



Cambridge International AS & A Level

CANDIDATE
NAME

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CENTRE
NUMBER

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ACCOUNTING

9706/32

Paper 3 Structured Questions

May/June 2022

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) State **two** reasons why a club needs to have a clear objective.

1

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2

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[2]

(b) Explain how the tuition fees of \$8000 should be treated in the revised financial statements of MN Drama Club. Support your answer with reference to the relevant accounting concept.

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[4]

(b) Explain the accounting treatment of the following, with reference to the relevant international accounting standards (IAS):

(i) item 3

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..... [3]

(ii) item 4.

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..... [3]

Additional information

Equity of AB plc at 31 December 2020 was as follows:

	\$
Ordinary share capital (\$1 shares)	500 000
Share premium	86 000
Revaluation reserve	72 000
Retained earnings	<u>192 000</u>
	<u>850 000</u>

During the year ended 31 December 2021, the following transactions took place.

- 1 On 1 February, the final dividend of \$0.08 per share was paid from the 2020 profit.
- 2 On 5 March, a bonus issue of one ordinary share for every ten ordinary shares held was made. It is the policy of the company to keep its reserves in the most flexible form.
- 3 On 1 June, 100 000 new ordinary shares were offered to the public at \$1.80 each. AB plc received subscriptions for 80 000 shares which were fully paid.
- 4 On 1 September, an interim dividend of \$0.02 per share was paid on all shares held at 31 March 2021.
- 5 On 31 December, a final dividend of \$0.09 per share was proposed on all shares held at 31 December 2021.

(c) State **one** difference between a rights issue and a bonus issue of shares.

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..... [2]

3 Read Source A3 in the insert.

(a) Explain **two** ways in which accounting ratios may be used by potential investors to assess the performance of a business.

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[4]

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

(i) price earnings ratio

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..... [2]

(ii) dividend yield

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(iii) income gearing

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6 Read Source B2 in the insert.

(a) Calculate the net cash flows for each year throughout the life of the machine.

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Additional information

The cost of capital is 10%. Relevant discount factors are:

	10%	16%
Year 1	0.909	0.862
Year 2	0.826	0.743
Year 3	0.751	0.641
Year 4	0.683	0.552

(c) Advise the directors whether or not the machine should be purchased. Justify your answer.

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..... [3]

Additional information

The directors decide that the NPV method should be adopted. One of the directors has concerns about the total sales target. To achieve the total sales of 25200 units, he has the following suggestion.

- 1 The selling price should be reduced by \$1.
- 2 Advertising costs of \$8000 should be incurred in both Year 1 and Year 3.
- 3 The units produced and sold for each year should be the same. This would also keep the fixed cost to its minimum.

(d) Explain what is meant by the term 'sensitivity analysis' for investment appraisal.

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..... [3]

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