Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **February/March 2021**

INSERT **3 hours**

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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 **12** pages. Any blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

The statements of financial position of P Limited and Euan, a sole trader, at 31 January 2021 were as follows:

	P Limited $	Euan $
Assets		
Non-current assets		
Property, plant and equipment	935 000	244 000
Current assets		
Inventories	195 000	63 000
Trade receivables	312 000	125 000
Cash and cash equivalents	213 000	11 000
	720 000	199 000
Total assets	1 655 000	443 000
Equity and liabilities		
Equity		
Ordinary share capital ($1 shares)	1 200 000	
General reserve	90 000	
Retained earnings	169 000	
Capital		374 000
Total equity	1 459 000	374 000
Current liabilities		
Trade payables	196 000	69 000
Total equity and liabilities	1 655 000	443 000

P Limited acquired the business of Euan on 31 January 2021. It acquired all the assets and liabilities of Euan except cash at bank of $11 000. The value of assets and liabilities at 31 January 2021 of Euan was agreed as follows:

1 Property, plant and equipment would be 25% above the net book value.

2 A provision for doubtful debts of 4% would be required.

3 The value of inventories would remain unchanged.

4 A cash discount of $4000 from trade payables would be expected.

For the purpose of acquisition, Euan would receive from P Limited the following:

1 Ordinary shares: 300 000 shares valued at $1.50 per share

2 A motor vehicle (net book value $20 000 at 31 January 2021) at the value of $28 000

3 Cash $60 000

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Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Explain how purchased goodwill may arise. [4]

(b) Calculate the amount of consideration payable by P Limited to Euan. [2]

(c) Prepare the statement of financial position of P Limited immediately after acquiring Euan's business. [13]

Additional information

The directors consider that acquiring Euan's business can bring future economic benefits to P Limited.

(d) Explain how acquiring Euan's business can bring the benefits to P Limited. [6]

[Total: 25]

Question 2

Source A2

Sunshine Social Club is a sports club and has a year-end of 31 December. The club started admitting life members in 2015. It is the policy of the club that a life membership fee is initially credited to a life membership fund and recognised in the income and expenditure account over five years equally. Life membership fees received in the previous five years were as follows:

	$
2019	6500
2018	4000
2017	4500
2016	2000
2015	1000

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the life membership fund shown in the statement of financial position at **31 December 2019**. [3]

Additional information

The treasurer of the club has prepared the receipts and payments account for the year ended 31 December 2020 as follows:

Receipts and payments account

	$		$
Balance b/d	3200	Purchase of club equipment	24000
Membership subscriptions	73000	Clubhouse expenses	37000
Special donation	10000	Administrative expenses	46000
Life membership fees	8000		
Sale of club equipment	2200		
Balance c/d	10600		
	107000		107000

The special donation of $10000, received during 2020, is designated for the club's anniversary activities in 2022. The treasurer is unsure whether this amount should be treated as income for the year ended 31 December 2020.

(b) State **three** differences between a receipts and payments account and an income and expenditure account. [3]

(c) Explain to the treasurer, with reference to the appropriate accounting concepts, the accounting treatment of the special donation of $10000 in the financial statements of the club. [5]

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Additional information

1 During the year ended 31 December 2020, an item of fully depreciated club equipment, which had an original cost of $8000, was sold for $2200.

2 It is the club's policy to depreciate club equipment at an annual rate of 20% using the reducing balance method. A full year's depreciation is charged in the year of acquisition.

3 Selected balances at 31 December **2020** and at 31 December **2019** were extracted as follows:

	2020	**2019**
	$	$
Club equipment – cost	?	88 000
Club equipment – accumulated depreciation	?	52 000
Membership subscriptions in advance	1 100	2 700
Membership subscriptions in arrears	1 800	3 800
Administrative expenses paid in advance	0	4 200
Clubhouse expenses accrued	0	2 660
Administrative expenses accrued	650	0

(d) Prepare the income and expenditure account for the year ended 31 December 2020. [8]

Additional information

The chairman of the club decided to transfer $6000 from the accumulated fund to a fund designated for the anniversary activities on 31 December 2020.

(e) (i) Calculate the accumulated fund at 31 December 2019. [3]

(ii) Prepare a statement showing the movement on the accumulated fund for the year ended 31 December 2020. [3]

[Total: 25]

Question 3

Source A3

T Limited has a financial year end of 31 December. Its total assets and total liabilities were as follows:

	31 December **2020**	31 December **2019**
	$	$
Property, plant and equipment	867 000	842 000
Inventories	126 000	111 000
Trade receivables	299 520	254 400
Cash and cash equivalents		49 000
Total assets	1 292 520	1 256 400
8% debentures (2024–25)	120 000	200 000
Trade payables	179 400	171 000
Bank overdraft	42 000	
Total liabilities	341 400	371 000

The equity of T Limited at 31 December 2019 was as follows:

	31 December 2019
	$
Ordinary share capital ($1 shares)	600 000
Share premium	48 000
Revaluation reserve	75 000
Retained earnings	162 400
Equity	885 400

During the year ended 31 December 2020, the following transactions took place.

1 March	A dividend of $0.16 per share was paid.
1 April	A bonus issue of 1 share for every 10 ordinary shares held was made. The directors keep the reserves in the most flexible form.
1 October	50 000 new shares were issued at $1.40 each. All shares were subscribed for and fully paid.
1 December	Land (included in property, plant and equipment) was revalued upwards by $25 000.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare the statement of changes in equity for the year ended 31 December 2020, showing the profit for the year as the balancing figure. A total column **is** required. [7]

Additional information

The following transactions took place during the year ended 31 December 2020.

1 Additional machinery was purchased at the cost of $93 000.

2 A motor vehicle was sold for $26 000. It had a net book value of $29 000 at the date of disposal.

3 Interest paid and charged to the income statement amounted to $19 500.

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(b) Prepare a statement of cash flows for the year ended 31 December 2020 in accordance with IAS 7. [13]

(c) Assess the impact of the payment of the dividend **and** the partial repayment of the debenture on the cash and cash equivalents at 31 December 2020 of T Limited. [5]

[Total: 25]

Question 4

Source A4

The equity and non-current liabilities of W plc at 31 December 2020 are as follows:

	$
Equity	
Ordinary share capital ($1 shares)	600 000
8% preference share capital ($1 shares)	350 000
Share premium	50 000
Retained earnings	252 000
Total equity	1 252 000
Non-current liabilities	
7% ten year debenture (2026–27)	300 000

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State **two** benefits to **each** of the following groups when a company issues preference shares.

(i) the directors [2]

(ii) the preference shareholders [2]

Additional information

Retained earnings at 1 January 2020 amounted to $195 000.

During the year 2020, the preference shares dividend, $28 000, and the ordinary shares dividend, $90 000, were paid.

A dividend of $0.05 on each of the ordinary shares was proposed at the end of the year.

(b) Calculate the profit from operations for the year ended 31 December 2020. [3]

Additional information

The market value of one ordinary share at 31 December 2020 was $1.80.

(c) Calculate the following ratios to **two** decimal places for 2020.

(i) return on capital employed (ROCE) [1]

(ii) dividend cover [2]

(iii) dividend yield [2]

(iv) gearing [2]

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Additional information

The directors consider that the gearing ratio of W plc is too high.

(d) Explain **three** actions the directors could take to reduce the gearing ratio. [6]

Additional information

A director of W plc considers that both the debenture and the preference shares adversely affect the ordinary shareholders.

(e) Advise the director whether or not he is correct. Justify your answer. [5]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

N Limited manufactures one product. Budgeted information for the year 2020 was as follows:

Sales and production	8000 units
Standard cost per unit	
Direct materials	2 kilos at $10 per kilo
Direct labour	3 hours at $15 per hour
Fixed overhead (absorbed by direct labour hours)	$18

It is the practice of N Limited to perform variance analysis every year.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Define the term 'variance analysis'. [2]

(b) Explain **two** benefits of performing variance analysis. [4]

Additional information

Actual results for 2020 were as follows:

Sales and production	7 500 units
Direct materials (14 200 kilos)	$154 000
Direct labour (22 000 hours)	$342 000
Fixed overhead	$148 000

(c) Prepare a statement to show the flexed budgeted total production costs for 2020. [3]

(d) **(i)** Calculate the direct material variance. [1]

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

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

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

(f) Calculate the overhead absorption rate. [1]

(g) Calculate the fixed overhead volume variance. [2]

Additional information

N Limited plans to manufacture another product in 2021. A director suggests that the company should use activity based costing (ABC) in 2021. However, another director suggests that the existing cost basis should be retained.

(h) Advise the directors whether or not the company should use ABC in 2021. Justify your answer. [3]

[Total: 25]

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Question 6

Source B2

F Limited manufactures and sells one product. The sales budget for F Limited for the five months to 31 August 2021 is as follows:

	Units
April	2400
May	2600
June	3000
July	2800
August	2500

At all times F Limited expects the finished goods inventory to be 15% of the following month's sales.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State **two** benefits of preparing budgets. [2]

(b) Prepare the production budget for **each** of the months from April to June. [5]

Additional information

Each unit of product requires 2 kilos of raw materials. Materials are purchased one month before they are used for production. 50% of purchases for the month are paid in the month of purchase to receive a 5% cash discount and the remaining 50% are paid in the following month. Cost of raw materials is expected to be $8 per kilo.

(c) Prepare the purchases budget for **each** of the months from April to June. [6]

(d) Calculate the amount to be paid for purchases for **each** of the months from April to June. [7]

Additional information

The product is sold at $40 per unit. In late May 2021, F Limited is expected to receive an extra order from a long-term customer for 300 units to be delivered by the end of June 2021. However, F Limited will be at its maximum production capacity in June 2021. To fulfil the order, F Limited would have to purchase these units from an outside supplier at a cost of $38 per unit.

(e) Advise whether or not F Limited should accept the order and purchase 300 units from an outside supplier. Justify your answer. [5]

[Total: 25]

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