Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2018**

INSERT **3 hours**

READ THESE INSTRUCTIONS FIRST

This Insert contains all of the required information and questions. The questions are provided in the Insert for reference only.

Anything you write in this Insert will not be marked.

The businesses described in this Insert are entirely fictitious.

This document consists of **12** printed pages.

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CAMBRIDGE
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Section A: Financial Accounting

Question 1

Source A1

A Sports Club was set up several years ago and its membership has increased each year. Annual membership for the year ended 31 December 2017 was $120 per member.

A summary of the receipts and payments account for the year ended 31 December 2017 is as follows:

Receipts and Payments account

	$		$
Balance b/d	1250	Marathon prizes and costs	80
Members subscriptions	21000	Wages	7900
Entry receipts for marathon	2500	Rent of clubhouse	4800
Sales of sports wear	950	Purchases of sports wear	740
Donation	600	Club overheads	8780
Balance c/d	100	Repairs and maintenance	4100
	26400		26400
		Balance b/d	100

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain **one** use of a receipts and payments account. [2]

Additional information

1 Members subscriptions in arrears and in advance were as follows:

	1 January 2017	31 December 2017
	$	$
members subscriptions in arrears	840	1440
members subscriptions in advance	480	240

2 Other assets and liabilities were as follows:

	1 January 2017	31 December 2017
	$	$
Inventory of sports wear	635	665
Gym equipment at cost	15625	15625
Wages owing	700	800
Rent paid in advance	1200	1400

3 The gym equipment is depreciated using the reducing balance method at 20% per annum. At 31 December 2017 the gym equipment was two years old.

4 All donations are capitalised.

(b) Prepare the income and expenditure account for the year ended 31 December 2017. [8]

(c) Prepare the statement of financial position at 31 December 2017. [6]

Additional information

The new treasurer of the club discovered that the surplus for the previous year ended 31 December 2016 was $23 400. This included a life membership of $19 000 which had been credited in full to the income and expenditure account. The treasurer has suggested that the life membership should be credited to income and expenditure over five years.

(d) Explain why the new treasurer has suggested this treatment for life membership. [3]

(e) Calculate the impact on the surplus or deficit if the new treasurer's suggestion for treatment of life membership had been adopted:

(i) for the year ended 31 December 2016 [3]

(ii) for the year ended 31 December 2017. [3]

[Total: 25]

Question 2

Source A2

Alfie and Bob have been in partnership sharing profits and losses in the ratio of 3 : 2.

On 1 January 2018, the partnership business was acquired by G Limited.

The statements of financial position at 31 December 2017 for both businesses were as follows:

	G Limited $	Alfie and Bob $
Assets		
Non-current assets		
Land and buildings	625 000	320 000
Plant and machinery	254 000	178 000
	879 000	498 000
Current assets		
Inventory	142 000	112 000
Trade receivables	251 000	130 000
Cash and cash equivalents	92 000	–
	485 000	242 000
Total assets	1 364 000	740 000
Equity and liabilities		
Equity		
Ordinary shares of $5 each	1 000 000	–
Capital accounts: Alfie	–	285 000
Bob	–	274 000
Retained earnings	194 000	–
	1 194 000	559 000
Current liabilities		
Trade payables	170 000	155 000
Bank overdraft	–	26 000
	170 000	181 000
Total equity and liabilities	1 364 000	740 000

The following information is also available.

1 All assets and liabilities of the partnership, except the bank overdraft, were taken over by G Limited at the following values:

	$
Land and buildings	350 000
Plant and machinery	170 000
Inventory	110 000
Trade receivables	125 000
Trade payables	153 000

2 Goodwill of the partnership at 1 January 2018 was valued at twice the value of average profits for the last two years. The profits for the year for 2016 and 2017 were $13 000 and $17 000.

3 The purchase consideration was satisfied with 100 000 ordinary shares in G Limited at $6 per share. The remaining balance was paid in cash.

4 Ordinary shares of G Limited were issued to Alfie and Bob according to their profit sharing ratio.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) State **one** reason why the assets and liabilities may be revalued when a partnership is sold. [1]

(b) Calculate for the sale of partnership:

(i) the **total** purchase consideration [3]

(ii) the amount paid to partners in cash. [2]

(c) Prepare the statement of financial position of G Limited at 1 January 2018 immediately after the purchase of the partnership. [10]

(d) Prepare the capital accounts of Alfie and Bob to close the partnership business. [4]

Additional information

The profit for the year ended 31 December 2017 for G Limited was $69 000. The directors expect that this will increase for the following year to $100 000 after the partnership business is acquired.

(e) Evaluate whether or not the directors were right to acquire the partnership. Support your answer with reference to the change in return on capital employed, as a result of the acquisition of the partnership. [5]

[Total: 25]

Question 3

Source A3

The external auditor of Z Limited has raised some issues relating to the non-current assets.

Information relating to the company's non-current assets at 30 June 2017 and 30 June 2016 is as follows:

	30 June 2017	30 June 2016
	$	$
Non-current assets		
Cost		
Land and buildings	2400000	2400000
Plant and machinery	540000	420000
Motor vehicles	320000	240000
Accumulated depreciation		
Land and buildings	192000	160000
Plant and machinery	264000	195000
Motor vehicles	184000	150000

The following additional information was available.

1 Land and buildings represent the company's office premises. One-third of the value is attributable to buildings and two-thirds to land.
On 1 July 2016 land and buildings were revalued at $2700000. No accounting entries to record this had been made.

2 A new motor vehicle was purchased for $110000. This was paid for with a cheque for $80000 and the part-exchange of an old motor vehicle. The old vehicle had cost $75000 and had been depreciated by $27000. The cheque payment had been recorded in the bank account and motor vehicle at cost account.

There were no other purchases or disposals of motor vehicles during the year.

3 A customer who owed $23500 was unable to pay. The directors have agreed to take over one of the customer's machines at the value of $20000 in full settlement of the debt. The machine was received on 15 May 2017. No record had been made of this arrangement.

4 Depreciation has been charged as follows and included as an expense when calculating the draft profit for the year.

Land	Nil
Buildings	4% per annum on cost
Plant and machinery	20% per annum using reducing balance method
Motor vehicles	20% per annum using reducing balance method

A full year's depreciation is charged in the year of purchase and no depreciation in the year of disposal.

The draft profit for the year ended 30 June 2017 was $95000.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain **one** benefit of a company's audited financial statements to **each** of the following:

(i) shareholders [2]

(ii) potential investors [2]

(iii) bank. [2]

(b) Prepare a statement to calculate the adjusted profit for year ended 30 June 2017, taking into account additional information 1 to 4. [9]

(c) Prepare the **motor vehicles column** of the non-current assets schedule as shown in the note to the financial statements for the year ended 30 June 2017. [6]

Additional information

The company purchased two plots of land in August 2017: Plot X for $400 000 and Plot Y for $320 000. Plot X has planning permission to build on and is expected to increase in value. Plot Y, however, has been found to have toxic chemicals and is expected to have a lower value.

The directors only want to record the increase in value of Plot X but not the decrease in value of Plot Y.

(d) Advise the directors whether they can only revalue Plot X but not Plot Y. Support your answer by referring to relevant accounting standard(s). [4]

[Total: 25]

Question 4

Source A4

H Limited operates a manual accounting system. The directors are keen to introduce a computerised accounting system.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Identify **four** control procedures which must be carried out when changing from a manual accounting system to a computerised accounting system. [4]

(b) State **four** precautions that should be taken to ensure the security of the computerised accounting data. [4]

(c) Explain **three** possible benefits to the directors of introducing a computerised accounting system. [6]

Additional information

The directors of H Limited provide the following information:

Profit from operations for the year ended 30 September 2017 was $568 000.

8% Debentures (2023) for $500 000 were issued in 2012.

6% Debentures (2028) for $200 000 were issued on 1 May 2017.

The tax charge for the year was 20% of the profit before tax.

(d) Prepare a summarised income statement for the year ended 30 September 2017. [5]

Additional information

The share capital of H Limited has been unchanged for a number of years and consists of 500 000 ordinary shares of $1 each. Dividend cover has been 5 times and is not expected to change. Roy, a prospective investor, is considering purchasing some shares in H Limited.

(e) Advise Roy whether or not he should invest in H Limited. Justify your answer using relevant calculations. [6]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

Marie is considering a project to produce a new product. To make it she will need to buy a new machine at a cost of $250 000 with a useful life of 4 years.

The following information is available.

1 Sales volume in units is expected to be:

Year	Units
1	20 000
2	22 000
3	23 000
4	18 000

2 The selling price will be $30 per unit and will remain unchanged.

3 The labour costs are $15 per unit. These are expected to increase by 2% in Year 3. There are no further expected changes in labour costs per unit in Year 4.

4 The material needed for each unit is 3 kilos at $2.75 per kilo. Material cost per kilo will remain unchanged.

5 The annual fixed costs are $107 500. This includes the depreciation charge for the new machine.

6 The new machine will have no residual value.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Prepare a table to show the expected annual net cash flows arising from the project. [7]

Additional information

Marie's cost of capital is 10%. Discount factors are as follows.

Year	Discount factor
0	1.000
1	0.909
2	0.826
3	0.751
4	0.683

(b) Calculate the Net Present Value (NPV) of the project. [4]

(c) Calculate the Accounting Rate of Return (ARR) for the project. [3]

Additional information

Marie expects an ARR of 20% on all projects.

(d) Recommend whether or not Marie should proceed with the project. Justify your answer. [3]

(e) Calculate for Year 1 the sensitivity of the project profit:

(i) to the selling price [2]

(ii) to the material cost. [2]

(f) Explain the significance of the figures calculated in **(e)(i)** and **(ii)**. [4]

[Total:25]

Question 6

Source B2

Tareq makes a single product and uses a standard costing system.

The budget for the month of July is based on the following standard information.

		Per unit $
Direct material	2.75 kilos at $3 per kilo	8.25
Direct labour	1.5 hours at $5 per hour	7.50
Fixed production overhead		3.75
Standard cost		19.50

Budgeted selling price is $27 per unit.

Budgeted production and sales for July were 10 000 units.

All units produced are sold.

The actual data for the month of July was:

Direct material	26 190 kilos which cost $75 951
Direct labour	12 610 hours which cost $65 572
Fixed production overhead	$39 750
Sales revenue	$258 375

Actual production and sales for July were 9700 units.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate the following variances for the month of July:

(i) Material price [2]

(ii) Material usage [2]

(iii) Labour rate [2]

(iv) Labour efficiency [2]

(v) Fixed production overhead expenditure [2]

(vi) Sales price [2]

(vii) Sales volume [2]

(b) Prepare a statement reconciling the budgeted profit for 10 000 units with the actual profit for the month of July. [5]

Additional information

The supplier of direct materials has announced that he will change his price to $3.10 per kilo with immediate effect.

(c) Assess the implications of this change in material cost based on the actual material used for the month of July.

Support your answer with relevant calculations. [6]

[Total: 25]