Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 2016**

3 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.
All accounting statements are to be presented in good style.
International accounting terms and formats should be used as appropriate.
Workings should be shown.
You may use a calculator.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **11** printed pages, **1** blank page and **1** insert.

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CAMBRIDGE International Examinations

[Turn over

Section A: Financial Accounting

1 The Seagulls Boating Club is a small not for profit organisation which generates income from members' subscriptions and a café.

REQUIRED

(a) State **two** differences between the financial statements of a not for profit organisation and those of a limited company. [2]

Additional information

The following information is available for the café for the year ended 31 March 2016.

1 The café takings were $25 750 and $8850 was paid to suppliers.

2 An assistant received monthly wages of $600. On 31 March 2016, the assistant also received a bonus of 10% of the annual café takings.

3 The following balances were available:

	1 April 2015	31 March 2016
	$	$
Café inventory	3875	3423
Café trade payables	2831	2952

REQUIRED

(b) Prepare the café trading account for the year ended 31 March 2016. [5]

Additional information

The club has 310 members who pay an annual subscription of $80.
The following information was available for members' subscriptions.

	1 April 2015	31 March 2016
	Number of members	Number of members
Subscriptions in advance	4	3
Subscriptions in arrears	9	12

REQUIRED

(c) Prepare the subscriptions account for the year ended 31 March 2016. [4]

Additional information

The following information is also available for the year ended 31 March 2016.

1 General expenses of $2500 were incurred which included a paid insurance invoice for the period from 1 March 2016 to 31 May 2016 for $180.

2 Fixtures and fittings were acquired on 1 April 2013 at a cost of $16 000 and are depreciated at 25% using the reducing balance method.

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REQUIRED

(d) Prepare the income and expenditure account for the year ended 31 March 2016. [5]

Additional information

The treasurer currently maintains the records using a manual book-keeping system and is now considering transferring the records to a computerised accounting system.

REQUIRED

(e) Recommend to the treasurer whether or not he should introduce a computerised accounting system. Justify your answer analysing **both** benefits and limitations to the club. [9]

[Total: 25]

2 Kempes Limited is a company which manufactures a single product. Finished goods are transferred from the factory at production cost plus 15%. Unsold goods are stored in the warehouse.

Selected balances extracted from the trial balance for the year ended 30 September 2015 were as follows:

	$
Revenue	1 845 000
Purchases of raw materials	794 750
Carriage inwards	4 250
Factory production wages	382 500
Factory supervisory wages	64 000
Administrative wages	115 000
General expenses	78 000
Depreciation:	
Factory plant and machinery	55 000
Office fixtures and fittings	37 500

Additional information

1 At 30 September 2015, there were accrued general expenses of $5000 and prepaid general expenses of $3000.

65% of the general expenses relate to the factory.

2 Details of inventories were as follows.

	1 October 2014	30 September 2015
	$	$
Raw materials	110 000	125 000
Work in progress	17 500	14 000
Finished goods at transfer price	19 550	21 505

REQUIRED

(a) Prepare the manufacturing account for the year ended 30 September 2015. [9]

(b) Prepare the income statement for the year ended 30 September 2015. [6]

(c) Explain why a business might create a provision for unrealised profit. [3]

Additional information

The budgeted closing inventory value of finished goods at transfer price at 31 October 2015 was $18 400.

REQUIRED

(d) Analyse the effect on the budgeted profit for the month of October 2015 due to the changes in the provision for unrealised profit. [2]

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Additional information

The price at which the product could be bought from an outside supplier is expected to increase. It is now proposed to transfer finished goods at production cost plus 20%.

REQUIRED

(e) Advise the directors whether or not the mark-up should be increased. Justify your answer. [5]

[Total: 25]

3 Anjali and Bailey trade as partners. They share profits and losses in the ratio 3 : 2.

At 30 April 2016 the statement of financial position of the partnership was as follows:

	$
Assets	
Non-current assets	
Premises	115 000
Machinery	40 000
Vehicles	78 000
	233 000
Current assets	
Inventory	15 000
Trade receivables	4 000
	19 000
Total assets	252 000
Capital and liabilities	
Capital	
Anjali	130 000
Bailey	110 000
	240 000
Current liabilities	
Trade payables	7 500
Cash and cash equivalents	4 500
	12 000
Total capital and liabilities	252 000

The partners agreed to form a limited company, XY Limited, to take over their business.

Additional information

The following information relates to the partnership.

1 Two vehicles were taken over by the partners at the following valuations.

	$
Anjali	15 000
Bailey	12 500

2 The remaining assets were transferred to XY Limited at the following agreed values.

	$
Premises	170 000
Machinery	30 000
The remaining vehicles	35 000
Inventory	9 000

3 Cash collected from trade receivables was $3900.

4 Trade payables accepted $7100 in full settlement of amounts due to them.

5 Costs involved in dissolving the partnership were $3800.

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6 The purchase consideration for the partnership of Anjali and Bailey was $255 000. This was made as follows:

60 000 7% preference shares of $1 each distributed in profit-sharing ratios.

The balance as ordinary shares of $1 at a premium of $0.25 per share distributed to the partners in proportion to their capital account balances at 30 April 2016.

7 Anjali and Bailey agreed to pay into the business bank account sufficient money to cover any deficit on their capital accounts after the shares had been issued.

REQUIRED

(a) (i) Prepare the realisation account for Anjali and Bailey. [7]

(ii) Prepare the capital accounts of Anjali and Bailey on the realisation of the partnership. [7]

(iii) Calculate the **total** amount of share premium payable to Anjali and Bailey. [2]

(b) Assess the effect for Anjali and Bailey if the ordinary shares have been distributed in the profit sharing ratio rather than in proportion to their capital balances. [4]

(c) Explain whether or not Anjali and Bailey made the correct decision to form a limited company. Justify your answer. [5]

[Total: 25]

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4 The directors of Corim plc are using accounting ratios to analyse the performance of the company.

REQUIRED

(a) Explain **two** benefits of using accounting ratios. [4]

Additional information

All sales and purchases of Corim plc are on credit.

The following are the income statement and statement of financial position for Corim plc.

Income Statement
for the year ended 31 December 2015

	$
Revenue	843 000
Cost of sales	(425 800)
Gross profit	417 200
Operating expenses	(321 000)
Profit from operations	96 200
Finance costs	(66 000)
Profit for the year	30 200

Statement of Financial Position
at 31 December 2015

	$
Assets	
Non-current assets	
Plant and equipment	884 000
Current assets	
Inventory	88 800
Trade receivables	132 400
Cash and cash equivalents	14 800
	236 000
Total assets	1 120 000
Equity and liabilities	
Equity	
Ordinary share capital (of $2 each)	400 000
Retained earnings	77 000
Total equity	477 000
Non-current liabilities	
12% loan	550 000
Current liabilities	
Trade payables	93 000
Total equity and liabilities	1 120 000

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Additional information

1 Inventory at 1 January 2015 was $76 000.

2 The market price of one ordinary share at 31 December 2015 was $2.60.

REQUIRED

(b) Calculate the following ratios for Corim plc:

(i) return on capital employed

(ii) gearing

(iii) income gearing

(iv) working capital cycle (in days)

(v) price earnings.

Calculation should be to **two** decimal places where appropriate. [14]

Additional information

Takie plc is the major competitor of Corim plc. Takie plc's capital employed was $1 025 000 at 31 December 2015 including a 8% loan of $100 000.

Some of its comparative ratios are:

Return on capital employed	9.32%
Gearing	9.76%
Income gearing	8.38%

REQUIRED

(c) Compare **each** company's gearing and income gearing ratios. [4]

Additional information

Chen has surplus fund and is considering whether or not to invest in the shares of either Takie plc or Corim plc.

REQUIRED

(d) Identify which company Chen should invest in. Justify your answer. [3]

[Total: 25]

Section B: Cost and Management Accounting

5 Explorer Limited produces two products, Y and Z, and has always used absorption costing to allocate overheads to each product. The directors are now considering adopting activity based costing (ABC).

REQUIRED

(a) Compare how overheads are apportioned using absorption costing and ABC. [4]

Additional information

The budgeted data for the two products for the year ending 31 December 2017 is as follows:

	Y	Z
Raw materials used (kilo)	2	3
Direct labour hours	0.75	1
Unit selling price	$19	$25
Annual production and sale	2500	4000

The cost of raw materials is $2.50 per kilo and the labour force are paid $8 per hour.

Annual overheads are as follows:

	$
Machine maintenance overheads	8 500
Purchasing overheads	17 000
Selling and distribution overheads	18 750

REQUIRED

(b) Calculate the cost per unit for **each** product using absorption costing. [7]

Additional information

	Y	Z
Number of production runs	20	16
Number of purchase orders	55	65
Number of sales deliveries	85	160

REQUIRED

(c) Calculate the cost per unit for **each** product using ABC. [7]

(d) (i) Compare the total profit per product using absorption costing and ABC. [4]

(ii) Comment on the results. [1]

(e) Advise the directors whether or not ABC should be adopted. Justify your answer. [2]

[Total: 25]

6 Khalid owns a business making blankets. He currently uses a standard costing system.

REQUIRED

(a) Explain the term standard costing. [2]

Additional information

For the year ending 31 August 2015 Khalid budgeted to sell 2700 blankets at $40 each.
Each blanket requires 1.5 metres of material at $10 per metre and 30 minutes of labour. All of his workforce are employed full time and paid $14 per hour.

For the year ended 31 August 2015 his actual sales were 2700 blankets. He used 4320 metres of material at a cost of $34 560 and 2025 hours of labour were required at a cost of $24 300.

REQUIRED

(b) Calculate the following variances for the year ended 31 August 2015:

(i) the material price and material usage variances

(ii) the labour rate and labour efficiency variances. [8]

(c) Prepare a statement reconciling the budgeted costs with the actual costs for the year ended 31 August 2015. [4]

(d) Discuss possible reasons why Khalid's actual costs are different to the budgeted costs. [6]

Additional information

In an attempt to control costs, Khalid is considering to:

1 Stop the quality assurance checks usually made during the production process.

2 Find a cheaper supplier for materials to make the blankets.

3 Keep the selling price at $40 per blanket.

REQUIRED

(e) Recommend to Khalid which option or options he should choose. Justify your anwer. [5]

[Total: 25]

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