Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

6400221291

ACCOUNTING **9706/31**

Paper 3 Financial Accounting **October/November 2023**

1 hour 30 minutes

You must answer on the question paper.

You will need: Insert (enclosed)

INSTRUCTIONS
- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any diagrams, graphs or rough working.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION
- The total mark for this paper is 75.
- The number of marks for each question or part question is shown in brackets [ ].
- The insert contains all of the sources referred to in the questions.

This document has **12** pages. Any blank pages are indicated.

DC (RW) 316845/3

1 Read Source A in the insert.

(a) Calculate the revised profit for the year after making the necessary amendments for matters 1 to 5.

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Additional information

When the draft financial statements were prepared, the market price of one share in CB plc was $3.90. The directors calculated the price/earnings ratio at this time using the draft profit figure.

Amendments were made to the draft financial statements as in part **(a)**.

When the final financial statements were published, the market price of one share was $3.10.

(b) Calculate, to **two** decimal places, the change between the price/earnings ratio which the directors calculated and the price/earnings ratio based on the published financial statements.

ratio calculated by directors	ratio based on published financial statements
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Change	

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(c) Advise the directors whether or not they should be concerned about the change in the price/earnings ratio. Justify your answer.

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Additional information

The directors believe that the gearing ratio of the company is too high.

(d) Explain **three** measures which the company could take which would cause the gearing ratio to decrease.

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Additional information

Businesses prepare a statement of profit or loss to show how their profits have been calculated.

(e) State **three** other reasons a limited company has for preparing a statement of profit or loss.

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[3]

[Total: 25]

2 Read Source B in the insert.

(a) Advise Suhail whether or not he should have had his accounts audited before HJ Limited inspected them. Justify your answer.

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Additional information

Once negotiations were complete HJ Limited took over Suhail's business on 1 May 2023 for a purchase consideration of $135 000. This was settled by $25 000 cash and 50 000 ordinary shares of $1 each.

Suhail's statement of financial position on 30 April 2023 was as follows:

	$	$
Non-current assets		76 000
Current assets		
Inventory	11 200	
Trade receivables	16 400	
Bank	3 100	30 700
Total assets		106 700
Capital		90 900
Current liabilities		
Trade payables		15 800
Total capital and liabilities		106 700

Fees relating to the sale of the business, paid by Suhail, amounted to $2000.

HJ Limited took over all the assets and liabilities of the business except for the bank account and one vehicle which Suhail took over at a carrying value of $10 000. Trade payables were taken over at their carrying value. Assets were taken over at the following valuations.

	$
Non-current assets	114 000
Inventory	9 700
Trade receivables	13 200

(b) Prepare the following accounts in Suhail's books.

(i) Realisation account

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(ii) Capital account

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(c) Prepare the journal entry in HJ Limited's books to record the purchase of Suhail's business. A narrative is **not** required.

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[Total: 25]

3 Read Source C in the insert.

(a) Prepare the statement of cash flows for the year ended 30 June 2023 in accordance with IAS 7.

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(b) Discuss how **shareholders** are likely to view the changes in the company's capital employed which would have taken place during the year. Calculations are **not** required.

Your answer should consider separately **each** element of capital employed.

.... [8]

[Total: 25]

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