Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

1379575676

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2021**

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 **24** pages. Any blank pages are indicated.

© UCLES 2021

Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

(a) State which bookkeeping entry reduced the ability of the company to pay dividends legally in the future.

.....

..... [1]

Additional information

1 On 1 January 2020 the business had a bank overdraft of $42 000. It paid interest of $3000 on the overdraft during the year ended 31 December 2020.

2 Depreciation charges for the year totalled $112 000.

3 During the year ended 31 December 2020 some machinery was disposed of for $47 000. This had originally cost $92 000 and depreciation of $31 000 had been provided on it.

4 Several new delivery vehicles were purchased during the year, at a total cost of $185 000. New machinery costing $106 000 was also purchased.

5 On 1 April 2020 the company issued a 10% debenture of $200 000. By the year end only six months' interest had been paid.

6 The working capital of the company, excluding the bank account and accrued interest, increased by $45 000 during the year ended 31 December 2020.

7 The directors planned to expand the factory during 2021, using funds raised by the debenture issue.

© UCLES 2021

(b) Prepare the statement of cash flows for the year ended 31 December 2020 in accordance with IAS 7.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [15]

(c) Advise the directors whether or not the performance of the company is satisfactory. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [4]

(d) Discuss the decision to issue the debenture to fund the planned expansion.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 25]

2 Read Source A2 in the insert.

(a) Outline the next steps the company needed to take to implement the computerised accounting system. Your answer should consider the need for both accuracy and security.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [8]

Additional information

The company accountant prepared the draft income statement of the company for the year ended 31 December 2020. When the finance director reviewed it he thought that it might contain errors. He identified five areas where he thought an error might have occurred. These were as follows.

1 The staff training had cost $5000. Since the employees of the company usually stay with the company for about ten years, the accountant had decided to charge $500 to expenses for staff training each year for ten years, starting in 2020.

2 An impairment review had considered vehicles with a carrying amount of $72 000. It found that their fair value was $67 000 and their value in use was $65 000. The accountant included an impairment loss on vehicles of $7000 in expenses.

3 An impairment review had considered machinery with a carrying amount of $98 000. It found that its fair value was $81 000 and its value in use was $102 000. The accountant included an impairment loss on machinery of $17 000 in expenses.

4 Water damage had destroyed inventory costing $8000 on 5 January 2021. The accountant took this loss into account when preparing the income statement.

5 The premises had been revalued upwards by $28 000 at the year end. The accountant omitted to record this.

© UCLES 2021

(b) Complete the table showing the **effect of the correction** of errors on the draft profit for the year.

In the second column enter the amount by which the draft profit for the year would change due to any correction of errors. State whether the correction increases or decreases the profit. If no correction is needed enter **Nil**.

In the third column explain why the correction is needed, or why no correction is needed.

	$	Explanation
1 Training		....
2 Vehicles		....
3 Machinery		....
4 Inventory		....
5 Premises		....

[15]

(c) Explain why the errors, corrected in **(b)**, had not been caused by the computerised accounting system.

.....

.....

.....

..... [2]

[Total: 25]

3 Read Source A3 in the insert.

(a) Suggest **two** ways, other than the profit sharing ratio, in which a partnership could reward the introduction of capital and labour by partners.

1 .....

.....

2 .....

.....

[2]

Additional information

Eunice and Malcolm decided to retire and agreed to sell their business to FD Limited, receiving shares in return.

(b) State **three** differences between being a partner in a partnership and a shareholder in a limited company.

1 .....

.....

.....

.....

2 .....

.....

.....

.....

3 .....

.....

.....

.....

[6]

Additional information

The partnership was sold on 31 December 2020. The summarised statement of financial position of the partnership on that date was as follows.

		$
Non-current assets		88 000
Trade receivables		19 600
Bank		100
		107 700
Capital accounts	– Eunice	80 000
	– Malcolm	15 000
Current accounts	– Eunice	10 000
	– Malcolm	(5 000)
Trade payables		7 700
		107 700

FD Limited took over all the assets and liabilities of the partnership including the bank account. The purchase consideration was $175 000, consisting of 140 000 ordinary shares of $1 each. These were divided between Eunice and Malcolm on the basis of the balance on each partner's capital account on dissolution.

(c) Calculate the number of shares received by **each** partner.

	Eunice	Malcolm
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[6]

© UCLES 2021

Additional information

The profit for the partnership had been $30 000 a year.

FD Limited had a profit for the year of $600 000 in the year ended 31 December 2020. On that date the company had 1 million ordinary shares in issue. It was the policy of the company to have a dividend cover of 3 times.

(d) Advise Malcolm whether or not he made the right decision when agreeing to sell the partnership. Support your answer with calculations.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [7]

Additional information

FD Limited took over the non-current assets at a valuation of $130 000. All other assets and liabilities were taken over at their book values.

(e) Prepare the journal entry recording the acquisition of the partnership in the books of FD Limited. A narrative is **not** required.

.....

.....

.....

.....

.....

.....

.....

..... [4]

[Total: 25]

4 Read Source A4 in the insert.

(a) Explain how the trading account of a charity shop is different from that of a business.

.....

.....

.....

.....

.....

.....

.....

..... [4]

Additional information

1 Advertising costs included $7200 for a series of advertisements running from November 2020 to April 2021.

2 On 31 December 2020 deposits paid for wheelchairs ordered but not yet manufactured amounted to $39 400.

3 Accruals at the year end included $450 for administrative expenses.

4 It was decided that the cost of the computer should be written off in equal instalments over five years.

(b) Prepare the income and expenditure account for the year ended 31 December 2020.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [7]

(c) Prepare the statement of financial position at 31 December 2020.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [8]

(d) Suggest **two** ways in which X Soc could increase its income.

1 .....

.....

2 .....

.....

[2]

(e) Explain why the accumulated fund of a not for profit organisation may not be equal to the balance on its bank account.

.....

.....

.....

.....

..... [2]

(f) Explain why the financial statements of some not for profit organisations may contain entries for subscriptions.

.....

.....

.....

.....

..... [2]

[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Prepare the purchases budget for direct materials (in dollars) for **each** of the months February, March and April 2022.

	February $	March $	April $
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

[6]

(b) Prepare the cash budget for **each** of the months March and April 2022.

	March $	April $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[14]

(c) Comment on the suitability of the month of April for the replacement of the machinery.

.....

.....

.....

.....

.....

..... [2]

Additional information

One of the directors has suggested that the company limit production to 140 units every month to avoid having to pay the overtime premium and so reduce costs.

(d) Advise the directors whether or not they should limit production to 140 units a month. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

..... [3]

[Total: 25]

6 Read Source B2 in the insert.

(a) Prepare a statement showing the production cost **and** the selling price of **one** unit for each size of product.

	Small $	Large $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[6]

Additional information

An analysis of the monthly production overheads showed the following.

Activity	$
Machine set ups	10 200
Order processing	12 600
Quality inspections	7 200
Total	30 000

These activities took place as follows.

	Small	Large
Machine set ups (times)	72	30
Order processing (times)	120	60
Quality inspections (times)	12	12

© UCLES 2021

(b) Prepare a revised statement showing the production cost **and** the selling price of **one** unit for each size of product using the activity information. (The basis of apportionment for the selling and administrative costs should be unchanged.)

	Small $	Large $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[8]

Additional information

On 31 January 2021 it was established that 400 units of the small product and 200 units of the large product remained unsold. There was no work in progress.

The profit for January 2021 using absorption costing was calculated at $48 400.

(c) Calculate the profit which would have been earned if selling prices had been amended to account for the levels of activity which took place.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [6]

(d) Advise the directors whether or not they should change the basis of allocation of overheads and the selling prices. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 25]

BLANK PAGE

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 2021