Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

2095568084

ACCOUNTING **9706/31**

Paper 3 Structured Questions **October/November 2022**

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.

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Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

(a) Prepare the manufacturing account for the year ended 31 December 2021.

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(b) Prepare the income statement for the year ended 31 December 2021.

[9]

Additional information

The cost of the general expenses was divided on the basis of floor area. The floor area of the factory was 1400 m^2.

(c) Calculate the floor area of the office.

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..... [1]

(d) Name the section of a statement of financial position where the closing balance on a provision for unrealised profit account would be recorded.

..... [1]

Additional information

Amit is considering allowing the public to take tours of the factory to see how the pastries are made, ending with a visit to a gift shop which he would open.

(e) Discuss the factors which Amit should consider before deciding on whether to start the public tours.

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..... [3]

[Total: 25]

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PLEASE TURN OVER

2 Read Source A2 in the insert.

(a) Prepare a corrected statement of financial position at 31 December 2021.

Workings:

[18]

(b) State whether **each** of the two events in **point 6** of the additional information are adjusting or non-adjusting events.

5 January 2022 .....

6 January 2022 .....

[2]

(c) Explain why a business might want to revalue its non-current assets.

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..... [2]

Additional information

An amount of $7600 for irrecoverable debts is included in the expenses in the income statement. The directors are considering creating a provision for doubtful debts to reduce the level of future irrecoverable debts.

(d) Advise the directors whether or not they should create a provision for doubtful debts. Justify your answer.

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[Total: 25]

PLEASE TURN OVER

3 Read Source A3 in the insert.

(a) State what is measured by the working capital cycle.

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(b) Explain **two** reasons why AB plc's working capital cycle is longer than that of the rival.

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2 .....

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[4]

Additional information

AB plc provided the following further information for the year ended 31 December 2021 and the previous year ended 31 December 2020.

1

	2021	**2020**
Number of $1 ordinary shares in issue	700 000	500 000
Profit for the year	$319 000	$247 000
Dividend paid	$160 000	$120 000
Market price of one share	$2.19	$1.93

2 The directors had decided to expand the business and therefore issued the additional ordinary shares on 1 January 2021.

3 There were no proposed dividends at the year ends.

(c) Complete the following table. State the formula used to calculate **each** of the ratios and also calculate **each** ratio for **both** 2021 and the previous year 2020. Give your answers to **two** decimal places.

	Formula	**2021**	**2020**
Earnings per share			
Dividend per share			
Price earnings ratio			
Dividend yield			

[12]

(d) Discuss why the ratios in **(c)** and the market price of the shares changed between 2020 and 2021.

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Additional information

AB plc's financial statements for 2021 were not available until 1 October 2022.

(e) Explain why the date of publication affects the usefulness of AB plc's financial statements.

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..... [2]

[Total: 25]

4 Read Source A4 in the insert.

(a) Calculate the **total** receipts from members recorded in the receipts and payments account for the year ended 31 December 2021.

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(b) Prepare the subscriptions account for the year ended 31 December 2021.

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(c) Calculate:

(i) the life membership fees for inclusion in the income and expenditure account for the year ended 31 December 2021

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(ii) the value of the life membership fund for inclusion in the statement of financial position on 31 December 2021.

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(d) Suggest **two** sources of income, other than subscriptions, which might be received by a club.

1 .....

2 .....
[2]

Additional information

At present club members have to be aged 16 or over. It had been suggested that a junior section of the club should be opened for younger members, with an annual subscription of $15.

(e) Advise the managing committee whether or not they should open a junior section of the club. Justify your answer.

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[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Explain how a project could pay back during the life of the project whilst having a negative NPV.

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..... [2]

Additional information

It is the policy of the company to reject any project with a negative NPV.

The supplier of the machine has stated that the machine should receive a maintenance service once for every 500 units produced. Each service costs $300. The cost of this level of servicing had been included in the calculation of the negative NPV.

The finance director has suggested servicing the machine only once for every 2000 units produced, in order to reduce costs and improve the NPV.

The production manager has said that reducing servicing in this way would increase the repair costs. He estimates that the increase in repair costs would be as follows:

Year	$
1	2000
2	5600
3	12600
4	19900

(b) Complete the following table to calculate the changes in costs which would occur if the level of servicing was reduced.

Year	Decrease in number of services	Cost savings $	Repairs $	Total change $
1				
2				
3				
4				

[5]

Additional information

Discount factors for the 10% cost of capital are as follows:

Year	
1	0.909
2	0.826
3	0.751
4	0.683

(c) Calculate the NPV which the purchase of the machine would have if the level of servicing was reduced.

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(d) Advise the directors whether or not they should purchase the machine if it was operated with the reduced level of servicing. Justify your answer.

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Additional information

The production manager also thinks that the sales proceeds of the machine at the end of year 4 would be different from the existing estimate if the machine was perceived as not properly maintained.

(e) Calculate the sales proceeds at which the NPV would be zero.

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(f) Explain how a business would calculate its internal rate of return (IRR).

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[Total: 25]

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6 Read Source B2 in the insert.

(a) Calculate:

(i) the overhead absorption rate per direct labour hour

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..... [1]

(ii) the total standard cost of April's production.

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Additional information

Actual costs for April were as follows:

	$	
Direct materials	148 500	(for 19 800 kilos)
Direct labour	283 500	(at $9 per hour)
Fixed overhead	94 000	
	526 000	

(b) Prepare a statement reconciling the total standard cost of production for April (as calculated in **(a)(ii)**) with the actual cost. Your answer should include two direct material variances, two direct labour variances and two fixed overhead variances.

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Workings:

[13]

Additional information

Adhi's factory is in Jakarta, Indonesia. The direct materials he uses are imported from Bordeaux, France. He is considering starting a second factory making the same product in France and then transporting the finished product to Indonesia for sale.

(c) Advise Adhi whether or not he should use the same standard costs for units produced in France as for those produced in Indonesia. Justify your answer.

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(d) **(i)** State the difference between a fixed budget and a flexed budget.

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(ii) State **one** reason why a business would prepare a flexed budget.

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[Total: 25]

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