
ACCOUNTING

9706/32

Paper 3 Structured Questions

May/June 2018

INSERT

3 hours

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 **10** printed pages and **2** blank pages.

Section A: Financial Accounting

Question 1

Source A1

YGP Traders Limited has been trading for several years and has a year end of 31 December. It buys and sells a single product and makes all its transactions on a credit basis. It has a large bank overdraft and the directors are concerned about the working capital position of the business.

The following information is available for 2017:

- 1 Every month 1000 units were sold at a selling price of \$80 each.
- 2 Payment for half of all credit sales was received in the month following sale. The other half was received two months after sale.
- 3 The company purchased 14 000 units during the year.
- 4 The purchase price has been \$50 per unit for some years.
- 5 At 31 December, 3500 units were in inventory.
- 6 Trade payables at the end of the year amounted to \$62 000.

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

- (a)** Calculate for 2017:
- | | |
|--|-----|
| (i) revenue for the year | [1] |
| (ii) cost of sales for the year | [1] |
| (iii) trade receivables at the year end | [1] |
| (iv) average inventory at cost price. | [3] |
- (b)** State what is measured by the working capital cycle. [2]
- (c)** Calculate the working capital cycle for the year. [7]

Additional information

The directors of the business are considering a new strategy of increasing the selling price to \$90 per unit and offering 10% cash discount for payment in the month following sale. The directors believe that demand will be unchanged and that all customers will take the discount offered.

- (d) Calculate a revised working capital cycle for 2017 if this strategy had been implemented from the start of the year. [5]
- (e) Advise the directors whether or not they should proceed with this strategy. Justify your answer. [5]

[Total: 25]

Question 2**Source A2**

The trial balance of N plc at 31 December 2017 was as follows:

	\$	\$
Land and buildings		
cost	600 000	
provision for depreciation 1 January 2017		72 000
Equipment		
cost	278 000	
provision for depreciation 1 January 2017		112 000
Revenue		2 354 000
Purchases	1 322 000	
Administrative expenses	674 000	
Distribution costs	296 000	
Finance charges	9 000	
Inventory 1 January 2017	241 000	
Trade receivables	456 000	
Trade payables		394 000
Cash and cash equivalent	62 000	
Ordinary share capital		600 000
Share premium		140 000
6% debentures (2021)		200 000
Retained earnings		66 000
	3 938 000	3 938 000

The following information is also available.

- 1 Revenue included a deposit of \$6000 from a customer for the goods to be delivered in March 2018.
- 2 Total inventory at 31 December 2017 cost \$265 000. Of this the goods costing \$24 600 had a net realisable value of \$18 800.
- 3 Land and buildings were acquired in 2008. On 1 January 2017 they were revalued at \$720 000 of which two-thirds was allocated to land and one-third to buildings. N plc had not recorded this revaluation.
- 4 During the year, a new photocopier was purchased for \$80 000. The purchase consideration was settled by an exchange for a fully depreciated old photocopier with a trade-in value of \$10 000. The old photocopier had been purchased in 2011 for \$40 000. The balance of the purchase had been paid by cheque. N plc had recorded only the bank payment transaction.

There was no other purchase or sale of non-current asset during the year.

5 Depreciation is to be charged as follows:

Land	Nil
Buildings	over the useful life of 25 years
Equipment	25% per annum on cost

A full year's depreciation is charged in the year of purchase and none in the year of disposal.

All depreciation charged is to be included in administrative expenses.

6 An interim dividend of \$30 000 was paid on 1 October 2017 and included in administrative expenses.

7 Interest for 3 months on the debentures had not been recorded.

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

(a) Prepare the income statement for the year ended 31 December 2017. [15]

(b) Calculate the balance on the revaluation reserve account at 1 January 2017 following the revaluation. [5]

Additional information

There was a water leak in the company's printing room in January 2018. This destroyed the new photocopier which was not insured.

(c) State how this should be treated in **both** 2017 financial statements **and** 2018 financial statements. [3]

(d) State what is meant by impairment loss in respect of non-current assets. [2]

[Total: 25]

Question 3**Source A3**

Y Limited is based in Mauritius and has recently sent a consignment of goods to Mahood who lives in Egypt. They agreed the following terms:

- 1 Mahood has to make an advance payment before the goods are delivered to him.
- 2 Mahood is entitled to a commission of 5% on all sales made by him. The commission is calculated on the sales value **after** the deductions of the commission.

The following transactions took place during the year ended 31 December 2017.

Y Limited:

sent 1000 units to Mahood and invoiced him at \$175 each
paid freight of \$15 400 and insurance of \$3200.

Mahood:

made an advance payment of \$55 000 to Y Limited
made cash sales of 480 units at \$257.50 each
made credit sales of 320 units at \$270 each
paid the following:

	\$
import duty	1600
advertising	9700
carriage inwards	2800
carriage outwards	3300

All customers who bought on credit from Mahood settled their accounts in full at 31 December 2017 except a customer who bought 16 units. It was confirmed that nothing will be recovered from this customer.

At the year-end 60 units with minor faults were discovered by Mahood. Their net realisable value was \$150 each.

Mahood paid the balance owing to Y Limited by cheque.

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

- (a) Calculate the cost per unit to be used when valuing inventory. [2]
- (b) Prepare the consignment account in the books of Y Limited for the year ended 31 December 2017. [13]
- (c) Prepare Mahood's account in the books of Y Limited for the year ended 31 December 2017. [5]

Additional information

The directors of Y Limited are thinking of opening a branch overseas to sell its goods rather than having a consignment agreement with Mahood.

- (d)** Suggest whether Y Limited should continue consigning goods to Mahood or open a branch overseas. Justify your answer.

[5]

[Total: 25]

Question 4**Source A4**

Ephraim and Fikriyah are sole traders. They agreed to merge their two businesses into a partnership on 1 October 2017 sharing profits and losses equally.

Ephraim and Fikriyah's statements of financial position at 30 September 2017 were as follows:

	Ephraim	Fikriyah
	\$	\$
Non-current assets	45 000	110 000
Current assets		
Inventories	7 500	11 500
Trade receivables	9 000	15 500
Cash and cash equivalents	<u>6 500</u>	<u>1 000</u>
	<u>23 000</u>	<u>28 000</u>
Total assets	<u>68 000</u>	<u>138 000</u>
Capital	60 000	120 000
Current liabilities		
Trade payables	<u>8 000</u>	<u>18 000</u>
	<u>68 000</u>	<u>138 000</u>

The agreed valuations for the merger were:

	Ephraim	Fikriyah
	\$	\$
Non-current assets	55 000	115 000
Inventories	8 000	10 500
Goodwill	10 000	6 000

All other assets and liabilities were transferred at their book value.

Goodwill was **not** to be retained in the books of account.

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

- (a) Prepare the opening statement of financial position for the partnership at 1 October 2017. [13]

Additional information

The average annual profit earned by Ephraim for the past three years was \$60 000.
The average annual profit earned by Fikriyah for the past three years was \$40 000.

The budgeted profit for the partnership for its first year's trading is expected to be \$100 000. In each of the following three years it is expected to be 10% less than the previous year. This is as a result of the increasing competition.

- (b) Discuss the benefits and limitations of the merger to **each** partner. Justify your answer using **both** financial and non-financial factors. [12]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

Jason is considering investing in building a property in order to receive rental income.

He could buy the land now (year 0) for \$100 000. Construction costs of \$180 000 would be paid in year 1.

The building would have ten flats and **each** would have an annual rental of \$5000. Jason thinks that he could rent out flats as follows:

Year	Number of flats rented out
1	Nil
2	7
3	8
4	10

Total annual maintenance and management charges for the flats would cost \$12 000 plus 10% of the rent received.

At the end of the year 4 he would sell the building. Jason has consulted two different property dealers, Alan and Bob. Alan estimates the building could be sold for \$290 000. Bob estimates it could be sold for \$315 000.

Jason's cost of capital is 10%. The discount factors to be used to account for this are as follows.

Year 1	0.909
2	0.826
3	0.751
4	0.683

All cash flows are assumed to take place on the last day of the year.

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

- (a) (i) Calculate the net present value (NPV) of investing in the building, using Alan's estimation of the sale proceeds. [12]
- (ii) Calculate the net present value (NPV) of investing in the building, using Bob's estimation of the sale proceeds. [3]
- (b) Calculate the sales proceeds at the end of year 4 which would result in a net present value (NPV) of zero. [3]
- (c) Advise Jason whether or not he should proceed with investing in the building. Justify your answer. [5]
- (d) State **two** reasons why the calculation of the payback period is a less useful investment appraisal technique than the calculation of net present value (NPV). [2]

[Total: 25]

Question 6**Source B2**

C Limited produces tables. Each table requires the following:

raw materials	3 metres of wood at \$80 per metre
direct labour	12 hours at \$30 per hour
fixed production	overhead \$10 per direct labour hour

Budgeted production is 5000 tables.

Actual production was 4800.

Actual production costs were:

		\$
direct materials	15 360 metres	1 190 400
direct labour	55 200 hours	1 766 400
fixed production overhead		579 600

All tables produced were sold.

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

(a) State **two** limitations of a standard costing system. [2]

(b) Calculate the following variances:

(i) direct materials price

(ii) direct materials usage

(iii) direct labour rate

(iv) direct labour efficiency

(v) fixed overhead expenditure

(vi) fixed overhead volume [12]

(c) Prepare a statement reconciling the budgeted cost of producing 4800 tables with the actual cost. [8]

Additional information

The directors are considering using higher quality wood and increasing the selling price.

(d) Advise the directors whether or not they should make these changes. Justify your answer. [3]

[Total: 25]

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