Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/31**

Paper 3 Structured Questions **May/June 2020**

INSERT **3 hours**

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 **16** pages. Blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

The following are the statements of financial position for W Limited at 31 December.

	2019	**2018**
	$	$
Non-current assets		
Premises	380 000	320 000
Machinery	203 000	202 000
Motor vehicles	113 200	118 000
	696 200	640 000
Current assets		
Inventory	32 550	36 500
Trade receivables	49 300	46 200
Cash at bank	16 400	8 100
	98 250	90 800
Total assets	794 450	730 800
Equity and liabilities		
Equity		
Ordinary share capital ($1 shares)	440 000	400 000
Share premium	60 000	40 000
General reserve	50 000	35 000
Retained earnings	79 300	104 000
Revaluation reserve	80 000	Nil
	709 300	579 000
Non-current liabilities		
Bank loan	30 000	100 000
Current liabilities		
Trade payables	41 000	36 700
Tax payable	13 400	12 600
Accrued interest	750	2 500
	55 150	51 800
Total equity and liabilities	794 450	730 800

The following information relates to the year ended 31 December 2019.

1 Premises were revalued at $400 000 on 1 January 2019. There were no purchases or disposals of premises during the year.

2 Additional machines costing $28 000 were purchased during the year.

3 A motor vehicle costing $65 000, with an accumulated depreciation of $26 000, was sold during the year for $32 500. It was replaced by a new motor vehicle at a cost of $74 000.

4 Tax and interest charged for the year amounted to $13 400 and $8250 respectively.

5 Interim dividend of $0.11 per share was paid in August 2019 before 40 000 additional ordinary shares were issued for cash.

6 Profit from operations for the year ended 31 December 2019 was $55 950.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) State **three** differences between a statement of cash flows and a cash budget. [3]

(b) Prepare a statement reconciling the profit from operations with the cash from operations for the year ended 31 December 2019. [9]

(c) Prepare a statement of cash flows for the year ended 31 December 2019. Start your answer with cash from operations from **(b)**. [7]

(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]

Question 2

Source A2

AD Limited sells watches and clocks. Watches are manufactured by the company and clocks are bought from a local manufacturer.

The following balances were extracted from the books of AD Limited at 31 December 2019.

	$
Sales revenue	
watches	628 000
clocks	332 000
Purchases	
raw materials	132 700
clocks	252 600
Plant and machinery (at cost)	320 000
Office equipment (at cost)	210 000
Accumulated depreciation at 1 January 2019	
plant and machinery	184 000
office equipment	94 000
Inventory at 1 January 2019	
watches finished goods (cost)	40 000
watches work in progress	9 000
raw materials	12 500
clocks	28 400
Direct wages	168 000
Manufacturing overheads	63 500
Rent and rates	68 000
Administrative expenses	94 000

The following information is also available.

1 Manufactured watches are transferred to the trading account at production cost plus a mark-up of 20%.

2 Inventory at 31 December 2019 is as follows:

	$
watches finished goods (at transfer price)	54 000
watches work in progress	9 700
raw materials	13 400
clocks	29 600

3 Prepaid rent and rates at 31 December 2019 were $4000.

4 Rent and rates are allocated between manufacturing and administrative expenses in the ratio of 3 : 2.

5 Depreciation is provided as follows:

plant and machinery	25% per annum using the reducing balance method
office equipment	15% per annum using the straight-line method

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) State:

(i) the meaning of the term ‘work in progress’. [1]

(ii) how work in progress is valued. [2]

(b) Prepare the manufacturing account (for watches) for the year ended 31 December 2019. [7]

(c) Calculate the gross profit for the year ended 31 December 2019 on the sale of watches and clocks. [2]

(d) Prepare an extract from the income statement for the year ended 31 December 2019, showing the gross profit, the manufacturing profit and the adjustment of the provision for unrealised profit. [3]

(e) Explain the accounting treatment in the income statement and the statement of financial position of the provision for unrealised profit. Support your answer with reference to the accounting concepts. [5]

Additional information

The directors are considering whether they should stop selling watches and sell only clocks in the future.

(f) Advise the directors whether they should sell only clocks in the future. Justify your answer with reference to your calculations in **(c)** and **(d)**. [5]

[Total: 25]

Question 3

Source A3

Ang and Kim had been in partnership for many years, sharing profits and losses in the ratio of 3 : 2. The books of account of the business had the following balances at 31 December 2019.

	$	
Office equipment	42 400	
Motor vehicles (two vehicles)	27 700	
Inventory	11 400	
Trade receivables	19 500	
Trade payables	13 700	
Bank overdraft	4 500	
Capital account		
Ang	42 000	
Kim	38 000	
Current account		
Ang	2 500	debit
Kim	5 300	credit

The business was taken over by X Limited on 1 January 2020.

1 X Limited took over the assets of the partnership as follows:

office equipment	$35 600
one motor vehicle	$20 000
inventory	value increased by 20%
trade receivables	after allowing a provision for doubtful debts of 4%
goodwill	calculated as the average profit for the last three years average profit $ 2017 26 000 2018 31 000 2019 39 000

2 X Limited settled the purchase consideration by issuing 50 000 ordinary shares of $1 each at a share premium of $0.80 per share and the remainder in cash. Ordinary shares were allocated to the partners equally.

3 Trade payables were settled in full by the partnership for $13 000.

4 The other motor vehicle was taken over by Ang at a value of $10 000.

5 Realisation costs incurred by the partnership amounted to $3700.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate the purchase consideration payable by X Limited. [4]

(b) Prepare the realisation account. [7]

Additional information

It was agreed that the allocation of X Limited's shares to the partners and the final settlement by the partners to or from the partnership bank account will go through the partners' capital accounts.

(c) Prepare partners' capital accounts in a columnar form. [6]

Additional information

After issuing 50 000 ordinary shares to Ang and Kim, X Limited had an issued ordinary share capital of $300 000.

Ang and Kim were appointed as directors of X Limited and each received $25 000 per annum as director fees.

X Limited forecasted that the profit for 2020, after acquisition of the partnership business, would increase by $60 000 to $260 000.

It is expected that the dividend paid for 2020 will be $0.65 per share.

(d) Suggest **three** reasons for the forecast increase in profit in 2020. [3]

(e) Discuss whether or not Ang and Kim had made the right decision to sell the partnership business to X Limited. Justify your answer giving **both** financial and non-financial reasons. [5]

[Total: 25]

Question 4

Source A4

The draft financial statements of M plc are being prepared. The equity and current liabilities at 31 December 2019 amounted to $480 000 and $45 000.

The following information is available.

Gearing ratio	20%
Current ratio	2.2 : 1

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Prepare the summarised draft statement of financial position at 31 December 2019. [4]

Additional information

1 Further analysis of the equity at 31 December 2019 is as follows:

	$
ordinary share capital ($1 shares)	300 000
share premium	40 000
general reserve	28 000
retained earnings	112 000
	480 000

2 The current market price of one ordinary share is $2.40.

3 The price earnings ratio is 10 and the dividend yield is 5%.

4 An amount of $10 000 had been transferred from retained earnings to the general reserve during the year ended 31 December 2019.

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

Question 5

Source B1

T Limited had the following standard cost and budget information for the month of August.

Direct materials : kilos per unit	5
cost per kilo	$4
Direct labour : hours per unit	3
rate per hour	$12
Budgeted output and sales (units)	4 000
Budgeted direct labour hours	12 000
Budgeted fixed overheads	$42 000
Expected unit selling price	$82

T Limited uses absorption costing. The overhead absorption rate is based on direct labour hours.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(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

Material price variance and material usage variance have been calculated at $4558 (adverse) and $5160 (adverse).

(d) Prepare a statement reconciling the budgeted profit at 4000 units level with the actual profit. You should start the statement with the budgeted profit in **(a)**. [5]

Additional information

After analysing the direct materials variances, the directors of T Limited plan to purchase raw materials from a new supplier who provides better quality raw materials but at a higher price and with no trade discount.

(e) Advise the directors whether or not T Limited should change to the new supplier. Justify your answer. [5]

[Total: 25]

Question 6

Source B2

V Limited manufactures two products, Standard and Premium.
The following budgeted information for 2020 is available.

		Standard	Premium
Units produced and sold		10 000	4000
Direct materials : unit cost		$20	$30
Direct labour :	hours per unit	3	5
	rate per hour	$18	$18

Budgeted factory overheads, $240 000, are to be allocated to the products on the basis of direct labour hours.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate the total production cost **and** the unit cost for **each** product. [5]

Additional information

V Limited normally adds 40% to the cost of each product to set the selling price.

(b) Calculate the unit selling price for **each** product. [2]

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	Occurrences Premium
Materials handling	80 000	Number of purchase orders	30	10
Machine setups	90 000	Number of setups	65	25
Inspection	70 000	Number of units produced	10 000	4000
	240 000			

(c) Define the term ‘cost driver’. [1]

(d) State **three** benefits of adopting ABC. [3]

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

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