Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2021**

INSERT **3 hours**

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INFORMATION

- This insert contains all of the required information and questions. The questions are provided in the insert for reference only.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **16** pages. Any blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

Anil runs a manufacturing business. He rents the factory, the administrative office and the distribution area. His trial balance at 31 December 2020 was as follows.

	Debit $	Credit $
Capital		60 560
Bank	3 200	
Trade receivables	17 100	
Trade payables		15 200
Inventory (1 January 2020)		
Raw materials	6 300	
Work in progress	4 400	
Finished goods	8 400	
Provision for unrealised profit (1 January 2020)		1 400
Purchases of raw materials	87 000	
Carriage inwards	8 000	
Purchases of finished goods	29 600	
Factory labour	46 200	
Rent	17 100	
Factory machinery	80 000	
Provision for depreciation of factory machinery		28 800
Office equipment	30 000	
Provision for depreciation of office equipment		12 000
Delivery vehicles	40 000	
Provision for depreciation of delivery vehicles		10 000
Factory overheads	40 860	
Administrative expenses	45 600	
Distribution costs	11 200	
Sales		362 000
Drawings	15 000	
	489 960	489 960

The following information was also available.

1 The rate of factory profit Anil used for 2020 was 25%.

2 The inventory of finished goods on 1 January 2020 was all goods manufactured in Anil's factory.

3 On 31 December 2020 Anil's inventory was as follows.

	$
Raw materials	5 800
Work in progress	4 600
Finished goods	10 000

The inventory of finished goods included $1000 of goods which had been bought in from another supplier. The remainder had been manufactured in Anil's factory and were valued at transfer price.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare the provision for unrealised profit account for the year ended 31 December 2020. [4]

(b) Explain **two** possible reasons for the change in the balance on the provision for unrealised profit account. [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. [9]

[Total: 25]

Question 2

Source A2

FC Limited is a trading company. Its directors have a policy that the income gearing of the company should be no more than 25%.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Explain why a company might be concerned about its income gearing. [2]

Additional information

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

	$
Non-current assets	290000
Inventory	73000
Trade receivables	22000
Cash and cash equivalents	5000
	390000
Ordinary share capital ($1 shares)	200000
Share premium	50000
Retained earnings	78000
8% debentures	50000
Trade payables	12000
	390000

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 $36000. A dividend of $18000 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 $100000. 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 $100000 needed is financed by the 10% bank loan. The rate of dividend cover should be maintained at the 2021 level. [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. [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]

Question 3

Source A3

Julia is a trader based in Tasmania. She uses the services of two agents, Aiona in Samoa and Henri in France.

During the year ended 31 December 2020 Julia shipped 1000 units of her product to each agent at a cost of $50 per unit. Julia paid the freight costs and the agents paid the import duties. By the year end Aiona had sold 400 units and Henri had sold 900 units.

At the year end Julia's books of account included the following two ledger accounts.

Consignment to Aiona account

	$		$
Goods on consignment	50 000	Aiona (sales)	56 000
Bank (freight)	18 000	Balance c/d	42 600
Aiona (import duties)	3 000		
Aiona (commission)	8 400		
Profit on consignment	19 200		
	98 600		98 600

Consignment to Henri account

	$		$
Goods on consignment	50 000	Henri (sales)	126 000
Bank (freight)	4 000	Balance c/d	5 500
Henri (import duties)	1 000		
Henri (commission)	18 900		
Profit on consignment	57 600		
	131 500		131 500

During the year Aiona had remitted $30 000 to Julia.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare Aiona's account in the books of Julia for the year ended 31 December 2020. [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. [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. [2]

(e) Complete the table in the question paper 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. [4]

[Total: 25]

Question 4

Source A4

SW plc has a financial year end of 31 December. It provided the following information.

1 All non-current assets are depreciated using the straight-line method, and depreciation is provided monthly. The per annum rates used are as follows.

Buildings	2%
Fixtures and fittings	10%
Vehicles	20%

2 The balances on the company's books of account at 1 January 2020 included the following. Only one vehicle was owned on that date.

	cost $	accumulated depreciation $
Premises	100 000	5 000
Fixtures and fittings	64 000	19 200
Vehicle	28 000	16 800

3 On 1 April 2020 the company purchased a sole trader's business for a consideration of $146 000. The assets taken over were valued at: premises $94 000, inventory $21 000 and trade receivables $14 000. All liabilities were settled by the sole trader.

4 On 30 June 2020 the vehicle was sold for $9100. The next day a replacement vehicle was purchased for $26 000.

5 On 30 September 2020 the premises owned by the company at the start of the year were revalued at $180 000. The company reviewed its estimate of the remaining economic life of the premises and decided to continue to provide depreciation on buildings at 2%.

6 The values of all premises are 50% land and 50% buildings.

7 On 1 January 2021 a review showed that the recoverable amount of the vehicle was $22 000.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State how a recoverable amount is determined. [3]

(b) Calculate the impairment loss arising. [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. [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. [3]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

LP plc uses a system of budgetary control.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) State **two** advantages and **two** disadvantages of operating a system of budgetary control. [4]

Additional information

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

	units	selling price per unit $	proportion sold 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. [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. [3]

[Total: 25]

Question 6

Source B2

Jason lives in a town where a market is held regularly.

Jason decided to buy a bus to take passengers to and from the market. He estimated that he could sell 200 tickets a day for $4 each. He intended to run the bus for three years.

He had the option of buying a newer bus, bus A, or an older bus, bus B. Jason knew that the older bus would be less reliable and there would be more days each year when the bus could not run because of breakdowns and maintenance. It would also require more money to be spent on repairs.

The following estimated information was available.

	Bus A	Bus B
Initial purchase price	$86 000	$45 000
Sale proceeds at the end of year 3	$28 000	Nil
Days lost to breakdowns and maintenance year 1	5	12
year 2	9	15
year 3	16	17
Cost of repairs and maintenance year 1	$7 000	$9 000
year 2	$8 000	$14 500
year 3	$11 000	$17 000

Other running costs were expected to be the same for both buses.

Jason uses a cost of capital of 10%. The discount factors to be used with this rate are as follows.

year 1	0.909
year 2	0.826
year 3	0.751

The Net Present Value (NPV) of running bus A was calculated as $18 900.

Answer the following questions in the question paper. Questions are printed here for reference only.

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