
ACCOUNTING

9706/33

Paper 3 Structured Questions

May/June 2019

INSERT

3 hours

READ THESE INSTRUCTIONS FIRST

This Insert contains all of the required information and questions. The questions are provided in the Insert for reference only.

Anything you write in this Insert will not be marked.

The businesses described in this Insert are entirely fictitious.



This document consists of **11** printed pages and **1** blank page.



Section A: Financial Accounting

Question 1

Source A1

The directors of K Limited have provided the following information at 31 December 2018.

	\$	
Land and building		
cost	400 000	
accumulated depreciation at 1 January 2018	40 000	
Plant and machinery		
cost	248 000	
accumulated depreciation at 1 January 2018	121 600	
Motor vehicles		
cost	153 000	
accumulated depreciation at 1 January 2018	84 800	
Trade receivables	126 000	
Other receivables	12 500	
Cash and cash equivalents	80 300	debit
Trade payables	108 000	
Other payables	13 200	
Ordinary shares of \$1 each	500 000	
Retained earnings at 1 January 2018	94 300	
Draft profit for the year	152 000	

The following **items** have **not** been taken into account:

- 1 Administrative expenses include a payment of \$7500 for insurance which covers the period from 1 December 2018 to 31 May 2019.
- 2 Inventory at 31 December 2018 was valued at cost \$94 100.
- 3 Trade receivables include \$2000 for a customer who has gone bankrupt. The directors are also of the opinion that a 3% provision for doubtful debts should be created.
- 4 Land, with the original cost of \$150 000, was revalued to \$240 000 on 31 December 2018.
- 5 On 28 December 2018, a new motor vehicle was purchased at a cost of \$25 000. An old motor vehicle was part-exchanged for \$13 000. This had cost \$20 000 and had been depreciated by \$9760. The balance of the purchase price was paid on 31 January 2019.
- 6 Depreciation for the year ended 31 December 2018 has not been provided. Annual depreciation is to be charged on the following basis:

Land	Nil
Building	25 years using the straight-line method
Plant and machinery	10% using the straight-line method
Motor vehicles	20% using the reducing balance method

A full year's depreciation is charged in the year of purchase, but no depreciation is charged in the year of disposal.

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

(a) Identify the accounting concept to be applied in respect of:

(i) item 1 [1]

(ii) item 2. [1]

(b) Prepare a statement showing the revised profit for the year ended 31 December 2018. [9]

(c) Calculate the net book value of motor vehicles at 31 December 2018. [4]

(d) Prepare the statement of financial position at 31 December 2018. [10]

[Total: 25]

Question 2

Source A2

Jenny and Thomas are two sole traders. Their statements of financial position at 31 March 2019 were as follows:

	Jenny \$	Thomas \$
Non-current assets	150 000	90 000
Current assets		
Inventory	27 500	11 000
Trade receivables	17 500	6 500
Cash and cash equivalents	9 750	3 750
	54 750	21 250
Total assets	204 750	111 250
Capital and liabilities		
Capital accounts	170 000	100 000
Current liabilities	34 750	11 250
Total capital and liabilities	204 750	111 250

They agreed to merge their two businesses into a partnership with effect from 1 April 2019.

The terms of the merger were as follows:

- 1 The value of the non-current assets of **both** sole traders had increased by 10%.
- 2 Inventory was valued at \$27 000 for Jenny and \$10 000 for Thomas.
- 3 **Both** sole traders expected 5% of their trade receivables to be written off.
- 4 All other assets and liabilities, except cash and cash equivalents, were transferred to the partnership at their book value.

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

- (a) Prepare the revised capital accounts of **each** sole trader at 31 March 2019 to show the transfer to the partnership. [8]

Additional information

The new partnership commenced on 1 April 2019 with total opening capital of \$360 000 in the ratio of Jenny 2, Thomas 1. Each partner introduced cash to achieve this.

- (b) Calculate the amounts of additional cash that **each** partner introduced. [2]
- (c) Prepare the opening statement of financial position of the new partnership on 1 April 2019. [6]

Additional information

The partners agreed to take equal salaries of \$10 000 per annum. The residual profits were to be shared in the ratio of 2:1 respectively.

It is expected that the profit before appropriation for the first year's trading will give a return of 13.5% on the total opening capital balances.

The average profit of Jenny over the last three years as a sole trader was \$35 000 per annum.

- (d) (i) Calculate Jenny's total share of the expected profit for the first year of trading. [3]
- (ii) State **one** advantage and **one** disadvantage to Jenny of forming the partnership. [2]

Additional information

The partners are considering computerising their accounting system.

- (e) State **two** advantages and **two** disadvantages to a business of using a computerised accounting system. [4]

[Total: 25]

Question 3**Source A3**

Ahmed runs a manufacturing business in Singapore producing computer screens.

For the year ended 31 December 2017 his cost of production per screen was \$80 and he operates on a margin of 20%.

For the year ended 31 December 2018 he sent 500 screens to his friend, Rohan, who is a retailer in India. The transfer value agreed between the friends was 10% less than the standard selling price.

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

- (a) Calculate the unit value at which the screens are transferred from Singapore to India. [2]

Additional information

The following relates to the year ended 31 December 2018.

- 1 Ahmed's opening bank balance was \$55 000 and the closing balance was \$94 000. This bank account was only used for the consignment.
- 2 Ahmed paid transportation costs of \$1000.
- 3 Rohan sold all of the screens at a mark-up of 60%.
- 4 Customs duty of 5% was paid by Rohan.
- 5 Rohan earned a commission of 5% on all sales. Rohan made a remittance to Ahmed.

- (b) Prepare in the books of Ahmed:

- (i) a summarised bank account showing the entries relating to the consignment [3]
- (ii) the consignment account [7]
- (iii) the account of Rohan. [5]

Additional information

Demand for Ahmed's screens is increasing. However, he is unable to increase production. Rohan wishes to continue selling Ahmed's computer screens in India for the year ending 31 December 2019.

- (c) Advise Ahmed whether or not he should continue with the consignment arrangement with Rohan. Justify your answer using relevant calculations and reference to non-financial factors. [8]

[Total: 25]

Question 4

Source A4

The directors of M plc have provided the following information from the financial statements for the year ended 30 June 2018.

Ordinary share capital consists of 1 000 000 shares of \$1 each.

Profit for the year was \$180 000.

Dividends paid during the year totalled \$80 000.

Dividend yield was 5%.

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

(a) Calculate the market price of one ordinary share. [2]

(b) Calculate the following to **two** decimal places:

(i) earnings per share

(ii) price earnings ratio

(iii) dividend cover.

[3]

Additional information

V plc is a competitor of M plc.

The directors of V plc also prepare accounts to 30 June. The following information for both companies for the year ended 30 June 2018 is available.

	M plc	V plc
Gross margin	50%	45%
Profit margin	18%	20%
Return on capital employed	15%	18%
Gearing ratio	0%	15%
Market price per share	from (a)	\$2.50
Earnings per share	from (b) (i)	\$0.20
Price earnings ratio	from (b) (ii)	12.5 times
Dividend cover	from (b) (iii)	4 times

(c) Analyse the performance of **both** companies by considering **only** the gross margin, profit margin and return on capital employed. [6]

(d) Analyse the performance of **both** companies by considering the **other** ratios. [9]

Additional Information

Pepe, an investor, is considering investing in either M plc or V plc. He is looking for a low risk investment which pays him a regular income with the potential for growth in both annual dividend and share price.

(e) Advise Pepe in which of the two companies he should invest. Justify your answer. [5]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

G Limited manufactures a single product. The budgeted information for March 2019 is as follows:

Sales and production	8000 units
Direct materials (per unit)	3 kilos at \$5 per kilo
Direct labour (per unit)	2 hours at \$20 per hour

The total fixed overheads absorbed on the basis of direct labour hours were \$128 000.

The actual sales and production for March 2019 was 7800 units.

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

- (a) Prepare a statement to show the **total** flexed budgeted production costs for March 2019. [4]

Additional information

The actual production costs for March 2019 were:

	\$
Direct materials (21 840 kilos)	117 936
Direct labour (16 380 hours)	335 790
Fixed overheads	131 040
Total production costs	<u>584 766</u>

- (b) Calculate the following variances.

- (i) Material price
- (ii) Material usage
- (iii) Labour rate
- (iv) Labour efficiency
- (v) Fixed overhead expenditure
- (vi) Fixed overhead volume

[12]

- (c) Explain how a fixed overhead capacity variance may arise.

[2]

- (d) Prepare a statement reconciling the budgeted production costs at 7800 units with the actual production costs.

[5]

Additional information

The directors of G Limited expect that labour costs will increase by 10%. The effect of this will be to reduce budgeted profit.

- (e) Explain to the directors **one** way in which they could minimise the effect of the increase in labour costs. [2]

[Total: 25]

Question 6

Source B2

The directors of T Limited are considering investing in Machine A at a cost of \$950 000 to manufacture a new product. The estimated cash flows from the new product are as follows:

	Cash inflows	Cash outflows
	\$	\$
Year 1	640 000	240 000
Year 2	660 000	260 000
Year 3	400 000	200 000
Year 4	300 000	200 000

Machine A has a useful life of 4 years. The residual value is zero.

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

- (a) Calculate the accounting rate of return (ARR) of Machine A. [5]
- (b) Calculate the payback period of Machine A. [3]
- (c) State **two** advantages and **two** disadvantages of using the payback method of investment appraisal. [4]

Additional information

The cost of capital is 8%. The discount factors are:

	7%	8%
Year 1	0.935	0.926
Year 2	0.873	0.857
Year 3	0.816	0.794
Year 4	0.763	0.735

- (d) Calculate the net present value (NPV) of Machine A. [3]
- (e) Calculate the internal rate of return (IRR) of Machine A. [5]

Additional information

Machine B can also be used to manufacture the new product. The following information is available for machine B.

Cost	\$920 000
Useful life	4 years
Residual value	Nil
Accounting rate of return	13.59%
Payback period	3 years 6 months
Net present value at 8% discount rate	\$20 200

T Limited has limited cash and is likely to borrow money to buy either Machine A or Machine B.

(f) Advise the directors of T Limited which machine they should buy. Justify your answer. [5]

[Total: 25]

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which itself is a department of the University of Cambridge.