Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **February/March 2024**

INSERT **1 hour 30 minutes**

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INFORMATION

- This insert contains all of the sources referred to in the questions.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Source A for Question 1

Ada and Brian had been in partnership sharing profits and losses equally. They had contributed the same amount of capital.

On 1 January 2024, Ada's overdrawn current account balance was $3900. Brian's overdrawn current account balance was twice that of Ada. X Limited was formed on that date to acquire Ada and Brian's partnership business. The terms of the acquisition were:

1 The purchase consideration, $360 000, would be settled by issuing $1 ordinary shares at par value to the partners equally.

2 Each partner also agreed to subscribe $20 000 from their personal resources for additional shares at par.

3 All assets and liabilities would be taken over by X Limited after the following revaluation.

	Book value $	Revaluation
Equipment	230 000	Increased by 5%
Inventory	52 000	Decreased by 3%
Trade receivables	72 000	Decreased by 2%
Cash and cash equivalents	18 300	No change
Trade payables	64 000	No change

4 Ada and Brian would be the directors.

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Source B for Question 2

K plc's financial year ends on 31 December. An inexperienced bookkeeper had prepared a draft statement of cash flows for the year ended 31 December 2023 by only comparing the balance of each item in the statements of financial position for the years 2022 and 2023.

Draft statement of cash flows for the year ended 31 December 2023

	$
Increase in non-current assets at cost	(33 000)
Increase in provision for depreciation	22 800
Decrease in inventory	2 000
Increase in trade receivables	(7 000)
Decrease in trade payables	(1 500)
Increase in accrued loan interest	600
Increase in ordinary shares	20 000
Increase in share premium	5 000
Increase in retained earnings	9 600
Increase in 8% loan	10 000
Net increase in cash and cash equivalents	28 500
Cash and cash equivalents at the start of the year	38 900
Cash and cash equivalents at the end of the year	67 400

Information for the year ended 31 December 2023 is also available.

1 The following balances were on 1 January 2023.

	$
Non-current assets	
cost	325 000
provision for depreciation	195 000
Ordinary shares	180 000
Share premium	6 000
Retained earnings	25 100
8% Loan	20 000
Accrued loan interest	800

2 A new item of office equipment was purchased to replace equipment which was purchased in 2021. The equipment disposed of had a carrying value of $9000 at the date of disposal and was sold for $6200. It is the company policy to depreciate office equipment at 20% per annum using the straight-line method. A full year's depreciation is charged in the year of purchase but none is charged in the year of disposal.

3 Loan interest, $1600, was paid.

4 Dividends, $22 000, were paid.

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Source C for Question 3

G Limited manufactures and imports home appliances for local sales. Manufactured goods are for low income customers, while imported goods are for high income customers.

Information at 31 December 2023 extracted from the books of account was as follows:

	$
Inventory at 1 January 2023	
Direct materials	46 000
Work in progress	21 000
Finished goods	
Imported	36 000
Manufactured (at transfer price)	56 400
Non-current assets at cost	
Machinery	225 000
Office equipment	124 000
Provision for depreciation at 1 January 2023	
Machinery	107 000
Office equipment	74 000
Revenue	
Imported goods	378 400
Manufactured goods	498 000
Purchases	
Imported goods	226 000
Direct materials	133 000
Carriage inwards	
Imported goods	4 200
Direct materials	6 900
Direct wages	148 000
Manufacturing expenses	45 400
Office expenses	204 000

Further information is also available.

1 G Limited applies a constant rate of factory profit of 20%.

2 Inventory at 31 December 2023 was as follows:

	$
Direct materials	36 200
Work in progress	25 800
Finished goods	
Imported	39 600
Manufactured (at transfer price)	51 600

3 Machinery and office equipment are depreciated at the rate of 15% per annum using the reducing balance method.

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