Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

1923414812

ACCOUNTING **9706/32**

Paper 3 Structured Questions **February/March 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 **28** pages. 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 manufacturing account for the year ended 31 December 2019.

Workings:

[8]

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

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Workings:

[7]

(c) Calculate the amount at which finished goods are included in inventory at 31 December 2019.

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(d) Explain, with the support of accounting concepts, the treatment of unrealised profit on finished goods in **both** the income statement and statement of financial position.

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(e) Advise the directors of T Limited whether or not they should continue basing the transfer price on the price paid to an outside supplier. Justify your answer.

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[Total: 25]

2 Read Source A2 in the Insert.

(a) Prepare the café trading account for the year ended 31 December 2019, showing clearly the closing café inventory.

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Additional information

The club had prepared an income and expenditure account for the year ended 31 December 2019. The following items were shown in the income and expenditure account.

	$
Subscriptions	322 000
Administrative expenses	251 100
Depreciation: furniture and fixtures	16 640

(b) Prepare the receipts and payments account for the year ended 31 December 2019.

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Workings:

[8]

(c) State **two** differences between an income and expenditure account and a receipts and payments account.

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[2]

Additional information

The treasurer is aware that in early 2020, the club will receive two sums of donations from two wealthy members. One donor intends his donation to be used for maintaining the general running of the club in future years. The other donor intends his donation to be used for building a swimming pool in a few years' time.

(d) Explain the appropriate accounting treatment for the donation for:

(i) maintaining the general running of the club in future years

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(ii) building a swimming pool in a few years' time.

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Additional information

In view of the large cash balance in the club, the committee is thinking of making a distribution to the existing members, just like paying a dividend to shareholders in a limited company.

(e) Advise the committee whether or not the proposed distribution should be made. Justify your answer.

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[Total: 25]

3 Read Source A3 in the Insert.

(a) Calculate the value of goodwill of **each** of Ahmed's and Omar's businesses.

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(b) Prepare the statement of financial position of the partnership at 1 January 2020 if goodwill is included.

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Additional information

The profit and loss sharing ratio between Ahmed and Omar is 3:2.

Both partners also agreed that goodwill would not be maintained in the books of account.

(c) Calculate the capital account balance of **each** partner after goodwill is eliminated.

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(d) Explain the meaning of the term 'goodwill'.

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(e) Explain why the goodwill account is not maintained in the books of the partnership. Support your answer by reference to the accounting concepts.

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Additional information

The partners plan to purchase additional equipment costing $80 000. They are considering making loans to the partnership or applying for a bank loan.

(f) State **one** advantage and **one** disadvantage to the partnership of each option.

Making loans to partnership

Advantage

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Disadvantage

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Applying for a bank loan

Advantage

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Disadvantage

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[4]

[Total: 25]

4 Read Source A4 in the Insert.

(a) Calculate, to **two** decimal places, the following ratios:

(i) earnings per share .....

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(ii) price earnings ratio .....

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(iii) dividend cover .....

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..... [1]

(iv) dividend yield. .....

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Additional information

The directors of J plc aim to maintain a higher dividend cover in the coming three years.

(b) Explain why the directors wish to maintain a higher dividend cover.

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Additional information

During the year ended 31 December 2019, J plc was sued by a customer for the breach of a sales contract. The case will be heard in court in May 2020. The lawyer of J plc advises the directors that it is highly probable that the company will be found liable and the compensation is likely to be $20 000. No accounting entries have been made to record this.

(c) Define the following terms:

(i) liability .....

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(ii) provision .....

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..... [2]

(iii) contingent liability. .....

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(d) Explain the accounting treatment of the expected compensation of $20 000 in the financial statements by making reference to the relevant International Accounting Standard (IAS).

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Additional information

J plc needs additional funds for future expansion. The directors are considering the following two options:

option 1 : rights issue of ordinary shares

option 2 : further issue of 6% debentures.

(e) Advise the directors which of the two options they should choose. Justify your answer.

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[Total: 25]

Section B : Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the Insert.

(a) (i) Explain the meaning of the term 'master budget'.

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(ii) State **two** components of a master budget (other than production and purchases).

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(b) Prepare the following budgets for **each** of the months of February and March 2020.

(i) Production budget (in units)

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(ii) Purchases budget (in kilos)

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Additional information

There will be an increasing trend in the purchase price of direct materials. The purchase price of direct materials for the first three months is expected to be:

	per kilo $
January	3.25
February	3.50
March	3.60

Z Limited adopts the first-in, first-out (FIFO) method to value direct materials inventory.

(c) Calculate the budgeted cost of direct materials consumed for the month of February 2020.

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Workings:

[4]

(d) Explain the impact on profit of using FIFO and average cost (AVCO) in the circumstances of rising direct materials price.

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Additional information

The marketing manager of the company is of the opinion that due to the unpredictable economic climate, it is not worthwhile to prepare a budget.

(e) Discuss whether or not the marketing manager's opinion is correct. Justify your answer.

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[Total: 25]

6 Read Source B2 in the Insert.

(a) Calculate for the proposed investment:

(i) the payback period (in months) .....

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(ii) the net present value (NPV) .....

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(iii) the internal rate of return (IRR). .....

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(b) Advise the directors whether or not they should buy the machine. Justify your answer by reference to your calculations in **part (a)**.

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Additional information

The cost of the machine, $480 000, includes the purchase price plus a 20% tariff (import duty) on the purchase price. Due to a recent trade agreement, it is highly probable that the 20% tariff will be abolished.

On the basis that the tariff is to be abolished, the directors have recalculated the payback period and NPV and decided to buy the machine.

(c) Comment on the directors' decision to buy the machine when the tariff is abolished. Support your answers with relevant calculations.

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(d) Explain why the directors of W Limited use the payback period and NPV to make their investment decisions.

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[Total: 25]

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