Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

1901746768

ACCOUNTING **9706/34**

Paper 3 Structured Questions **May/June 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 **20** 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) Prepare the complete subscriptions account for the year ended 31 December 2020.

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Additional information

For the year ended 31 December 2020

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Profit on sale of refreshments	6 200
Purchase of equipment	10 120
Depreciation on equipment	4 050
Proceeds from sale of equipment	8 440
Profit on disposal of equipment	510
Staff costs	18 310
Other costs	3 100

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(b) Prepare the income and expenditure account for the year ended 31 December 2020.

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(c) Advise the managing committee whether or not the new policy on unpaid subscriptions should be continued. Justify your answer.

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Additional information

Inventory of refreshments was $600 at 1 January 2020 and $750 at 31 December 2020.

Amounts paid during the year to suppliers of refreshments totalled $16 000.

Amounts owing to suppliers of refreshments were $1100 at 1 January 2020 and $920 at 31 December 2020.

(d) Prepare the refreshments trading account for the year ended 31 December 2020, showing sales as the balancing figure.

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(e) State **two** reasons why a club or society might engage in a trading activity.

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[Total: 25]

2 Read Source A2 in the insert.

(a) Prepare the equity and liabilities section of the **statement of financial position** at 31 December 2020.

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(b) Calculate for the year ended 31 December 2020:

(i) the profit for the year

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(ii) profit from operations.

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(c) Explain **two** accounting ratios for which the knowledge of the value of profit from operations is needed.

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Additional information

The directors have proposed a final dividend for 2020 to be paid on 1 March 2021.

(d) State how the proposed dividend will affect:

(i) the books of account

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(ii) the financial statements.

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[Total: 25]

3 Read Source A3 in the insert.

(a) Explain what is meant by the following terms:

(i) an adjusting event

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(ii) a non-adjusting event.

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Additional information

DW plc has a financial year end of 31 December. On 31 December 2020 the draft profit for the year was calculated as $8100 and the draft statement of financial position at that date included the following values.

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Machinery (at cost)	186 000
Accumulated depreciation of machinery	91 500

On 1 January 2021 the directors reviewed the values of all the non-current assets. This indicated that the machinery could be sold for $87 000. The cost of dismantling the machinery and transporting it to a new owner would amount to $3000.

The present value of total future estimated net cash flows arising from the use of the machinery was $90 000.

(b) State the amounts of the following with regard to the machinery:

(i) its fair value

..... [1]

(ii) its value in use.

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(c) Calculate with regard to the machinery:

(i) the carrying amount

..... [1]

(ii) the recoverable amount

..... [1]

(iii) the impairment loss.

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(d) Explain how the impairment loss should be recorded in the financial statements.

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Additional information

On 3 January 2021 there was a fire in the company's warehouse, and inventory costing $18 000 was destroyed. It was expected that the company's insurance would cover only part of the cost.

(e) Explain how the financial effects of the fire should be recorded in the financial statements for 31 December 2020.

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(f) Explain what is meant by an audit of a limited company.

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(g) Discuss how the shareholders of DW plc are likely to react to an unqualified audit report.

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(h) Explain what is meant by the term 'stewardship' in relation to the directors of DW plc.

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[Total: 25]

4 Read Source A4 in the insert.

(a) Calculate the sales revenue of the joint venture.

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Additional information

1 Rent of the market stall, $420, was paid from the joint venture bank account.

2 Amit paid for fittings for the stall, $180, from his own funds. These were later sold for $50 and the proceeds paid into the joint venture bank account.

3 Barry paid $1400 of the takings from sales into the joint venture bank account. The remainder he took for his own use.

4 At the end of the festival period the profit was calculated and the bank account closed.

(b) Prepare in the books of the joint venture:

(i) the joint venture account

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(ii) Amit account

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(iii) Barry account

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(iv) the joint venture bank account.

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(c) Suggest **two** ways in which the profit could be increased if the joint venture was repeated at the next festival.

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Additional information

Barry wishes to repeat the joint venture but feels that more help is needed in staffing the stall. He wants to bring in Clara as a third party to the joint venture.

(d) Advise Amit whether or not he should agree to repeat the joint venture if it included Clara as a third party. Justify your answer.

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[Total: 25]

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Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Calculate the total purchases **and** the purchases returns expected in January 2021.

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(b) Prepare the trade payables budget for January 2021. Show separately the payments made in the month of purchase and the payment made a month in arrears.

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Additional information

In February 2021 the **actual** results for January 2021 were available. These showed:

1 Trade payables had been $96 000 at the start of the month.

2 Net purchases had been 10% higher than budgeted.

3 The value of purchases returns had been the same as had been expected.

4 The company had maintained its policy of paying for one-third of net purchases in the month of purchase and the remainder in the month following. The rate of cash discount received had been the same as had been expected.

5 A contra with the sales ledger control account, $5000, had been made on 1 January. This related to debts incurred in 2020.

(c) Prepare a statement reconciling the opening and closing **actual** figures for trade payables for January 2021.

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Additional information

One of the directors has suggested that the business discontinues the use of budgets.

(d) Advise the directors whether or not the business should discontinue the use of budgets. Justify your answer.

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(e) Explain what is meant by the term 'flexed budget'.

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[Total: 25]

6 Read Source B2 in the insert.

(a) State **two** ways in which the directors may have estimated the future cash inflows.

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(b) Calculate for option 1:

(i) the net present value (NPV)

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(ii) the payback period, in years.

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(c) Calculate for option 2:

(i) the net present value (NPV)

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(ii) the payback period, in years.

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(d) Advise the directors which, if either, of the options they should choose. Justify your answer.

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[Total: 25]

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