Cambridge Assessment International Education

# Cambridge International AS & A Level

**ACCOUNTING** **9706/32**

Paper 3 Structured Questions **May/June 2020**

INSERT **3 hours**

*8289165225-I*

**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 **16** pages. Blank pages are indicated.

DC (SC) 181613/6
© UCLES 2020

## Section A: Financial Accounting

### Question 1

**Source A1**

The statements of financial position of P plc at 31 December were as follows.

| | 2019 $ | 2018 $ |
|---|---|---|
| Non-current assets | | |
| Plant and machinery | 344 250 | 225 000 |
| Motor vehicles | 90 000 | 136 000 |
| | 434 250 | 361 000 |
| Current assets | | |
| Inventory | 34 650 | 44 600 |
| Trade receivables | 49 700 | 38 900 |
| Cash and cash equivalents | Nil | 12 400 |
| | 84 350 | 95 900 |
| Total assets | 518 600 | 456 900 |
| Equity and liabilities | | |
| Equity | | |
| Ordinary share capital ($1 shares) | 300 000 | 300 000 |
| Share premium | 40 000 | 40 000 |
| Retained earnings | 61 700 | 88 200 |
| | 401 700 | 428 200 |
| Non-current liabilities | | |
| Bank loan | 80 000 | Nil |
| Current liabilities | | |
| Trade payables | 21 600 | 20 100 |
| Other payables | 6 800 | 8 600 |
| Bank overdraft | 8 500 | Nil |
| | 36 900 | 28 700 |
| Total equity and liabilities | 518 600 | 456 900 |

Other payables included the following:

| | 2019 $ | 2018 $ |
|---|---|---|
| Accrued expenses | 1100 | 3400 |
| Accrued interest | 2600 | Nil |
| Tax payable | 3100 | 5200 |
| | 6800 | 8600 |

© UCLES 2020

The following information relating to the year ended 31 December 2019 is also available.

1 A motor vehicle with net book value of $7000 was sold for $8300.

2 Additional machines costing $180 000 were purchased.

3 Interest expenses, $4800, were incurred.

4 Tax charge was $3100.

5 An interim dividend of $0.08 per share was paid in August 2019.

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

**(a)** State the usefulness of a statement of cash flows to potential shareholders. [3]

**(b)** Calculate the profit from operations for the year ended 31 December 2019. [5]

**(c)** Prepare a reconciliation of the profit from operations to the cash from operations or cash used in operations for the year ended 31 December 2019. [7]

**(d)** Prepare an extract of statement of cash flows for the year ended 31 December 2019, showing the net cash from or used in:

**(i)** operating activities [3]

**(ii)** financing activities. [2]

**Additional information**

During a directors' meeting in April 2020, one of the directors said:

'We have to make our shareholders happy. Even though the bank overdraft has increased since 31 December 2019, we still have to pay cash dividends for 2020 to our shareholders.'

All the directors agreed with this view.

**(e)** Discuss whether or not it is appropriate for P plc to pay out cash dividends to shareholders in 2020. Justify your answer. [5]

[Total: 25]

**Question 2**

**Source A2**

Amir and Ishan had been in partnership providing IT solutions. They shared profits and losses in the ratio of 3 : 2 respectively.

Raj had a similar business as a sole trader. Raj merged his business with Amir and Ishan on 30 June 2019.

Balances at 30 June 2019 were as follows.

| | Amir and Ishan | Raj |
|---|---|---|
| | $ | $ |
| Plant and equipment | 431 000 | 53 200 |
| Inventory | 47 200 | 12 500 |
| Trade receivables | 52 800 | 26 300 |
| Trade payables | 37 300 | 14 950 |
| Cash at bank | 13 600 | 11 300 |
| Capital account | | |
| Amir | 300 000 | |
| Ishan | 200 000 | |
| Raj | | 88 350 |
| Current account | | |
| Amir | 11 100 credit | |
| Ishan | 3 800 debit | |

The following arrangements had been agreed upon the merger.

1 The goodwill of the businesses was agreed as: Amir and Ishan $25 000, Raj $50 000.

2 All Raj's assets and liabilities would be taken over by the partnership except cash at bank.

3 Assets of Amir and Ishan would remain at their book value.

4 Raj's assets would be revalued as follows:
plant and equipment and inventory increased by 5%
trade receivables reduced by 10%.

5 Raj's initial capital would be $100 000. Out of the amount payable to Raj upon the final settlement, Raj agreed that $20 000 would be a long-term loan to the new partnership at an interest rate of 4% per annum.

© UCLES 2020

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

**(a)** Calculate the net amount payable to Raj by Amir and Ishan. [6]

**Additional information**

The partners also agreed to the following terms.

1 The profit and loss sharing ratio among Amir, Ishan and Raj would be 3:2:1 respectively.

2 The total goodwill would **not** be maintained in the books.

**(b)** Prepare the statement of financial position of the new partnership on 1 July 2019. [12]

**(c)** Explain **two** reasons why Amir and Ishan prefer asking for a loan from Raj instead of from the bank. [4]

**Additional information**

Amir's friend Lala has just left an international IT firm and wants to join the partnership.

**(d)** Advise whether or not Amir, Ishan and Raj should admit Lala as a partner. Justify your answer. [3]

[Total: 25]

**Question 3**

**Source A3**

The J Club prepares its accounts to 31 December annually. It also runs a shop for the exclusive use of its members. All shop sales are made on a cash basis. The shop takings are banked on the same day.

A summary of the bank statement for the year ended 31 December 2019 is as follows.

| | $ |
|---|---|
| Bank balance at 1 January | 9850 |
| Bank receipts | |
| Subscriptions received | 78650 |
| Shop takings | 49200 |
| Bank payments | |
| Club administrative expenses | 78600 |
| Shop wages | 18700 |
| Shop expenses | 9400 |
| Shop purchases | 15100 |
| Bank balance at 31 December | 15900 |

The following balances are also available.

| | 1 January 2019 | 31 December 2019 |
|---|---|---|
| | $ | $ |
| Shop inventory | 1300 | 1100 |
| Shop trade payables | 2740 | 2810 |
| Subscriptions due | 1600 | 1900 |
| Subscriptions in advance | 1200 | 400 |
| Club equipment | | |
| Cost | 40000 | 40000 |
| Accumulated depreciation | 32000 | ? |

The bank reconciliation statement for the month of December 2019 showed that $870 representing the shop takings on 31 December 2019 had not been credited by the bank.

Depreciation on club equipment is to be 20% per annum using the straight-line method.

© UCLES 2020

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

**(a)** Prepare a statement to show the shop's gross profit **and** profit for the year ended 31 December 2019. [4]

**(b)** Prepare the club's income and expenditure account for the year ended 31 December 2019. [5]

**(c)** Prepare a statement showing the **movement** in the club's accumulated fund for the year ended 31 December 2019. [3]

**(d)** State **four** differences between the financial statements of a limited company and the financial statements of a not-for-profit organisation. [4]

**Additional information**

All the club equipment was purchased on 1 January 2015. The replacement cost of club equipment is $50 000.

**(e)** Analyse the club's ability to replace the club equipment in 2020. [4]

**Additional information**

The treasurer of the club proposes that the club could increase members' subscriptions to finance the replacement of club equipment.

**(f)** Discuss whether or not the club should increase members' subscriptions for this purpose. Justify your answer. [5]

[Total: 25]

**Question 4**

**Source A4**

The financial year of W plc ends on 31 December. The summarised total assets in the draft statement of financial position at 31 December 2019 were as follows.

| | $ |
|---|---|
| Non-current assets | 556 000 |
| Current assets | 224 000 |
| Total assets | 780 000 |

The following information is also available.

Current ratio 1.6 : 1

Gearing ratio 12.5%

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

**(a)** Prepare the summarised equity and liabilities section of the draft statement of financial position of W plc at 31 December 2019. [4]

**Additional information**

The non-current liabilities were represented by the bank loan obtained in 2018. The interest is 5% per annum.

Return on capital employed was 22.50%.

**(b)** Calculate the draft profit for the year ended 31 December 2019. [3]

**Additional information**

W plc had the following balances at 1 January 2019.

| | $ |
|---|---|
| Ordinary share capital ($1 shares) | 200 000 |
| Share premium | 35 000 |
| General reserve | 21 000 |

In January 2019, 100 000 ordinary shares were issued at $1.40 per share.

On 30 November 2019, a final dividend was paid. The dividend cover for the year was 2.5 times.

In December 2019, a bonus issue of one ordinary share for every six held was made. The reserves were maintained in their most flexible form.

On 31 December 2019, retained earnings of $18 000 were transferred to the general reserve.

**(c)** Prepare the draft statement of changes in equity for the year ended 31 December 2019. The total column is **not** required. [10]

© UCLES 2020

**Additional information**

On 18 January 2020, before the draft financial statements were presented to the auditors, it was found that one of the customers, owing $8000 at 31 December 2019, had been declared bankrupt.

**(d)** Define the meaning of the terms 'adjusting events' and 'non-adjusting events' according to IAS 10. [4]

**(e)** Explain the appropriate accounting treatment of the amount of $8000 owed by a customer declared bankrupt at 31 December 2019. [4]

[Total: 25]

## Section B: Cost and Management Accounting

**Question 5**

### Source B1

V Limited operates a standard costing system and a system of budgetary control.

The budgeted information and standard costs for March 2020 were as follows.

| | |
|---|---|
| Budgeted output | 2 500 units |
| Budgeted fixed overheads | $48 000 |
| Standard cost per unit | |
| Direct materials | $24 (3 kilos at $8 each) |
| Direct labour | $64 (4 hours at $16 each) |

V Limited uses labour hours to absorb fixed overheads.

The actual results for March 2020 were as follows.

| | |
|---|---|
| Output | 2 400 units |
| Fixed overheads | $49 800 |
| Direct materials cost | $68 340 |
| Direct materials usage | 8 040 kilos |
| Direct labour costs | $156 864 |
| Direct labour hours | 9 120 hours |

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

**(a)** Prepare a cost statement, in a columnar form, showing the master budget, flexed budget, and the actual result. [7]

**(b) (i)** Calculate the direct materials variance. [1]

**(ii)** Analyse the reasons for the direct materials variance. Support your answer with calculations. [4]

**(c) (i)** Calculate the direct labour variance. [1]

**(ii)** Analyse the reasons for the direct labour variance. Support your answer with calculations. [4]

**(d) (i)** Calculate the total fixed overheads variance. [1]

**(ii)** Calculate the fixed overheads expenditure variance. [1]

**(iii)** Calculate the fixed overheads volume variance. [1]

© UCLES 2020

**Additional information**

In a meeting reviewing the **April 2020** budget, a director suggested that the production manager should be fully accountable for the adverse variances of direct materials and direct labour in **April 2020**. The production manager explained that due to the main supplier's failure to supply the required materials, he had to ask the manager of the purchasing department to buy the materials from another supplier. This had caused a delay in production.

**(e)** Discuss whether or not the production manager should be fully accountable for the adverse variances in direct materials and direct labour. Justify your answer. [5]

[Total: 25]

**Question 6**

**Source B2**

T limited has the following sales budget (in units) for the first five months of 2021.

| January | February | March | April | May |
|---|---|---|---|---|
| 2400 | 2600 | 2800 | 3000 | 3200 |

The following information is also available.

1 The budgeted unit contribution will be:

| | $ |
|---|---|
| selling price | 75 |
| raw materials 3 kilos at $8 each | 24 |
| direct wages 2 hours at $14 each | 28 |
| contribution | 23 |

2 The ratio of credit sales to cash sales is 3 : 2 respectively. Credit customers are normally allowed a 2-month credit period. However, they will enjoy a 5% cash discount if they settle their trade debts in the following month after sales. It is estimated that 20% of customers will take the cash discount.

3 Products sold during a month will be produced one month before they are sold. Raw materials will be purchased one month before the production. Suppliers will be paid one month after the purchases.

4 80% of wages will be paid in the month of production while the remainder will be paid in the following month.

5 An additional machine, costing $36 000, will be purchased and paid for in April.

6 Other overheads of $56 210 will be paid in the month they are incurred. This includes depreciation of $4200. The additional machine will increase the depreciation by $600 each month from April.

7 Cash balance at 1 March 2021 is estimated to be $39 400.

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

**(a)** Prepare a cash budget for **each** of the months of March and April. [13]

**(b)** Explain **two** purposes of preparing a monthly cash budget. [4]

**(c)** Assess whether the budgeted April sales will achieve or exceed the break-even point. [4]

© UCLES 2020

**Additional information**

The directors are considering measures to improve the company's cash position.

**(d)** Explain to what extent making sales exceeding the break-even point will improve the company's cash position. [4]

[Total: 25]

**BLANK PAGE**

© UCLES 2020

**BLANK PAGE**

© UCLES 2020

**BLANK PAGE**

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which itself is a department of the University of Cambridge.

© UCLES 2020