Cambridge Assessment International Education

# Cambridge International AS & A Level

**ACCOUNTING** **9706/31**

Paper 3 Financial Accounting **May/June 2023**

INSERT **1 hour 30 minutes**

*2204986484-I*

**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 **4** pages.

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**Source A for Question 1**

Alan and Betty had been in partnership for many years, sharing profits and losses in the ratio of 3:2. The capital contributed by each partner was: Alan $300 000, Betty $240 000. The interest on capital is calculated at 4% per annum.

Their business was acquired by J Limited on 1 April 2022. J Limited took over all the assets except the bank account.

The following information relating to the assets taken over was available.

| | Book value | Revalued amount |
|---|---|---|
| | $ | $ |
| Premises | 308 000 | 330 000 |
| Equipment | 85 000 | 73 000 |
| Inventory | 64 000 | 77 000 |
| Trade receivables | 92 000 | 90 000 |
| | 549 000 | 570 000 |

The value of goodwill was twice that of the partnership's profit for the year ended 31 March 2022.

Some information relating to the partners' current accounts for the year ended 31 March 2022 was as follows:

| | Balance at 1 April 2021 | Drawings | Residual profit shared |
|---|---|---|---|
| | $ | $ | $ |
| Alan | 7 000 credit | 32 000 | 24 240 |
| Betty | 2 600 credit | 34 000 | 16 160 |

The partnership paid $37 000 in full settlement of the trade payables of $39 000 on 31 March 2022 out of the partnership's bank account.

The purchase consideration was settled as follows:

1 Both partners received sufficient 8% debentures to give the same amount of interest on capital as they had been entitled to in the partnership.

2 Each partner received 150 000 ordinary shares of $1 each. These shares had a value of $1.30 per share.

3 The balance was settled in cash and paid into the partnership bank account.

The partners also agreed that if there was any deficit on a partner's capital account, the partner would pay cash in to the partnership bank account to make up for the deficit.

**Source B for Question 2**

The directors of Z plc provided the following information.

For the year ended 31 December 2022

| | |
|---|---|
| Revenue (all credit sales) | $825 000 |
| Purchases (all on credit) | $405 000 |
| Non-current asset turnover | 1.6 times |
| Interim dividend paid (per share) | $0.30 |
| Final dividend proposed (per share) | $0.15 |
| Gross profit margin | 48% |
| Dividend yield | 4% |
| Price / earnings ratio | 18 |

At 31 December 2022

| | $ |
|---|---|
| Inventory | 44 000 |
| Trade receivables | 76 400 |
| Trade payables | 32 900 |
| Cash at bank | 81 000 |
| 6% debenture (2026) | 100 000 |
| Ordinary share capital ($1 shares) | 300 000 |
| Share premium | 30 000 |

**Source C for Question 3**

The directors of W Limited, a manufacturing company, have provided the following information for the year ended 31 December 2022.

| | $ |
|---|---|
| Revenue | 984 000 |
| Purchases of raw materials | 198 000 |
| Direct labour | 164 000 |
| Carriage inwards | 3 100 |
| Carriage outwards | 6 200 |
| Factory overheads | 98 000 |
| Administrative expenses | 223 500 |
| Selling and distribution costs | 84 000 |
| Rent and rates | 74 000 |
| Factory machinery (at cost) | 144 000 |
| Office equipment (at cost) | 66 000 |
| Delivery van (at cost) | 48 000 |
| Inventories (at cost) at 1 January 2022 | |
| Raw materials | 8 000 |
| Work in progress | 17 300 |
| Finished goods | 45 000 |
| Provision for depreciation at 1 January 2022 | |
| Factory machinery | 84 000 |
| Office equipment | 32 000 |
| Delivery van | 28 800 |

The following information is also available.

**1** W Limited maintained a provision for unrealised profit account.

**2** At 31 December 2021, finished goods were transferred to the trading section of the statement of profit or loss at cost plus 20%.

**3** At 31 December 2022, finished goods were transferred from the manufacturing account to the trading section of the statement of profit or loss at a transfer value of $632 400.

**4** Inventories were valued at cost on 31 December 2022 as follows:

| | $ |
|---|---|
| Raw materials | 10 500 |
| Work in progress | 16 900 |
| Finished goods | 52 000 |

**5** Rent, $6 000, was accrued on 31 December 2022. Rent and rates are to be split between the factory overheads, the administrative expenses and the selling and distribution costs in the ratio of 5:2:3 respectively.

**6** Depreciation is to be provided as follows:

Factory machinery – 15% per annum using the reducing balance method
Office equipment – 15% per annum using the reducing balance method
Delivery van – 20% per annum using the straight-line method