Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2016**

3 hours

No Additional Materials are required.

1091366876

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.

© UCLES 2016

Section A: Financial Accounting

1 International Dancing is a dance club charging an annual subscription of $500 per member. A summary of its subscriptions account for the year ended 31 December 2015 was as follows:

International Dancing
Subscriptions account

2015		$	2015		$
Jan 1	Balance b/d	2 000	Jan 1	Balance b/d	1 500
Dec 31	Income and expenditure account	106 500	Dec 31	Bank	105 500
	Balance c/d	2 500		Balance c/d	4 000
		111 000			111 000

Additional information

1 The club's only other receipts came from the sale of music CDs to members. These receipts amounted to $5800 for the year.

2 Payments for the year were as follows:

	$
Rent	15 000
Staff costs	61 000
Insurance and administration	4 200
Purchase of music CDs for resale	2 600
Purchase of equipment	11 700
Purchase of CDs for club use	4 000

3 The bank balance at 1 January 2015 was $13 500 debit. All receipts and payments are made through the bank.

4 CDs purchased for club use are **not** considered to have a useful life of more than 12 months.

5 The club maintains an inventory of CDs for resale. This amounted to $180 at 1 January 2015 and $280 at 31 December 2015.

6 Equipment was valued at $17 200 at 1 January 2015 and $21 300 at the end of the year.

7 At 31 December 2015 prepaid insurance was $300 and accrued administration costs were $50.

REQUIRED

(a) Prepare the club's income and expenditure account for the year ended 31 December 2015. [9]

Additional information

In 2016 the club is given the opportunity to buy its premises for $142 000. If it is agreed that this purchase should go ahead, three sources of finance would be used.

1 Half the balance at bank on 31 December 2015 would be used.

2 Life membership of the club would be introduced. The life membership fee would be $5000 per person and this would be credited to the income and expenditure account in equal instalments over a 10-year period. It is expected that 10 existing members of the club would take up life membership, and the funds raised would be used in the purchase.

3 A 5-year bank loan, at 10% interest per annum, would finance the balance of the purchase price.

REQUIRED

(b) (i) Calculate the bank balance at 31 December 2015. [2]

(ii) Calculate the amount of the loan which would be taken out. [3]

(c) Assess the effect the purchase of the premises would have on annual cash flows in future years. [4]

(d) Recommend to the managing committee of the club whether or not they should proceed with the purchase of the premises. Justify your answer by discussing **both** advantages and disadvantages of the purchase. [7]

[Total: 25]

© UCLES 2016

[Turn over

2 The directors of Hank Limited provide the following statements of financial position at 31 March:

	2016 $000	2015 $000
Assets		
Non-current assets (net book value)	259	224
Current assets		
Inventories	128	102
Trade receivables	132	118
Cash and cash equivalents	–	14
	260	234
Total assets	519	458
Equity and Liabilities		
Equity		
Share capital	210	180
Share premium	15	–
Retained earnings	107	131
	332	311
Non-current liabilities		
Bank loan (repayable 2020)	42	20
Current liabilities		
Trade payables	102	109
Bank overdraft	23	–
Other payables – taxation	20	18
	145	127
Total equity and liabilities	519	458

Additional information

The following information relates to the year ended 31 March 2016:

1 The profit from operations was $30 000.

2 During the year non-current assets with a cost of $24 000 and accumulated depreciation of $19 000 were sold for $8000.

3 The depreciation charge for the year was $12 000. All non-current assets held at the end of the financial year are depreciated over 25 years using the straight-line method.

4 Interest paid for the year was $9000.

5 Dividends paid during the year were $25 000. A dividend of $30 000 had been proposed at the end of the year.

6 The taxation charge was $20 000.

© UCLES 2016

REQUIRED

(a) Explain the difference between a statement of cash flows and a cash budget. [2]

(b) Prepare a statement of cash flows for Hank Limited for the year ended 31 March 2016 in accordance with IAS 7. [10]

(c) Explain with reference to the statement of cash flows whether Hank Limited has a strong or a weak cash position. [4]

(d) Prepare a summarised schedule of non-current assets as it would appear as a note in the published accounts for the year ended 31 March 2016. [5]

(e) Advise the directors whether or not they should apply the International Accounting Standards when preparing the published accounts. Justify your answer. [4]

[Total: 25]

© UCLES 2016

[Turn over

3 Alpha plc and Beta plc both operate in the same industry. Both have the **same annual sales** revenue. Neither have any preference shares in issue.

The following additional information is provided:

	Alpha plc	Beta plc
Profit for the year	$160 000	$100 000
Profit margin	?	10%
Finance charges	$16 000	?
Profit from operations	?	?
Income gearing	?	20%
Number of ordinary shares	400 000	?
Earnings per share	?	$0.20
Price earnings ratio	?	4.2
Market value of one share	$1.20	$0.84
Dividend per share	$0.07	?
Dividend yield	?	7.14%
Total dividend paid	?	?
Dividend cover	?	?

REQUIRED

(a) Calculate for Alpha plc:

(i) Profit margin

(ii) Income gearing

(iii) Earnings per share

(iv) Price earnings ratio

(v) Dividend yield

(vi) Total dividend paid

(vii) Dividend cover

Clearly label each answer and show your workings. [14]

© UCLES 2016

(b) Suggest **one** reason for the difference between the two companies for **each** of the following:

(i) Profit margin

(ii) Income gearing

(iii) Earnings per share

(iv) Price earnings ratio

(v) Dividend yield

(vi) Market value of one share [6]

Additional information

Amit is considering purchasing shares in either Alpha plc or Beta plc.

REQUIRED

(c) Suggest, with reasons, in which company Amit should invest. [5]

[Total: 25]

4 Scrumpton plc has been trading successfully for many years. The company required additional finance to renew its plant.

The following selected balances are available at 1 October 2015:

	$
Property, plant and equipment	400 000
Ordinary share capital	1 200 000
Share premium	300 000
Retained earnings	125 000

A draft profit of $167 500 was recorded for the year ended 30 September 2016 **before** making the following adjustments:

1 Property, plant and equipment with a net book value of $200 000 was sold for $180 000 and replaced by new items at a cost of $250 000.

Depreciation is charged at 15% using the reducing balance method. A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

2 A trade receivable owing $15 000 was declared bankrupt.

3 Distribution costs of $7500 were still owing at the year-end.

4 The nominal value of the ordinary share capital is $1 each. The final dividend of $0.02 per share for the year ended **30 September 2015** was paid on shares held at that date.

5 During the year ended 30 September 2016 there was a rights issue of one share for every four held. The shares were issued at $1.20 each and were fully taken up.

REQUIRED

(a) Explain what is meant by a 'rights issue'. [3]

(b) Prepare the statement of changes in equity for the year ended 30 September 2016. [10]

(c) State how a proposed dividend would be treated in the financial statements. [2]

Additional information

Before the financial statements for 30 September 2016 were approved, the directors were made aware that another trade receivable owing $10 000 at 30 September 2016 had been made bankrupt.

REQUIRED

(d) (i) Explain the difference between an adjusting event and a non-adjusting event. [4]

(ii) Explain, with reference to IAS 10, how this event should be dealt with in the financial statements. [2]

© UCLES 2016

Additional information

An impairment review was carried out and revealed that an item of plant with a carrying value of $100 000 could be sold for $65 000. Its value in use was $70 000. The directors are uncertain how this should be treated in the financial statements.

REQUIRED

(e) Calculate the effect on the profit for the year of the impairment review. [4]

[Total: 25]

Section B: Cost and Management Accounting

5 Billyjo makes a single product. His business operates a standard costing system. All goods produced in the month are sold and no inventories are held.

REQUIRED

(a) Explain what is meant by 'standard costing'. [2]

Additional information

1 Budgeted monthly production and sales for April 2016 were 3500 units.

2 The standard costs per unit were as follows:

Direct material	3 kilos at $1.40 per kilo
Direct labour	0.5 hours at $4.60 per hour
Overheads	1 hour at $2.80 per hour

3 The actual results for April were as follows:

Production and Sales	3750 units
Materials used	10 950 kilo
Materials cost	$15 768
Labour hours	1930
Labour cost	$8492

REQUIRED

(b) Calculate the following variances:

(i) Material price variance

(ii) Material usage variance

(iii) Labour rate variance

(iv) Labour efficiency variance [8]

(c) Analyse possible reasons for the variances calculated in **(b)**. [8]

Additional information

The standard selling price per unit is $12. A 2% discount was given to all customers in April. Actual overhead rate was 10% above standard.

REQUIRED

(d) Calculate the actual profit made by Billyjo for April. [4]

(e) Recommend how Billyjo can improve the performance of his business. [3]

[Total: 25]

© UCLES 2016

6 Alexander intends to start a new project producing either Product X or Product Y. Each product will require an additional capital cost of $50 000. Both products are expected to last 4 years.

The following information is available on Product X:

1 Sales volume in year 1 would be 10 000 units with a selling price of $7.

2 The volume would rise by 5% in year 2 and by another 5% in year 3.

3 Popularity is then expected to fall in year 4 and there would be a 20% fall in volume.

4 The selling price would not change.

5 The variable costs will be $3 per unit in year 1, will rise to $4 in year 2 and will then remain unchanged.

6 Annual fixed costs payable will be $11 000 and will remain unchanged.

REQUIRED

(a) Calculate the net cash flows for **each** year and in **total** for Product X. [8]

Additional information

Alexander's cost of capital is 10% and the discount factors are:

Year 1 0.909
Year 2 0.826
Year 3 0.751
Year 4 0.683

REQUIRED

(b) Calculate the net present value of Product X. [7]

Additional information

Alexander has carried out the same calculations for Product Y. He has calculated the net present value of Product Y as $30 400.

REQUIRED

(c) Advise Alexander which product he should make based solely on the net present value. Justify your answer. [2]

(d) State **one** advantage and **one** disadvantage of using net present value for investment appraisal. [2]

(e) Explain why Alexander may or may not use the payback method of investment appraisal. [3]

(f) State **three** non-financial factors Alexander should consider when choosing between Product X and Product Y. [3]

[Total: 25]

© UCLES 2016

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 International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

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