Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **October/November 2021**

INSERT **3 hours**

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INFORMATION

- This insert contains all of the required information and questions. The questions are provided in the insert for reference only.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **12** pages. Any blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

LC plc provided the following summarised trial balance at 31 December 2020 after the draft gross profit had been calculated. Depreciation for the year had already been charged.

Summarised trial balance at 31 December 2020

	$	$
Gross profit		96 200
Inventory	6 212	
Administrative expenses	32 700	
Distribution costs	19 405	
Finance costs	4 410	
Final dividend (2019)	7 000	
Interim dividend (2020)	5 000	
Ordinary share capital ($1 shares)		100 000
Retained earnings		54 732
Long-term bank loan		50 000
Trade receivables	25 400	
Trade payables		16 200
Bank		11 200
Premises	200 000	
Provision for depreciation of premises		4 000
Fixtures and fittings	27 600	
Provision for depreciation of fixtures and fittings		5 520
Motor vehicles	18 000	
Provision for depreciation of motor vehicles		7 875
	345 727	345 727

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the draft profit for the year based on the trial balance figures. [1]

Additional information

The following took place on 31 December 2020 after the trial balance had been prepared.

1 The bank informed the company that its account was being debited with $120 in relation to a dishonoured cheque from a credit customer, and with $150 and $110 for bank charges and bank interest.

2 A bonus issue of 10 000 ordinary shares of $1 each was made.

3 It was decided to create a general reserve of $14 000.

4 The premises were revalued to $244 000. The fixtures and fittings and motor vehicles were deemed to have a recoverable amount of $22 300 and $9200 respectively.

5 It was decided to provide $5000 for compensation to customers arising from the use of damaged goods sold to them by the company.

6 It was discovered that the trial balance figures included values arising from the supply of goods to a credit customer on a sale or return basis. The customer had not declared an intention to buy the goods by the year end. They were included in sales at a value of $4600 and had an original cost of $2100.

(b) Calculate the corrected profit for the year ended 31 December 2020. Start your calculation with your answer to **(a)**. [5]

(c) Prepare the statement of financial position at 31 December 2020 after taking into account all necessary information. [17]

(d) Explain how your treatment of the bonus issue might have been different if the trial balance had contained a balance of $8000 on a share premium account. [2]

[Total: 25]

Question 2

Source A2

The AB Club has 200 members who pay an annual subscription of $100 each. It provides social facilities to its members and also rents and operates two vending machines to sell soft drinks to members. The statement of financial position at 30 June 2020 showed the following assets and liabilities.

	$
Equipment at valuation	2100
Furniture at valuation	1050
Subscriptions in arrears	400
Bank balance	1420
Cash	180
Inventory of soft drinks	210
Owing to suppliers of soft drinks	290

The following information was available.

1 Equipment and furniture were valued on 30 June 2021 at $1700 and $1500 respectively.

2 All subscriptions are received by cheque and banked immediately. On 30 June 2021, there were no arrears of subscriptions and three members had paid in advance for the coming year.

3 All takings from the vending machines are in cash. Some are used to pay club expenses and some are paid into the bank. Soft drinks are sold at a mark-up of 100%.

4 The inventory of soft drinks on 30 June 2021 was valued at $490 at selling price. On that date, the amount owing to suppliers of soft drinks was $305.

5 Cash in hand on 30 June 2021 amounted to $150. The balance on the bank account on that date was $2290.

6 Payments made through the bank during the year ended 30 June 2021 were:

	$
Purchase of new furniture	720
Rent of premises	12000
Rent of vending machines	6000
Club expenses	5140
Payments to suppliers of soft drinks	12600
Total bank payments	36460

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the profit from the vending machines for the year ended 30 June 2021. [5]

(b) Calculate for the year ended 30 June 2021:

(i) the value of subscriptions received and banked [3]

(ii) cash takings banked [4]

(iii) club expenses paid by cash. [4]

(c) Prepare the income and expenditure account for the year ended 30 June 2021. [6]

Additional information

It has been suggested to the managing committee that the club starts to rent a third vending machine selling soft drinks.

(d) Advise the committee whether or not to start renting a third vending machine. Justify your answer. [3]

[Total: 25]

Question 3

Source A3

CT plc has an accounting year end of 31 December. The directors provided the following information.

	2020 **$**	**2019** **$**
Profit from operations	310 000	280 000
Finance costs	30 000	Nil
Long-term bank loan (10%)	400 000	Nil
Ordinary share capital ($0.50 shares)	1 000 000	1 000 000
Market value of one share	2.00	1.60
Dividends	150 000	150 000

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) **(i)** Calculate the earnings per share for 2019. [2]

(ii) Explain why the value of earnings per share is the same for 2020 as for 2019. [2]

(b) Calculate, to **two** decimal places, for 2019 **and** 2020:

(i) the price earnings ratio [4]

(ii) the dividend yield. [4]

(c) State the date on which the bank loan was received. [1]

(d) Explain the significance of the changes which have taken place between the two years. [7]

(e) **(i)** Name the **two** financial statements in which a company would record dividends paid. [2]

(ii) State how a company would record a proposed dividend in its financial statements. [1]

Additional information

A company will often mention its dividend policy in its directors' report.

(f) State **two** other items which may be contained in a directors' report. [2]

[Total: 25]

Question 4

Source A4

Chin is a trader in Jakarta who uses the services of an agent, Benny, in Phnom Penh.

During the year ended 31 December 2020, Chin sent 200 units of his product, at a cost of $90 each, to Benny. Chin paid the freight charges and Benny paid the import duties. At the year end Benny reported that he had sold 164 units for $120 each.

Chin's books of account at the year end included the following ledger account.

Consignment account

	$		$
Goods on consignment	18000	Benny (sales)	19680
Bank (freight)	3000	Loss on consignment	984
Benny (import duties)	600	Balance c/d	3888
Benny (commission on sales)	2952		
	24552		24552

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State **two** costs (other than import duties) which a consignee might pay in relation to a consignment. [2]

Additional information

After the account had been prepared, Benny sent a further message saying that he had previously reported **in error**, and in fact he had sold 120 units for $146 each.

(b) Prepare the consignment account as it would have been prepared if the revised sales information had been available from the start. [8]

Additional information

At the end of the year, and **after** correcting the sales figures, Benny owed Chin $1292.

(c) Calculate the amount Benny remitted to Chin during the year. [4]

(d) Explain why the loss on consignment turned into a profit when sales had fallen. Support your answer with relevant profit calculations. [7]

(e) Explain how your answer to **(b)** would have been different if 120 units had been sold and 44 units had been stolen from the warehouse. [2]

(f) Explain how the task of an auditor is affected if inventory is being held by a consignee. [2]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

R Limited produces two products, Product A and Product B.

The following monthly budgeted information is available.

	Product A	Product B
Units produced and sold	5000	1000
Sales revenue	$124 000	$94 000
Direct material per unit	1 kilo at $10/kilo	3 kilos at $12/kilo
Direct labour per unit	30 minutes at $8/hour	1 hour at $10/hour
Total production overheads of $60 000 allocated	50%	50%
Total administrative and distribution overheads of $28 000 allocated	50%	50%

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare a statement showing the **total** budgeted profit or loss made in a month by each product. [5]

Additional information

The directors are considering applying activity based costing (ABC) techniques. They have three objectives.

1 To be more accurate in setting selling prices which will cover all costs.

2 To be able to make decisions on when to make goods and when to buy them in.

3 To know how to allocate resources such as materials or labour when there is a shortage of supply.

(b) Advise the directors whether or not using ABC would help them achieve their objectives. Justify your answer. [7]

Additional information

Analysis of monthly budgeted production overheads revealed the following:

	$
Machine set-up costs	12 000
Quality inspections	7 000
Factory supervisors' salaries	14 000
Other production overheads	27 000
	60 000

The directors decided to allocate or apportion these costs using the following information.

Machine set-up costs	Machine set-ups take place 60 times a month for product A and 40 times a month for product B.
Quality inspections	Quality inspections take place 18 times a month for each product.
Factory supervisors' salaries	to be absorbed on the basis of direct labour hours
Other production overheads	to be split on a per unit basis

(c) State **one** advantage and **one** disadvantage to a business of splitting overheads on a per unit basis. [2]

(d) Prepare a revised statement showing the **total** budgeted profit or loss made in a month by each product, using the additional information about production overheads. The allocation of administrative and distribution costs is unchanged. [8]

(e) Advise the directors whether or not they should change the selling prices of the products. Justify your answer. [3]

[Total: 25]

Question 6

Source B2

Kurt runs a manufacturing business. He has decided to invest in some new machinery so that he can produce a new product. He anticipates that the net cash inflows resulting from the manufacture and sales of the new product would be as follows:

Year	$
1	89 000
2	76 000
3	63 000
4	41 000

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Explain what is meant by the term ‘net cash inflow’. [2]

Additional information

Kurt uses a cost of capital of 12%. The discount factors for this are as follows:

Year	
1	0.893
2	0.797
3	0.712
4	0.636

Kurt is considering two options for the purchase of the machinery to make the new product.

Option 1: The purchase of machinery costing $150 000 which would have no scrap value at the end of year 4. This would result in the manufacture of the new product having a net present value (NPV) of $60 981.

Option 2: The purchase of machinery costing $290 000 which would have a scrap value at the end of year 4, although as yet this scrap value has not been estimated.

(b) Calculate the scrap value of the machinery at the end of year 4 which would result in Option 2 having an NPV:

(i) of zero [8]

(ii) equal to the NPV of Option 1. [4]

(c) Explain why the payback period is shorter for Option 1 than it is for Option 2 when the net cash flows are the same. [2]

(d) Explain why a shorter payback period is preferable to a longer one. [2]

(e) Explain why a project having a zero NPV is not the same as its having a zero total profit. [2]

Additional information

It was later determined that under Option 2 the machinery could be sold at the end of year 4 for proceeds of $225 000. With this value the accounting rate of return for Option 2 would be lower than the accounting rate of return for Option 1.

(f) Advise Kurt which option he should implement. Justify your answer. [5]

[Total: 25]

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