CAMBRIDGE
International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **May/June 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
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 December 2024.**	**8**

Manufacturing account for the year ended 31 December 2024

	$		$	
Opening direct materials inventory	16 600			
Purchases	104 000			
Carriage inwards $8500 × 90%	7 650	**(1)**		
Closing direct materials inventory	(17 200)			
Cost of direct materials consumed			111 050	**(1)OF**
Factory wages			156 200	
Prime cost			267 250	**(1)OF**
Factory supervisor's salary	19 000			
Factory indirect expenses **W1**	40 250	**(1)**		
Depreciation – works machinery	15 300	**(1)**	74 550	
			341 800	
Opening work in progress			28 400	
			370 200	
Closing work in progress			(20 200)	**(1)**
Cost of goods manufactured			350 000	
Factory profit 30% **W2**			105 000	**(1)OF**
Transfer price of manufactured goods			455 000	**(1)OF**

W1 $33 350 + $9 200 × 75% = $40 250
W2 2023 rate of factory profit $9 600/($48 000 – $9 600) = 25% 25% + 5% = 30%

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Question	Answer	Marks
1(b)	**Prepare the statement of profit or loss for the year ended 31 December 2024.** Statement of profit or loss for the year ended 31 December 2024 $ $ Sales revenue 724 000 Opening finished goods inventory 48 000 Purchases 28 000 Carriage inwards \$8500 × 10% 850 **(1)** Transfer price of manufactured goods 455 000 Closing finished goods inventory (45 500) **(1)OF** Cost of sales 486 350 Gross profit 237 650 Factory profit 105 000 **(1)OF** Increase in provision for unrealised profit (\$10 500 – \$9 600) (900) **(1)OF** 104 100 341 750 Carriage outwards 9 440 Office expenses (\$174 800 – \$9 200 × 75%) 167 900 **(1)** Depreciation – office equipment 6 300 **(1)** 183 640 Profit for the year 158 110 **(1)OF**	**7**
1(c)(i)	**Explain why unrealised profit occurs in some manufacturing businesses.** The value of goods manufactured transferred to the statement of profit or loss includes both the manufacturing cost and the factory profit / is based on a comparison of prices with external suppliers. **(1)** Value of goods unsold at the year-end includes the factory profit element that has not been realised **(1)** **Accept other valid responses.** **Max 2**	**2**

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Question	Answer	Marks
1(c)(ii)	**Explain why the provision for unrealised profit is accounted for in the statement of financial position.** According to IAS2 / inventory should be stated at lower of cost and net realisable value. **(1)** According to the prudence concept / value of inventory should not be overstated.**(1)** The inventory of finished goods should be stated at cost / unrealised profit is removed from the inventory.**(1)** **Accept other valid responses.** **Max 3**	**3**
1(d)	**Advise Nadim whether or not he should incorporate his business in view of his only concern. Justify your answer.** **For (Max 2)** The financial statements are more credible **(1)** if the audit report is with a true and fair view opinion. **(1)** It is easier to raise finance, for example, obtaining a bank loan or issuing shares **(1)** Fraud and errors are easier to be detected and prevented by auditor **(1)** **Against (Max 2)** Audit fee is costly **(1)** Need to employ professional accountant to fulfil compliance **(1)** Audit may not be necessary as Nadim's business is still small. **(1)** **Decision supported with a comment (1)** **Accept other valid responses.**	**5**

Question	Answer	Marks
2(a)	**State the conditions of recognising a provision in the financial statements in accordance with IAS 37.** The business has a present obligation because of a past event. **(1)** It is probable / there is a 50%+ chance that a transfer of resources embodying economic benefits will be required to settle it. **(1)** A reliable estimate can be made of its amount. **(1)**	**3**

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Question	Answer	Marks
2(b)	**Prepare a statement to adjust the profit for the year ended 31 December 2024 after considering the information in matters 1 to 5.**	**14**

	$	
	104 00	
Draft profit for the year	0	
Irrecoverable debt	(7 000)	**(1)**
Allowance for irrecoverable debts **W1**	(460)	**(3)OF**
Inventory overstated **W2**	(2 700)	**(3)OF**
Depreciation on Van B overcharged $12000x20%	2 400	**(1)**
Van B service $12000 × 6/12	(6 000)	**(1)**
Impairment loss of Van A **W3**	(2 040)	**(3)OF**
Provision for lawsuit	(5 200)	**(1)**
Adjusted profit for the year	83 000	**(1)OF**

W1 $83 600/95% = $88 000 **(1)** ($88 000 – $7 000) × 6% **(1)** – ($88 000 × 5%) = 460 **(1)OF**

W2 NRV ($6 600 – $1 800) = $4 800 **(1)** 4 800 – $7 500 **(1)** = ($2 700) **(1)OF**

W3 Cost of Van A $95 000-$50 000=$45 000 Accumulated depreciation $31 960-$10 000=$21 960
Carrying value $45 000-$21 960=$23 040 **(1)** Recoverable amount $21 000 **(1)**
Impairment loss $23 040-$21 000=$2 040 **(1)OF**

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Question	Answer	Marks
2(c)	**Prepare the journal entry to record the impairment loss of delivery Van A.** **A narrative is <u>not</u> required.** Dr $ / Cr $ Impairment loss / Statement of profit or loss 2 040 **(1)OF** Provision for depreciation 2 040 **(1)OF** **Award (1) for correct account names.** **OR** Provision for depreciation 21 960 **(1)OF** Impairment loss / Statement of profit or loss 2 040 **(1)OF** Delivery van – at cost / valuation 24 000 **(1)OF**	**3**
2(d)	**Advise the directors whether or not GT plc should pay the 2024 dividend. Justify your answer.** Should not pay (**Max 2**) To avoid raising loan. **(1)** Cash / profit is retained. **(1)** Directors have the discretion to pay dividends. **(1)** Should pay (**Max 2**) Shareholders would be satisfied. **(1)** The outcome of the claim is too remote / contingent liability. **(1)** Dividend policy should be consistent. **(1)** **Decision supported with a comment** (**1**) **Accept other valid responses.**	**5**

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Question	Answer	Marks
3(a)(i)	**State <u>two</u> reasons why a business may have goodwill.** • has good reputation / well-known brand / image **(1)** • has a large number of loyal customers **(1)** • situated in a good location **(1)** • good relationship with suppliers **(1)** • experienced and efficient staff **(1)** **Max 2** **Accept other valid responses.**	**2**
3(a)(ii)	**State <u>one</u> reason why Chandra has to pay for the goodwill.** To reward the existing partners for their efforts. **(1)** **Accept other valid responses.**	**1**
3(b)	**State <u>three</u> reasons why a goodwill account is <u>not</u> maintained in the partnership's books.** The goodwill is inherent / not purchased **(1)** The valuation of goodwill is subjective **(1)** According to the prudence concept, assets of the business should not be overstated **(1)** Factors that cause goodwill are difficult to be measured in monetary terms (money measurement) **(1)** **Max 3** **Accept other valid responses.**	**3**

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Question	Answer	Marks
3(c)	**Calculate the amount payable to Betty on 1 January 2025.**	**5**

	$	
Capital account	180 000	**}**
Current account	5 500	**}(1)**
Loan	15 000	**}**
Goodwill $90 000 × 50%	45 000	**(1)**
Loss on revaluation 50% × $32 000 **W1**	(16 000)	**(2)**
Amount payable to Betty	229 500	**(1)OF**

W1

Profit/loss on revaluation	$	
Equipment ($161 000 – $185 000)	(24 000)	
Motor vehicles ($117 000 – $148 000)	(31 000)	
Inventory ($105 000 – $82 000)	23 000	
Loss on revaluation	(32 000)	**(1)**

50% × $32 000 = $16000 **(1)OF**

Question	Answer	Marks
3(d)	**Calculate the amount of cash introduced by Chandra on 1 January 2025.**	**6**

	$	
Payment for the share of goodwill $90 000 × 40%	36 000	**(1)**
Capital account **W1**	150 000	**(4)**
Loan	40 000	
Cash introduced by Chandra	226 000	**(1)OF**

W1

	$	
Capital account of Ahmed		
Capital account balance at 31 December 2024	250 000	
Goodwill shared $90 000 × 50%	45 000	**(1)**
Goodwill eliminated $90 000 × 60%	(54 000)	**(1)**
Share of revaluation loss $32 000 × 50%	(16 000)	**(1)OF**
Capital account balance at 1 January 2025	225 000	
($225 000/60%) × 40%	150 000	**(1)OF**

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Question	Answer	Marks
3(e)	**Prepare the statement of financial position of the new partnership at 1 January 2025.**	**8**

Statement of financial position at 1 January 2025

	$		$	
Non-current assets				
Equipment	161 000	}		
Motor vehicles	117 000	**}(1)**	278 000	
Current assets				
Inventory	105 000	}		
Trade receivables	76 500	**}(1)**		
Bank **W1**	26 800	**(4)**	208 300	
Total assets			486 300	
Capital account – Ahmed	225 000	}		
– Chandra	150 000	**}(1)OF**	375 000	
Loan from Chandra			40 000	**(1)**
Current liabilities				
Trade payables			71 300	
Total equity and liabilities			486 300	

W1

	$	
Balance at 31 December 2024	20 800	
Cash from Ahmed	9 500	**(1)**
Cash paid to Betty	(229 500)	**(1)OF**
Cash from Chandra	226 000	**(1)OF**
Balance at 1 January 2025	26 800	**(1)OF**

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