



Cambridge International AS & A Level

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/32

Paper 3 Structured Questions

October/November 2021

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 **24** pages. Any blank pages are indicated.

Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

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

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..... [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.

Workings:

[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.

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..... [2]

[Total: 25]

2 Read Source A2 in the insert.

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

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

(i) the value of subscriptions received and banked

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..... [3]

(ii) cash takings banked

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(iii) club expenses paid by cash.

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3 Read Source A3 in the insert.

(a) (i) Calculate the earnings per share for 2019.

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

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

(i) the price earnings ratio

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

- 1
- 2 [2]

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

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- [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.

- 1
- 2 [2]

[Total: 25]

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.

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

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(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.

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

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[Total: 25]

PLEASE TURN OVER

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

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..... [3]

[Total: 25]

6 Read Source B2 in the insert.

(a) Explain what is meant by the term 'net cash inflow'.

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..... [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.

(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.

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

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

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