Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

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1184573046

ACCOUNTING **9706/32**

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 **20** 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) Calculate:

(i) the profit on the joint venture

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..... [3]

(ii) the amount paid to **each** party when the joint venture bank account was closed.

Ajlal .....

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Daneen .....

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[5]

(b) Prepare the joint venture bank account for the month of August 2022.

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(c) Discuss whether the decision to share the profit equally was reasonable.

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Additional information

Ajlal was considering running another stall at a market in a different location, to assess whether demand might be stronger there.

(d) Advise Ajlal whether or not she should enter into another joint venture, or operate alone whilst employing an assistant to help her run the stall. Justify your answer.

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Additional information

Ajlal was considering if a joint venture requires the services of an auditor.

(e) Explain which business entities would require the services of an auditor.

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(f) State **two** points which should be covered in an unqualified audit report.

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[2]

[Total: 25]

2 Read Source A2 in the insert.

(a) Prepare the following ledger accounts in the books of Sarah to record the sale of her business and the settlement of the amount due to her.

(i) DB plc account

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..... [3]

(ii) Bank account

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(iii) Capital account

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(b) Prepare the statement of financial position of DB plc immediately after the purchase of Sarah's business.

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Additional information

A year later the market price of one ordinary share in DB plc had risen to $1.80, but the dividend yield had fallen to 3%. Sarah was able to earn interest of 4% on funds she invested elsewhere.

(c) Advise Sarah whether or not she should sell her shares in DB plc and invest the proceeds to earn interest. Justify your answer.

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(d) Explain how stewardship affects a business purchase by a limited company.

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[Total: 25]

3 Read Source A3 in the insert.

(a) Prepare a summarised version of the draft income statement for the year ended 31 March 2022.

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Additional information

The draft financial statements did not take into account the following information items.

1 During the year one of the company's delivery drivers had caused an accident resulting in repairs to another vehicle costing $7000. Of this, $5000 will be covered by the company's insurance. No payments have yet been made.

2 Another vehicle is recorded in the books with a book value of $27 000. It is now estimated that it has a value in use of $22 000 and could be sold for $19 000.

3 A credit customer who owed the company $1000 at the year-end was discovered to have gone bankrupt and was not expected to pay any of the debt.

4 A dissatisfied customer was taking legal action and was suing the company for damages of $10 000. The company had estimated that the customer had a 35% chance of success.

5 Goods with a selling price of $7200 were held by a credit customer on 31 March 2022 on a sale or return basis. These goods were treated in the draft financial statements as having been sold.

6 The premises were revalued on 31 March 2022 from $400 000 to $580 000.

7 The draft financial statements showed a value of $24 000 for an intangible asset which had been bought by the company on 1 April 2021. The directors were of the opinion that this should be amortised (depreciated) over 20 years from the date of purchase.

8 A fire on 4 April 2022 destroyed the company's entire inventory.

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(b) Identify the **two** items from the information items 1 to 8 which should be disclosed by way of a note to the accounts. Explain the reason for their treatment.

1 Item number .....

Explanation .....

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2 Item number .....

Explanation .....

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[6]

(c) State what is meant by the term 'contingent asset'. Illustrate your answer with an example.

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(d) Calculate the correct profit for the year. Start your answer with the draft profit from your answer to **(a)**.

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(e) Prepare the journal entry to record information item 6 from the list given. A narrative **is** required.

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Additional information

The value of trade receivables in the draft statement of financial position was $81 900.

(f) Calculate the correct value of trade receivables at 31 March 2022.

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[Total: 25]

4 Read Source A4 in the insert.

(a) Prepare the provision for unrealised profit account for **each** of the years ended 31 December 2020 and 2021.

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Workings:

[8]

(b) Complete the following table. Identify which figures connected to factory profit were recorded in AZ Limited's income statement for the year ended 31 December 2021. State the amounts and their position in the income statement.

Description	Amount $	Position

[9]

(c) Name **two** costs which might be included in a manufacturer's cost of production but would **not** be included in prime cost.

1 .....

2 .....

[2]

Additional information

1 The directors use the value of factory profit to set the bonuses for senior factory staff.

2 In 2020 the units could have been bought in for $44, and in 2021 for $41.65.

(d) Discuss whether the rates of factory profit being applied by AZ Limited are suitable.

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[Total: 25]

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Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Prepare the labour wages budget for **each** of the months June, July and August.

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(b) Prepare extracts from the cash budget showing entries relating to sales **and** labour for **each** of the months June, July and August.

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(c) State **two** advantages to a business of preparing a cash budget.

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[2]

Additional information

One of the directors has suggested adding a fixed amount of profit per unit when calculating the selling price so that profit is not affected by changes in production cost.

(d) Advise the directors whether or not they should adopt this suggestion. Justify your answer.

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(e) Name **two** budgets which would be affected by the creation of a provision for doubtful debts.

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[2]

[Total: 25]

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6 Read Source B2 in the insert.

(a) Explain why ABC is often considered a better costing method than absorption costing.

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Additional information

The company manufactures two products. The following information is available for the year.

1 Direct costs

	Product A	Product B
Production (units)	1500	4500
Direct material per unit	3 kilos at $7.20 per kilo	5 kilos at $4.80 per kilo
Direct labour per unit	2 hours at $10.50 per hour	3 hours at $10.50 per hour

2 Production overheads

Overhead	Total cost $	
Machine servicing	13 700	Three machines are used to manufacture product A and eight to manufacture product B. They are all serviced once a month.
Order processing	6 400	Orders processed amount to 27 for product A and 93 for product B.
Quality inspections	11 200	Product A is subject to 34 quality inspections and product B to 126.

3 Rent costs $48 000 a year and is apportioned on the basis of floor area, 30% for product A and 70% for product B.

4 The business applies a mark-up of 50% on total cost when calculating selling price.

(b) Calculate the selling price of **one** unit for **each** product.

.... [12]

Additional information

The company's selling price for product B is $3 higher than that of a competitor. The directors are worried that because of this the company will start to lose sales.

They are considering doubling production of product B whilst maintaining the same percentage mark-up. They believe that because of the increase in production they would be able to negotiate a purchase price for direct material of $4.40 per kilo. There would be an increased requirement for labour and therefore the rate of pay would increase to $11.50 per hour for all factory workers.

The increase in production would cause the following production overheads **for product B** to become:

	$
Machine servicing	27 900
Order processing	8 100
Quality inspections	16 560
Total	52 560

The rent and its apportionment would be unchanged.

(c) Calculate the selling price of **one** unit of product B which would be charged if its production was doubled in this way.

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(d) Advise the directors whether or not they should double production of product B. Justify your answer.

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[Total: 25]

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