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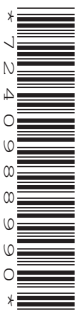
# Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER



**ACCOUNTING** **9706/32**

Paper 3 Financial Accounting **February/March 2025**

**1 hour 30 minutes**

You must answer on the question paper.

You will need: Insert (enclosed)

**INSTRUCTIONS**

- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any diagrams, graphs or rough working.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

**INFORMATION**

- The total mark for this paper is 75.
- The number of marks for each question or part question is shown in brackets [ ].
- The insert contains all of the sources referred to in the questions.

This document has **16** pages. Any blank pages are indicated.

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[Turn over

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**1 Read Source A in the insert.**

**(a) (i)** State how a business creates a general reserve.

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..... [1]

**(ii)** Explain why a business would create a general reserve.

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..... [2]

**(b)** Prepare for the year ended 31 December 2024:

**(i)** a statement to show the profit from operations

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**(ii)** the statement of cash flows in accordance with IAS7.

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Workings:

[12]

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**Additional information**

Before 2024, CF Limited contracted a transportation company to deliver goods to its customers. In 2024, the company terminated the contract and purchased two motor vehicles to take over the delivery services.

**(c)** Advise whether or not CF Limited has made a good decision to take over the delivery services. Justify your answer.

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**2 Read Source B in the insert.**

**(a)** State **three** differences between goodwill and a tangible asset.

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[3]

**(b)** Calculate the purchase consideration payable by W Limited.

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**(c)** Complete the capital accounts of Ada and Brian on **page 9**, showing the final settlement with the partnership's cash at bank account.

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Capital accounts

| | Ada $ | Brian $ | | Ada $ | Brian $ |
|---|---|---|---|---|---|
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Workings:

[8]

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**(d)** Prepare the journal entry of W Limited to record the acquisition of the partnership business.

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**Additional information**

In negotiating the terms of the sale of the business, Ada and Brian initially requested that goodwill be valued at five times the average profit of the last three years, but W Limited only offered two times. They finally reached an agreement of three times.

**(e)** Explain why W Limited did **not** accept the initial request for five times the average profit. Support your answer with relevant calculations.

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**Additional information**

To satisfy the purchase consideration, Ada and Brian were offered two options by W Limited.

Option 1: fully satisfied by the ordinary shares of W Limited

Option 2: fully satisfied by cash

**(f)** Evaluate whether or not Ada and Brian made the right decision to choose option 1. Justify your answer.

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**3 Read Source C in the insert.**

**(a)** State **three** limitations of using ratios to evaluate the performance of a business.

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**(b)** Calculate, to **two** decimal places, the following ratios:

**(i)** dividend yield

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**(ii)** price/earnings (PE)

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**(iii)** gearing

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**(c)** Calculate the working capital cycle (round up each component to the **next** whole day).

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**Additional information**

X plc, a major competitor, has a shorter working capital cycle than B plc.

**(d)** Discuss the performance of B plc in managing its working capital cycle as compared with X plc.

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**Additional information**

X plc also has a PE ratio higher than B plc.

**(e)** Discuss the performance of B plc as measured by its PE ratio as compared with X plc.

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