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CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **February/March 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.

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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
A	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)(i)	**State how a business creates a general reserve.** General reserve is created by transferring profit from profit for the year/retained earnings. **(1)**	**1**
1(a)(ii)	**Explain why a business would create a general reserve.** To retain profits within the business **(1)** as an alternative to paying dividends to the shareholders **(1)** It may be used to purchase non-current assets / for expansion **(1)** without borrowing. **(1)** The sum is kept to meet future operating loss **(1)** as a provision for emergencies **(1)** Max 2 **Accept other valid responses.**	**2**
1 b(i)	**Prepare for the year ended 31 December 2024:** **a statement to show the profit from operations** $ Balance at 1 January 2024 245 800 Transfer to general reserve (30 000) **(1)** Issue of bonus shares ($100 000 – $80 000) (20 000) **(1)** Payment of final dividend ($300 000 × $0.11) (33 000) **}** Payment of interim dividend ($400 000 × $0.06) (24 000) **}(1)** Profit for the year (balancing) 68 200 Balance at 31 December 2024 207 000 Profit for the year 68 200 Finance costs ($3 600 + $3 200) 6 800 **(1)** Profit from operations 75 000 **(1)OF**	**5**

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Question	Answer	Marks
1(b)(ii)	**Prepare for the year ended 31 December 2024:** **the statement of cash flows in accordance with IAS7.**	**12**

Statement of cash flows for year ended 31 December 2024

	$	$	
Cash flows from operating activities			
Profit from operations		75 000	
Depreciation:			
Office premises ($320 000 + $120 000 – $418 000)	22 000 **(1)**		
Office equipment ($235 000 + $25 000 – $8 400 – $214 000)	37 600 **(1)**		
Motor vehicles ($116 000/80%) × 20%	29 000 **(1)**	88 600	
Loss on disposal		3 500	**}**
Increase in inventories		(34 000)	**}**
Decrease in trade receivables		10 000	**}**
Increase in trade payables		23 000	**}(1)**
Cash from operations		166 100	
Interest paid ($60 000 × 12% + $80 000 × 8%) × 6/12		(6 800)	**(1)**
Net cash from operating activities		159 300	
Cash flows from investing activities			
Purchase of office equipment ($25 000 – ($8 400 – $3 500))	(20 100) **(1)**		
Purchase of motor vehicles ($116 000/80%)	(145 000) **(1)**		
Net cash used in investing activities		(165 100)	**(1)OF**
Cash flows from financing activities			
Issue of 8% debenture	80 000 **}**		
Repayment of 12% debenture	(60 000) **}(1)**		
Dividend paid – final dividend	(33 000) **}**		
– interim dividend	(24 000) **}(1)OF**		
Net cash used in financing activities		(37 000)	**(1)OF**
Net decrease in cash and cash equivalents		(42 800)	**(1)**
Cash and cash equivalents at 1 January 2024		4 800	
Cash and cash equivalents at 31 December 2024		(38 000)	

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Question	Answer	Marks
1(c)	**Advise whether or not CF Limited has made a good decision to take over the delivery services. Justify your answer.** Good decision **(max 2)** In-house costs should be lower as no profit for contractors **(1)** Provide better service (on time / speedy) to the customers **(1)** No need to renew service contract with the transportation company **(1)** Bad decision **(max 2)** Negative impact on the cash flows **(1)** Need additional finance / interest may have to be paid **(1)** Incur additional expenses such as salaries for drivers and depreciation **(1)** Decision supported with a comment **(1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)	**State <u>three</u> differences between goodwill and a tangible asset.** Goodwill / Tangible asset No physical existence / Has physical existence **(1)** Cannot be sold separately / Can be sold separately **(1)** The value tends to be subjective / The value tends to be objective **(1)** **Max 3** **Accept other valid responses.**	**3**

Question	Answer	Marks
2(b)	**Calculate the purchase consideration payable by W Limited.** $ Total value of assets taken over 402 000 **(1)** Goodwill **W1** 123 000 **(1)** Purchase consideration 525 000 **(1)OF** **W1** ($37 100 + $41 300 + $44 600)/3 = $41 000 $41 000 × 3 = $123 000	**3**
2(c)	**Complete the capital accounts of Ada and Brian, showing the final settlement with the partnership's cash at bank account.** Ada $ / Brian $ Current account 10 000 **}** W Limited 315 000 **}}** 210 000 **}}(1)OF** 325 000 / 210 000 Ada $ / Brian $ Balance b/d 200 000 / 150 000 Current account 5 000 **}(1)** Profit on realisation **W1** 70 800 **(1)OF** / 47 200 **(1)OF** Bank 54 200 **(1)OF** / 7 800 **(1)OF** 325 000 / 210 000 **W1** $ Consideration 525 000 **OF** Carrying value of assets taken over 408 000 **(1)** 117 000 Discount on trade payables 1 000 **(1)** Profit on realisation 118 000	**8**

Question	Answer	Marks
2(d)	**Prepare the journal entry of W Limited to record the acquisition of the partnership business.** Dr $ / Cr $ Equipment 174 000 **}** Motor vehicles 48 000 **}** Inventory 89 000 **}** Trade receivables 91 000 **}** Goodwill 123 000 **}(1)** Ordinary shares 300 000 **}** Share premium 225 000 **}(1)OF**	**2**
2(e)	**Explain why W Limited did not accept the initial request for five times the average profit. Support your answer with relevant calculations.** W Limited can pay less purchase consideration / issue fewer shares to acquire the partnership business. **(1)** The future profit is only estimated on the basis of the profits of past years. **(1)** The partnership's financial statements have not been audited. **(1)** It is difficult to estimate whether the partnership's profit can sustain at its current level for the coming 5 years as proposed by Ada and Brian **(1)** There are uncertainties in the future, such as economic outlook, trend, demand, technology and political issues. **(1)** The profit of the partnership is in the declining trend in the last 3 years. **(1)** Goodwill = 2 × $41 000 = $82 000 **(1)** Goodwill = 5 × $41 000 = $205 000 **(1)** **Max 2 marks for calculations.** **Max 2 marks for comments** **Accept other valid responses.**	**4**

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Question	Answer	Marks
2(f)	**Evaluate whether or not Ada and Brian made the right decision to choose option 1. Justify your answer.** They are only minor shareholders and cannot make any decision **(1)** Given that the value of each share has a premium of $0.75, this implies that the prospect of W Limited is promising **(1)** They can enjoy dividend / increase in share value **(1)** They may not receive dividend / share value may fall **(1)** They can use the cash for any other purposes **(1)** After running the partnership business for thirty years, it is better for them to keep cash for their retiring life. **(1)** It may be difficult for Ada and Brian to realise their shareholdings. **(1)** **Max 4** Decision supported with a comment **(1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
3(a)	**State <u>three</u> limitations of using ratios to evaluate the performance of a business.** The value of many non-current assets is based on historical cost instead of current value. **(1)** Ratios are based on past events. **(1)** Financial statements only show the monetary value. **(1)** Information may not be accurate. **(1)** Ratios only show the results without referring to the causes of the results. **(1)** The financial statements are only prepared on a particular date. **(1)** Different businesses have different accounting policies. **(1)** **Max 3** **Accept other valid responses.**	**3**

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Question	Answer	Marks
3(b)(i)	**Calculate, to <u>two</u> decimal places, the following ratios for the year ended 31 December 2024:** **dividend yield** Dividend per share ($60 000 × 110% **(1)** +$35 000)/500 000 $0.202 **(1)OF** ($0.202 / $2.85) × 100 **(1)OF for correct formula** 7.09% **(1)OF**	**4**
3(b)(ii)	**price/earnings (PE)** Earnings per share $190 000/500 000 $0.38 **(1)** $2.85/$0.38 **(1)OF for correct formula** 7.50 **(1)OF**	**3**
3(b)(iii)	**gearing ratio** [$200 000/($672 000+$200 000)] x 100 **(1) for correct formula** 22.94% **(1)**	**2**
3(c)	**Calculate the working capital cycle (round up each component to the <u>next</u> whole day).** Days Inventory turnover ($56 000 + $78 000)/2 = $67 000 ($67 000/$548 000) × 365 45 **(1)** Trade receivables turnover ($110 000/$988 000) × 365 41 **(1)** 86 Trade payables turnover ($54 500/$570 000) × 365 35 **(1)** 51 **(1)OF**	**4**

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Question	Answer	Marks
3(d)	**Discuss the performance of B plc in managing its working capital cycle as compared with X plc.** As B plc has a longer working capital cycle so it appears that B plc performs less well than X plc **(1)** because the business needs more funds to finance the working capital. **(1)** B plc holds inventory for a longer period **(1)** / allows longer credit period to its customers **(1)** / repays suppliers faster **(1)** **Max 5** **Accept other valid responses.**	**5**
3(e)	**Discuss the performance of B plc as measured by its PE ratio as compared with X plc.** B plc's share price in relation to X plc may be lower **(1)** and the earnings per share may be higher **(1)** B plc has a lower PE ratio than X plc which is not good for the business **(1)** and it appears that the investors have less confidence in B plc than in X plc. **(1)** **Max 4** **Accept other valid responses.**	**4**

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