Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

4273076519

ACCOUNTING **9706/32**

Paper 3 Structured Questions **February/March 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 **20** pages.

Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

(a) Explain the term 'indirect manufacturing costs'.

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(b) Prepare the manufacturing account for the year ended 31 December 2021.

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(c) Prepare the revised income statement for the year ended 31 December 2021. Use space on the **next page** to show your workings.

Your statement should show separately the gross profit for **each** of standard furniture and luxury furniture.

It should also show expenses split into 'total administrative expenses' and 'total selling and distribution costs'.

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[Turn over

Workings:

[11]

(d) Assess the impact on the **profitability** of T Limited for the year ended 31 December 2021 of manufacturing luxury furniture. Support your answer with appropriate calculations.

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[Total: 25]

2 Read Source A2 in the insert.

(a) Explain why a business may need to impair its non-current assets.

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(b) Explain to what extent the value of the diesel lorry is to be impaired. Support your answer with calculations.

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(c) Prepare the non-current assets schedule in a format suitable for inclusion in the notes to the financial statements for the year ended 31 December 2021. A total column is **not** required.

Workings:

[11]

Additional information

The repair and maintenance cost of $30 000 for the 5-year contract for the new machine was paid on 1 March 2021.

(d) Advise the directors whether or not X Limited should have entered into the contract. Justify your answer.

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[Total: 25]

3 Read Source A3 in the insert.

(a) Explain what is meant by the term 'cash equivalents'.

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(b) Prepare the statement of cash flows for the year ended 31 December 2021 in accordance with IAS 7.

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Workings:

[14]

(c) Explain **two** reasons why a business prepares a statement of cash flows in addition to an income statement and a statement of financial position.

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[4]

Additional information

During a directors' meeting, the finance director had been asked why he had raised a bank overdraft to finance the acquisition of non-current assets.

(d) Advise the directors whether or not the finance director was correct in raising a bank overdraft to finance the acquisition of non-current assets. Justify your answer.

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[Total: 25]

4 Read Source A4 in the insert.

(a) Explain **two** reasons why Javeed should ask for commission based on gross sales.

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[4]

Additional information

1 Both parties later agreed that the commission of Javeed should be based on gross sales.

2 After incurring repair costs of $5 for each defective unit, all the returned goods can be sold for $160 each.

(b) Calculate the value of inventory held by Javeed at 31 December 2021.

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(c) Prepare the consignment account in the books of G Limited for the year ended 31 December 2021.

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(d) Complete the table to show the effect of the consignment to Javeed on **each** item in G Limited's financial statements and state the reason.

Item	Effect (Increase / Decrease) in $	Reason
Other receivables		
Cash at bank		
Purchases		
Profit for the year		

[8]

[Total: 25]

PLEASE TURN OVER

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

(a) Prepare the flexed budget to show the budgeted profit for the month of July.

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Additional information

The actual result for the month of July is also available.

	$
Sales	277760
Direct material ($11.80 per kilo)	(72688)
Direct labour ($25.50 per labour hour)	(128520)
Fixed overhead	(25600)
Actual profit	50952

The cost accountant is going to conduct a variance analysis for the July performance.

(b) State what is meant by the term ‘variance analysis’.

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(c) Calculate the following:

(i) sales price variance

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(ii) sales volume variance

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(iii) direct material total variance

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(iv) direct labour total variance

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(v) fixed overhead total variance.

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Additional information

The directors are interested in further analysis of the variances in direct materials.

(d) **(i)** Calculate the **two** variances which combine to give the direct material total variance.

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(ii) Explain the likely causes of the variances calculated in **(d)(i)**.

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Additional information

In July, Y Limited had adopted a new strategy to increase sales by reducing the selling price.

(e) Advise the directors of Y Limited whether or not the company should continue the strategy in the long run. Justify your answer.

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[Total: 25]

6 Read Source B2 in the insert.

(a) Explain what is meant by the term 'cost of capital'.

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(b) Calculate for the proposed investment:

(i) payback period (in years and months)

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(ii) accounting rate of return (to **two** decimal places)

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(iii) net present value (NPV)

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(iv) internal rate of return (IRR) (to **two** decimal places).

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(c) Advise the directors whether or not the company should purchase the machine. Justify your answer.

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Additional information

The directors decide to use the NPV method for investment appraisal. Due to recent adverse economic conditions, the directors think that they should use a cost of capital of 16%.

(d) Explain the impact on the directors' decision to purchase the machine if the cost of capital is 16%.

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[Turn over

Additional information

In view of the increase in the cost of capital to 16%, the directors consider that net cash inflows for each year need to be improved.

(e) Calculate the net cash inflows for **each** of the four years so that the NPV of the proposed investment is zero.

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[Total: 25]