



CANDIDATE  
NAME

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CENTRE  
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CANDIDATE  
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9706/33

October/November 2021

**3 hours**

You must answer on the question paper.

You will need:    Insert (enclosed)

- 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.

- 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) Prepare the provision for unrealised profit account for the year ended 31 December 2020.

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..... [4]

- (b) Explain **two** possible reasons for the change in the balance on the provision for unrealised profit account.

1 .....

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2 .....

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..... [4]

### Additional information

- 1 The rent included \$6300 for the office and \$1600 for the distribution area.
- 2 15% of the carriage inwards related to the purchases of finished goods.
- 3 Anil provides depreciation as follows.

|                   | rate per annum | method           |
|-------------------|----------------|------------------|
| factory machinery | 20%            | reducing balance |
| office equipment  | 10%            | straight-line    |
| delivery vehicles | 25%            | reducing balance |

Depreciation for the year ended 31 December 2020 is yet to be provided.

- (c) Prepare, for the year ended 31 December 2020,
- (i) the manufacturing account

[8]

(ii) the income statement.

This image shows a full page of a document template designed for handwriting practice or general note-taking. The page is white and features approximately 28 evenly spaced horizontal dotted lines extending across its width. These lines are intended to guide letter height and placement. In the bottom right corner, there is a small, black-outlined rectangular box containing the number "9". This likely indicates that this page is part of a larger set of nine pages.

[Total: 25]

## 2 Read Source A2 in the insert.

(a) Explain why a company might be concerned about its income gearing.

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..... [2]

### Additional information

It is expected that the statement of financial position on 31 December 2021 will show the following.

|                                     | \$             |
|-------------------------------------|----------------|
| Non-current assets                  | 290 000        |
| Inventory                           | 73 000         |
| Trade receivables                   | 22 000         |
| Cash and cash equivalents           | 5 000          |
|                                     | <u>390 000</u> |
| Ordinary share capital (\$1 shares) | 200 000        |
| Share premium                       | 50 000         |
| Retained earnings                   | 78 000         |
| 8% debentures                       | 50 000         |
| Trade payables                      | 12 000         |
|                                     | <u>390 000</u> |

Further information is available as follows.

- 1 The debentures were issued in 2017 and are due for repayment in 2031.
- 2 The profit for the year ending 31 December 2021 is expected to be \$36 000. A dividend of \$18 000 will be paid by the end of that year.
- 3 The directors intend to buy and equip new premises on 1 January 2022 in order to expand the business. This will cost \$100 000. It is expected to increase profit from operations in 2022 by 12%.
- 4 The company could finance this expansion by taking a long-term 10% bank loan on 1 January 2022.

- (b)** Calculate the maximum value of bank loan which the company could borrow whilst keeping to the policy on income gearing in 2022.

[8]

- (c) Calculate the balance on the retained earnings account on 31 December 2022 if all the \$100 000 needed is financed by the 10% bank loan. The rate of dividend cover should be maintained at the 2021 level.

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..... [6]

- (d) Calculate, to **two** decimal places, on the basis that the full bank loan of \$100 000 was taken, the gearing ratio on:

- (i) 31 December 2021

.....

.....

..... [1]

- (ii) 31 December 2022.

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..... [1]

- (e) Advise the directors whether or not the company should finance **all** of the expansion with the bank loan. Justify your answer.

..... [7]

[Total: 25]

### 3 Read Source A3 in the insert.

- (a) Prepare Aiona's account in the books of Julia for the year ended 31 December 2020.

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..... [5]

#### Additional information

Julia prepared her draft financial statements, and then discovered that she had **in error** debited the freight costs for Aiona's consignment to Henri, and the freight costs for Henri's consignment to Aiona.

- (b) Prepare the journal entry to correct the error made in recording the freight charges. A narrative **is** required.

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..... [5]

- (c)** Explain the effect the error had on the value of inventory in Julia's draft statement of financial position. Support your answer with relevant calculations.

[9]

(d) Explain the effect the error had on Julia's draft profit for the year.

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..... [2]

(e) Complete the following table to show which items relating to a consignment appear in which financial statements of a **consignee**.

Name the section of the financial statement in which they appear.

| Item | Financial statement | Section |
|------|---------------------|---------|
|      |                     |         |
|      |                     |         |

[4]

[Total: 25]

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

(a) State how a recoverable amount is determined.

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.....  
..... [3]

(b) Calculate the impairment loss arising.

.....  
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..... [3]

(c) Explain whether the impairment loss was an adjusting or a non-adjusting event in relation to the statement of financial position at 31 December 2020.

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

- (d)** Prepare an extract from the statement of financial position at 31 December 2020 to show the non-current assets section.

[9]

- (e) Calculate the amount of the revaluation reserve created during the year ended 31 December 2020.

..... [3]

- (f) Explain how the creation of the revaluation reserve affects the directors' ability to pay dividends.

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..... [2]

**Additional information**

SW plc is involved in substantial research and development.

One of the directors has suggested that development costs should in future be capitalised.

- (g) Advise the directors whether or not development costs should be capitalised. Justify your answer.

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..... [3]

[Total: 25]

## Section B: Cost and Management Accounting

Answer **all** questions.

### 5 Read Source B1 in the insert.

- (a) State **two** advantages and **two** disadvantages of operating a system of budgetary control.

Advantages

1 .....

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2 .....

.....

Disadvantages

1 .....

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2 .....

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[4]

### Additional information

LP plc provided the following information about its budgeted sales for 2022.

|          | units | selling price<br>per unit<br>\$ | proportion sold<br>for cash |
|----------|-------|---------------------------------|-----------------------------|
| January  | 1000  | 92                              | 25%                         |
| February | 1080  | 92                              | 25%                         |
| March    | 1240  | 80                              | 30%                         |
| April    | 1220  | 80                              | 30%                         |
| May      | 900   | 92                              | 20%                         |

(b) State the budget (other than the sales budget) in which the following would be recorded.

(i) value of credit sales

..... [1]

(ii) value of total sales

..... [1]

### Additional information

- 1 Half of credit customers pay in the month after sale and receive a cash discount of 5%. The remainder pay in the second month after sale.
- 2 Payments to credit suppliers are expected to be as follows.

| 2022  | \$     |
|-------|--------|
| March | 55 200 |
| April | 59 616 |
| May   | 59 520 |

- 3 Other payments are expected to amount to \$30 000 a month.
- 4 The directors intend to issue 10 000 ordinary shares of \$1 each at a premium of \$0.20 per share during March 2022.
- 5 They intend to buy a new non-current asset in March 2022. This will cost \$72 000. Half of this will be paid in March, with the balance being paid at the rate of \$1000 a month starting in April 2022.
- 6 The balance on the bank account on 1 March 2022 is expected to be \$8000 overdrawn.

- (c)** Prepare the cash budget for **each** of the months March, April and May 2022. Use the space provided on the next page to show your workings.

[illegible]

Workings:

[16]

### Additional information

The company pays its credit suppliers two months after the month of purchase and never receives any cash discount. One of the directors has suggested that the company should pay at least a month earlier and receive the discount.

- (d) Advise the directors whether or not the company should pay earlier and receive the discount. Justify your answer.

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..... [3]

[Total: 25]

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

- (a) Calculate, by completing the following table, the **difference** in NPV between purchasing bus A and bus B.

| Year | Change in capital<br>\$ | Change in receipts<br>\$ | Change in repairs<br>\$ | Total change<br>\$       | Discount factor | Discounted cash flow<br>\$ |
|------|-------------------------|--------------------------|-------------------------|--------------------------|-----------------|----------------------------|
|      |                         |                          |                         |                          |                 |                            |
|      |                         |                          |                         |                          |                 |                            |
|      |                         |                          |                         |                          |                 |                            |
|      |                         |                          |                         |                          |                 |                            |
|      |                         |                          |                         |                          |                 |                            |
|      |                         |                          |                         |                          |                 |                            |
|      |                         |                          |                         | <b>Difference in NPV</b> |                 |                            |

Workings:

[10]

- (b) Calculate the NPV of purchasing **bus B**.

.....

.....

..... [1]

- (c) Calculate, for **bus A**, the sale proceeds receivable at the end of year 3 at which the NPV for the two buses would be the same.

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..... [3]

#### **Additional information**

The Accounting Rate of Return (ARR) of purchasing bus A was calculated as 24.56%.

The total net cash flows of years 1 to 3 inclusive for bus B amounted to \$74 300.

- (d) Calculate the ARR of purchasing bus B.

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..... [4]

**(e)** Advise Jason which bus he should buy. Justify your answer.

[6]

(f) State **one** method of investment appraisal (other than NPV and ARR) which a business could use.

..... [1]

[Total: 25]

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