



Cambridge International AS & A Level

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ACCOUNTING

9706/31

Paper 3 Structured Questions

October/November 2022

3 hours

You must answer on the question paper.

You will need: Insert (enclosed)

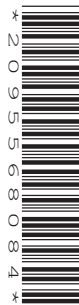
INSTRUCTIONS

- 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.



Additional information

The cost of the general expenses was divided on the basis of floor area. The floor area of the factory was 1400m².

(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.

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..... [3]

[Total: 25]

PLEASE TURN OVER

Workings:

[18]

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

5 January 2022

6 January 2022

[2]

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

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.....
.....
..... [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.

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..... [3]

[Total: 25]

PLEASE TURN OVER

3 Read Source A3 in the insert.

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

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..... [1]

(b) Explain **two** reasons why AB plc’s working capital cycle is longer than that of the rival.

1

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2

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..... [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 following table. State the formula used to calculate **each** of the ratios and also calculate **each** ratio for **both** 2021 and the previous year 2020. Give your answers to **two** decimal places.

| | Formula | 2021 | 2020 |
|----------------------|---------|------|------|
| Earnings per share | | | |
| Dividend per share | | | |
| Price earnings ratio | | | |
| Dividend yield | | | |

[12]

(c) Calculate:

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

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.....
..... [1]

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

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..... [3]

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

1

2 [2]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

- (a) Explain how a project could pay back during the life of the project whilst having a negative NPV.

.....

.....

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..... [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 following table to calculate the changes in costs which would occur if the level of servicing was reduced.

| Year | Decrease in number of services | Cost savings \$ | Repairs \$ | Total change \$ |
|------|--------------------------------|--------------------|---------------|--------------------|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |

[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.

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..... [4]

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

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..... [4]

[Total: 25]

PLEASE TURN OVER

6 Read Source B2 in the insert.

(a) Calculate:

(i) the overhead absorption rate per direct labour hour

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..... [1]

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

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..... [3]

Additional information

Actual costs for April were as follows:

| | | |
|------------------|----------------|--------------------|
| | \$ | |
| Direct materials | 148 500 | (for 19 800 kilos) |
| Direct labour | 283 500 | (at \$9 per hour) |
| Fixed overhead | <u>94 000</u> | |
| | <u>526 000</u> | |

(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.

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Workings:

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