Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2016**

3 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.
All accounting statements are to be presented in good style.
International accounting terms and formats should be used as appropriate.
Workings should be shown.
You may use a calculator.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **10** printed pages, **2** blank pages and **1** insert.

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CAMBRIDGE International Examinations

Section A: Financial Accounting

1 M Limited manufactures a single product. The following balances have been extracted from the ledgers for the year ended 31 December 2015:

	Debit $	Credit $
Inventories at cost at 1 January 2015		
Raw materials	10 400	
Work-in-progress	12 600	
Finished goods at transfer price	14 904	
Purchases of raw materials	146 200	
Carriage inwards	3 160	
Carriage outwards	2 790	
Direct wages	249 400	
Indirect wages	54 650	
Rent	49 000	
Heat, light and power	28 600	
General expenses	12 600	
Office salaries	24 780	
Revenue		742 490
Provision for unrealised profit at 1 January 2015		2 484
Plant and machinery at cost	200 000	
Office equipment at cost	15 000	
Motor vehicles used by salesmen	25 000	
Provision for depreciation:		
plant and machinery		60 000
office equipment		4 600
motor vehicles		5 740

Additional information

1 Inventories at 31 December 2015

	$
Raw materials at cost	11 750
Work-in-progress at cost	14 670
Finished goods at transfer price	15 750

2 Expenses are to be apportioned to the production department as follows:

Rent	4/5
Heat, light and power	4/5
General expenses	3/4

3 Rent has been prepaid by $4000 at 31 December 2015.

4 Heat, light and power is in arrears by $3500 at 31 December 2015.

5 Completed goods are transferred at a mark-up on factory cost of 20%.

6 Depreciation is to be provided as follows:

Plant and machinery 10% per annum on cost
Motor vehicles 25% per annum on cost
Office equipment 15% on the net book value

REQUIRED

(a) Prepare the manufacturing account for the year ended 31 December 2015. [9]

(b) Prepare the income statement for the year ended 31 December 2015. [10]

(c) Explain what is meant by the term transfer price. [2]

Additional information

10 000 units of the product were manufactured in the year, which is the maximum that can be produced. A supplier has offered to supply the product to M Limited for $60 per unit in the future.

REQUIRED

(d) Advise the directors of M Limited whether or not they should accept this offer. Justify your answer on financial grounds. [4]

[Total: 25]

2 AB Cricket Club is a not-for-profit organisation.

REQUIRED

(a) State **two** reasons why the members of a not-for-profit organisation do not receive a dividend. [2]

Additional information

The treasurer of AB Cricket Club provided the following financial information:

1 At 1 September 2015 the assets and liabilities were:

	$
Equipment at net book value	7 800
Subscriptions in advance	490
Subscriptions in arrears	270
Life membership fund	1 500
Trade payables for refreshments	265
Inventory of refreshments	420
Accumulated fund	7 825

2 The receipts and payments account for the year ended 31 August 2016 was as follows:

Receipts and payments account

	$		$
Bank balance b/d	1 590	Groundsman's wages	7 500
Subscriptions	11 200	Repairs to clubhouse	700
Sale of equipment	4 000	Purchase of equipment	2 500
Match ticket sales	6 400	Cost of refreshments	1 700
Refreshments	2 500	Awards to players	1 450
Life membership	800	Administration expenses	760
Donation	3 500	Bank balance c/d	11 880
		Savings account c/d	3 500
	29 990		29 990

3 At 31 August 2016, the balances were:

	$
Subscriptions in advance	295
Subscriptions in arrears	165
Trade payables for refreshments	315
Inventory of refreshments	390

4 The donation of $3500 is to be used for the purchase of a new clubhouse. It had been invested in a new savings account and is to be capitalised.

5 The club depreciates its equipment at 10% on the net book value. A full year's depreciation is charged in the year of purchase. No depreciation is charged in the year of sale.

6 Equipment sold had a net book value of $3640.

7 The life membership fund is transferred to the income and expenditure account over 10 years in equal instalments.

8 For the year ended 31 August 2016 the club made a profit of $720 on the sale of refreshments.

REQUIRED

(b) Prepare the income and expenditure account for the year ended 31 August 2016. [11]

(c) Prepare the statement of financial position at 31 August 2016. [8]

(d) Explain why the club transfers life membership fund to the income and expenditure accounts over 10 years. [4]

[Total: 25]

3 XY Limited has been trading for many years.

Before the end of year audit, the chairman made the following statement:

'I am pleased to report that the profit for the year ended 31 March 2016 has increased from $86 000 to $174 000. These results have been achieved through careful cost control and concentrating on those areas which offer the greatest return.'

However during the end of year audit the auditors discovered the following:

1 Equipment with a net book value of $180 000 had become obsolete during the year but had not been written off. The directors believed that the buildings have increased in value by $200 000, which cancelled out any loss on the obsolete equipment. So no adjustment had been made.

2 The method of inventory valuation had been changed at the end of the year from AVCO to FIFO. The AVCO valuation had been $142 000 whereas the FIFO valuation was $184 000.

3 At 31 March 2016 the trade receivables amounted to $675 000. During the year a debt for $81 000 had been written off. However, a cheque for 75% of this amount had been discovered during the audit. The cheque had not been recorded in the books of account but is expected to clear the bank.

REQUIRED

(a) Explain the term stewardship. [2]

(b) Explain the purpose of an end of year audit. [2]

(c) State whether the published audit report will be qualified or not. [1]

(d) **(i)** Describe the correct accounting treatment of points 1, 2 and 3 with reference to the relevant accounting standards. [9]

(ii) Analyse the effects of any correction on the profit for the year ended 31 March 2016. [6]

(e) Assess the implications of a qualified audit report. [5]

[Total: 25]

4 Hamid and Patel trade regularly with each other. Patel is based in India and Hamid is based in Scotland.

On 15 November 2014 Hamid sent 100 cases of goods to Patel costing $12 000. The commission on sales was agreed at 5% of the gross sales.

On the same day Hamid paid delivery charges of $610 and insurance of $110.

Hamid's financial year ended on 31 March 2015.

At that date Patel provided the following information:

1 70% of the goods had been sold for $10 600.

2 $7475 had been sent to Hamid.

3 There was an irrecoverable debt of $120.

4 Storage charges of $350 and selling expenses of $245 had been paid by Patel.

Patel paid the balance due on 31 March 2015.

Hamid incurred bank charges of $12 for processing this payment.

REQUIRED

(a) Prepare in the books of Hamid the following accounts at 31 March 2015:

(i) the goods sent on consignment account [1]

(ii) the consignment to Patel account [11]

(iii) Patel account [7]

(b) Analyse the effect on profit of the irrecoverable debt incurred during the year. [2]

Additional information

Hamid and Patel are now considering forming a partnership rather than continuing to trade on a consignment basis.

REQUIRED

(c) Advise whether or not Hamid and Patel should enter into a partnership with each other. Justify your answer. [4]

[Total: 25]

Section B: Cost and Management Accounting

5 N Limited is planning a new project, which has an initial cost of $225 000. If the project runs for four years the marginal revenues and costs will be as follows:

Year	Revenues	Costs
	$	$
1	100 000	31 000
2	110 000	40 000
3	125 000	59 000
4	90 000	48 000

The directors have two options.

Option 1 To stop the project at the end of year 2 when the scrap value of the project's assets will amount to $175 000.

Option 2 To continue with the project until the end of year 4 when the scrap value of the assets will be $75 000.

The company's cost of capital is 10%. Discount factors for this cost of capital are as follows:

Year	Discount factor
1	0.909
2	0.826
3	0.751
4	0.683

REQUIRED

(a) Calculate the net present value (NPV) of **each** option. [10]

(b) Advise the directors which option they should choose. Justify your answer. [2]

Additional information

Before the directors make a decision, the finance director wishes to have further data on the project.

REQUIRED

(c) Calculate, to **two** decimal places, the sensitivity of the option selected in your answer to **(b)** to changes in the initial cost of the project. [3]

(d) Calculate, to **two** decimal places, the accounting rate of return (ARR) of the option selected in your answer to **(b)**. (Add scrap value to cost when calculating average investment.) [6]

(e) Explain to the directors which is the more valid method of investment appraisal. Give reasons. [4]

[Total: 25]

6 Sunil is preparing the annual budgets for his manufacturing business.

REQUIRED

(a) Explain what is meant by a master budget. [2]

Additional information

The finished goods inventory held at 1 January 2017 is expected to be 200 units. This is expected to increase by 20 units each month until 31 March 2017.

Unit sales from December 2016 to April 2017 are expected to be:

December	January	February	March	April
350	370	410	380	430

REQUIRED

(b) Prepare a production budget for **each** of the four months from January to April 2017. [4]

Additional information

1 Goods will be sold on credit with a selling price of $30 per unit. One third is expected to be received in the month of sale with the balance being received in the following month.

2 Other income will arise from the interest received on an investment of $50 000 at 4% per annum. Interest will be received quarterly starting 1 January 2017.

3 Unit product costs are expected to be as follows:

	$
Direct materials	7
Direct labour	5
Overheads	6
	18

4 Direct materials will be purchased to meet the current month's production. Half the amount due will be paid by cash in the month of production and the balance will be paid in the following month. The number of units produced in December 2016 is expected to be 340.

5 Direct labour will be paid in the month that the cost is incurred.

6 Four-fifths of the overheads will be paid in the month in which they are incurred with the balance being paid in the following month.

7 Some new equipment is expected to be acquired on 1 January 2017 at a cost of $12 000. A 50% deposit will be paid on delivery, with the remainder being paid on 1 April 2017. This equipment will be depreciated at 10% using the straight-line method.

8 The bank account balance at 1 January 2017 is expected to be overdrawn by $10 450.

REQUIRED

(c) Prepare a cash budget for **each** of the three months from January to March 2017. [10]

(d) Analyse the options available to Sunil to avoid using a bank overdraft. [6]

(e) Advise Sunil whether or not he should apply for a loan rather than maintain an overdraft. Justify your answer. [3]

[Total: 25]

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