Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

6505375858

ACCOUNTING **9706/32**

Paper 3 Structured Questions **February/March 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 **28** 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) Explain how purchased goodwill may arise.

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

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(c) Prepare the statement of financial position of P Limited immediately after acquiring Euan's business. Use the space provided on the **next page** to show your workings.

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Workings:

[13]

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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.

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[Total: 25]

2 Read Source A2 in the insert.

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

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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.

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

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(c) Explain to the treasurer, with reference to the appropriate accounting concepts, the accounting treatment of the special donation of $10 000 in the financial statements of the club.

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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.
Use the space provided on the **next page** to show your workings.

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Workings:

[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.

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

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[Total: 25]

3 Read Source A3 in the insert.

(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.

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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.

(b) Prepare a statement of cash flows for the year ended 31 December 2020 in accordance with IAS 7. Use the space provided on the **next page** to show your workings.

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Workings:

[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.

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[Total: 25]

PLEASE TURN OVER

4 Read Source A4 in the insert.

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

(i) the directors

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[2]

(ii) the preference shareholders

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[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.

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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)

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(ii) dividend cover

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(iii) dividend yield

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(iv) gearing

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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.

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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.

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[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Define the term 'variance analysis'.

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

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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.

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(d) (i) Calculate the direct material variance.

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

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(e) **(i)** Calculate the direct labour variance.

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

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(f) Calculate the overhead absorption rate.

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(g) Calculate the fixed overhead volume variance.

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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.

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[Total: 25]

6 Read Source B2 in the insert.

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

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

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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.

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

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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.

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[Total: 25]

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