Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 2019**

INSERT

3 hours

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READ THESE INSTRUCTIONS FIRST

This Insert contains all of the required information and questions. The questions are provided in the Insert for reference only.

Anything you write in this Insert will not be marked.

The businesses described in this Insert are entirely fictitious.

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Section A: Financial Accounting

Question 1

Source A1

L plc is a manufacturing business. The total prime cost for the year ended 31 December 2017 was $350 000.

The following selected balances were extracted from the company's books of account at 31 December 2018.

	$000
Indirect wages	100
General expenses	64
Power	36
Factory plant	
Cost	600
Accumulated depreciation at 1 January 2018	150
Inventory	
Work in progress at 1 January 2018	23

The following information is available at 31 December 2018.

1 The prime cost for the year was 10% greater than the previous year.

2 Indirect wages are to be apportioned between the factory and office in the ratio 2 : 3 respectively.

3 General expenses of $6000 were prepaid. General expenses are to be apportioned equally between the factory and the office.

4 A power bill of $4000 remained unpaid. 60% of the total power expense is charged to the factory.

5 The value of work in progress was $31 000.

The following information is also available for the year ended 31 December 2018.

1 A new item of factory plant was acquired on 31 October 2018 at a cost of $30 000. This transaction has not been recorded in the books of account.

Factory plant is depreciated at 25% per annum using the reducing balance method. A full year's depreciation is charged on assets acquired during the year.

2 Goods are transferred to the sales department at a mark-up of 20%.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain what is meant by:

(i) prime cost [2]

(ii) work in progress. [2]

(b) Prepare the manufacturing account for the year ended 31 December 2018. [13]

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Additional information

After the draft statement of financial position had been prepared it was noted that the inventory value of finished goods was $33 000. This was the value at which these goods had been transferred from the manufacturing account.

(c) Discuss whether the inventory should have been included at this value. Justify your answer by referring to relevant accounting concepts and appropriate calculations. [8]

[Total: 25]

Question 2

Source A2

V plc had capital of 450 000 ordinary shares of $1 each. The following information was available at 31 December 2018.

1 The market price of one ordinary share was $2.40.

2 Dividend yield was 5%.

3 Dividend cover was 2.5 times.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate the profit for the year ended 31 December 2018. [3]

Additional information

The following information was also available for the year ended 31 December 2018.

1 Sales revenue for the year was $876 000. All the sales were on credit and had earned a gross margin of 45%.

2 All purchases of goods were on credit.

3 Current assets at 31 December comprised inventory, trade receivables and cash at bank.

4 Current liabilities at 31 December comprised trade payables only. The current ratio was 3 : 1.

5 Other accounting ratios were:

Inventory turnover	60 days
Trade receivables turnover	50 days
Trade payables turnover	64 days

6 Other balances were:

	1 January 2018	31 December 2018
	$	$
Share premium	70 000	70 000
Retained earnings	74 000	?
Inventory	78 105	?

7 Non-current assets at 31 December 2018 were $505 272.

(b) Prepare the statement of financial position at 31 December 2018. (Cash at bank is the balancing figure.) [15]

(c) Calculate the price earnings ratio. [2]

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Additional information

T plc, a major competitor of V plc, had the following information for the year ended 31 December 2018.

Gross margin	42%
Inventory turnover	65 days

(d) Assess the performance of V plc and T plc in terms of profitability and efficiency in managing inventory. [5]

[Total: 25]

Question 3

Source A3

The financial statements of W Limited for the year ended 31 December 2018 are ready to be audited.

The directors have provided the following assets balances from the statement of financial position.

	$
Property, plant and equipment	682 000
Inventory	94 200
Trade receivables	87 400
Other receivables	9 430
Cash and cash equivalents	21 170

The following information is available.

1 Included in property, plant and equipment was equipment with a carrying value of $140 000. The fair value of the equipment was $132 000 and the value in use was $136 000.

2 The retained earnings for the year ended 31 December 2018 were $184 000. This is after deducting a proposed final dividend of $12 000.

3 The directors had budgeted to incur $25 000 advertising in 2019. A provision was made for this expenditure.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain **one** benefit of auditing. [2]

(b) Explain to the directors the appropriate accounting treatments for item 1, 2 and 3, making reference to the relevant International Accounting Standards (IAS). [7]

Additional information

The following information is also available.

1 A deposit of $3000 had been paid to a supplier for goods to be delivered in April 2019. This amount had been recorded as purchases.

2 Goods costing $5400 and with a sales value of $7000 were sent to a customer on sale or return basis. The directors had recorded $7000 as a sale. At 31 December 2018 the customer had not decided whether to buy the goods.

(c) Calculate the revised retained earnings at 31 December 2018 using all the information available. [6]

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(d) Calculate the **corrected** figure for the following items for inclusion in the revised statement of financial position at 31 December 2018.

(i) Property, plant and equipment

(ii) Inventory

(iii) Trade receivables

(iv) Other receivables

(v) Total assets

[5]

Additional information

At the annual general meeting, some of the shareholders queried that the final dividend proposed by the directors was too low.

(e) Advise the directors whether or not they should increase the proposed dividend. Justify your answer by discussing benefits and drawbacks of your advice for **both** the company and the shareholders. [5]

[Total: 25]

Question 4

Source A4

Roberto and Sasha formed a joint venture. They sold sports equipment from a market stall in the month before a major sporting event took place in their hometown. They shared profits and losses equally.

The following transactions took place.

1 Roberto and Sasha introduced cash to open the joint venture bank account.

2 Sasha paid the rent on the stall.

3 Roberto paid for some fixtures to be used on the stall.

4 The joint venture bank account was used to buy inventory.

These transactions were recorded in the books of the joint venture.

The joint venture account and the joint venture bank account appeared as follows:

Joint venture account

		$			$
June 1	Sasha	200			
	Roberto	120			
	Joint venture bank account	1700			

Joint venture bank account

		$			$
May 31	Roberto	1000	June 1	Joint venture account	1700
	Sasha	1000			

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain what took place on 31 May. [2]

(b) Explain why the transactions which took place on 31 May were not recorded in the joint venture account. [2]

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Additional information

By the end of the month all the sports equipment was sold and sales had totalled $2500. Of this amount, $1800 was paid into the joint venture bank account. Roberto kept the remainder for personal use.

At the end of the month the fixtures were sold for $50 and the proceeds paid into the joint venture bank account.

The profit was then calculated and the bank account closed.

(c) Calculate the share of profit for **each** party to the joint venture. [3]

(d) Prepare the ledger accounts as they would appear in the books of the joint venture for:

(i) Roberto [5]

(ii) Sasha. [4]

Additional information

The major sporting event which took place will become an annual event. Both parties wish to repeat the joint venture but Roberto is insisting that the mark-up applied should be 75%.

(e) Advise Sasha whether or not she should agree to repeat the joint venture. Justify your answer using **both** financial and non-financial factors. [5]

(f) Explain how a business selling sports equipment differs from a sports club which also sells equipment to its members. [4]

[Total: 25]

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Section B: Cost and Management Accounting

Question 5

Source B1

Gerry manufactures a product using Machine B. The following budgeted information is available in respect of this for the year ending 31 December 2019.

	$
Total annual cash inflows from sales	800 000
Total annual cash outflows for cost of sales	416 000

Gerry has decided to purchase a new machine, Machine X, at a cost of $600 000, to replace Machine B on 1 January 2020. The new machine will have a useful life of 3 years with no residual value. It is expected that Machine X will produce the following results:

1 Each year sales will be 5% more than the sales in the previous year.

2 Gross margin will increase by 2% in 2020 and this gross margin will then remain constant.

3 Machine maintenance costs will be:

	$
2020	10 000
2021	20 000
2022	30 000

4 Other operating costs (excluding depreciation) will be $120 000 per year.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate for Machine X:

(i) the net cash flow for each year [5]

(ii) the payback period [3]

(iii) the accounting rate of return to **two** decimal places. [5]

(b) State **two** advantages and **two** disadvantages of using the payback method of investment appraisal. [4]

Additional information

Gerry's cost of capital is 10%. The relevant discount factors are:

Year 1	0.909
Year 2	0.826
Year 3	0.751

(c) Calculate the net present value (NPV) of Machine X. [3]

(d) Advise Gerry whether or not he should purchase Machine X. Justify your answer using **two** financial and **two** non-financial factors. [5]

[Total: 25]

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Question 6

Source B2

Ella uses flexible budgets as part of her budgetary control system. The following information is available for the year ended 31 March 2019.

	Fixed budget activity level		Actual activity level
Units	1000	3000	2500
	$	$	$
Sales	25 000	75 000	63 000
Direct labour	5000	15 000	12 800
Direct material	6000	18 000	14 500
Semi-variable overheads	4000	7500	7250
Fixed costs	5000	5000	5200
Profit	5000	29 500	23 250

(a) State **two** advantages to a business of using a budgetary control system. [2]

(b) Calculate the flexed budgeted profit for the year ended 31 March 2019. [8]

(c) Prepare a statement, showing the relevant variances, to reconcile the flexed budget profit with the actual profit. [6]

Additional information

For the month of April 2019, Ella's business showed a favourable total direct material variance and an adverse total direct labour variance.

(d) Suggest what may have caused the:

(i) favourable total direct material variance [2]

(ii) adverse total direct labour variance. [2]

(e) Advise Ella whether or not she should continue to flex the budgeted data. Justify your answer. [5]

[Total: 25]

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