Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

6019256804

ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 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.

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Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

(a) Prepare the realisation account.

Realisation account

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[8]

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(b) State **two** differences between a realisation account and a revaluation account.

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[2]

(c) Prepare a statement showing the final settlement to or from **each** of the partners.

	Alan $	Brian $
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[8]

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[Turn over

(d) Calculate the goodwill arising from acquiring the partnership business by Z Limited.

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..... [2]

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Additional information

Before acquiring the partnership business, Z Limited had two equal shareholders and a total share capital of $1 000 000. These shareholders are the directors of the company.

A few months after acquiring the partnership business, Z Limited decided to acquire the business of a sole trader. The agreed consideration would be $800 000. The sole trader requested:

1 the consideration should be settled by 640 000 ordinary shares of Z Limited; and

2 a directorship in Z Limited.

(e) Advise the directors whether or not they should accept the request of the sole trader. Justify your answer showing relevant calculations.

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[5]

[Total: 25]

2 Read Source A2 in the insert.

(a) (i) State how non-current asset turnover is calculated.

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..... [1]

(ii) Explain why a company may want to know this ratio.

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..... [2]

(b) Calculate the total net book value of non-current assets of Y Limited at 31 December 2019.

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..... [1]

Additional information

Y Limited classifies non-current assets into three categories. The accumulated depreciation at 31 December 2019 for each category was:

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Property	128 000
Plant and equipment	168 800
Furniture and fixtures	101 200

The net book values of the three categories at 31 December 2019 were in the proportion of 5 : 3 : 2.

The following information relates to the accounting year ended 31 December 2020.

1 On 1 January 2020, the property was revalued at $360 000.

2 On 1 March 2020, office furniture was purchased at the cost of $25 000.

3 On 1 July 2020, an item of old equipment was part exchanged for a new item. Y Limited paid cash, $34 000, as a part payment for the new item. The old item had an original cost of $35 000 and was fully depreciated. Its part exchange value was $8000.

4 A full year's depreciation is charged in the year of purchase and none in the year of sale.

5 Non-current assets are depreciated as follows:

Property	Straight-line method over 20 years
Plant and equipment	20% per annum reducing balance method
Furniture and fixtures	20% per annum straight-line method

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(c) Prepare the non-current assets schedule to use as a note to the financial statements for the year ended 31 December 2020.

	Property $	Plant and equipment $	Furniture and fixtures $	Total $
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Workings:

[14]

Additional information

The directors plan to buy new motor vehicles in 2021.

(d) Explain to the directors why they need to depreciate motor vehicles.

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(e) Explain to the directors the impact on the profit of using **each** of the straight-line and the reducing balance method of depreciation.

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..... [4]

[Total: 25]

3 Read Source A3 in the insert.

(a) Explain **two** disadvantages to a consignor in making sales on a consignment basis.

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[4]

(b) Prepare the consignment account in the books of Tan for the year ended 31 March 2021.

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Workings:

[10]

(c) Explain **three** reasons why Tan sells motors at a lower selling price for the consignment sales.

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[6]

Additional information

Tan finds that his products are well received in country B. He plans to set up a company in country B to sell his products.

(d) Advise Tan whether or not he should set up a company in country B to sell his products. Justify your answer.

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[Total: 25]

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4 Read Source A4 in the insert.

(a) State **three** features of financial statements which show a 'true and fair view'.

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[3]

(b) Explain to the directors the appropriate accounting treatments for information items **1i**, **1ii** and **2**, making reference to the relevant International Accounting Standards (IAS).

Item 1i .....

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Item 1ii .....

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Item 2 .....

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[9]

(c) Prepare the revised statement of financial position at 31 December 2020 using all the available information.

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Workings:

[10]

Additional information

A director of G Limited says 'whether the financial statements show a true and fair view does not really matter to the company'.

(d) Comment on whether or not the director's statement is correct. Justify your answer.

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..... [3]

[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Calculate the overhead absorption rate.

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..... [2]

(b) Calculate the budgeted unit cost **and** the unit selling price of **each** product.

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(c) Calculate the budgeted **total** profit of D Limited for the coming year.

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Additional information

A newly recruited management accountant advises that D Limited should use activity based costing (ABC) to allocate fixed overhead costs to the two products. The management accountant has provided the following information relating to sofas and tables.

Activity	Overhead costs $	Cost driver	Sofas	Tables
Setups	100 000	Number of setups	600	400
Machine operations	320 000	Machine hours	5 000	3 000
Materials cutting	120 000	Cutting hours	400	200
Inspection	60 000	Inspection hours	500	500
	600 000			

(d) Calculate the budgeted unit cost **and** the unit selling price for **each** product using ABC.

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Workings:

[7]

(e) Explain the reason for the change in the budgeted selling price between **(b)** and **(d)** for **each** product.

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..... [2]

Additional information

The directors decide to adopt ABC in the coming year.

Due to a higher mark-up on sofas, the directors plan to make a change to the budgeted production volume for each product. They want to shift the direct labour resources to produce more sofas and produce only 3000 tables in the coming year. However, additional $90 000 training costs and $110 000 for converting the existing machines would be incurred.

(f) Advise the directors whether or not they should make the change. Justify your answer with reference to the financial factors only.

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Workings:

[5]

[Total: 25]

6 Read Source B2 in the insert.

(a) State **two** benefits to a business of preparing budgets.

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[2]

(b) Prepare the trade receivables budget for **July**.

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Workings:

[10]

(c) (i) Comment on W Limited's existing management of trade receivables.

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..... [3]

(ii) Suggest **three** ways to improve management of trade receivables.

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[3]

Additional information

W Limited purchases goods one month before sale. 40% of goods purchased are paid for in the month of purchase to get a discount of 2%. The remaining are paid for in the next month following purchase. A mark-up of 25% is applied on all sales.

(d) Prepare the trade payables budget for **July**.

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Workings:

[7]

[Total: 25]

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