



Cambridge International AS & A Level

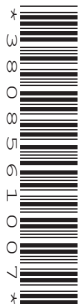
CANDIDATE
NAME

CENTRE
NUMBER

| | | | | |
|--|--|--|--|--|
| | | | | |
|--|--|--|--|--|

CANDIDATE
NUMBER

| | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|



ACCOUNTING

9706/31

Paper 3 Structured Questions

May/June 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 **28** pages. Blank pages are indicated.

Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the Insert.

(a) State **three** differences between a statement of cash flows and a cash budget.

1

.....

.....

2

.....

.....

3

.....

.....

[3]

(b) Prepare a statement reconciling the profit from operations with the cash from operations for the year ended 31 December 2019.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Workings:

(d) Discuss the effect of an increase in general reserve during the year on cash flow.

.....
.....
.....
.....
..... [2]

Additional information

The bank loan of \$100 000 was to be repaid in 2022. The directors made an early repayment in part on 30 September 2019.

(e) Discuss whether or not the directors were right in repaying part of the bank loan during the year ended 31 December 2019. Justify your answer.

.....
.....
.....
.....
.....
.....
.....
.....
..... [4]

[Total: 25]

2 Read Source A2 in the Insert.

(a) State:

(i) the meaning of the term 'work in progress'.

.....
..... [1]

(ii) how work in progress is valued.

.....
.....
.....
..... [2]

(b) Prepare an extract from the statement of changes in equity for the year ended 31 December 2019 showing the **movement** of retained earnings.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Workings:

[6]

Additional information

During their review of the draft financial statements, the auditors brought two issues to the attention of the directors.

Issue 1

During the year ended 31 December 2019, M plc had bought a specialised machine. The machine had been designed by M plc and made by an overseas manufacturer. The following costs had been incurred:

| | |
|------------------------|--------|
| | \$ |
| Design | 7 000 |
| Manufacture | 26 000 |
| Installation | 3 000 |
| Repair and maintenance | 4 000 |

M plc had capitalised the manufacture cost, \$26 000, and all other costs were charged to the income statement. The company depreciates the machinery at 25% per annum using the straight-line method. A full year's depreciation is charged in the year of purchase.

Issue 2

M plc owns a warehouse. It was purchased on 1 January 2015 at a cost of \$150 000. It has a useful life of 25 years with no expected residual value. Its carrying value had been included in the total value of non-current assets, without taking into account its fair value of \$100 000 and value in use of \$112 000.

(c) Define the term 'impairment of assets'.

.....

.....

.....

.....

.....

.....

..... [4]

(d) Explain how the directors should adjust the draft financial statements to account for:

(i) issue 1

.....
.....
.....
..... [2]

(ii) issue 2.

.....
.....
.....
.....
.....
..... [3]

(e) Calculate the adjusted profit for the year **after** considering issue 1 and issue 2.

.....
.....
.....
.....
.....
.....
.....
.....
.....
..... [6]

[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the Insert.

(a) Calculate the total budgeted profit for August.

.....
.....
.....
.....
..... [2]

Additional information

Actual output and sales for August were 4300 units, selling for \$80 per unit.

Actual costs for August were as follows.

| | |
|--|---------|
| | \$ |
| Total direct materials cost (22 790 kilos) | 95 718 |
| Total direct labour costs (12 040 hours) | 150 500 |
| Fixed overheads | 43 600 |

(b) Calculate the actual profit for August.

.....
.....
.....
.....
..... [1]

(c) Calculate the following variances:

(i) sales price variance

.....
.....
.....
.....

(ii) sales volume variance (use standard profit margin per unit)

.....
.....
.....
.....

(iii) labour rate variance

.....
.....
.....
.....

(iv) labour efficiency variance

.....
.....
.....
.....

(v) fixed overhead expenditure variance

.....
.....
.....
.....

(vi) fixed overhead volume variance.

.....
.....
.....
.....

[12]

Additional information

V Limited is considering implementing an activity based costing (ABC) system. The management accountant has prepared the following cost analysis.

| Activity | Overhead costs \$ | Cost driver | Occurrences | |
|--------------------|----------------------|---------------------------|-------------|---------|
| | | | Standard | Premium |
| Materials handling | 80 000 | Number of purchase orders | 30 | 10 |
| Machine setups | 90 000 | Number of setups | 65 | 25 |
| Inspection | <u>70 000</u> | Number of units produced | 10 000 | 4000 |
| | <u>240 000</u> | | | |

(c) Define the term 'cost driver'.

.....

.....

..... [1]

(d) State **three** benefits of adopting ABC.

1

.....

.....

.....

2

.....

.....

.....

3

.....

.....

..... [3]

(e) Calculate the total production cost **and** unit cost for **each** product if ABC is used.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Workings:

[5]

(f) Calculate the unit selling price for **each** product if ABC is used.

.....
.....
.....
.....
..... [2]

(g) Explain the difference in total production cost for **each** product in respect of (a) and (e).

.....
.....
.....
.....
.....
.....
.....
.....
..... [3]

Additional information

V Limited plans to manufacture only the Premium product from 2021.

(h) Explain why V Limited would find ABC useful in 2020 but not in 2021.

.....
.....
.....
.....
.....
.....
.....
.....
..... [4]

[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.