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CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Financial Accounting **May/June 2026**

MARK SCHEME

Maximum Mark: 75

Published

This mark scheme contains the instructions and marking guidance that our examiners used to mark candidate responses for this component.

Before they start marking, examiners complete a standardisation process. They review a range of candidate responses and discuss the mark scheme in detail to agree which answers can and cannot be accepted. Examiners award marks where it is clear that candidate responses have met the requirements of the mark scheme. These requirements may vary between different components or different versions of the same component, depending on the exact requirements of the question and the candidate responses seen during the standardisation process.

Sometimes, our mark schemes may allow marks to be awarded to responses which contain elements that are factually incorrect or for content not covered by the syllabus. We do this in response to the demands of a specific question to support candidates and make sure that our assessments are fair. However, these allowances should not be used as a guide for teaching and learning.

We cannot discuss the mark scheme with schools, and we recommend that schools read the mark scheme together with the assessment material and the Principal Examiner Report for Teachers.

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General marking principles

All examiners must apply these marking principles when marking candidate responses.

1	Examiners must award marks for each response in line with: • the specific **content** defined in the mark scheme • the specific **skills** defined in the mark scheme or in the level descriptions • the **standard of response** required as exemplified by the standardisation scripts.
2	Examiners must award **whole marks** (not half marks, or other fractions).
3	Examiners must award marks **positively**. This means that: • marks are not deducted for errors or omissions • marks are awarded for correct/valid answers as defined in the mark scheme and also for **other valid answers** which go beyond the scope of the syllabus and mark scheme referring to your team leader as appropriate • the quality of spelling, punctuation and grammar are judged **only** when the mark scheme indicates that these features are **specifically assessed** in the question. However, the meaning of all responses must be unambiguous.
4	Examiners must **consistently** apply the requirements of the mark scheme and any rules for what to do when candidates have not followed instructions correctly.
5	Examiners must use the **full range of marks** defined in the mark scheme, unless limited by the quality of the candidate responses seen.
6	Examiners must award marks according to the mark scheme and **must not** award marks with grade thresholds or grade descriptions in mind.

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Social Sciences-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
A0	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)	**Prepare the manufacturing account for the year ended 31 March 2026.**	**11**

Manufacturing account for year ended 31 March 2026

	$	$	
Inventory of raw materials 1 April 2025	20 500		
Purchases	138 000		
Carriage inwards	4 200		**(1)**
Inventory of raw materials 31 March 2026	(16 300)		
Cost of raw materials consumed		146 400	**(1)**
Direct wages		188 000	
Royalty expenses		8 300	**(1)**
Prime cost		342 700	**(1)OF**
Indirect wages		43 000	
Rent and rates **W1**		87 000	**(1)**
Insurance **W2**		12 300	**(1)**
Depreciation – Plant and machinery **W3**		19 800	**(1)**
		504 800	
Work in progress 1 April 2025		34 000	**}**
Work in progress 31 March 2026		(28 000)	**}(1)**
Factory cost of completed goods		510 800	**(1)OF**
Factory profit **W4**		153 240	**(1)OF**
Transfer price of completed goods		664 040	**(1)OF**

W1: $132 000 + $13 000) × 60% = $87 000
W2: $20 400 – $4000) × 75% = $12 300
W3: ($286 000 – $154 000) × 15%= $19 800
W4: $9000/($45 000 – $9000)=25% 25% + 5%=30% $510 800 × 30% = $153 240

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Question	Answer	Marks
1(b)	**Prepare the statement of profit or loss for the year ended 31 March 2026.** Statement of profit or loss for year ended 31 March 2026 $ $ Revenue 988 000 Finished goods inventory 1 April 2025 45 000 Transfer price of completed goods 664 040 Finished goods inventory 31 March 2026 (65 000) Cost of sales 644 040 **(1)OF** Gross profit 343 960 **(1)OF** Factory profit 153 240 **(1)OF** Rent and rates ($132 000 + $13 000) × 40% 58 000 **}** Insurance ($20 400 – $4000) × 25% 4100 **}(1)** Carriage outwards 12 200 Administrative expenses 233 000 Depreciation – Office equipment 37 000 Increase in provision for unrealised profit 6000 **(1)OF** 350 300 Profit for the year 146 900 **(1)OF** **Accept other presentations.**	**6**
1(c)	**Explain, with reference to an accounting concept, the treatment of unrealised profit included in the statement of financial position at 31 March 2026.** Prudence concept **(1)** is applied so that profit / assets are not overstated. **(1)** The unrealised profit of $15 000 included in the finished goods inventory is deducted from the transfer value of $65 000 so that the cost of $50 000 is shown in the statement of financial position. **(1)** **Accept other valid responses.**	**3**

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Question	Answer	Marks
1(d)	**Advise the directors whether or not they should agree to this suggestion. Justify your answer.** A fixed factory profit rate will not reflect changes in market conditions. **(1)** The overall profit is still the same whichever factory rate of profit is applied. **(1)** It is difficult to set the appropriate profit rate. **(1)** A varying factory profit helps to set the selling price. **(1)** A fixed rate of factory profit is stable and may motivate employees. **(1)** This encourages responsibility accounting of the production department. **(1)** **Max 4 for comments** **1 mark** for decision supported by a comment **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)(i)	**State the formula of the non-current asset turnover ratio.** Net revenue divided by total carrying value (net book value) of non-current assets **(1)**	**1**
2(a)(ii)	**Explain the usefulness of the non-current asset turnover ratio.** The ratio indicates how efficient a business is in generating revenue from its non-current assets. **(1)** A higher ratio implies that the business is using its non-current assets efficiently to generate more revenue. **(1)**	**2**
2(b)	**Calculate the total net assets at 31 March 2026.** $$\begin{array}{lrl} & \$ & \\ \text{Non-current assets (\$4 500 000/6.25)} & 720\,000 & \textbf{(1)} \\ \text{Net working assets (\$4 500 000} \times \text{4.45\%)} & 200\,250 & \textbf{(1)} \\ \text{Cash at bank} & 10\,000 & \\ \text{Non-current liabilities} & & \\ \text{8\% bank loan (\$280 000 + \$175 000)} & (455\,000) & \textbf{(1)} \\ \text{Net assets} & 475\,250 & \textbf{(1)OF} \end{array}$$	**4**

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Question	Answer	Marks
2(c)	**Calculate the retained earnings at 31 March 2026.** $ Ordinary shares of $1 each ($320 000 + $80 000) 400 000 **(1)** Retained earnings (balance) 75 250 **(1)OF** Total equity at 31 March 2026 475 250	**2**
2(d)(i)	**Calculate, to <u>two</u> decimal places, the following ratios:** **earnings per share at 31 March 2026** Earnings per share $63 250 **W1 (2)OF** / 400 000 = $0.16 **(1)OF** **W1** $ Balance 1 April 2025 62 000 **}** Bonus issue ($80 000-$30 000) (50 000) **}(1)** Profit for the year (balance) 63 250 **(1)OF** Balance 31 March 2026 75 250 **Candidates must use the formula in the syllabus. These are the only formulae accepted in candidate responses.**	**3**
2(d)(ii)	**price/earnings at 31 March 2026** Price/earnings $1.25/$0.16 = 7.81 **(1)OF** **Candidates must use the formula in the syllabus. These are the only formulae accepted in candidate responses.**	**1**
2(d)(iii)	**return on capital employed for the year ended 31 March 2026** return on capital employed $\frac{(\$29\,400\mathbf{W(1)} + \$63\,250)}{(\$475\,250 + \$280\,000 + \$175\,000)\mathbf{(1)OF}} \times 100$ = 9.96% **(1)OF** **W** Interest $280 000 × 8% + $175 000 × 8% × 6/12 = $29 400 **Candidates must use the formula in the syllabus. These are the only formulae accepted in candidate responses.**	**3**

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Question	Answer	Marks
2(e)	**Calculate, to <u>two</u> decimal places, the gearing ratio at 31 March 2025 and 31 March 2026.** 31 March 2025 $\frac{\$280\,000}{(\$412\,000 + \$280\,000)}\times 100$ = 40.46% **(1)OF** **(1)** 31 March 2026 $\frac{\$455\,000}{(\$455\,000 + \$475\,250)}\times 100$ = 48.91% **(1)OF** **(1)** **Candidates must use the formula in the syllabus. These are the only formulae accepted in candidate responses.**	**4**
2(f)	**Advise the directors whether or not they should finance the project by another bank loan. Justify your answer.** The expected return of 15% is higher than the existing interest rate of 8%. **(1)** This will improve the profitability. **(1)** The return of 15% is only estimated. **(1)** Additional bank loan will increase the gearing ratio, probably more than 50%. **(1)** A highly geared business is perceived as risky / bank may increase the interest rate. **(1)** Security may be required. **(1)** The loan will have to be repaid. **(1)** **Max 4 for comments** **1 mark** for decision supported by a comment **Accept other valid responses.**	**5**

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Question	Answer	Marks
3(a)	**State <u>three</u> fundamental principles of ethics for accountants.** Integrity **(1)** Objectivity **(1)** Professional competence and due care **(1)** Confidentiality **(1)** Professional behaviour **(1)** **Max 3**	**3**
3(b)(i)	**Explain how issue 2 and issue 3 should be accounted for. Support your answer with reference to the relevant International Accounting Standards (IAS) and provide calculations, where appropriate.** **issue 2** IAS 36 (Impairment of assets) **(1)** Non-current assets are carried at no more than the recoverable amount. **(1)** The recoverable amount is $35 000 in this case, the higher of the asset's disposable value ($35 000) and the value in use ($33 000). **(1)** The impairment loss is $8 000 ($43 000 – $35 000). **(1)** **Accept other valid responses.**	**4**
3(b)(ii)	**Issue 3** IAS 38 (Intangible assets) **(1)** Z Limited retains no control because the trained staff can leave the company any time **(1)**. Training cost should not be recognised as an intangible asset **(1)** and should be charged to expenses when incurred / retained earnings will be reduced by $60 000. **(1)** **Accept other valid responses.**	**4**

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Question	Answer			Marks
3(c)	**Prepare the revised statement of financial position at 31 December 2025 after considering issues 1 to 4.**			**14**
	Revised statement of financial position at 31 December 2025			
		$		
	Non-current assets			
	Buildings – at valuation	510 000	**(1)**	
	– accumulated depreciation **W1**	17 000	**(1)**	
		493 000		
	Plant and machinery ($156 000-$8000)	148 000	**(1)**	
		641 000		
	Current assets			
	Inventory **W2**	118 000	**(4)**	
	Trade receivables	175 000		
	Cash at bank	74 000		
		367 000		
	Total assets	1 008 000		
	Equity and liabilities			
	Share capital ($1 ordinary shares)	600 000		
	Retained earnings **W3**	44 000	**(4)OF**	
	Revaluation reserve **W4**	222 000	**(2)**	
	Total equity	866 000		
	Current liabilities			
	Trade payables	142 000		
	Total equity and liabilities	1 008 000	**(1)OF**	
	W1			
	Original annual depreciation $480 000/50 = $9 600			
	Accumulated depreciation at 31 December 2025 $201 600/$9 600 = 21 years			
	Revaluation taken place on 1 January 2025, remaining years 30 years			
	Annual depreciation $510 000/30 = $17 000			

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Question	Answer	Marks

3(c)

W2

Type	Total cost		Net realisable value	
	$		$	
A	92 060	(84 600 + 4800 + 2 660)	140 600	(144 000–3 400)
B	23 400		19 750	(22 500–2 750)
C	13 570	(12 000 + 850 + 720)	6 190	(10 000–2 800–1 010)

Value of inventory at 31 December 2025 $92 060 **(1)** +$19 750 **(1)** + $6190 **(1)** = $118 000 **(1)OF**

W3

	$	
Retained earnings original balance	121 400	
Depreciation undercharged (17000 – 9600)	(7400)	**(1)**
Impairment loss	(8000)	**(1)**
Training cost written off	(60 000)	**(1)**
Inventory overstated (120 000 – $118 000)	(2000)	**(1)OF**
Revised retained earnings	44 000	

W4

	$	
Carrying value at 1 January 2025 ($480 000 – $9600 × 20)	288 000	**(1)**
Revaluation	510 000	
Revaluation reserve	222 000	**(1)OF**

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