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CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

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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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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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>State <u>two</u> differences between the financial statements of a club and a trading business.

<table>
<tr><th>Club</th><th>Trading business</th></tr>
<tr><td>Income and expenditure account</td><td>Statement of profit or loss</td></tr>
<tr><td>Main source of revenue – members’ subscription</td><td>Main source of revenue – sales revenue</td></tr>
<tr><td>Surplus (deficit) / excess of income over expenditure (excess of expenditure over income)</td><td>Profit / loss for the year</td></tr>
<tr><td>Accumulated fund</td><td>Capital</td></tr>
</table>

Max 2 pairs (1 mark each pair)</td><td>2</td></tr>
<tr><td>1(b)</td><td>Explain, with reference to an accounting concept, the treatment of life membership fees in the financial statements of the Club, as advised by the accountant.

According to the accrual / matching concept (1), life membership fee should not be recognised in full in the year of receipt (1).

It should be credited to a life membership fund account in the year of receipt (1) and released to the income and expenditure account over 10 years as determined by the club’s accounting policy. (1).

Life membership fund account is a non-current liability in the statement of financial position. (1)

Accept other valid responses.</td><td>5</td></tr>
</table>

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Question	Answer	Marks
1(c)	**Prepare the café statement of profit or loss for the year ended 31 December 2025.** Café takings: $57 600 Cost of sales: Opening inventory: 5800 **(1)OF** Purchases **W1**: 37 200 **(1)** Closing inventory: (7 000) 36 000 **(1)** Gross profit $57 600x60/160: 21 600 **(1)** Wages: 13 000 Profit for the year: 8600 **(1)OF** **W1** $36 500 + $8 400 – $7 700 = $37 200	**5**
1(d)	**Prepare the income and expenditure account of the Club for the year ended 31 December 2025.** Income and expenditure account for the year ended 31 December 2025 Subscriptions **W1**: 292 000 **(1)** Life membership: 5 000 **(1)** Profit from sale of Club equipment **W2**: 800 **(1)** Profit from café: 8 600 **(1)OF** 306 400 Activities expenses: 54 300 Administrative expenses **W3**: 224 400 **(1)** Depreciation – building: 6 000 **(1)** Depreciation – Club equipment **W4**: 17 715 **(1)** 302 415 Surplus: 3 985 **(1)OF** **W1** $288 000 + [($8 800 – $11 200) + ($9 600 – $3 200)] = $292 000 **W2** $6 700 – $5 900 = $800 **W3** $212 200 + $7 500 + $4 700 = $224 400 **W4** ($92 000 + $32 000 – $5 900) × 15% = $17 715	**8**

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Question	Answer	Marks
1(e)	**Prepare an extract of the statement of financial position of the Club at 31 December 2025, showing the accumulated fund and liabilities.**	**5**

	$		$	
Accumulated fund 1 January 2025 **W1**	346 000	**(1)OF**		
Surplus for the year	3 985		349 985	**(1)OF**
Non-current liabilities				
Life membership			45 000	**(1)**
Current liabilities				
Subscriptions in advance	3 200	**}**		
Café payables	8 400	**}**		
Accrued expenses	4 700	**}(1)**	16 300	
Total accumulated fund and liabilities **W2**			411 285	**(1)OF**

W1 ($36 000 + $11 200 + $210 000 + $92 000 + $5 800 **OF** + $7 500) – ($8 800 + $7 700) = $346 000

W2 ($90 300 + $9 600 + $204 000 **OF** + $100 385 **OF** + $7 000) = $411 285

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Question	Answer	Marks
2(a)	**State <u>two</u> uses of a statement of cash flows.** The statement highlights cash inflows and outflows. **(1)** It explains why profits and losses are different from changes in cash and cash equivalents. **(1)** It shows sources from internal and external financing. **(1)** It shows how cash has been used for operations, investments and repayment of loans. **(1)** The statement enables assessment of the liquidity of the company. **(1)** To support funding applications**. (1)** **Max 2** **Accept other valid responses.**	**2**

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Question	Answer				Marks
2(b)	**Prepare the statement of cash flows of W plc for the year ended 31 March 2026 in accordance with IAS 7.**				**18**
	W plc Statement of cash flows for the year ended 31 March 2026				
		$		$	
	Cash flows from operating activities				
	Profit from operations **W1**			134 000	**(2)**
	Adjustment for				
	Depreciation – office building **W2**	24 500	**(2)**		
	– motor vehicles **W3**	28 200	**(3)**	52 700	
	Loss on disposal of motor vehicle **W4**			3400	**(1)**
	Decrease in inventory			17 000	**}**
	Increase in trade receivables			(21 000)	**}**
	Increase in trade payables			18 000	**}(1)**
	Cash from operations			204 100	
	Interest paid **W5**			(6000)	**(1)**
	Tax paid **W6**			(24 500)	**(1)**
	Net cash from operating activities			173 600	
	Cash flows from investing activities				
	Sale proceeds of motor vehicle	11 000			
	Purchase of motor vehicle	(56 000)			
	Net cash used in investing activities			(45 000)	**(1)**
	Cash flows from financing activities				
	Proceeds from issue of shares **W7**	117 000	**(2)**		
	Dividend paid **W8**	(70 400)	**(2)**		
	Cash flows from financing activities			46 600	**(1)OF**
	Net increase in cash and cash equivalents			175 200	**(1)**
	Cash and cash equivalents at 1 April 2025			88 100	
	Cash and cash equivalents at 31 March 2026			263 300	

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Question	Answer	Marks
2(b)		

W1	$	
Profit for the year	103 000	
Taxation	27 000	
Finance cost $50 000 × 8%	4 000	**(1)**
Profit from operations	134 000	**(1)OF**

W2	$	
Balance 1 April 2025	228 000	
Revaluation reserve	66 000	**(1)**
Balance at 31 March 2026	(269 500)	
Depreciation of office buildings	24 500	**(1)OF**

W3	$	
Balance 1 April 2025	74 400	
Additions	56 000	**(1)**
Disposal ($36 000–$21 600)	(14 400)	**(1)**
Balance at 31 March 2026	(87 800)	
Depreciation of motor vehicles	28 200	**(1)OF**

W4	$
Net book value ($36 000–$21 600)	14 400
Sale proceeds	11 000
Loss on disposal	3 400

W5	$
Balance b/d	2 000
Finance cost charged	4 000
Interest paid	(6 000)

W6	$
Balance b/d	24 500
Taxation for the year	27 000
Balance c/d	(27 000)
Tax paid	(24 500)

W7	$	
Closing share capital balance	420 000	}
Opening share capital balance	(320 000)	}**(1)**
Closing share premium balance	79 000	}
Opening share premium balance	(62 000)	}**(1)**
Proceeds from new issue of shares	117 000	

W8	$	
Final dividend ($320 000/$5)×$0.75	(48 000)	**(1)**
Interim dividend ($320000/$5)×$0.35	(22 400)	**(1)**
	(70 400)	

Question	Answer	Marks
2(c)	**Advise the directors which option they should choose. Justify your answer.** Option 1 (**Max 2)** The revaluation gain of $66 000 on existing office building can be realised. **(1)** Increasing the business scale can bring additional profit **(1)** There may be a shortfall of cash / insufficient funds from the sale of the building **(1)** It is uncertain whether the increase in business scale justifies to buy a double-sized office building **(1)** Option 2 **(Max 2)** The company has an additional income stream **(1)** Rental income is stable / regular / easily obtainable **(1)** The company needs to raise finance to acquire the building **(1)** The company might want the space itself for expansion but might be unable to use it **(1)** Other financial considerations include irrecoverable debts / high interest rate **(1)** **Decision** supported by a comment **(1).** **Accept other valid responses.**	**5**

Question	Answer	Marks
3(a)	**Calculate the purchase consideration payable by G Limited.** $ Value of assets taken over **W1** 444 000 **(1)** Goodwill **W2** 240 000 **(2)** Purchase consideration 684 000 **(1)OF** **W1** $511 700 – $30 000 – $37 700 = $444 000 **W2** Average profit ($154 000 + $110 000 + $96 000)/3 = $120 000 **(1)** $120 000 × 2 = $240 000 **(1)OF**	**4**

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Question	Answer	Marks
3(b)(i)	**Calculate the capital of Andy and Ben immediately before the takeover by G Limited.** Total net assets ($530 700 – $78 000) = $452 700 **(1)** Capital account ($452 700 – $12 500 + $9 800) = $450 000 **(1) OF** Andy $450 000 × 2/3=$300 000 Ben $450 000 × 1/3 = $150 000 **(1) OF for both**	**3**
3(b)(ii)	**Calculate the realisation profit or loss share of <u>each</u> individual partner.** $ Purchase consideration 684 000 **} OF** Value of Motor vehicle A 30 000 **} (1)** Discount received ($50 000 × 5%) 2500 **(1)** 716 500 Value of net assets ($530 700 – $37 700) (493 000) **(1)** Profit on realisation 223 500 Andy's share $223 500 × 2/3 149 000 **}** Ben's share $223 500 × 1/3 74 500 **}(1)OF**	**4**

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Question	Answer	Marks

3(b)(iii)

Realisation account

	$			$	
Value of net assets	493 000	**(1)**	Purchase consideration	684 000	
Profit on realisation			Value of motor vehicle A	30 000	**(1)OF**
Andy	149 000		Discount received	2 500	**(1)**
Ben	74 500	**(1)OF**			
	716 500			716 500	

Prepare the capital account of Andy and Ben, showing the final settlement through the partnership's bank account.

Capital account

	Andy $		Ben $			Andy $	Ben $	
Current account	9 800	*			Balance b/d	300 000	150 000	
Motor vehicle A	30 000	**(1)**			Current account		12 500	***(1)**
G Limited	342 000	**}**	342 000	**}(1)OF**	Realisation account	149 000	74 500	
Bank	67 200	**(1)OF**			Bank		105 000	**(1)OF**
	449 000		342 000			449 000	342 000	

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Question	Answer	Marks
3(c)	**Prepare the journal entry of G Limited upon the acquisition of the partnership business on 31 December 2025.** Dr $ / Cr $ Machinery 103 000 **}** Equipment 50 000 **}** Motor vehicle 46 000 **}** Inventory 137 000 **}** Trade receivables 108 000 **}(1)** Goodwill 240 000 **(1)OF** Share capital 480 000 **(1)** Share premium 204 000 **(1)OF**	**4**
3(d)	**Advise the directors whether or not they should accept Calvin's request. Justify your answer.** For **(Max 2)** Vertical integration may increase the profitability / the supply of leather may be cheaper **(1)** Greater skill coverage by Calvin's trading knowledge **(1)** The supply of leather is ensured **(1)** Against **(Max 2)** Culture clash **(1)** Dilution of control by appointing one more director / conflict between directors / delayed decision making **(1)** Loss of ownership by issuing 80 000 shares / earnings per share and /or dividend per share reduced **(1)** **Decision** supported by a comment **(1)** **Accept other valid responses.**	**5**

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