Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

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

INSERT **3 hours**

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INFORMATION
- This insert contains all of the required information and questions. The questions are provided in the insert for reference only.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **12** pages. Any blank pages are indicated.

Section A: Financial Accounting

Question 1

Source A1

Amit's business has a year end of 31 December. It manufactures speciality pastries. The business's premises comprise a factory area and an office area.

Amit extracted the following trial balance from his books of account on 31 December 2021 prior to preparing his financial statements.

	Debit $	Credit $
Inventory of raw materials at 1 January 2021	2810	
Inventory of work in progress at 1 January 2021	1190	
Inventory of finished goods at 1 January 2021	6700	
Revenue		288830
Purchases of raw materials	81750	
Trade receivables	8600	
Trade payables		9150
Machine operators' wages	53000	
Factory supervisor's salary	26000	
Administrative salaries	28500	
Bank	580	
Capital		51850
Factory machinery (at cost)	96800	
Office equipment (at cost)	19000	
Rent and rates	9600	
Selling and distribution costs	14700	
Administrative expenses	16100	
Accumulated depreciation of factory machinery		24960
Accumulated depreciation of office equipment		1900
Provision for unrealised profit		1340
8% bank loan		18000
General expenses	10200	
Drawings	20100	
Carriage inwards	400	
	396030	396030

The following information was also available.

1 Inventory at 31 December 2021

	$
Raw materials	2350
Work in progress	1100
Finished goods	6900

2 Prepaid rates amounted to $600 on 31 December 2021 while accrued rent amounted to $1400. Factory rent and rates are 65% of the total incurred.

3 Of the general expenses, $7140 relate to the factory.

4 Factory profit is accounted for at the rate of 25%.

5 The bank loan was taken out on 1 April 2021. No interest had been paid by the year end.

6 Depreciation for the year ended 31 December 2021 had not yet been provided. Amit provides for depreciation as follows:

	Rate per annum	Method
Factory machinery	15%	Straight-line
Office equipment	10%	Reducing balance

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare the manufacturing account for the year ended 31 December 2021. [11]

(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. [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. [3]

[Total: 25]

Question 2

Source A2

The book-keeper of NM plc produced the following draft financial statements for the year ended 31 December 2021, which contained **errors and omissions**.

Income statement

	$	$
Revenue		196 000
Cost of sales		62 900
		133 100
Profit from revaluation		72 000
		205 100
Expenses	114 200	
Dividend paid	10 000	
Dividend proposed	25 000	149 200
Profit for the year		55 900

Statement of financial position

	$
Assets	
Non-current assets	
Property, plant and equipment	612 000
Current assets	
Inventory	19 800
Trade receivables	36 200
Cash and cash equivalents	1 400
	57 400
Total assets	669 400
Equity	
Ordinary share capital	315 000
Retained earnings	267 500
	582 500
Non-current liabilities	
Bank loan	40 000
Current liabilities	
Trade payables	21 900
Proposed dividend	25 000
	46 900
Total equity and liabilities	669 400

The following additional information is available.

1 Share capital consists of ordinary shares of $1 each. Initially 100 000 shares were issued and raised $120 000, and later 150 000 shares were issued, raising $195 000.

2 A year end transfer to general reserve, $45 000, had been agreed on but had not been recorded.

3 The three vehicles included in property, plant and equipment had the following values.

vehicle	carrying amount	fair value	value in use
	$	$	$
1	36 100	33 100	37 000
2	30 800	29 000	29 500
3	19 500	18 200	18 100

Costs to sell were expected to be $60 in all cases.

4 The correct value of inventory at the year end was $18 900.

5 The bank loan is being repaid in equal instalments, one every six months. At the year end there were ten instalments remaining, with the next due on 1 March 2022.

6 On 5 January 2022 some inventory with a cost of $600 was damaged and could only be sold for $200.

On 6 January 2022 it was discovered that a credit customer who had owed $1000 at the year end had gone out of business and was unlikely to pay more than 20% of his debt.

7 A bank statement was received in January 2022 showing that a cheque from a credit customer for $2000, paid in on 30 December 2021, had been dishonoured.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare a corrected statement of financial position at 31 December 2021. [18]

(b) State whether **each** of the two events in **point 6** of the additional information are adjusting or non-adjusting events. [2]

(c) Explain why a business might want to revalue its non-current assets. [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. [3]

[Total: 25]

Question 3

Source A3

AB plc has a working capital cycle of 23 days. A rival company has a working capital cycle of only 17 days.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State what is measured by the working capital cycle. [1]

(b) Explain **two** reasons why AB plc's working capital cycle is longer than that of the rival. [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 table (**given in the question paper**). State the formula used to calculate **each** of the ratios (in the table) and also calculate **each** ratio for **both** 2021 and the previous year 2020. Give your answers to **two** decimal places. [12]

(d) Discuss why the ratios in **(c)** and the market price of the shares changed between 2020 and 2021. [6]

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. [2]

[Total: 25]

Question 4

Source A4

AZ Tennis Club has a financial year end of 31 December.

For some years it has charged an annual subscription of $50. New members joining before 31 May paid the full year's subscription, but members joining on or after 1 June paid only $30.

The club also offered life membership for $750, which was released to income over 10 years.

Further information is as follows:

1 On 1 January 2021 the club had 210 members on annual subscription. Of these, eight had already paid their 2021 subscription and seven had not yet paid their 2020 subscriptions of $50.

Of those in arrears on 1 January 2021, six members paid their 2020 subscription during January 2021. The seventh resigned his membership and his debt was written off.

2 On 1 January 2021 the club also had three life members, all of whom had taken out life membership during 2020.

3 Eight new members joined the club in the period 1 January to 31 May 2021. Eleven new members joined in the period 1 June to 31 December 2021.

4 During the year five existing members decided to become life members. These did not have to pay the annual subscription for 2021.

5 It was decided that the annual subscription for 2022 would be increased to $55.

6 On 31 December 2021 there were 14 members who had already paid their 2022 subscription and four who had not yet paid their 2021 subscriptions of $50.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the **total** receipts from members recorded in the receipts and payments account for the year ended 31 December 2021. [8]

(b) Prepare the subscriptions account for the year ended 31 December 2021. [6]

(c) Calculate:

(i) the life membership fees for inclusion in the income and expenditure account for the year ended 31 December 2021 [1]

(ii) the value of the life membership fund for inclusion in the statement of financial position on 31 December 2021. [3]

(d) Suggest **two** sources of income, other than subscriptions, which might be received by a club. [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. [5]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

X Limited has the option of buying an expensive machine. Production using this machine would be as follows:

Year	Units
1	18 000
2	20 000
3	26 000
4	24 000

It is expected that the machine could be sold at the end of year 4 for proceeds of $16 000.

The company has a cost of capital of 10%. Applying this rate the purchase of the machine has a small **negative** net present value (NPV) of $180. It has a payback period of 3 years and 10 months.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Explain how a project could pay back during the life of the project whilst having a negative NPV. [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	2 000
2	5 600
3	12 600
4	19 900

(b) Complete the table (**given in the question paper**) to calculate the changes in costs which would occur if the level of servicing was reduced. [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. [5]

(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. [5]

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. [4]

(f) Explain how a business would calculate its internal rate of return (IRR). [4]

[Total: 25]

Question 6

Source B2

Adhi runs a business which manufactures and sells one product. He operates a standard costing system with the following standard data.

Production per month	10000 units
Direct materials per unit	2 kilos at $8 per kilo
Direct labour per unit	3 hours at $10 per hour
Total fixed overhead per month	$96000

In April the business produced 9000 units.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate:

(i) the overhead absorption rate per direct labour hour [1]

(ii) the total standard cost of April's production. [3]

Additional information

Actual costs for April were as follows:

	$	
Direct materials	148500	(for 19800 kilos)
Direct labour	283500	(at $9 per hour)
Fixed overhead	94000	
	526000	

(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. [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. [5]

(d) **(i)** State the difference between a fixed budget and a flexed budget. [2]

(ii) State **one** reason why a business would prepare a flexed budget. [1]

[Total: 25]

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