Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2020**

INSERT **3 hours**

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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. Blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

GH plc prepared draft financial statements for the year ended 30 June 2020. These included the following.

GH plc
Draft income statement for the year ended 30 June 2020

	$
Revenue	1 980 000
Cost of sales	1 324 000
Gross profit	656 000
Distribution costs	186 500
Administrative expenses	391 000
Profit from operations	78 500
Finance costs	49 000
Draft profit for the year	29 500

The following information was also available.

1 The draft cost of sales value comprised opening inventory of $85 000, purchases of $1 317 000 and closing inventory of $78 000.

2 Included in sales were goods which had been invoiced to a customer on a sale or return basis at the end of June 2020. These goods had an original cost of $8000 and a selling price of $20 000. The customer had not yet decided to make a purchase.

3 Included in closing inventory were goods which had originally cost $27 000 and had a normal selling price of $63 000. These had been damaged and could now only be sold for $18 200 after repairs costing $4100 had taken place.

4 Import duties of $30 000 on goods purchased for resale had been included in distribution costs. Of these $3500 related to goods in inventory at the year end.

5 Export duties of $7200 had been included in administrative expenses in the draft income statement.

6 The value of trade receivables in the draft statement of financial position was $194 000, which was shown after deducting a provision for doubtful debts of $6000. This was the provision for the start of the financial year which needed to be updated to 5% of the closing trade receivables.

7 Other income of $6300 had been netted off against administrative expenses in the draft income statement.

8 During the year ended 30 June 2020 a customer had started legal action against GH plc. At the year end, it was considered that there was a 75% possibility that GH plc would lose the case and have to pay $31 000.

9 An impairment loss of $4000 relating to a delivery vehicle was yet to be accounted for.

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

(a) Calculate the **correct** values of:

(i) inventory at 30 June 2020 [4]

(ii) cost of sales for the year ended 30 June 2020. [2]

(b) Prepare a corrected income statement for the year ended 30 June 2020. [15]

(c) Explain how your treatment of item 8 would be different if there was a 25% possibility of the company losing the case. [4]

[Total: 25]

Question 2

Source A2

RX Sports is a sports club which provides sporting facilities and also sells running machines to its members.

The treasurer prepared the financial statements for the club for the year ended 31 December 2019. These included the following.

RX Sports
Trading account for the year ended 31 December 2019

	$	$
Sales		14 800
Inventory 1 January 2019	700	
Purchases	9 950	
	10 650	
Inventory 31 December 2019	1 250	
Cost of sales		9 400
Profit for the year		5 400

Income and expenditure account for the year ended 31 December 2019

	$	$
Subscriptions		14 200
Profit on disposal of club equipment		600
Profit from trading account		5 400
		20 200
Depreciation – computers	1 900	
– club equipment	4 010	
Staff costs	9 800	
Rent	6 000	
Other costs	1 320	23 030
Deficit for the year		2 830

The treasurer accidentally deleted the receipts and payments account from the computer before it could be printed off. However, the following information was available.

1

	at 1 January 2019	at 31 December 2019
	$	$
Subscriptions paid in advance	200	600
Subscriptions in arrears	400	300
Trade receivables	5200	3740
Trade payables	1560	2910
Cash and cash equivalents	1420	?
Net book value of computers	4800	?

2 The club equipment which was disposed of during the year had an original cost of $7200. Accumulated depreciation was $3100.

3 The club depreciates its computers at the rate of 25% per annum using the reducing balance method.

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4 No club equipment was purchased during the year. A new computer was bought and was paid for by cheque.

5 One month's rent was unpaid at the year end.

6 Staff costs in the income and expenditure account included a provision for holiday pay of $160.

7 All sales and purchases of running machines were made on a credit basis.

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

(a) Prepare the receipts and payments account for the year ended 31 December 2019. [16]

(b) State **three** reasons why the difference between the total receipts and total payments in a receipts and payments account may not equal the surplus or deficit in an income and expenditure account. [3]

Additional information

The credit sales of running machines to members involved the members repaying their debt in instalments. The managing committee of the club is considering making future sales only on a cash basis.

(c) Name the financial statement in which the write-off of an irrecoverable debt arising from the sale of a running machine to a club member would be recorded. [1]

(d) Advise the committee whether or not future sales should only be made on a cash basis. Justify your answer, making reference to the effect of this change on the club's cash flow and its surplus/deficit for the year. [5]

[Total: 25]

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Question 3

Source A3

Arthur and Belinda had run a successful partnership for some years. They had shared profits and losses equally. They decided to retire and VC plc agreed to buy the business on 1 January 2020 for a purchase consideration of $300 000.

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

(a) State **three** reasons why VC plc might want to buy the partnership. [3]

(b) State **three** ways in which the purchase consideration might be settled. [3]

Additional information

Arthur says that as there were only two partners, he is entitled to receive half of the purchase consideration.

(c) Advise Belinda whether or not she should agree to Arthur receiving half of the purchase consideration. Justify your answer. [5]

Additional information

VC plc took over all the assets and liabilities of the partnership except for the bank account. The assets were revalued for the purposes of the sale.

The book value of the assets and liabilities of the partnership on 1 January 2020, along with the revalued amounts, were as follows.

	Book values $	Revalued amounts $
Premises	98 000	168 000
Equipment	61 000	45 000
Vehicles	14 800	14 950
Inventory	31 270	30 000
Trade receivables	19 440	18 500
Trade payables	15 100	15 100

(d) Suggest **two** reasons for the difference in the values for the equipment. [2]

(e) Calculate:

(i) the value of goodwill recorded in the books of VC plc [3]

(ii) the total profit on realisation made by the partnership. [3]

(f) Explain the treatment of the total profit on realisation made by the partnership in **(e)(ii)**. [2]

(g) Explain why a revaluation reserve may appear in the financial statements of a limited company but not in the financial statements of a partnership. [4]

[Total: 25]

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Question 4

Source A4

The books of account of PM Limited contained the following summarised ledger accounts for the year ended 31 March 2020.

Premises

	$000		$000
Balance b/d	900	Balance c/d	900
	900		900

Provision for depreciation of premises

	$000		$000
		Balance b/d	72
Balance c/d	90	Income statement	18
	90		90

Plant and machinery

	$000		$000
Balance b/d	405	Disposal	92
Bank	117	Balance c/d	430
	522		522

Provision for depreciation of plant and machinery

	$000		$000
Disposal	46	Balance b/d	184
Balance c/d	245	Income statement	107
	291		291

Motor vehicles

	$000		$000
Balance b/d	198	Disposal	44
Bank	76	Balance c/d	230
	274		274

Provision for depreciation of motor vehicles

	$000		$000
Disposal	35	Balance b/d	103
Balance c/d	114	Income statement	46
	149		149

Disposal of plant and machinery

	$000		$000
Plant and machinery	92	Provision for depreciation of plant and machinery	46
		Bank	17
		Income statement	29
	92		92

Disposal of motor vehicle

	$000		$000
Motor vehicles	44	Provision for depreciation of motor vehicles	35
Income statement	10	Bank	19
	54		54

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

(a) Prepare a schedule of non-current assets for the year ended 31 March 2020 in accordance with the provisions of IAS16, suitable for inclusion in the notes to the accounts. [9]

(b) Identify the total figures from the summarised ledger accounts which would appear in the statement of cash flows for the year ended 31 March 2020. State the section of the statement of cash flows in which each figure would be recorded. [10]

(c) Explain how your answer to **(a)** would be different if the premises had been revalued upwards at the end of the year. [2]

(d) Explain how your answer to **(b)** would be different if the premises had been revalued upwards at the end of the year. [2]

(e) State **two** items (other than the initial purchase price) which can be included in the total cost of a non-current asset when following IAS16. [2]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

At present PL plc manufactures only one product. It manufactures and sells 2000 units a year. The following information is available.

Direct material	$20 per unit
Direct labour	$12 per unit
Total production overheads	$36 000 per year
Total selling and distribution overheads (all variable, relating to number of units)	$20 000 per year
Mark-up	33.33%

The production overheads are as follows.

	$	
Machine set-up costs	22 000	(for 440 set-ups)
Quality inspection costs	6 000	(for 500 inspections)
Order processing costs	8 000	(for 800 orders)
	36 000	

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

(a) Calculate the selling price of one unit. [6]

Additional information

The directors are considering starting the manufacture of a deluxe version of the product. The plan is to manufacture and sell 1000 units of the deluxe version per year in addition to the standard version already being made. The percentage of mark-up would be unchanged.

Data relating to the deluxe version are as follows.

Direct material	$30 per unit
Direct labour	$20 per unit
Machine set-ups	350 per year
Quality inspections	400 per year
Orders processed	770 per year

The production overhead costs would be the same for each occurrence of an activity for the deluxe version as for the standard version. The per-unit selling and distribution costs would be unchanged.

(b) Calculate the selling price of one unit of the deluxe version. [12]

(c) State **two** concerns the directors might have in setting the selling price of the deluxe version. [2]

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Additional information

One of the directors is suggesting halving the number of quality inspections.

(d) Advise the directors whether or not they should halve the number of quality inspections taking place. Justify your answer. [3]

(e) State what is meant by the following terms.

(i) Cost driver [1]

(ii) Cost pool [1]

[Total: 25]

Question 6

Source B2

OT plc makes one product and uses a standard costing system. Its standard costs and revenues for one month are based on the following information.

Sales
12 000 units at $15 each

Per-unit costs

Direct materials	0.25 kilos at $8 per kilo
Direct labour	30 minutes at $6 per hour
Variable overhead	$10 per direct labour hour

Total fixed overhead
$20 000 per month

In March 2020 actual sales amounted to 12 500 units.

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

(a) State, with regard to standard costing, **two** advantages and **two** disadvantages. [4]

(b) Prepare a budgeted income statement in respect of the master budget and the flexed budget for March 2020. [6]

Additional information

The increase in sales units in March 2020 was the result of a special promotion where the selling price was reduced to $14.50.

(c) Prepare a statement reconciling the budgeted sales revenue from the master budget with the total actual sales revenue for March 2020, using relevant variances. [4]

Additional information

After the success of the promotion in March 2020, the company is considering reducing the selling price still further, to $13. At this price, the company expects to sell 14 000 units a month.

(d) Name the variances which would be affected if the selling price was reduced to $13 per unit. Show the revised amounts of these variances. [4]

(e) Advise the directors whether or not they should proceed with the suggested reduction in selling price to $13 a unit. Support your answer with calculations. [7]

[Total: 25]

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