Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Structured Questions **May/June 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 **12** pages. Any blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

Alan and Brian were in partnership, sharing profits and losses in the ratio of 3 : 2. The statement of financial position of the partnership at 31 December 2020 was as follows.

	$	$
Non-current assets		
Property		300 000
Equipment		71 000
Motor vehicles		62 000
		433 000
Current assets		
Inventory	24 000	
Trade receivables	36 000	
Cash at bank	9 000	69 000
Total assets		502 000
Capital account : Alan	250 000	
: Brian	200 000	450 000
Current account : Alan	27 000	
: Brian	(8 000)	19 000
Current liabilities		
Trade payables		33 000
Total equity and liabilities		502 000

Z Limited acquired this partnership business on 1 January 2021. Most of the assets and liabilities of the partnership business were taken over by Z Limited. The agreed terms of the acquisition were:

1 Property and equipment were valued at $350 000 and $68 000 respectively.

2 One motor vehicle was valued at $29 000. Another motor vehicle would be taken over by Alan at the value of $28 000.

3 The inventory would be taken over at the value of $20 000.

4 Trade receivables of $4400 were considered irrecoverable. The remaining trade receivables would pay $30 500 to the partnership in full settlement of their accounts.

5 Z Limited would not take over the bank balance of the partnership.

6 The partnership would pay $14 400 in full settlement of trade payables of $15 000. The remaining trade payables would be taken over by Z Limited at their book value.

7 The purchase consideration for the partnership business was $500 000 and would be settled by Z Limited as follows:

   i cash, $23 000, payable into the partnership's bank account

   ii ordinary shares of $1 each at a premium of $0.25. Ordinary shares would be distributed to the partners in proportion to their capital account balances at 31 December 2020.

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

(a) Prepare the realisation account. [8]

(b) State **two** differences between a realisation account and a revaluation account. [2]

(c) Prepare a statement showing the final settlement to or from **each** of the partners. [8]

(d) Calculate the goodwill arising from acquiring the partnership business by Z Limited. [2]

Additional information

Before acquiring the partnership business, Z Limited had two equal shareholders and a total share capital of $1 000 000. These shareholders are the directors of the company.

A few months after acquiring the partnership business, Z Limited decided to acquire the business of a sole trader. The agreed consideration would be $800 000. The sole trader requested:

1 the consideration should be settled by 640 000 ordinary shares of Z Limited; and

2 a directorship in Z Limited.

(e) Advise the directors whether or not they should accept the request of the sole trader. Justify your answer showing relevant calculations. [5]

[Total: 25]

Question 2

Source A2

The accounting year of Y Limited ends on 31 December.

For the year ended 31 December 2019, Y Limited had revenue of $806 400 and a non-current asset turnover of 2.10 times.

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

(a) **(i)** State how non-current asset turnover is calculated. [1]

(ii) Explain why a company may want to know this ratio. [2]

(b) Calculate the total net book value of non-current assets of Y Limited at 31 December 2019. [1]

Additional information

Y Limited classifies non-current assets into three categories. The accumulated depreciation at 31 December 2019 for each category was:

	$
Property	128 000
Plant and equipment	168 800
Furniture and fixtures	101 200

The net book values of the three categories at 31 December 2019 were in the proportion of 5 : 3 : 2.

The following information relates to the accounting year ended 31 December 2020.

1 On 1 January 2020, the property was revalued at $360 000.

2 On 1 March 2020, office furniture was purchased at the cost of $25 000.

3 On 1 July 2020, an item of old equipment was part exchanged for a new item. Y Limited paid cash, $34 000, as a part payment for the new item. The old item had an original cost of $35 000 and was fully depreciated. Its part exchange value was $8000.

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

5 Non-current assets are depreciated as follows:

Property	Straight-line method over 20 years
Plant and equipment	20% per annum reducing balance method
Furniture and fixtures	20% per annum straight-line method

(c) Prepare the non-current assets schedule to use as a note to the financial statements for the year ended 31 December 2020. [14]

Additional information

The directors plan to buy new motor vehicles in 2021.

(d) Explain to the directors why they need to depreciate motor vehicles. [3]

(e) Explain to the directors the impact on the profit of using **each** of the straight-line and the reducing balance method of depreciation. [4]

[Total: 25]

Question 3

Source A3

Tan normally sells motors in country A. During the year ended 31 March 2021, he also made sales on a consignment basis in country B.

Tan sent 400 motors to Nadeem in country B on a consignment basis during the year ended 31 March 2021. The cost of each motor is $500. The normal selling price of each motor is $700 but Tan asked Nadeem to sell at $650 each.

The following information is also available.

1 Nadeem is allowed a commission of 8% of net sales revenue.

2 Tan received a $5000 deposit from Nadeem before the goods were sent.

3 Expenses incurred by Tan:

	$
Freight	4600
Insurance	1200
Packing	600

4 Expenses incurred by Nadeem:

	$
Import duty	1800
Storage	2700
Transportation – from port to warehouse	2200
Transportation – from warehouse to customers	2600
Selling expenses	4400

5 Nadeem sold 300 motors at $650 each and another 60 were sold with a trade discount of 5%. Out of the motors sold, two motors were returned. The two returned motors were replaced by two new motors which had been delivered to the customers. The two returned motors remained unsold at 31 March 2021 and each had a net realisable value of $450.

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

(a) Explain **two** disadvantages to a consignor in making sales on a consignment basis. [4]

(b) Prepare the consignment account in the books of Tan for the year ended 31 March 2021. [10]

(c) Explain **three** reasons why Tan sells motors at a lower selling price for the consignment sales. [6]

Additional information

Tan finds that his products are well received in country B. He plans to set up a company in country B to sell his products.

(d) Advise Tan whether or not he should set up a company in country B to sell his products. Justify your answer. [5]

[Total: 25]

Question 4

Source A4

G Limited has prepared the draft financial statements which are to be audited.

The draft statement of financial position at 31 December 2020 is as follows.

	$	$
Non-current assets		
Goodwill		80 000
Property, plant and equipment		544 000
		624 000
Current assets		
Inventory	88 000	
Trade receivables	187 200	
Cash and cash equivalents	34 800	310 000
Total assets		934 000
Equity		
Ordinary share capital ($1 share)		500 000
Revaluation reserve		85 000
Retained earnings		153 000
		738 000
Non-current liabilities		
Bank loan (2021–2025)		100 000
Current liabilities		
Trade payables		96 000
Total equity and liabilities		934 000

The following information is available.

1 Goodwill is comprised of two elements.

   i On 1 January 2020 G Limited acquired a partnership business and goodwill valued at $30 000 was recorded. The value of goodwill at 31 December 2020 should be $24 000.

   ii An advertising campaign two years ago had boosted the sales. The directors believe that the products are getting more popular and the company has a good reputation. Goodwill of $50 000 and the associated revaluation reserve of $50 000 have been created and recorded.

2 Included in the property, plant and equipment is a specialised machine with a net book value of $32 400. This machine is used exclusively to produce a particular product whose production will be stopped two years later. The fair value and value in use of the specialised machine are $29 000 and $28 600 respectively. If the specialised machine is to be sold, a selling cost of $2000 is expected to be incurred.

3 Inventory includes one product which had been accounted for at the selling price of $40 000. The mark-up for this product is 25%.

4 G Limited started providing for doubtful debts in 2020. A provision of 4% had been made. A credit customer owing $15 000 had been declared bankrupt and the whole amount had to be written off.

5 One-fifth of the bank loan will be repaid in 2021.

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

(a) State **three** features of financial statements which show a 'true and fair view'. [3]

(b) Explain to the directors the appropriate accounting treatments for information items **1i**, **1ii** and **2**, making reference to the relevant International Accounting Standards (IAS). [9]

(c) Prepare the revised statement of financial position at 31 December 2020 using all the available information. [10]

Additional information

A director of G Limited says 'whether the financial statements show a true and fair view does not really matter to the company'.

(d) Comment on whether or not the director's statement is correct. Justify your answer. [3]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

D Limited produces two products: sofas and tables. Budgeted data for the coming year related to the two products are as follows.

	Sofas	Tables
Sales and production (units)	2000	5000
Direct materials per unit	$300	$190
Direct labour per unit	$250	$160
Direct labour rate per hour	$50	$40
Mark-up	30%	20%

Budgeted fixed overhead costs are $600 000. D Limited uses direct labour hours to absorb fixed overhead costs.

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

(a) Calculate the overhead absorption rate. [2]

(b) Calculate the budgeted unit cost **and** the unit selling price of **each** product. [6]

(c) Calculate the budgeted **total** profit of D Limited for the coming year. [3]

Additional information

A newly recruited management accountant advises that D Limited should use activity based costing (ABC) to allocate fixed overhead costs to the two products. The management accountant has provided the following information relating to sofas and tables.

Activity	Overhead costs $	Cost driver	Sofas	Tables
Setups	100 000	Number of setups	600	400
Machine operations	320 000	Machine hours	5 000	3 000
Materials cutting	120 000	Cutting hours	400	200
Inspection	60 000	Inspection hours	500	500
	600 000			

(d) Calculate the budgeted unit cost **and** the unit selling price for **each** product using ABC. [7]

(e) Explain the reason for the change in the budgeted selling price between **(b)** and **(d)** for **each** product. [2]

Additional information

The directors decide to adopt ABC in the coming year.

Due to a higher mark-up on sofas, the directors plan to make a change to the budgeted production volume for each product. They want to shift the direct labour resources to produce more sofas and produce only 3000 tables in the coming year. However, additional $90 000 training costs and $110 000 for converting the existing machines would be incurred.

(f) Advise the directors whether or not they should make the change. Justify your answer with reference to the financial factors only. [5]

[Total: 25]

Question 6

Source B2

W Limited is a retail business. The directors of W Limited are preparing the budgets for the month of July.

The company makes all sales on credit. The company's policy is to allow a credit period of one month.

Actual sales

	$
April	240 000
May	250 000
June	300 000

An analysis of the pattern of collection from trade receivables for sales in April and May is as follows.

50% are collected in the first month after sale.
30% are collected in the second month after sale.
20% are collected in the third month after sale.

The same pattern is expected to apply to June and July sales.

Budgeted sales

	$
July	280 000
August	320 000

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

(a) State **two** benefits to a business of preparing budgets. [2]

(b) Prepare the trade receivables budget for **July**. [10]

(c) **(i)** Comment on W Limited's existing management of trade receivables. [3]

(ii) Suggest **three** ways to improve management of trade receivables. [3]

Additional information

W Limited purchases goods one month before sale. 40% of goods purchased are paid for in the month of purchase to get a discount of 2%. The remaining are paid for in the next month following purchase. A mark-up of 25% is applied on all sales.

(d) Prepare the trade payables budget for **July**. [7]

[Total: 25]

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