



# Cambridge International AS & A Level

CANDIDATE  
NAME

|  |
|--|
|  |
|--|

CENTRE  
NUMBER

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|--|--|--|--|--|

CANDIDATE  
NUMBER

|  |  |  |  |
|--|--|--|--|
|  |  |  |  |
|--|--|--|--|



## ACCOUNTING

9706/32

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) Calculate the draft profit for the year based on the trial balance figures.

.....

.....

.....

.....

..... [1]

### Additional information

The following took place on 31 December 2020 after the trial balance had been prepared.

- 1 The bank informed the company that its account was being debited with \$120 in relation to a dishonoured cheque from a credit customer, and with \$150 and \$110 for bank charges and bank interest.
- 2 A bonus issue of 10 000 ordinary shares of \$1 each was made.
- 3 It was decided to create a general reserve of \$14 000.
- 4 The premises were revalued to \$244 000. The fixtures and fittings and motor vehicles were deemed to have a recoverable amount of \$22 300 and \$9 200 respectively.
- 5 It was decided to provide \$5 000 for compensation to customers arising from the use of damaged goods sold to them by the company.
- 6 It was discovered that the trial balance figures included values arising from the supply of goods to a credit customer on a sale or return basis. The customer had not declared an intention to buy the goods by the year end. They were included in sales at a value of \$4 600 and had an original cost of \$2 100.

- (b) Calculate the corrected profit for the year ended 31 December 2020. Start your calculation with your answer to (a).

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

- (c)** Prepare the statement of financial position at 31 December 2020 after taking into account all necessary information. Use the space provided on the **next page** for your workings.

[illegible]

Workings:

[17]

- (d) Explain how your treatment of the bonus issue might have been different if the trial balance had contained a balance of \$8000 on a share premium account.

.....  
 .....  
 .....  
 ..... [2]

[Total: 25]

**2 Read Source A2 in the insert.**

**(a)** Calculate the profit from the vending machines for the year ended 30 June 2021.

[5]

**(b)** Calculate for the year ended 30 June 2021:

(i) the value of subscriptions received and banked

[3]

(ii) cash takings banked

.....

.....

.....

.....

.....

.....

.....

..... [4]

(iii) club expenses paid by cash.

.....

.....

.....

.....

.....

.....

.....

..... [4]

**(c)** Prepare the income and expenditure account for the year ended 30 June 2021.

[6]

### Additional information

It has been suggested to the managing committee that the club starts to rent a third vending machine selling soft drinks.

**(d)** Advise the committee whether or not to start renting a third vending machine. Justify your answer.

[3]

**3 Read Source A3 in the insert.**

- (a) (i) Calculate the earnings per share for 2019.

.....

.....

.....

..... [2]

- (ii) Explain why the value of earnings per share is the same for 2020 as for 2019.

.....

.....

.....

..... [2]

- (b) Calculate, to **two** decimal places, for 2019 **and** 2020:

- (i) the price earnings ratio

.....

.....

.....

.....

.....

.....

.....

.....

..... [4]

(ii) the dividend yield.

[4]

**(c)** State the date on which the bank loan was received.

..... [1]

(d) Explain the significance of the changes which have taken place between the two years.

[7]

(e) (i) Name the **two** financial statements in which a company would record dividends paid.

1 .....

2 ..... [2]

(ii) State how a company would record a proposed dividend in its financial statements.

.....

..... [1]

### **Additional information**

A company will often mention its dividend policy in its directors' report.

(f) State **two** other items which may be contained in a directors' report.

1 .....

2 ..... [2]

[Total: 25]

**4 Read Source A4 in the insert.**

- (a) State **two** costs (other than import duties) which a consignee might pay in relation to a consignment.

1 .....

2 .....

[2]

### Additional information

After the account had been prepared, Benny sent a further message saying that he had previously reported **in error**, and in fact he had sold 120 units for \$146 each.

- (b)** Prepare the consignment account as it would have been prepared if the revised sales information had been available from the start.

[8]

[8]

### Additional information

At the end of the year, and **after** correcting the sales figures, Benny owed Chin \$1292.

- (c)** Calculate the amount Benny remitted to Chin during the year.

[4]

- (d)** Explain why the loss on consignment turned into a profit when sales had fallen. Support your answer with relevant profit calculations.

[7]

- (e) Explain how your answer to (b) would have been different if 120 units had been sold and 44 units had been stolen from the warehouse.

.....

.....

.....

.....

.....

.....

.....

..... [2]

- (f) Explain how the task of an auditor is affected if inventory is being held by a consignee.

.....

.....

.....

..... [2]

[Total: 25]

**PLEASE TURN OVER**

## Section B: Cost and Management Accounting

Answer **all** questions.

### 5 Read Source B1 in the insert.

- (a) Prepare a statement showing the **total** budgeted profit or loss made in a month by each product.

|       | Product A<br>\$ | Product B<br>\$ |
|-------|-----------------|-----------------|
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |
| ..... | .....           | .....           |

[5]

### Additional information

The directors are considering applying activity based costing (ABC) techniques. They have three objectives.

- 1 To be more accurate in setting selling prices which will cover all costs.
- 2 To be able to make decisions on when to make goods and when to buy them in.
- 3 To know how to allocate resources such as materials or labour when there is a shortage of supply.

- (b)** Advise the directors whether or not using ABC would help them achieve their objectives. Justify your answer.

[7]

### Additional information

Analysis of monthly budgeted production overheads revealed the following:

|                               |               |
|-------------------------------|---------------|
|                               | \$            |
| Machine set-up costs          | 12 000        |
| Quality inspections           | 7 000         |
| Factory supervisors' salaries | 14 000        |
| Other production overheads    | <u>27 000</u> |
|                               | 60 000        |

The directors decided to allocate or apportion these costs using the following information.

|                               |                                                                                               |
|-------------------------------|-----------------------------------------------------------------------------------------------|
| Machine set-up costs          | Machine set-ups take place 60 times a month for product A and 40 times a month for product B. |
| Quality inspections           | Quality inspections take place 18 times a month for each product.                             |
| Factory supervisors' salaries | to be absorbed on the basis of direct labour hours                                            |
| Other production overheads    | to be split on a per unit basis                                                               |

- (c) State **one** advantage and **one** disadvantage to a business of splitting overheads on a per unit basis.

Advantage .....

.....

Disadvantage .....

.....

[2]

- (d) Prepare a revised statement showing the **total** budgeted profit or loss made in a month by each product, using the additional information about production overheads. The allocation of administrative and distribution costs is unchanged.

[illegible]

[8]

- (e) Advise the directors whether or not they should change the selling prices of the products. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

..... [3]

[Total: 25]

**6 Read Source B2 in the insert.**

**(a)** Explain what is meant by the term 'net cash inflow'.

.....

.....

.....

..... [2]

**Additional information**

Kurt uses a cost of capital of 12%. The discount factors for this are as follows:

| Year |       |
|------|-------|
| 1    | 0.893 |
| 2    | 0.797 |
| 3    | 0.712 |
| 4    | 0.636 |

Kurt is considering two options for the purchase of the machinery to make the new product.

Option 1: The purchase of machinery costing \$150 000 which would have no scrap value at the end of year 4. This would result in the manufacture of the new product having a net present value (NPV) of \$60 981.

Option 2: The purchase of machinery costing \$290 000 which would have a scrap value at the end of year 4, although as yet this scrap value has not been estimated.

- (b)** Calculate the scrap value of the machinery at the end of year 4 which would result in Option 2 having an NPV:

- (i) of zero

[8]

- (ii) equal to the NPV of Option 1.

[4]

- (c) Explain why the payback period is shorter for Option 1 than it is for Option 2 when the net cash flows are the same.

.....

.....

.....

.....

..... [2]

- (d) Explain why a shorter payback period is preferable to a longer one.

.....

.....

.....

.....

..... [2]

- (e) Explain why a project having a zero NPV is not the same as its having a zero total profit.

.....

.....

.....

.....

..... [2]

**Additional information**

It was later determined that under Option 2 the machinery could be sold at the end of year 4 for proceeds of \$225 000. With this value the accounting rate of return for Option 2 would be lower than the accounting rate of return for Option 1.

(f) Advise Kurt which option he should implement. 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](http://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.