Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **October/November 2025**

INSERT **1 hour 30 minutes**

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INFORMATION
- This insert contains all of the sources referred to in the questions.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **8** pages. Any blank pages are indicated.

Source A for Question 1

Omira and Peter were in partnership for some years, sharing profits and losses in the ratio 3 : 2 respectively. They decided to sell the partnership business to QW plc on 31 May 2025. The partnership statement of financial position on that date was as follows:

	$	$
Non-current assets		51 500
Current assets		20 900
Total assets		72 400
Capital accounts		
Omira	35 000	
Peter	25 000	60 000
Current accounts		
Omira	(2 900)	
Peter	6 000	3 100
Current liabilities		
Trade payables	7 900	
Bank overdraft	1 400	9 300
Total capital and liabilities		72 400

During the negotiations for the acquisition, QW plc offered the partners two options.

Option 1

All employees of the partnership would have their employment terminated at acquisition. This would involve the partnership paying total redundancy pay of $20 000.

Omira and Peter would both become employees of QW plc for a period of one year while they trained the staff from the company who would take over from the partnership employees. Omira and Peter would be paid very generous salaries during their year of employment.

Omira and Peter would each take over one of the vehicles of the partnership at their book values of $12 200 and $5 200 respectively. QW plc would take over all other assets and liabilities except for the partnership bank account.

Legal fees of $3100 would be paid by the partnership.

The purchase consideration would be $200 000, consisting of $100 000 cash and 80 000 ordinary shares in QW plc. These shares would have a nominal value of $1 each and would be divided equally between the partners.

Option 2

The employees of the partnership would become employees of the company, at least until the partnership business became settled as a new division of the company. Any future liability for redundancy pay would be met by the company.

Omira and Peter would not be involved in the company after the acquisition.

The legal fees, the taking over of the vehicles by the partners, and the treatment of the other assets and liabilities would be as in option 1.

The purchase consideration would consist of $130 000 of debentures paying an annual rate of interest of 6% and $40 000 in cash.

Source B for Question 2

Potential investors often consider ratios in making their investment decisions. Their analysis will be affected by their specific requirements.

Company AZ has 300 000 ordinary shares in issue. In 2024, it had a profit for the year of $80 000 and paid dividends of $18 000.

Company BY was a similar size to Company AZ. In the same year, it paid a dividend per share of $0.10 and had a dividend cover of 2.67 times.

The market price per share of both companies was the same.

Source C for Question 3

AP plc is a manufacturing company.

In the year ended 31 December 2024, AP plc spent the following amounts on research and development.

$	
40 000	on pure research
60 000	on research aimed at a practical application which is not yet determined
90 000	on developing a new product which the company expects to start selling within a year

When preparing the financial statements, the company correctly classified some of these costs as capital expenditure and some as revenue expenditure.

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