



# Cambridge International AS & A Level

CANDIDATE  
NAME

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CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**ACCOUNTING**

**9706/03**

Paper 3 Financial Accounting

**For examination from 2023**

SPECIMEN PAPER

**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 **14** pages. Any blank pages are indicated.

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

- (a)** Prepare the statement of cash flows for Y Limited for the year ended 31 December 2020, in accordance with IAS 7.

Workings:





**Additional information**

Sarah is the accountant of Y Limited. She reports to the finance director. Her assistant accountant, who was responsible for drafting month-end financial statements and reports, has resigned from the company.

Sarah’s daughter, Jenna, has recently lost her job. Sarah suggests to the finance director that Jenna should be recruited as the new assistant accountant.

Jenna studied A Level Accounting ten years ago and has since worked as an accounting clerk. She has no other accounting qualifications.

The finance director has rejected Sarah’s proposal.

**(d)** Explain why the finance director rejected Sarah’s proposal to recruit Jenna.

Justify your answer with reference to the fundamental principles of the ethical framework for accounting.

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..... [4]

[Total: 25]

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

- (a) State **two** reasons why a business may have non-current liabilities even though it also has substantial retained earnings.

1 .....

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2 .....

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[2]

**Additional information**

The following information was also available for the year ended 31 December 2020.

- 1 During the year a long-term bank loan, \$250 000, was taken. The interest charged on this loan by the year end was \$14 000.
- 2 An interim ordinary dividend of \$0.06 per share was paid on all issued shares at 1 January 2020.
- 3 The taxation charge for the year was \$10 000.
- 4 200 000 shares were issued at a premium of \$0.75 per share.
- 5 The profit from operations was \$105 000.
- 6 A transfer to general reserve, \$25 000, was made.
- 7 A final dividend of \$0.08 per share was proposed on all issued shares at 31 December 2020.



(c) (i) Calculate, to **two** decimal places, the gearing ratio of Z plc at 31 December 2020.

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..... [3]

(ii) Calculate the interest cover ratio of Z plc at 31 December 2020.

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..... [2]

**Additional information**

The business had issued the shares and taken out the bank loan in order to finance an extension to the factory.

At the Annual General Meeting one shareholder stated that, rather than issuing shares, the company should have financed the extension entirely by taking out long-term bank loans.

(d) (i) Calculate, to **two** decimal places, the revised gearing ratio if the shareholder’s proposal had been adopted.

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(ii) Advise the directors whether or not they should agree with the shareholder. Justify your answer.

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..... [5]

(e) State **two** factors a bank might consider when a business applies for a loan.

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2 .....

..... [2]

[Total: 25]

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

**(a)** Explain the difference between inherent goodwill and purchased goodwill.

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**(b)** Calculate the amount of the debenture to be issued to James.

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