Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2653138623

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2020**

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 **20** pages. Blank pages are indicated.

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Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

(a) Calculate the amount of unrealised profit included in inventory on 31 December 2019.

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..... [2]

(b) Calculate the rate of factory profit being applied in 2019.

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..... [2]

(c) Prepare the income statement for the year ended 31 December 2019.

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Workings:

[14]

Additional information

The factory manager has suggested that a rate of factory profit of 50% should be applied every year.

(d) Advise Barry whether or not he should apply a rate of factory profit of 50%. Justify your answer.

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..... [5]

(e) Explain where carriage on raw materials is recorded in the financial statements of a manufacturing business.

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..... [2]

[Total: 25]

2 Read Source A2 in the insert.

(a) Calculate the profit for the year ended 31 December 2019.

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(b) Prepare the **correct** equity and liabilities section of the **statement of financial position** at 31 December 2019.

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Workings:

[16]

Additional information

The financial statements of PL plc also contain a value for goodwill.

(c) Explain the event which has taken place and caused the company to record the value for goodwill.

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..... [2]

(d) State **two** other reasons why goodwill might arise.

1 .....

2 ..... [2]

(e) Explain what is meant by the term 'audit'.

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..... [2]

[Total: 25]

3 Read Source A3 in the insert.

(a) Prepare the following in Maria's books of account.

(i) Consignment to Nakula account

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..... [5]

(ii) Consignment to Pedro account

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(b) Calculate the rate of commission paid to Pedro.

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..... [2]

Additional information

By the accounting year end, Pedro had remitted to Maria all the monies due to her from the consignment. However, Nakula had made no remittances of monies to Maria.

(c) Prepare the following in Maria's books of account.

(i) Nakula account

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..... [4]

(ii) Pedro account

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..... [4]

(d) Explain how unsold goods held by an agent are valued.

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..... [3]

(e) Calculate the number of units held in inventory by Nakula at 31 March 2020.

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..... [3]

[Total: 25]

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4 Read Source A4 in the insert.

(a) Explain why the use of ratios may be helpful in analysing accounting data.

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..... [3]

(b) (i) Calculate, to **two** decimal places, TC plc's income gearing ratio.

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..... [2]

(ii) State what this ratio tells an investor about the risk of the company.

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..... [1]

(iii) Name **one** other ratio which assesses the relationship between fixed cost capital and total capital.

..... [1]

(c) (i) Calculate, to **two** decimal places, TC plc's dividend cover.

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..... [2]

(ii) State what this ratio tells an investor about the company's potential for capital growth.

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..... [1]

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(d) **(i)** Calculate, to **two** decimal places, TC plc's dividend yield.

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..... [2]

(ii) State what this ratio tells an investor in the company who needs income.

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..... [1]

(e) Name and calculate the ratio which shows the amount of profit attributable to each ordinary share.

Name .....

Calculation .....

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..... [3]

(f) Name and calculate, to **two** decimal places, the ratio which measures the confidence investors have in the future of the business.

Name .....

Calculation .....

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..... [4]

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Additional information

Fred is considering investing in TC plc. His brother says that in order to make a decision, Fred does **not** need to look at the income statement and statement of financial position, but only needs to look at the directors' report.

(g) Advise Fred whether or not he should follow his brother's advice. Justify your answer.

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..... [5]

[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Calculate, to **two** decimal places, the profit or loss per unit of **each** product.

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Additional information

The following additional monthly data is available.

1 Approximately 40% of the floor space in the factory is used in the manufacture of product A and 60% in the manufacture of product B.

2 The machinery used to manufacture product A is set up 300 times a month and the machinery for product B 500 times a month.

3 The number of orders packed for despatch are 700 a month for product A and 420 a month for product B.

4 300 quality inspections take place each month for product A and 700 for product B.

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(b) Calculate the amount of overhead allocated or apportioned to each product using the additional monthly data.

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(c) Name and explain why one of Bob's overhead costs cannot be allocated using activity based costing.

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(d) Calculate, to **two** decimal places, the profit or loss per unit of **each** product which would be earned if overheads were calculated using the additional monthly data.

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(e) Advise Bob whether or not he should make any changes to the selling prices. Justify your answer.

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..... [5]

[Total: 25]

PLEASE TURN OVER

6 Read Source B2 in the insert.

(a) Calculate the **total** revenue for **each** year for:

(i) the original plan

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..... [1]

(ii) the revised plan.

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..... [1]

Additional information

The majority of the running costs of the cruises will be fixed. Variable costs are expected to amount to $30 for each ticket sold.

(b) Calculate the **total** variable cost for **each** year for:

(i) the original plan

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..... [2]

(ii) the revised plan.

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..... [2]

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Additional information

1 The cost of employing the historians will add $125 000 per annum to the total fixed costs of running the cruises.

2 The capacity of the boat restricts the total number of tickets which can be sold each year to 10 000.

3 Samir uses a cost of capital of 10% per annum. The discount factors for this rate are as follows.

year 1	0.909
year 2	0.826

(c) Calculate the **increase** in NPV which would arise if the revised plan was used instead of the original.

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..... [8]

(d) Calculate the total number of tickets Samir would have to sell in **year 1** under the revised plan so that the increase in revenue equalled the additional fixed costs.

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..... [3]

(e) Assess any concerns Samir might have about the revised plan.

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..... [2]

(f) Advise Samir whether or not he should implement the revised plan. Justify your answer.

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(g) Explain how sensitivity analysis helps in investment appraisal.

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..... [3]

[Total: 25]

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