Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **May/June 2022**

INSERT **3 hours**

9543661169-I

INFORMATION

- This insert contains all of the required information and questions. The questions are provided in the insert for reference only.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **12** pages. Any blank pages are indicated.

DC (CJ) 311365
© UCLES 2022

[Turn over

Section A: Financial Accounting

Question 1

Source A1

MC Sports Club provides sport facilities, operates a café for its members and hires out its meeting room.

The treasurer of the club provided some of the financial details for the year ended 31 December 2021 as follows:

1 Balance at 1 January 2021

	$
Equipment (net book value)	78 000
Inventory of café	9 500
Amount owed to café suppliers	11 400
Deposit paid to a hotel for annual dinner	4 000
Receipt for the hire of club's meeting room in May 2021	2 100

2 Annual subscription of each member is $200. New members admitted in the first half of the year have to pay the annual subscription in full. New members admitted in the second half of the year have to pay 50% of the annual subscription. Details of the number of members for the year ended 31 December 2021 were as follows:

Members at 1 January 2021	New members admitted before 1 July 2021	New members admitted after 1 July 2021
420	18	24

The number of members whose subscriptions were in advance or in arrears were as follows:

	At 1 January 2021	At 31 December 2021
In advance	8	11
In arrears	15	20

All these subscriptions refer to full subscriptions.

3 All café sales are for cash, at a mark-up of 80%.

4 Payments to suppliers of the café for the year were $42 000.
The amount owed to the suppliers at 31 December 2021 was $13 600.
The inventory of the café on that date was valued at $10 200.

5 Other receipts and payments for the year were as follows:

	$
Purchase of new equipment	14 000
Club expenses	94 400
Café wages	22 000
Final payment to hotel for annual dinner	16 200
Receipts for the hire of the meeting room	4 600

6 Club equipment is to be depreciated at an annual rate of 15% using the reducing balance method. A full year's depreciation is charged in the year of purchase.

© UCLES 2022

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State **three** differences between the financial statements of a not-for-profit organisation and those of a limited company. [3]

(b) Prepare the café trading account for the year ended 31 December 2021 to find the profit or loss on its trading activity. [4]

(c) Prepare the subscriptions account for the year ended 31 December 2021. [4]

(d) Prepare the income and expenditure account for the year ended 31 December 2021. [6]

Additional information

The club will admit life members from 1 January 2023. A life membership fee of $1 500 will be payable on the date of admission.

(e) Explain to the treasurer how the club should account for the life membership fees in the club's financial statements. [3]

Additional information

The committee of the club is thinking of closing the café. Vending machines would be installed to provide snacks and drinks for the members.

(f) Advise the committee whether or not the café should be closed. Justify your answer. [5]

[Total: 25]

© UCLES 2022

[Turn over

Question 2

Source A2

G plc's financial year ends on 31 December. The financial statements for the year ended 31 December 2021 were expected to be approved by the board of directors on 1 March 2022.

The accountant had prepared the draft statement of financial position, which contained errors and omissions, as follows:

Draft statement of financial position at 31 December 2021

	$	$
Assets		
Non-current assets		
Property, plant and equipment		606 000
Current assets		
Inventory	80 000	
Trade receivables	164 000	
Cash and cash equivalents	86 000	330 000
Total assets		936 000
Equity and liabilities		
Equity		
Ordinary share capital ($1 shares)	600 000	
Retained earnings	184 000	784 000
Current liabilities		
Trade payables	128 000	
Other payables	24 000	152 000
Total equity and liabilities		936 000

Inventory comprised of the following items.

Category	Purchase cost $	Estimated selling price $	Estimated cost of repairing $	Estimated selling expenses $
A	57 000	98 000	–	7 000
B	13 000	14 000	–	3 000
C	10 000	12 000	2 500	1 000
Total	80 000	124 000	2 500	11 000

Only the purchase cost of each category had been taken into account.

The following items had not been fully taken into account.

1 A machine, costing $80 000, had been purchased on 1 December 2021. G plc had paid $30 000 for the machine on 1 December 2021 and the balance was to be paid on 1 February 2022. Only the initial payment of $30 000 was recorded in the relevant accounts. The annual rate of depreciation is 15% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase.

© UCLES 2022

2 A building which had cost $300 000, with accumulated depreciation of $96 000 at 31 December 2021, was revalued on that date at $350 000.

3 In December 2021, an employee filed a lawsuit against G plc for wrongful dismissal and asked for compensation of $26 000. The company's lawyer advised the directors that there was an 80% probability of successfully defending the case. The legal cost for defending the case, of about $8 000, would be settled when the case finished regardless of the outcome.

4 On 1 February 2022, a credit customer owing $12 000 at 31 December 2021 was declared bankrupt. G plc was advised that none of the debt could be recovered.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare a revised statement of financial position at 31 December 2021. [14]

(b) Explain the correct accounting treatments of the claim and the legal cost in item 3 with reference to the relevant international accounting standard (IAS). [7]

(c) State what is meant by:

(i) events after the reporting period [2]

(ii) adjusting events [1]

(iii) non-adjusting events. [1]

[Total: 25]

Question 3

Source A3

The summarised statement of financial position of E plc at 31 December 2021 was as follows:

	$
Non-current assets	788 000
Current assets	254 000
Total assets	1 042 000
Ordinary share capital ($1 shares)	450 000
General reserve	30 000
Retained earnings	231 000
Total equity	711 000
Non-current liabilities	
9% debenture (2028)	150 000
Current liabilities	181 000
Total equity and liabilities	1 042 000

Further information is available:

1 Equity at 31 December 2020 was as follows:

	$
Ordinary share capital ($1 shares)	400 000
Share premium	44 000
Retained earnings	204 000
	648 000

2 On 1 January 2021, E plc made a one for eight bonus issue of ordinary shares. It is the company's policy to keep its reserves in the most flexible form.

3 An interim dividend of $0.30 per share was paid on 1 August 2021. A proposed dividend of $0.25 per share was declared on 31 December 2021.

4 At 31 December 2021, the market value of one ordinary share was $4.52.

5 The general reserve was created on 31 December 2021.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare a statement showing the movement of retained earnings for the year ended 31 December 2021. [4]

© UCLES 2022

(b) Calculate, to **two** decimal places, the following:

(i) price earnings ratio [3]

(ii) dividend yield [2]

(iii) gearing ratio [2]

(iv) income gearing [2]

(v) return on capital employed. [2]

(c) Explain what is meant by a 'highly geared company'. [2]

Additional information

At 31 December 2020, the market value of one ordinary share was $3.64 and the price earnings ratio was 9.27.

(d) Explain the change in the price earnings ratio with reference to your calculation in **(b)(i)**. [3]

Additional information

On 1 January 2021, E plc had an opportunity to invest $150 000 in a new project. The directors had two options to finance the new project:

Option 1: issue a 9% debenture for $150 000

Option 2: issue 120 000 ordinary shares at a price of $1.25 per share.

The directors chose Option 1 and the new project contributed a pre-interest profit of $70 000 to the 2021 profit.

(e) Assess whether or not the directors of E plc made the correct decision in issuing the debenture to finance the new project. Justify your answer. [5]

[Total: 25]

Question 4

Source A4

Adam bought 5 000 shirts from a bankrupt company. He sold the shirts by entering into a joint venture with Mary who is running a trading business. They agreed to share profit equally.

The following transactions took place.

2021

March	3	Adam paid $90 000 for the shirts
	5	Adam sent all the shirts to Mary. He paid carriage of $1 250 and insurance of $800.
	7	Shirts were stored in Mary's warehouse. They agreed that Mary could charge a storage cost of $2 000 and $7 000 for using Mary's office equipment.
	9	Mary paid packing cost, $1 650
	10	Mary paid advertising expenses, $4 400
	11	Cash sales, $3 000
	12	Credit sales, $57 000
	15	Cash sales, $18 000
	26	Credit sales, $72 000
April	10	Mary paid $8 000 for salespeople salaries
	11	Mary received $56 000 from credit customers in full settlement of sales made on 12 March
	12	Mary deposited $40 000 in Adam's bank account
	29	Credit sales on 26 March were settled in full by cash except $3 000 which would be written off as irrecoverable
	30	Mary paid the final balance to Adam

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare the memorandum joint venture account. Dates are **not** required. [7]

(b) Prepare the joint venture account with Adam in Mary's books. Dates are **not** required. [7]

(c) Explain **one** benefit to **each** of Adam and Mary of entering the joint venture. [4]

(d) State **three** differences between a joint venture and a consignment. [3]

Additional information

Due to the success of the joint venture, Mary suggests to Adam that they form a partnership. They would set up an office and sell the products which would be bought from bankrupt companies. Adam is a management consultant. He has concerns about forming a partnership with Mary.

(e) Explain **two** disadvantages to Adam of forming a partnership with Mary. [4]

[Total: 25]

© UCLES 2022

Section B: Cost and Management Accounting

Question 5

Source B1

T Limited produces two products, Product S and Product P. The budgeted information for the two products for the next year is as follows:

	Product S	Product P
Production and sales (units)	24 000	15 000
Direct material (kilo) per unit	1	2
Material price per kilo	$8.00	$8.50
Direct labour hours per unit	4	6
Direct labour rate per hour	$15.00	$18.00

Budgeted annual factory overheads are $465 000. The directors use direct labour hours as the basis for apportioning factory overheads. The mark-up for both products is 50%.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare a statement to calculate the selling price per unit for **each** of Product S and Product P. The statement should also show the total cost per unit for **each** product. [8]

Additional information

The management accountant suggested that activity based costing should be adopted and provided an analysis of the budgeted annual factory overheads as follows:

Activity	Cost	Cost driver	Expected usage of cost driver	
	$		Product S	Product P
Purchasing materials	120 000	Purchases order	24	8
Machine running	162 000	Machine hours	36 000	18 000
Machine setups	72 000	Number of setups	40	8
Inspecting	111 000	Inspection hours	400	100
Factory overheads	465 000			

(b) Explain what is meant by the term ‘activity based costing’. [3]

(c) Prepare a statement to calculate the selling price per unit for **each** of Product S and Product P by using activity based costing. The statement should also show separately the total cost **and** total cost per unit for **each** product. [9]

(d) Advise the directors whether or not they should adopt activity based costing. Support your answer with reference to **(a)** and **(c)**. [5]

[Total: 25]

Question 6

Source B2

P Limited makes one product. It adopts absorption costing and operates a system of standard costing and budgetary control. The standard cost and budgeted information for April 2022 was as follows:

Budgeted production and sales (units)	6 000
	$
Budgeted selling price per unit	70
Standard variable cost per unit	
Direct materials (4 kilos)	6
Direct labour (3 hours)	36

Fixed overhead, $72 000, is absorbed on the basis of direct labour hours.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the budgeted profit for the budgeted sales of 6 000 units. [2]

Additional information

The actual result for April was as follows:

Production and sales (units)	5 800
	$
Selling price per unit	72
Direct materials	35 113
Direct labour	221 760
Factory overhead	70 400

(b) Calculate the following variances:

(i) sales price variance [2]

(ii) sales volume variance (as a measure of change in profit) [3]

(iii) direct material total variance [2]

(iv) direct labour total variance [2]

(v) fixed overhead volume variance [2]

(vi) fixed overhead expenditure variance. [2]

© UCLES 2022

Additional information

The management accountant is going to perform variance analysis. The actual labour hours used in April were 17 600.

(c) Explain the likely causes of:

(i) sales volume variance calculated in **(b)(ii)** [3]

(ii) direct labour total variance calculated in **(b)(iv)**. [4]

Additional information

By analysing the direct material total variance the direct material usage variance was found to be $1 275 adverse.

(d) Assess whether or not the company has been successful in controlling the direct material cost price. Justify your answer. [3]

[Total: 25]

© UCLES 2022

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of Cambridge Assessment. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which is a department of the University of Cambridge.

© UCLES 2022