed overhead volume} & & & & \\ (10\,000 - 9\,000) \times 3 \times 3.2 & & 9\,600 & & \textbf{(2)} \\ & 43\,400 & 69\,000 & 25\,600 & \\ \text{Actual cost} & & & 526\,000 & \textbf{(1)both*} \end{array}$$ * to be CF for actual and OF for standard Marks for variances – **(1)** for amount and **(1)** for direction	**13**

Question	Answer	Marks
6(c)	**For (Max 2)** Using the same standards would be simple / less time consuming than calculating separate ones **(1)**. Using the same standards would make it easier to compare results/variances between the two factories **(1)**. **Against (Max 2)** Labour rates/rent/rates are likely to be different in the different countries **(1)** The material cost is likely to be less in France as the cost of transportation to Indonesia will not be included **(1)**. Decision **(1)** **Accept other valid points**	**5**
6(d)(i)	A fixed budget is based on the budgeted output level **(1)** whereas a flexed budget is based on the actual output level **(1).**	**2**
6(d)(ii)	To be able to compare like with like/to make variances more meaningful **(1)**	**1**

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