



Cambridge International AS & A Level

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ACCOUNTING

9706/33

Paper 3 Structured Questions

October/November 2021

3 hours

You must answer on the question paper.

You will need: Insert (enclosed)

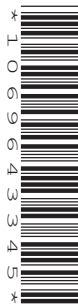
INSTRUCTIONS

- 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.



Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

- (a) Prepare the provision for unrealised profit account for the year ended 31 December 2020.

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..... [4]

- (b) Explain **two** possible reasons for the change in the balance on the provision for unrealised profit account.

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..... [4]

Additional information

- 1 The rent included \$6300 for the office and \$1600 for the distribution area.
- 2 15% of the carriage inwards related to the purchases of finished goods.
- 3 Anil provides depreciation as follows.

	rate per annum	method
factory machinery	20%	reducing balance
office equipment	10%	straight-line
delivery vehicles	25%	reducing balance

Depreciation for the year ended 31 December 2020 is yet to be provided.

2 Read Source A2 in the insert.

(a) Explain why a company might be concerned about its income gearing.

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..... [2]

Additional information

It is expected that the statement of financial position on 31 December 2021 will show the following.

	\$
Non-current assets	290 000
Inventory	73 000
Trade receivables	22 000
Cash and cash equivalents	5 000
	<u>390 000</u>
Ordinary share capital (\$1 shares)	200 000
Share premium	50 000
Retained earnings	78 000
8% debentures	50 000
Trade payables	12 000
	<u>390 000</u>

Further information is available as follows.

- 1 The debentures were issued in 2017 and are due for repayment in 2031.
- 2 The profit for the year ending 31 December 2021 is expected to be \$36 000. A dividend of \$18 000 will be paid by the end of that year.
- 3 The directors intend to buy and equip new premises on 1 January 2022 in order to expand the business. This will cost \$100 000. It is expected to increase profit from operations in 2022 by 12%.
- 4 The company could finance this expansion by taking a long-term 10% bank loan on 1 January 2022.

(b) Calculate the maximum value of bank loan which the company could borrow whilst keeping to the policy on income gearing in 2022.

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[8]

(c) Calculate the balance on the retained earnings account on 31 December 2022 if all the \$100 000 needed is financed by the 10% bank loan. The rate of dividend cover should be maintained at the 2021 level.

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..... [6]

(d) Calculate, to **two** decimal places, on the basis that the full bank loan of \$100 000 was taken, the gearing ratio on:

(i) 31 December 2021

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..... [1]

(ii) 31 December 2022.

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..... [1]

(e) Advise the directors whether or not the company should finance **all** of the expansion with the bank loan. Justify your answer.

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[Total: 25]

(d) Explain the effect the error had on Julia’s draft profit for the year.

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..... [2]

(e) Complete the following table to show which items relating to a consignment appear in which financial statements of a **consignee**.
Name the section of the financial statement in which they appear.

Item	Financial statement	Section

[4]

[Total: 25]

4 Read Source A4 in the insert.

(a) State how a recoverable amount is determined.

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..... [3]

(b) Calculate the impairment loss arising.

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(c) Explain whether the impairment loss was an adjusting or a non-adjusting event in relation to the statement of financial position at 31 December 2020.

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..... [2]

- (f) Explain how the creation of the revaluation reserve affects the directors' ability to pay dividends.

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..... [2]

Additional information

SW plc is involved in substantial research and development.

One of the directors has suggested that development costs should in future be capitalised.

- (g) Advise the directors whether or not development costs should be capitalised. Justify your answer.

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..... [3]

[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) State **two** advantages and **two** disadvantages of operating a system of budgetary control.

Advantages

1

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2

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Disadvantages

1

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2

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[4]

Additional information

LP plc provided the following information about its budgeted sales for 2022.

	units	selling price per unit \$	proportion sold for cash
January	1000	92	25%
February	1080	92	25%
March	1240	80	30%
April	1220	80	30%
May	900	92	20%

(b) State the budget (other than the sales budget) in which the following would be recorded.

(i) value of credit sales

..... [1]

(ii) value of total sales

..... [1]

Additional information

- 1 Half of credit customers pay in the month after sale and receive a cash discount of 5%. The remainder pay in the second month after sale.
- 2 Payments to credit suppliers are expected to be as follows.

2022	\$
March	55 200
April	59 616
May	59 520

- 3 Other payments are expected to amount to \$30 000 a month.
- 4 The directors intend to issue 10 000 ordinary shares of \$1 each at a premium of \$0.20 per share during March 2022.
- 5 They intend to buy a new non-current asset in March 2022. This will cost \$72 000. Half of this will be paid in March, with the balance being paid at the rate of \$1000 a month starting in April 2022.
- 6 The balance on the bank account on 1 March 2022 is expected to be \$8000 overdrawn.

Workings:

[16]

Additional information

The company pays its credit suppliers two months after the month of purchase and never receives any cash discount. One of the directors has suggested that the company should pay at least a month earlier and receive the discount.

(d) Advise the directors whether or not the company should pay earlier and receive the discount. Justify your answer.

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..... [3]

[Total: 25]

6 Read Source B2 in the insert.

(a) Calculate, by completing the following table, the **difference** in NPV between purchasing bus A and bus B.

Year	Change in capital \$	Change in receipts \$	Change in repairs \$	Total change \$	Discount factor	Discounted cash flow \$
				Difference in NPV		

Workings:

[10]

(b) Calculate the NPV of purchasing **bus B**.

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..... [1]

(c) Calculate, for **bus A**, the sale proceeds receivable at the end of year 3 at which the NPV for the two buses would be the same.

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Additional information

The Accounting Rate of Return (ARR) of purchasing bus A was calculated as 24.56%.

The total net cash flows of years 1 to 3 inclusive for bus B amounted to \$74 300.

(d) Calculate the ARR of purchasing bus B.

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(e) Advise Jason which bus he should buy. Justify your answer.

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..... [6]

(f) State **one** method of investment appraisal (other than NPV and ARR) which a business could use.

..... [1]

[Total: 25]

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