Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

1322978784

ACCOUNTING **9706/32**

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

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. Blank pages are indicated.

© UCLES 2020

Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

(a) Explain **two** reasons why a factory profit is added in an **income statement**.

1 .....

.....

.....

.....

2 .....

.....

.....

..... [4]

Additional information

After the preparation of the draft financial statements the following errors were discovered.

1 The rent expense, $60 000, should have been split 70% factory, 10% distribution centre and 20% offices. In error it had been split 50% factory, 10% distribution centre and 40% offices.

2 An item of factory machinery, cost $50 000, had been bought on 1 January 2019. This had been recorded in error as office equipment. Factory machinery is depreciated at the rate of 20% per annum and office equipment at 10% per annum.

3 An error had occurred in counting the inventory of finished goods at the year end. The value in the draft financial statements was based on an inventory of 5000 units but in fact there were only 4000 units.

(b) Calculate for the year ended 31 December 2019:

(i) the **correct** value for the production cost of manufactured goods

.....

.....

.....

.....

.....

..... [3]

(ii) the **correct** value of factory profit.

.....

..... [1]

(c) Prepare for the year ended 31 December 2019:

(i) the **corrected** provision for unrealised profit account

.....

.....

.....

.....

.....

.....

.....

.....

..... [3]

(ii) the **corrected** income statement.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [9]

Additional information

One of the directors has suggested that the company should stop accounting for factory profit.

(d) Advise the directors whether or not they should stop accounting for factory profit. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 25]

PLEASE TURN OVER

2 Read Source A2 in the insert.

(a) Prepare the statement of cash flows for the year ended 31 December 2019. (Ignore taxation.)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [19]

(b) Explain how a premium on an issue of shares is dealt with differently in a statement of cash flows as compared to the books of account of a company.

.....

.....

.....

.....

.....

..... [3]

(c) State **three** reasons why a company might prepare a statement of cash flows.

1 .....

.....

2 .....

.....

3 .....

..... [3]

[Total: 25]

3 Read Source A3 in the insert.

(a) Suggest **two** items, purchased by a business, which could be included in its intangible assets.

1 .....

2 ..... [2]

(b) Prepare, showing the adjustments made during the merger on 1 January 2020,

(i) the capital account of Babak

.....

.....

.....

.....

.....

.....

.....

..... [3]

(ii) the capital account of Alice.

.....

.....

.....

.....

.....

.....

.....

..... [6]

(c) Prepare the statement of financial position of the partnership immediately after the merger on 1 January 2020.

....[9]

Additional information

Whilst operating as sole traders both Alice and Babak maintained their books of account on a manual basis. Babak has suggested that the partnership should use a computerised accounting system.

(d) Advise Alice whether or not she should agree to using a computerised accounting system. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 25]

PLEASE TURN OVER

4 Read Source A4 in the insert.

(a) Calculate the working capital cycle ratio. **Round up** your answer to the next whole day.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [8]

Additional information

The industry average for the working capital cycle ratio is 100 days.

(b) Compare your answer to **(a)** with the industry average. Suggest reasons for the difference.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

(c) Explain why having cash sales and cash purchases might affect the usefulness of the working capital cycle ratio to the directors.

.....

.....

.....

..... [2]

(d) Calculate the net working assets to revenue ratio.

.....

.....

.....

..... [4]

Additional information

The industry average for the net working assets to revenue ratio is 21%.

(e) Compare your answer to **(d)** with the industry average. Suggest reasons for the difference.

.....

.....

.....

.....

.....

..... [3]

Additional information

One of the directors has suggested offering cash discount to credit customers.

(f) Advise the directors whether or not the company should start offering cash discount to credit customers. Justify your answer.

.....

.....

.....

.....

.....

..... [3]

[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) State **three** factors which might affect the accuracy of a sales budget.

1 .....

2 .....

3 ..... [3]

Additional information

It is the policy of WJ plc to keep an inventory of finished goods sufficient to meet the budgeted sales for the first week of the coming period.

(b) Prepare the production budget (in units) for **each** of the periods 1 to 3.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [8]

© UCLES 2020

Additional information

Each unit of production requires five kilos of raw material. It is the policy of the company to keep an inventory of raw material sufficient for the production process for the first two weeks of the coming period.

The raw material costs $10 per kilo.

(c) Prepare the purchases budget for **both** period 1 and period 2:

(i) in kilos

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [7]

(ii) in dollars.

.....

.....

.....

..... [2]

Additional information

One of the directors has made two suggestions to increase profits.

Suggestion 1	to continue to use the same supplier of raw materials but to buy a lower quality of raw materials
Suggestion 2	to continue to buy the same quality of raw materials but to use a cheaper supplier

(d) Advise the directors whether or not they should accept either of these suggestions. Justify your answer. Ignore the effect on variances.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 25]

6 Read Source B2 in the insert.

(a) Calculate for the month of March:

(i) the amount of direct materials used (in kilos)

.....

.....

.....

.....

.....

..... [3]

(ii) the amount paid per kilo for the direct materials

.....

.....

.....

.....

.....

..... [3]

(iii) the labour rate variance

.....

.....

..... [2]

(iv) the labour efficiency variance

.....

.....

..... [2]

(v) the actual profit.

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

(b) Prepare a statement reconciling the profit of $476 000 from the flexed budget with the actual profit.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [6]

(c) Name **two other** variances which the directors could calculate if they wished to do further analysis of the change in the fixed overheads.

1 .....

2 ..... [2]

(d) Suggest **one** reason for the company's:

(i) materials price variance

.....

..... [1]

(ii) materials usage variance.

.....

..... [1]

[Total: 25]

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

© UCLES 2020