Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2017**

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

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Section A: Financial Accounting

1 The RS Rowing Club is a not-for-profit organisation.

A summary of the club's receipts and payments account for the year ended 31 March 2017 is as follows:

Receipts and payments account

	$		$
Balance b/d	4 370	Purchases of sports equipment	1 624
Members' subscriptions	10 300	Rent of boathouse	2 800
Sales of sports equipment	1 850	General expenses	1 379
Entry fees for annual boat race	4 200	Wages	3 500
		Prizes for annual boat race	325
		Expenses of annual boat race	2 456
		Balance c/d	8 636
	20 720		20 720

Additional information

1 The club owns boats which had originally cost $24 000. Accumulated depreciation at 1 April 2016 was $11 200. The depreciation policy is to charge 10% per annum using the reducing balance method.

2 The club also sells sports equipment to its members. Inventory of sports equipment was as follows:

	$
1 April 2016	364
31 March 2017	429

3 Members' subscriptions in arrears and paid in advance were as follows:

	1 April 2016	31 March 2017
	$	$
Members' subscriptions in arrears	700	650
Members' subscriptions in advance	350	450

4 The balance on the accumulated fund on 1 April 2016 was $40 614.

REQUIRED

(a) Identify **four** terms used **only** in the financial statements of a not-for-profit organisation with the corresponding terms used in the financial statements of a profit-making business. [4]

(b) Prepare the income and expenditure account for the year ended 31 March 2017. [8]

(c) Prepare an extract from the statement of financial position at 31 March 2017 showing the accumulated fund of the club at that date. [2]

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Additional information

The club has decided to introduce a scheme offering life membership for payment of $400. Annual subscription fees are currently $50. The club members think that the life membership fees should be credited in full to the income and expenditure account when received. The treasurer has suggested that the life membership payments should be credited to income and expenditure account over a number of years.

REQUIRED

(d) Discuss the correct accounting treatment for the life membership. [4]

Additional information

A former member has donated $35 000 to the club. The funds are to be invested and the investment income used to encourage young people to train for national competitions. The club is considering two investment options.

1 Invest for 3 years at an annual fixed interest rate of 7.5%.

2 Use the funds to build its own boathouse. Part of the new boathouse could be rented to another local group at an annual rent of $1250.

REQUIRED

(e) Recommend which option the club should select. Support your answer with reasons and relevant calculations.

[7]

[Total: 25]

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2 Wembo and Bob are in partnership. They share profits and losses in the ratio 3 : 2.

Another business, C Limited, has been trading for many years.

At 31 March 2017 the summarised statements of financial position of both businesses were as follows:

	Wembo and Bob	C Limited
	$	$
Premises	80 000	282 000
Machinery	45 000	112 000
Vehicles	28 000	–
Inventory	15 000	49 000
Trade receivables	6 000	36 000
	174 000	479 000
Capital accounts		
Wembo	100 000	
Bob	60 000	
Equity and reserves		
Ordinary shares of $1 each		300 000
Share premium		75 000
Revaluation reserve		25 000
Retained earnings		40 000
		440 000
Trade payables	9 000	26 000
Bank overdraft	5 000	13 000
	174 000	479 000

REQUIRED

(a) State what is meant by the term 'revaluation reserve'. [1]

Additional information

The directors of C Limited have decided to purchase Wembo and Bob's partnership on 31 March 2017.

The following information relates to the purchase of Wembo and Bob's partnership.

1 Two vehicles were taken over by the partners at the following agreed values:

	$
Wembo	11 000
Bob	12 500

2 The following partnership assets, excluding the partnership overdraft, were transferred to C Limited at the following agreed values:

	$
Premises	90 000
Machinery	36 000
Other vehicles	3 500
Inventory	13 000

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3 Cash collected from trade receivables was $4900.

4 Trade payables accepted $8100 in full settlement of amounts due to them.

5 Costs involved in dissolving the partnership were $3800.

6 The purchase consideration for the partnership was $155 000. This was made up as follows:

$60 000 was from the issue of 7% cumulative preference shares of $1 each distributed in profit-sharing ratio.

The balance was by the issue of ordinary shares of $1 at a premium of $0.25 per share. These shares were distributed to the partners in proportion to their capital account balances at 31 March 2017.

REQUIRED

(b) Prepare the partners' capital accounts at 31 March 2017 to show the closing entries for the partnership. [16]

(c) Prepare the equity and reserves section of the statement of financial position for C Limited at 31 March 2017 immediately after the purchase of the partnership. [4]

(d) Explain **one** benefit to Wembo and Bob of receiving:

(i) ordinary shares

(ii) cumulative preference shares. [4]

[Total: 25]

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3 Aleksander is a trader with a financial year end of 30 June. He buys containers of sunflower seeds for $100 each. Some of these he ships to his agent Benji in northern Europe. He pays Benji a commission of 10% of sales value.

The following information is available:

1 On 2 April 2017 Aleksander sent 200 containers to Benji. Aleksander paid packing costs of $120 and freight costs of $6080.

2 Benji paid additional freight costs of $1600 for transport from the port to his warehouse.

3 In the period to 30 June 2017 Benji sold 160 containers for $170 each. He remitted $21 000 to Aleksander on 14 June.

REQUIRED

(a) Prepare the following ledger accounts in the books of Aleksander for the 3 months ended 30 June 2017.

(i) goods on consignment account [2]

(ii) consignment account [12]

(iii) Benji account [5]

Additional information

The government in Benji's country decided to introduce import duties from 1 July 2017 which amount to $20 per container.

REQUIRED

(b) Explain how Aleksander might have dealt with this increase in cost. Support your answer by considering the effect on the profit per container. [4]

(c) State why an advertising campaign paid for by an agent would not be included in the valuation of inventory. [2]

[Total: 25]

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Question 4 is on the next page.

4 W Limited has been trading for several years. The company is now in a position to expand operations and trade abroad. A new warehouse is required for this expansion, which will cost $550 000.

An extract from the statement of financial position at 31 March 2016 showed the following:

	$
Ordinary shares of $1 each	400 000
Revaluation reserve	150 000
Share premium	50 000
Retained earnings	350 000

REQUIRED

(a) Explain how share premium arises. [2]

Additional information

The directors believe that the purchase of the new warehouse can be financed by:

A rights issue of ordinary shares on the basis of one share for every share currently held and any remaining balance by an issue of a 5% debenture.

The directors expect that 60% of the ordinary shareholders will take up the rights issue of ordinary shares at $1.75 per share.

REQUIRED

(b) Calculate the amount of finance that will need to be raised by the issue of the debenture. [3]

Additional information

The following information is available for the year ended 31 March 2017:

On 1 October 2016

An interim dividend of $0.02 was paid on the ordinary shares held at that date.

On 1 January 2017

The company made the planned rights issue on the ordinary shares. These were taken up as expected. A 5% debenture was also issued.

On 31 March 2017

The profit from operations for the year was $245 000.
Finance charges were $70 000 excluding any debenture interest.
A taxation charge of 20% was to be provided.
A final dividend of $0.04 was proposed on **all** the ordinary shares held at that date.

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REQUIRED

(c) (i) Prepare the statement of changes in equity for the year ended 31 March 2017 (total column is **not** required) [9]

(ii) Prepare any supporting note to the financial statements in respect of the proposed dividend. [2]

Additional information

Profits have been constant for a number of years.

At the Annual General Meeting, the directors were confident that following the expansion next year the ordinary shareholders will see an increase in dividends as profits for the year were expected to increase by 20%.

However, one of the ordinary shareholders expressed concerns that the Earnings Per Share would fall following the rights issue on 1 January 2017. He proposed that a further expansion planned for two years' time should be financed by a long-term loan instead.

REQUIRED

(d) Recommend whether the directors should finance the future expansion with loans or rights issues. Justify your choice using relevant calculations. [9]

[Total: 25]

Section B: Cost and Management Accounting

5 S Limited makes perfume. Budgeted data for the month of July is as follows:

Units produced and sold	15 000 bottles
Standard direct materials (liquids)	0.25 litres at $15 per litre
Standard direct materials (packaging)	1 bottle at $0.80 per bottle
Standard direct labour	6 minutes at $9 per hour

Fixed production overheads for July were budgeted to be $26 250 and are absorbed on a direct labour hour basis.

In July 16 000 bottles were produced and sold. Actual costs were as follows:

Direct materials (liquids)	3725 litres costing $62 875
Direct materials (packaging)	16 000 bottles costing $12 800
Direct labour	1700 hours costing $16 320
Fixed production overheads	$31 375

REQUIRED

(a) Calculate the **total** standard cost of the actual production for July. [6]

(b) Calculate the **total** actual cost of production for July. [3]

(c) Calculate the following variances.

(i) Direct labour rate

(ii) Direct labour efficiency

(iii) Fixed overhead expenditure

(iv) Fixed overhead volume [8]

Additional information

The direct materials (liquids) price variance for the month has been calculated as $7000 adverse. The direct materials (liquids) usage variance was $4125 favourable.

There was no direct materials (packaging) price or usage variance.

REQUIRED

(d) Prepare a statement to reconcile the total standard cost of actual production for July with the total actual cost of production. (Your statement should start with the total standard cost of actual production.) [4]

Additional information

The directors of S Limited are considering using production units rather than direct labour hours as the basis of absorbing fixed overheads.

REQUIRED

(e) Advise the directors whether or not they are correct to absorb fixed overheads on the basis of direct labour hours. Justify your answer. [4]

[Total: 25]

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6 Luke's business is due to start on 1 April 2018, selling a single product obtained from a sole supplier.

The purchase price is $40 per unit and Luke will sell each unit at a mark-up of 60%.

He also wants to maintain inventory at a level sufficient to cover 50% of the next month's sales.

Budgeted unit sales for the first four months of trading are as follows:

April	May	June	July
5000	8000	4000	3000

The following information is also available:

1 Luke will introduce $150 000 capital into the business bank account on 1 April 2018. On the same day, equipment costing $48 000 will be purchased by cheque.

2 Equipment will be depreciated over a period of 60 months with no residual value.

3 All purchases are expected to be paid one month after the purchases are made.

4 All sales will be on credit.

20% of customers are expected to take a cash discount of $1\frac{1}{2}$% and pay in the month of sale.

30% of customers are expected to pay one month after the sales are made.

The remaining customers are expected to pay two months after the sales are made.

5 Monthly operating expenses will be paid in the month they are incurred. They are expected to be $43 000 including depreciation.

REQUIRED

(a) State **two** benefits of preparing a cash budget. [2]

(b) Prepare the cash budget for **each** of the three months April, May and June 2018. [11]

(c) Comment on Luke's working capital management. [6]

(d) Prepare a budgeted income statement for the three-month period ending 30 June 2018. [6]

[Total: 25]

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