

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.

This document consists of **15** printed pages.

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.

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

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

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)	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)	Club	Trading business	Income and expenditure account	Statement of profit or loss	Main source of revenue – members’ subscription	Main source of revenue – sales revenue	Surplus (deficit) / excess of income over expenditure (excess of expenditure over income)	Profit / loss for the year	Accumulated fund	Capital	2
Club	Trading business											
Income and expenditure account	Statement of profit or loss											
Main source of revenue – members’ subscription	Main source of revenue – sales revenue											
Surplus (deficit) / excess of income over expenditure (excess of expenditure over income)	Profit / loss for the year											
Accumulated fund	Capital											
1(b)	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.	5										

Question	Answer	Marks																																																																		
1(c)	Prepare the café statement of profit or loss for the year ended 31 December 2025. <table><tr><td></td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Café takings</td><td></td><td></td><td>57 600</td><td></td></tr><tr><td>Cost of sales:</td><td></td><td></td><td></td><td></td></tr><tr><td>Opening inventory</td><td>5800</td><td>(1)OF</td><td></td><td></td></tr><tr><td>Purchases W1</td><td>37 200</td><td>(1)</td><td></td><td></td></tr><tr><td>Closing inventory</td><td><u>(7 000)</u></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>36 000</td><td>(1)</td></tr><tr><td>Gross profit \$57 600x60/160</td><td></td><td></td><td>21 600</td><td>(1)</td></tr><tr><td>Wages</td><td></td><td></td><td><u>13 000</u></td><td></td></tr><tr><td>Profit for the year</td><td></td><td></td><td><u>8600</u></td><td>(1)OF</td></tr></table> W1 \$36 500 + \$8 400 – \$7 700 = \$37 200				\$		Café takings			57 600		Cost of sales:					Opening inventory	5800	(1)OF			Purchases W1	37 200	(1)			Closing inventory	<u>(7 000)</u>							36 000	(1)	Gross profit \$57 600x60/160			21 600	(1)	Wages			<u>13 000</u>		Profit for the year			<u>8600</u>	(1)OF	5																
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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 <table><tr><td></td><td></td><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Subscriptions W1</td><td></td><td></td><td>292 000</td><td>(1)</td><td></td></tr><tr><td>Life membership</td><td></td><td></td><td>5 000</td><td>(1)</td><td></td></tr><tr><td>Profit from sale of Club equipment W2</td><td></td><td></td><td>800</td><td>(1)</td><td></td></tr><tr><td>Profit from café</td><td></td><td></td><td><u>8 600</u></td><td>(1)OF</td><td></td></tr><tr><td></td><td></td><td></td><td>306 400</td><td></td><td></td></tr><tr><td>Activities expenses</td><td>54 300</td><td></td><td></td><td></td><td></td></tr><tr><td>Administrative expenses W3</td><td>224 400</td><td>(1)</td><td></td><td></td><td></td></tr><tr><td>Depreciation – building</td><td>6 000</td><td>(1)</td><td></td><td></td><td></td></tr><tr><td>Depreciation – Club equipment W4</td><td><u>17 715</u></td><td>(1)</td><td>302 415</td><td></td><td></td></tr><tr><td>Surplus</td><td></td><td></td><td><u>3 985</u></td><td>(1)OF</td><td></td></tr></table> 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				\$	\$		Subscriptions W1			292 000	(1)		Life membership			5 000	(1)		Profit from sale of Club equipment W2			800	(1)		Profit from café			<u>8 600</u>	(1)OF					306 400			Activities expenses	54 300					Administrative expenses W3	224 400	(1)				Depreciation – building	6 000	(1)				Depreciation – Club equipment W4	<u>17 715</u>	(1)	302 415			Surplus			<u>3 985</u>	(1)OF		8
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1(e)	Prepare an extract of the statement of financial position of the Club at 31 December 2025, showing the accumulated fund and liabilities. <table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Accumulated fund 1 January 2025 W1</td><td>346 000</td><td>(1)OF</td><td></td></tr><tr><td>Surplus for the year</td><td><u>3 985</u></td><td></td><td>349 985 (1)OF</td></tr><tr><td>Non-current liabilities</td><td></td><td></td><td></td></tr><tr><td>Life membership</td><td></td><td></td><td>45 000 (1)</td></tr><tr><td>Current liabilities</td><td></td><td></td><td></td></tr><tr><td>Subscriptions in advance</td><td>3 200</td><td>}</td><td></td></tr><tr><td>Café payables</td><td>8 400</td><td>}</td><td></td></tr><tr><td>Accrued expenses</td><td><u>4 700</u></td><td>}(1)</td><td><u>16 300</u></td></tr><tr><td>Total accumulated fund and liabilities W2</td><td></td><td></td><td><u><u>411 285</u></u> (1)OF</td></tr></table> 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		\$		\$	Accumulated fund 1 January 2025 W1	346 000	(1)OF		Surplus for the year	<u>3 985</u>		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	<u>4 700</u>	}(1)	<u>16 300</u>	Total accumulated fund and liabilities W2			<u><u>411 285</u></u> (1)OF	5
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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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2(b)	Prepare the statement of cash flows of W plc for the year ended 31 March 2026 in accordance with IAS 7. W plc Statement of cash flows for the year ended 31 March 2026 <table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Cash flows from operating activities</td><td></td><td></td><td></td></tr><tr><td>Profit from operations W1</td><td></td><td>134 000</td><td>(2)</td></tr><tr><td>Adjustment for</td><td></td><td></td><td></td></tr><tr><td>Depreciation – office buildingW2</td><td>24 500</td><td>(2)</td><td></td></tr><tr><td>– motor vehicles W3</td><td><u>28 200</u></td><td>(3)</td><td>52 700</td></tr><tr><td>Loss on disposal of motor vehicle W4</td><td></td><td></td><td>3400 (1)</td></tr><tr><td>Decrease in inventory</td><td></td><td></td><td>17 000 }</td></tr><tr><td>Increase in trade receivables</td><td></td><td></td><td>(21 000) }</td></tr><tr><td>Increase in trade payables</td><td></td><td></td><td><u>18 000</u> }(1)</td></tr><tr><td>Cash from operations</td><td></td><td></td><td>204 100</td></tr><tr><td>Interest paid W5</td><td></td><td></td><td>(6000) (1)</td></tr><tr><td>Tax paid W6</td><td></td><td></td><td><u>(24 500)</u> (1)</td></tr><tr><td>Net cash from operating activities</td><td></td><td></td><td>173 600</td></tr><tr><td>Cash flows from investing activities</td><td></td><td></td><td></td></tr><tr><td>Sale proceeds of motor vehicle</td><td>11 000</td><td></td><td></td></tr><tr><td>Purchase of motor vehicle</td><td><u>(56 000)</u></td><td></td><td></td></tr><tr><td>Net cash used in investing activities</td><td></td><td></td><td>(45 000) (1)</td></tr><tr><td>Cash flows from financing activities</td><td></td><td></td><td></td></tr><tr><td>Proceeds from issue of shares W7</td><td>117 000</td><td>(2)</td><td></td></tr><tr><td>Dividend paid W8</td><td><u>(70 400)</u></td><td>(2)</td><td></td></tr><tr><td>Cash flows from financing activities</td><td></td><td></td><td><u>46 600</u> (1)OF</td></tr><tr><td>Net increase in cash and cash equivalents</td><td></td><td></td><td>175 200 (1)</td></tr><tr><td>Cash and cash equivalents at 1 April 2025</td><td></td><td></td><td><u>88 100</u></td></tr><tr><td>Cash and cash equivalents at 31 March 2026</td><td></td><td></td><td><u><u>263 300</u></u></td></tr></table>		\$	\$		Cash flows from operating activities				Profit from operations W1		134 000	(2)	Adjustment for				Depreciation – office building W2	24 500	(2)		– motor vehicles W3	<u>28 200</u>	(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			<u>18 000</u> }(1)	Cash from operations			204 100	Interest paid W5			(6000) (1)	Tax paid W6			<u>(24 500)</u> (1)	Net cash from operating activities			173 600	Cash flows from investing activities				Sale proceeds of motor vehicle	11 000			Purchase of motor vehicle	<u>(56 000)</u>			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	<u>(70 400)</u>	(2)		Cash flows from financing activities			<u>46 600</u> (1)OF	Net increase in cash and cash equivalents			175 200 (1)	Cash and cash equivalents at 1 April 2025			<u>88 100</u>	Cash and cash equivalents at 31 March 2026			<u><u>263 300</u></u>	18
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Depreciation of motor vehicles	<u>28 200</u> (1)OF	W8	\$																																																																																
W4	\$	Final dividend ($\$320\,000/\5) $\times \$0.75$	(48 000) (1)																																																																																
Net book value ($\$36\,000 - \$21\,600$)	14 400	Interim dividend ($\$320\,000/\5) $\times \$0.35$	(22 400) (1)																																																																																
Sale proceeds	11 000		<u>(70 400)</u>																																																																																
Loss on disposal	<u>3 400</u>																																																																																		

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. <table> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Value of assets taken over W1</td><td style="text-align: right;">444 000</td><td style="text-align: right;">(1)</td></tr> <tr> <td>Goodwill W2</td><td style="text-align: right;">240 000</td><td style="text-align: right;">(2)</td></tr> <tr> <td>Purchase consideration</td><td style="text-align: right;"><u>684 000</u></td><td style="text-align: right;">(1) OF</td></tr> </table> 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		\$		Value of assets taken over W1	444 000	(1)	Goodwill W2	240 000	(2)	Purchase consideration	<u>684 000</u>	(1) OF	4
	\$													
Value of assets taken over W1	444 000	(1)												
Goodwill W2	240 000	(2)												
Purchase consideration	<u>684 000</u>	(1) OF												

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. <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Purchase consideration</td><td>684 000</td><td>} OF</td></tr> <tr> <td>Value of Motor vehicle A</td><td>30 000</td><td>} (1)</td></tr> <tr> <td>Discount received (\$50 000 × 5%)</td><td>2500</td><td>(1)</td></tr> <tr> <td></td><td><u>716 500</u></td><td></td></tr> <tr> <td>Value of net assets (\$530 700 – \$37 700)</td><td><u>(493 000)</u></td><td>(1)</td></tr> <tr> <td>Profit on realisation</td><td><u>223 500</u></td><td></td></tr> <tr> <td>Andy's share \$223 500 × 2/3</td><td>149 000</td><td>}</td></tr> <tr> <td>Ben's share \$223 500 × 1/3</td><td>74 500</td><td>}(1)OF</td></tr> </table>		\$		Purchase consideration	684 000	} OF	Value of Motor vehicle A	30 000	} (1)	Discount received (\$50 000 × 5%)	2500	(1)		<u>716 500</u>		Value of net assets (\$530 700 – \$37 700)	<u>(493 000)</u>	(1)	Profit on realisation	<u>223 500</u>		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 <table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Value of net assets</td><td>493 000</td><td>(1)</td><td>Purchase consideration</td><td>684 000</td><td rowspan="3">} (1)OF</td></tr><tr><td>Profit on realisation</td><td></td><td></td><td>Value of motor vehicle A</td><td>30 000</td></tr><tr><td>Andy</td><td>149 000</td><td></td><td>Discount received</td><td>2 500</td><td>(1)</td></tr><tr><td>Ben</td><td>74 500</td><td rowspan="2">} (1)OF</td><td></td><td></td><td></td></tr><tr><td></td><td><u>716 500</u></td><td></td><td><u>716 500</u></td></tr></table>							\$			\$		Value of net assets	493 000	(1)	Purchase consideration	684 000	} (1)OF	Profit on realisation			Value of motor vehicle A	30 000	Andy	149 000		Discount received	2 500	(1)	Ben	74 500	} (1)OF					<u>716 500</u>		<u>716 500</u>	5																	
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		<u>716 500</u>			<u>716 500</u>																																																				
	Prepare the capital account of Andy and Ben, showing the final settlement through the partnership's bank account.																																																								
	Capital account <table><tr><td></td><td>Andy</td><td></td><td>Ben</td><td></td><td>Andy</td><td>Ben</td></tr><tr><td></td><td>\$</td><td></td><td>\$</td><td></td><td>\$</td><td>\$</td></tr><tr><td>Current account</td><td>9 800</td><td>*</td><td></td><td>Balance b/d</td><td>300 000</td><td>150 000</td></tr><tr><td>Motor vehicle A</td><td>30 000</td><td>(1)</td><td></td><td>Current account</td><td></td><td>12 500</td></tr><tr><td>G Limited</td><td>342 000</td><td>}</td><td>342 000</td><td>} (1)OF</td><td>Realisation account</td><td>149 000</td><td>74 500</td></tr><tr><td>Bank</td><td>67 200</td><td>(1)OF</td><td></td><td>Bank</td><td><u>449 000</u></td><td>105 000</td></tr><tr><td></td><td><u>449 000</u></td><td></td><td><u>342 000</u></td><td></td><td></td><td><u>342 000</u></td></tr></table>							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	G Limited	342 000	}	342 000	} (1)OF		Realisation account	149 000	74 500	Bank	67 200	(1)OF		Bank	<u>449 000</u>	105 000		<u>449 000</u>		<u>342 000</u>			<u>342 000</u>
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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. <table><tr><td></td><td>Dr</td><td>Cr</td><td></td></tr><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Machinery</td><td>103 000</td><td></td><td>}</td></tr><tr><td>Equipment</td><td>50 000</td><td></td><td>}</td></tr><tr><td>Motor vehicle</td><td>46 000</td><td></td><td>}</td></tr><tr><td>Inventory</td><td>137 000</td><td></td><td>}</td></tr><tr><td>Trade receivables</td><td>108 000</td><td></td><td>}(1)</td></tr><tr><td>Goodwill</td><td>240 000</td><td></td><td>(1)OF</td></tr><tr><td>Share capital</td><td></td><td>480 000</td><td>(1)</td></tr><tr><td>Share premium</td><td></td><td>204 000</td><td>(1)OF</td></tr></table>		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
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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																																								