



# Cambridge International AS & A Level

CANDIDATE  
NAME

CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**ACCOUNTING**

**9706/33**

Paper 3 Structured Questions

**May/June 2020**

**3 hours**

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 150.
- The number of marks for each question or part question is shown in brackets [ ].
- The insert contains all of the required information and questions.

This document has **28** pages. Blank pages are indicated.

**Section A: Financial Accounting**

Answer **all** questions.

**1 Read Source A1 in the Insert.**

(a) State **three** differences between a statement of cash flows and a cash budget.

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[3]

(b) Prepare a statement reconciling the profit from operations with the cash from operations for the year ended 31 December 2019.

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Workings:



(d) Discuss the effect of an increase in general reserve during the year on cash flow.

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..... [2]

**Additional information**

The bank loan of \$100 000 was to be repaid in 2022. The directors made an early repayment in part on 30 September 2019.

(e) Discuss whether or not the directors were right in repaying part of the bank loan during the year ended 31 December 2019. Justify your answer.

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..... [4]

[Total: 25]

**2 Read Source A2 in the Insert.**

**(a) State:**

**(i)** the meaning of the term 'work in progress'.

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..... [1]

**(ii)** how work in progress is valued.

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..... [2]



- (c) Calculate the gross profit for the year ended 31 December 2019 on the sale of watches and clocks.

Use the table below to present your calculations.

	Watches \$	Clocks \$

[2]

- (d) Prepare an extract from the income statement for the year ended 31 December 2019, showing the gross profit, the manufacturing profit and the adjustment of the provision for unrealised profit.

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3 Read Source A3 in the Insert.

(a) Calculate the purchase consideration payable by X Limited.

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[4]





**Additional information**

After issuing 50 000 ordinary shares to Ang and Kim, X Limited had an issued ordinary share capital of \$300 000.

Ang and Kim were appointed as directors of X Limited and each received \$25 000 per annum as director fees.

X Limited forecasted that the profit for 2020, after acquisition of the partnership business, would increase by \$60 000 to \$260 000.

It is expected that the dividend paid for 2020 will be \$0.65 per share.

**(d)** Suggest **three** reasons for the forecast increase in profit in 2020.

- 1 .....
  - 2 .....
  - 3 .....
- [3]

**(e)** Discuss whether or not Ang and Kim had made the right decision to sell the partnership business to X Limited. Justify your answer giving **both** financial and non-financial reasons.

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- [5]

[Total: 25]  
**[Turn over**



(b) Prepare an extract from the statement of changes in equity for the year ended 31 December 2019 showing the **movement** of retained earnings.

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Workings:

[6]

### Additional information

During their review of the draft financial statements, the auditors brought two issues to the attention of the directors.

#### Issue 1

During the year ended 31 December 2019, M plc had bought a specialised machine. The machine had been designed by M plc and made by an overseas manufacturer. The following costs had been incurred:

	\$
Design	7 000
Manufacture	26 000
Installation	3 000
Repair and maintenance	4 000

M plc had capitalised the manufacture cost, \$26 000, and all other costs were charged to the income statement. The company depreciates the machinery at 25% per annum using the straight-line method. A full year's depreciation is charged in the year of purchase.

#### Issue 2

M plc owns a warehouse. It was purchased on 1 January 2015 at a cost of \$150 000. It has a useful life of 25 years with no expected residual value. Its carrying value had been included in the total value of non-current assets, without taking into account its fair value of \$100 000 and value in use of \$112 000.

(c) Define the term 'impairment of assets'.

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(d) Explain how the directors should adjust the draft financial statements to account for:

(i) issue 1

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(ii) issue 2.

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(e) Calculate the adjusted profit for the year **after** considering issue 1 and issue 2.

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[Total: 25]

**Section B: Cost and Management Accounting**

Answer **all** questions.

**5 Read Source B1 in the Insert.**

(a) Calculate the total budgeted profit for August.

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**Additional information**

Actual output and sales for August were 4300 units, selling for \$80 per unit.

Actual costs for August were as follows.

	\$
Total direct materials cost (22 790 kilos)	95 718
Total direct labour costs (12 040 hours)	150 500
Fixed overheads	43 600

(b) Calculate the actual profit for August.

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..... [1]

(c) Calculate the following variances:

(i) sales price variance

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(ii) sales volume variance (use standard profit margin per unit)

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(iii) labour rate variance

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(iv) labour efficiency variance

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(v) fixed overhead expenditure variance

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(vi) fixed overhead volume variance.

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[12]







**Additional information**

V Limited is considering implementing an activity based costing (ABC) system. The management accountant has prepared the following cost analysis.

Activity	Overhead costs \$	Cost driver	Occurrences	
			Standard	Premium
Materials handling	80 000	Number of purchase orders	30	10
Machine setups	90 000	Number of setups	65	25
Inspection	<u>70 000</u>	Number of units produced	10 000	4000
	<u>240 000</u>			

(c) Define the term 'cost driver'.

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(d) State **three** benefits of adopting ABC.

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(e) Calculate the total production cost **and** unit cost for **each** product if ABC is used.

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Workings:

[5]



(f) Calculate the unit selling price for **each** product if ABC is used.

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(g) Explain the difference in total production cost for **each** product in respect of (a) and (e).

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**Additional information**

V Limited plans to manufacture only the Premium product from 2021.

(h) Explain why V Limited would find ABC useful in 2020 but not in 2021.

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[Total: 25]





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