Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

1736965995

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.

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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.

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

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(c) Prepare the statement of financial position at 31 December 2020 after taking into account all necessary information. Use the space provided on the **next page** for your workings.

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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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(ii) cash takings banked

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(iii) club expenses paid by cash.

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

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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.

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[Total: 25]

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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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(ii) the dividend yield.

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

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

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

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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]

4 Read Source A4 in the insert.

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

1 .....

2 .....
[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.

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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

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

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

	Product A $	Product B $
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[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.

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

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Additional information

Analysis of monthly budgeted production overheads revealed the following:

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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.

Advantage .....

.....

Disadvantage .....

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[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.

	Product A $	Product B $
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[8]

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

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[Total: 25]

6 Read Source B2 in the insert.

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

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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.

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(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

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(ii) equal to the NPV of Option 1.

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(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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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.

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[Total: 25]

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