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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 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) State **two** reasons why a club needs to have a clear objective.

1 .....

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[2]

(b) Explain how the tuition fees of $8000 should be treated in the revised financial statements of MN Drama Club. Support your answer with reference to the relevant accounting concept.

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(c) Prepare the revised income and expenditure account for the year ended 31 December 2021.

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Additional information

The chairman has received many requests from local parents for the tutorial classes because the fee charged by the club is 50% lower than other organisations. He has a plan to admit 60 students in October 2022. To increase the capacity, he estimates that an expenditure of $30 000 would be incurred in an extension of the club's building.

(d) Advise the chairman whether or not he should carry out the plan. Justify your answer.

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[Total: 25]

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2 Read Source A2 in the insert.

(a) Prepare a statement to show the 'profit for the year' for the year ended 31 December 2021.

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(b) Explain the accounting treatment of the following, with reference to the relevant international accounting standards (IAS):

(i) item 3

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(ii) item 4.

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Additional information

Equity of AB plc at 31 December 2020 was as follows:

	$
Ordinary share capital ($1 shares)	500 000
Share premium	86 000
Revaluation reserve	72 000
Retained earnings	192 000
	850 000

During the year ended 31 December 2021, the following transactions took place.

1 On 1 February, the final dividend of $0.08 per share was paid from the 2020 profit.

2 On 5 March, a bonus issue of one ordinary share for every ten ordinary shares held was made. It is the policy of the company to keep its reserves in the most flexible form.

3 On 1 June, 100 000 new ordinary shares were offered to the public at $1.80 each. AB plc received subscriptions for 80 000 shares which were fully paid.

4 On 1 September, an interim dividend of $0.02 per share was paid on all shares held at 31 March 2021.

5 On 31 December, a final dividend of $0.09 per share was proposed on all shares held at 31 December 2021.

(c) State **one** difference between a rights issue and a bonus issue of shares.

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(d) Prepare the statement of changes in equity for the year ended 31 December 2021. A total column is **not** required.

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[Total: 25]

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3 Read Source A3 in the insert.

(a) Explain **two** ways in which accounting ratios may be used by potential investors to assess the performance of a business.

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(b) Calculate to **two** decimal places the following:

(i) price earnings ratio

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(ii) dividend yield

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(iii) income gearing

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(iv) gearing ratio

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(v) return on capital employed.

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Additional information

The directors are considering declaring a proposed dividend of $0.20 per ordinary share. Due to the low level of retained earnings at 31 December 2021, they ask the accountant whether the dividend can also be paid out of other reserves.

(c) Discuss how the accountant should reply to the directors.

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Additional information

The directors are thinking of investing $100 000 in a new project in 2022. The project will generate a profit of $24 000 before interest in 2022. They have two options to raise $100 000:

option 1: issue of new ordinary shares

option 2: issue of a further 8% debenture.

(d) Advise the directors which option they should choose. Justify your answer.

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[Total: 25]

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4 Read Source A4 in the insert.

(a) Prepare a statement showing the partners' share of profit or loss on realisation.

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(b) Prepare the partners' capital accounts in columnar form to show the closing entries.

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(c) Prepare the journal entries in MM Limited's books to record the acquisition of the partnership business.

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(d) Define the term 'intangible asset'.

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(e) Discuss the reasons why the purchase consideration was more than $730 000.

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(f) Advise the directors whether or not they should have paid more than $730 000 for the partnership. Justify your answer.

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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) Explain **one** purpose of preparing a cash budget.

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(b) Prepare the cash budget for **each** of the three months ending 31 August 2022.

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(c) Prepare the budgeted income statement for the three month period ending 31 August 2022.

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Additional information

The directors suggest a new credit policy to improve the cash position of the company for the three months ending 31 August 2022. A 3% cash discount is to be allowed to customers who pay one month after sales. It is estimated that 50% of the customers will take the cash discount. This new credit policy would apply to all sales made in May and thereafter.

(d) Calculate the effect of the new credit policy on the company's cash receipts for **each** of the three months ending 31 August 2022.

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(e) Comment on the effect of the new credit policy on the company's profitability for the three month period ending 31 August 2022. Support your answer with calculations.

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[Total: 25]

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6 Read Source B2 in the insert.

(a) Calculate the net cash flows for each year throughout the life of the machine.

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Additional information

The cost of capital is 10%. Relevant discount factors are:

	10%	16%
Year 1	0.909	0.862
Year 2	0.826	0.743
Year 3	0.751	0.641
Year 4	0.683	0.552

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(b) Calculate for the proposed purchase:

(i) the net present value (NPV)

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(ii) the internal rate of return (IRR).

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(c) Advise the directors whether or not the machine should be purchased. Justify your answer.

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Additional information

The directors decide that the NPV method should be adopted. One of the directors has concerns about the total sales target. To achieve the total sales of 25 200 units, he has the following suggestion.

1 The selling price should be reduced by $1.

2 Advertising costs of $8000 should be incurred in both Year 1 and Year 3.

3 The units produced and sold for each year should be the same. This would also keep the fixed cost to its minimum.

(d) Explain what is meant by the term 'sensitivity analysis' for investment appraisal.

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(e) Assess the impact of the director's suggestion on the decision to buy the new machine. Support your answer with calculations.

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