Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/33**

Paper 3 Structured Questions **October/November 2019**

INSERT

3 hours

1007307783-I

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 **11** printed pages and **1** blank page.

Cambridge Assessment International Education

Section A: Financial Accounting

Question 1

Source A1

T plc is a manufacturing business. It accounts for factory profit at a rate which has not changed for some years. The following summarised information is available from its statements of financial position at 31 December 2018 and 31 December 2017.

	2018	2017
	$	$
Non-current assets (at net book value)		
Factory equipment	100 800	112 000
Office equipment	20 400	23 600
Delivery vehicles	21 000	28 000
	142 200	163 600
Current assets		
Inventory		
raw materials	21 000	11 000
work in progress	2 600	2 800
finished goods	12 500	10 000
provision for unrealised profit	(2 500)	(2 000)
	33 600	21 800
Trade receivables	19 700	16 500
Cash and cash equivalents	8 300	2 800
	61 600	41 100
Total assets	203 800	204 700
Ordinary share capital	150 000	150 000
Retained earnings	29 200	36 300
	179 200	186 300
Current liabilities		
Trade payables	24 600	18 400
Total equity and liabilities	203 800	204 700

The following additional information is also available for the year ended 31 December 2018.

1 The change in retained earnings comes from the profit for the year and a dividend paid of $25 000.

2 There were no acquisitions or disposals of non-current assets.

3 Purchases of raw materials and production labour amounted to $246 000 and $195 500 respectively.

4 Distribution costs (excluding depreciation) amounted to $51 000 and administrative expenses (excluding depreciation) amounted to $81 000.

5 Factory overheads **included** $26 000 for factory rent and $31 100 for factory supervisory salaries.

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

(a) Prepare the manufacturing account for the year ended 31 December 2018. [8]

(b) Prepare the income statement for the year ended 31 December 2018. [10]

Additional information

The directors have been increasing the inventory of raw materials because of fears that the price of raw materials will increase considerably in the future.

(c) Discuss the factors the directors should consider in deciding whether to increase the inventory of raw materials. [5]

(d) Explain why prime cost varies when production levels vary. [2]

[Total: 25]

Question 2

Source A2

Amit and Bonnie entered into a joint venture to sell street food from a market stall during the holiday season, sharing profits and losses equally. The following information is available.

1 Amit and Bonnie each paid $850 into the joint venture bank account.

2 Amit paid the rent, $600, on the market stall.

3 Bonnie owned some catering equipment which she transferred to the joint venture at an agreed valuation of $1100.

4 Purchases of $8080 and other running expenses of $620 were paid from the joint venture bank account.

5 Amit took $700 of the sales proceeds for his own use, while Bonnie took $3300. Remaining sales proceeds of $6100 were paid directly into the joint venture bank account.

6 At the end of the joint venture the catering equipment was sold at its agreed value of $1100 and the proceeds were paid into the joint venture bank account.

7 The profit was then calculated and the joint venture bank account was closed.

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

(a) Prepare the joint venture account. [9]

(b) Prepare Bonnie's account in the books of the joint venture. [5]

Additional information

Amit and Bonnie are considering entering into another joint venture in the following year. They are considering renting a larger stall at a rent of $1500. They think they could sell double the amount of food whilst maintaining the same selling prices. They expect to receive discounts for bulk buying of purchases such that the gross margin would increase by 10%.

(c) Calculate the increase in gross profit which is expected to arise if the proposed joint venture takes place. [5]

(d) Advise Amit and Bonnie whether or not they should enter into the proposed joint venture. Justify your answer. [4]

(e) Explain how a party to a joint venture, who has to pay money into its bank account at the close of the venture, is similar to a partner with a debit balance on the current account. [2]

[Total: 25]

Question 3

Source A3

Alice and Bruno had been in partnership for some years when they decided to sell their business to D Limited on 31 December 2018.

The statements of financial position of the two businesses on that date were as follows.

	Alice and Bruno $000	D Limited $000
Non-current assets		
Land and buildings	80	320
Equipment	20	77
	100	397
Current assets		
Inventory	25	68
Trade receivables	15	41
Bank	7	76
	47	185
Total assets	147	582
Equity		
Capital accounts		
Alice	75	
Bruno	30	
	105	
Current accounts		
Alice	24	
Bruno	6	
	30	
Ordinary share capital ($1 shares)		300
Retained earnings		153
		453
Non-current liabilities		
Debentures		100
Current liabilities		
Trade payables	12	29
Total equity and liabilities	147	582

The following information is also available:

1 Return on capital employed (ROCE) before acquisition and before revaluation of assets was:

Alice and Bruno	8%
D Limited	6%

2 The purchase consideration for the acquisition of the partnership was $266 000. This consisted of the following:

$56 000 in cash
$60 000 in 8% debentures repayable in 2026
100 000 ordinary shares of $1 each in D Limited at a **premium**.

3 The partnership land and buildings were taken over at a valuation of $195 000. All other assets and liabilities **except** bank were taken over at book value.

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

(a) Prepare, in the books of D Limited, the journal entry needed to record the acquisition of the partnership on 31 December 2018. A narrative is **not** required. [9]

(b) Calculate the gearing ratio of D Limited:

(i) before the acquisition [2]

(ii) after the acquisition. [2]

(c) Calculate, to **two** decimal places, the ROCE of D Limited **after** the acquisition of the partnership. [5]

(d) Advise the directors of D Limited whether or not they made a good decision in acquiring the partnership. Justify your answer, making reference to your answers to parts **(b)** and **(c)**. [5]

(e) State **two** advantages of being a shareholder in a limited company instead of being a partner in a partnership. [2]

[Total: 25]

Question 4

Source A4

An important feature of large limited companies, such as M plc, is stewardship.

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

(a) Explain the term ‘stewardship’. [2]

(b) Explain the need for an audit of a limited company. [4]

Additional information

M plc has been trading for many years.

The directors of M plc have agreed that the interim dividend will be based on the profit for six months ended 31 May 2018. A draft set of financial statements for the six months ended 31 May 2018 have been prepared and audited.

The following information is available for the six months ended 31 May 2018.

	$
Revenue	320 000
Cost of goods sold	143 000
Share capital (ordinary shares of $0.50 each)	400 000
Distribution costs	35 100
Administrative expenses	60 100
Cash and cash equivalents	45 200
Finance charges	16 600

During the audit the following was discovered.

1 Included within revenue was a sales invoice for $2000 for goods sent to a customer on a sale or return basis. The mark-up on the goods was 33.33%.The customer had yet to decide whether or not to keep the goods.

2 All closing inventory had been valued at cost. However, it was discovered that goods with a cost price of $4200 had been damaged and now had a market value of $3500. The replacement value of the inventory was $4400.

(c) Prepare the revised income statement for the six months ended 31 May 2018. [6]

Additional information

Due to previous poor shareholder returns the directors want to make the maximum return they can to the shareholders. They are considering two options.

Option 1: pay a dividend up to 75% of the profit for the six months.

Option 2: make a bonus issue to the shareholders of 1 ordinary share for every 10 shares currently held.

The current market value of an ordinary share is $0.55.

(d) (i) Calculate the dividend per share which would be paid to the shareholders under option 1. [3]

(ii) Discuss the implications for the business of **each** option that the directors should consider when deciding which option to choose. Support your answer with relevant calculations. [10]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

Mohindra operates a standard costing system. The budgeted data for October was:

Total production and sales	4000 units
Per unit	
Direct materials	3 kilos at $6 per kilo
Direct labour	9 hours at $10 per hour
Fixed overheads	$1 per direct labour hour

The actual results for October were:

Output	4500 units
Direct materials	14 000 kilos at $5.75 per kilo
Direct labour	37 000 hours at $10.50 per hour
Total fixed overheads	$40 000

All units produced were sold.

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

(a) Calculate the following variances for October:

(i) material price [2]

(ii) material usage [2]

(iii) labour rate [2]

(iv) labour efficiency. [2]

(b) Analyse, using your answer from part **(a)**, the relationship between:

(i) the material price variance and material usage variance [4]

(ii) the labour rate variance and labour efficiency variance. [4]

Additional information

The fixed overhead volume variance for October was $4500 favourable.

(c) Explain to Mohindra how this variance can be further analysed to provide him with more information about the performance of his business. [4]

Additional information

Mohindra intends to stop using the standard costing system.

(d) Advise Mohindra whether or not he should take this course of action. Justify your answer. [5]

[Total: 25]

Question 6

Source B2

Ronaldo is considering introducing a new product which will require the purchase of a new machine. There are two machines available, Machine A and Machine B, but only one may be acquired. Both machines will be scrapped after five years with no residual value.

The following information is available for Machine A.

	$
Cost	225 000
Revenue generated in year 1	80 000
Direct costs in year 1	20 000

Revenues are expected to increase by 10% **every** year to year 4 and then decrease by 25% in year 5.

Direct costs are expected to increase by 5% in year 3 and by a **further** 6% in year 5.

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

(a) Calculate the accounting rate of return (ARR) for Machine A to **two** decimal places. [10]

Additional information

Ronaldo has a cost of capital of 10%. Discount factors are as follows:

Year	1	0.909
	2	0.826
	3	0.751
	4	0.683
	5	0.621

(b) Calculate the net present value (NPV) of Machine A. [4]

Additional information

The payback period for Machine A is 3 years and 3 months.

(c) State **three** advantages and **three** disadvantages of using the payback method of investment appraisal. [6]

Additional information

The following data are available for Machine B.

Payback period	2 years and 10 months
ARR	23.58%
NPV	$24 858

(d) Advise Ronaldo which machine he should purchase. Justify your answer. [5]

[Total: 25]

BLANK PAGE