Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2018**

INSERT **3 hours**

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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.

CAMBRIDGE International Examinations

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Section A: Financial Accounting

Question 1

Source A1

CL plc is a manufacturing business. Goods are transferred from the factory at a fixed percentage profit, which has remained unchanged for some years. The directors provided the following information for the year ended 31 December 2017.

	$
Revenue	1 820 000
Prime cost	780 000
Factory overheads	152 000
Distribution costs	283 800
Administrative expenses	343 100
Finance charges	47 100
Work in progress at 1 January 2017	17 000
Inventory of finished goods at transfer price at 1 January 2017	126 000
Work in progress at 31 December 2017	25 000
Inventory of finished goods at transfer price at 31 December 2017	96 000

The following information is also available:

1 The provision for unrealised profit account was as follows:

CL plc
Provision for unrealised profit account

2017		$	2017		$
Dec 31	Income statement	5 000	Jan 1	Balance b/d	21 000
	Balance c/d	16 000			
		21 000			21 000
			2018		
			Jan 1	Balance b/d	16 000

2 Total rent for the business was $100 000 for the year. All of this had been included in administrative expenses. However, 50% of it related to the factory, 25% to the offices and 25% to the distribution centres.

3 The taxation charge for the year was $39 400.

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

(a) Calculate the percentage of factory profit used by the company. [3]

(b) Prepare the manufacturing account for the year ended 31 December 2017 in as much detail as possible. [4]

(c) Prepare the income statement for the year ended 31 December 2017. [11]

Additional information

CL plc has the opportunity to buy in finished goods at a cost 5% lower than the cost of each unit it manufactures.

(d) Advise the directors whether or not they should take this opportunity. Justify your answer. [4]

(e) **(i)** State what is meant by the term ‘prime cost’. [1]

(ii) State **one** example of a cost which would be included in prime cost. [1]

(iii) State **one** example of a cost which would be included in factory overheads. [1]

[Total: 25]

Question 2

Source A2

According to IAS 1 Presentation of financial statements, notes to the accounts should be included within the financial statements.

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

(a) State **three** advantages to the shareholders of including notes to the accounts within the financial statements. [3]

Additional information

The following information has been extracted from the property plant and equipment note to the financial statements of S plc for the year ended 30 September 2016:

	Land and buildings	Fixtures and fittings	Motor vehicles	Total
	$	$	$	$
Cost	200 000	95 000	43 000	338 000
Accumulated depreciation	70 000	28 000	13 000	111 000
Net book value	130 000	67 000	30 000	227 000

The following information is also available:

1 The cost of the land was $40 000.

2 During the year ended 30 September 2017 the following events occurred:

On 1 January 2017 new fixtures and fittings were acquired at a cost of $20 000.

On 1 July 2017 a motor vehicle which had cost $10 000 was sold for $7000. There was a loss on disposal of $1000.

3 Depreciation is charged on a monthly basis as follows:

Buildings	5% per annum	straight-line method
Fixtures and fittings	15% per annum	straight-line method
Motor vehicles	20%	reducing balance method

(b) Calculate the depreciation charge for the year ended 30 September 2017 for:

(i) buildings

(ii) fixtures and fittings

(iii) motor vehicles. [7]

(c) Prepare the property, plant and equipment note to the statement of financial position at 30 September 2017. Total columns **are** required. [8]

Additional information

The directors now wish to purchase more land. They propose to raise the required finance of $100 000 by the issue of:

6% preference shares of $1 each, or

ordinary shares of $1 each at par, or

a 5% debenture redeemable in 2024.

(d) Advise the directors of the most suitable option to finance the purchase of land. Justify your answer. [7]

[Total: 25]

Question 3

Source A3

Kia and Zarina entered into a joint venture sharing profits and losses in the ratio 3 : 2 respectively.

Both took an active role in the business to buy and sell chains and necklaces after repairing them.

Each recorded her own transactions in her own books of account.

The following transactions took place:

April	1	Kia purchased broken chains and necklace parts for $400.
	2	Kia repaired the broken chains and necklaces at a cost of $160.
	4	Zarina paid rent of $180 and advertising costs of $90.
	6	Zarina paid the packaging cost, $60.
	8	Kia sold all the repaired chains and necklaces for $950.
	10	Zarina purchased broken chains and necklace parts for $120.
	15	Kia purchased broken chains and necklace parts for $200.
	20	Zarina repaired the broken chains and necklaces at a cost of $220.
	26	Kia sold all the repaired chains and necklaces for $840.
	30	Kia and Zarina settled their accounts with each other and the joint venture was dissolved.

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

(a) Calculate the profit or loss from the joint venture. [4]

(b) Prepare the:

(i) joint venture with Kia's account in Zarina's books of account [8]

(ii) joint venture with Zarina's account in Kia's books of account. [6]

(c) Explain **one** benefit to both Kia and Zarina of setting up a joint venture. [2]

Additional information

Zarina is interested in working with Kia again but is proposing that they enter into a formal partnership agreement, sharing profits and losses equally. Kia is not sure about this.

(d) Advise Kia whether or not she should enter into a partnership with Zarina. Justify your answer. [5]

[Total: 25]

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Question 4

Source A4

AH Limited has produced its trial balance for the year ended 30 September 2017.

Trial Balance at 30 September 2017

	$	$
Sales revenue		558 000
Purchases	352 000	
Inventory at 1 October 2016	27 000	
Sales staff salaries	64 000	
Administrative staff salaries	27 000	
Carriage inwards	4 000	
Administrative expenses	18 000	
Interest on debentures	1 000	
Interim dividend paid	4 000	
Freehold land at cost	250 000	
Vehicles at cost	68 000	
Office machinery at cost	10 000	
Provision for depreciation on:		
Vehicles		18 000
Office machinery		2 000
Trade receivables	34 000	
Trade payables		29 000
Cash and cash equivalents	36 000	
Ordinary share capital ($1 each)		200 000
5% Debentures (2023 – 2025)		40 000
General reserve		20 000
Retained earnings		28 000
	895 000	895 000

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

(a) Explain the difference between a bonus issue and a rights issue of shares. [3]

Additional information

The following information is also available:

1 Inventory at 30 September 2017 was $24 000.

2 Depreciation is to be charged as follows:

office machinery at 10% on cost
vehicles at 20% on the net book value.

3 The debentures were issued on 1 April 2017.

4 On 30 September 2017 an additional 20 000 shares were issued at $1.20 each. These shares had not been entered in the books of account.

5 At 30 September 2017 the directors transferred $5000 to general reserve and decided to recommend a final dividend of $0.05 per share on shares held on that date. The transfer to general reserve has not yet been recorded.

(b) Calculate the profit for the year ended 30 September 2017. [7]

(c) Prepare the statement of changes in equity at 30 September 2017 (a total column is **not** required). [8]

(d) Prepare the statement of financial position at 30 September 2017. [7]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

Kuldeep has been in business for several years. He has prepared an annual expenditure budget based on various levels of activity. The following budgeted information is available:

Per unit

direct materials	2 kilos at $1.50 per kilo
direct labour	0.5 hours at $10 per hour
direct expenses	$2

Last year the selling price per unit was $20. This is budgeted to increase by 2%.

Kuldeep also incurred semi-variable production overheads. He calculated that for 5000 units these were budgeted to be $15 000 and for 8000 units $21 000.

Annual fixed administration costs are expected to be $35 000.

At the end of the year the actual level of sales was 12 000 units.

There were no opening or closing inventories.

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

(a) Discuss **two** advantages of budgetary control. [4]

(b) Prepare the flexed budget for the year for 12 000 units. [13]

Additional information

The following actual data are available for 12 000 units:

	$
Sales revenue	242 600
Direct labour	63 000
Direct material	34 000

(c) Explain to Kuldeep what may have caused a difference between the flexed budget and the actual data. [4]

Additional information

Anne, his sister, has advised him that he should produce an annual fixed budget instead of an annual flexed budget.

(d) Assess **two** disadvantages to Kuldeep of producing an annual fixed budget. [4]

[Total: 25]

Question 6

Source B2

Asif is considering running a farming business, growing soya beans. He could rent land at an annual cost of $800 per field. He has two options:

Option 1	Rent 5 fields
Option 2	Rent 10 fields

After 5 years he intends to retire.

The purchase of farm machinery requires an outlay of $30 000 if 5 fields are farmed. If 10 fields are farmed then the necessary farm machinery would cost $38 000. In either case the machinery would have no scrap value at the end of the 5-year period.

Other information is as follows:

Soya beans yields were expected to be:

1000 kilos per field in Year 1
2000 kilos per field in Year 2
3000 kilos per field in **each** of Years 3, 4 and 5.

Selling prices were expected to be:

$900 per 1000 kilos of soya beans in **each** of Years 1 and 2
$1100 per 1000 kilos of soya beans in **each** of Years 3, 4 and 5.

Labour costs were expected to be 20% of sales.

The annual costs of seeds is expected to be $200 per field.

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

(a) Calculate the annual net cash flow for Option 1. [8]

(b) Calculate the accounting rate of return (ARR) for Option 1. [4]

(c) Calculate the ARR for Option 2. [5]

(d) State:

(i) **one** advantage of using ARR in comparison to other methods of investment appraisal

(ii) **two** disadvantages of using ARR in comparison to other methods of investment appraisal. [3]

(e) Discuss other financial and non-financial factors which may affect Asif’s decision to run a farming business. [5]

[Total: 25]

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