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ACCOUNTING **9706/32**

Paper 3 Structured Questions **February/March 2019**

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3 hours

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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.

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Section A: Financial Accounting

Question 1

Source A1

The following information is available for a Club.

At 1 July 2017

	$
Clubhouse at cost	300 000
Accumulated depreciation on clubhouse	156 000
Equipment at cost	140 000
Accumulated depreciation on equipment	64 000
Subscriptions in arrears	7 000
Subscriptions in advance	3 400
Accumulated fund	194 000

For the year ended 30 June 2018

	$
Operating expenses	192 000
Staff salaries	326 000
Subscriptions received	544 000
Restaurant profit	12 600

At 30 June 2018

	$
Restaurant inventory	23 400
Restaurant trade payables	12 100
Loan from a club member (repayable 2022)	10 000
Cash and cash equivalents	7 700
Subscriptions in arrears	8 200
Subscriptions in advance	2 400

The following information is also available.

1 Depreciation is charged as follows:

clubhouse at 4% per annum using the straight-line method
equipment at 15% per annum using the reducing balance method

2 Accrued restaurant wages, $3300, had not been accounted for.

3 The loan from the club member was received on 1 January 2018. Interest is to be paid at 10% per annum. No interest has yet been paid.

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

(a) Prepare the income and expenditure account for the year ended 30 June 2018. [7]

(b) State **two** differences between an income and expenditure account and a receipts and payments account. [2]

(c) Prepare the statement of financial position at 30 June 2018. [7]

Additional information

At 1 July 2017 the following balances for the restaurant were available.

	$
Inventory	15 700
Trade payables	13 900

(d) Calculate the restaurant cash surplus or deficit for the year ended 30 June 2018. [4]

Additional information

The club plans to improve the clubhouse next year at a cost of $50 000. The chairman is considering financing the improvement by either members' loans or taking a bank loan.

(e) Evaluate whether the club should finance the improvement by members' loans or take a bank loan. Justify your answer. [5]

[Total: 25]

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Question 2

Source A2

The following information for F Limited is available at 31 March 2018.

	$
Closing inventory	240 000
Purchases	680 000
Sales revenue	994 000
Trade payables	52 100
Trade receivables	137 500

All purchases and sales were on credit basis.

The value of the closing inventory was 20% higher than at 1 April 2017.

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

(a) Calculate the working capital cycle in days. [5]

Additional information

The company allows its customers 60 days credit.

The company is allowed 30 days credit by its suppliers.

The inventory turnover ratio for the previous year was 104 days.

The net working assets to revenue ratio has risen from 27.85% to 32.74%.

Trade payables had fallen and trade receivables had risen since 31 March 2017.

(b) Analyse the liquidity of F Limited. [5]

(c) Analyse the change in the net working assets to revenue ratio of F Limited. [6]

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Additional information

Blair, an investor, wishes to invest in either F Limited or a competitor, C Limited. The market value of one ordinary share in both companies is $1.50.

Blair's main requirement is a regular income from the investment.

Relevant information for the two companies is as follows:

	F Limited	C Limited
Gearing	20%	25%
Earnings per share	$0.18	$0.21
Dividend cover	3 times	4 times
Dividend per share	$0.09	$0.12

(d) Advise Blair in which company he should invest. Justify your answer. [9]

[Total: 25]

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Question 3

Source A3

SH Limited sent goods on consignment to Maureen on 1 November 2018.

The consignment consisted of 30 containers, invoiced to Maureen at $7200 each.

On 5 November SH Limited paid shipping expenses on the containers of $11 600.

On 6 November Maureen paid customs charges of $7800 on the consignment.

By 31 December 2018 Maureen had sold 24 containers for a total of $244 800 and she had remitted 90% of this to SH Limited.

Maureen is entitled to a 5% commission from SH Limited on all containers sold.

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

(a) Calculate the value of the closing inventory. [4]

(b) Prepare the following accounts in the books of account of SH Limited.

(i) Consignment account [7]

(ii) Maureen account [5]

(c) Calculate the profit per container. [2]

(d) Explain what the closing balance on Maureen account represents. [3]

(e) Explain **two** differences between a consignment and a joint venture. [4]

[Total: 25]

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Question 4

Source A4

The statement of cash flows of T plc for the year ended 31 December 2018 was as follows:

T plc
Statement of cash flows for the year ended 31 December 2018

	$000	$000
Profit from operations		288
Depreciation - land and buildings	4	
- machinery	84	
- fixtures and fittings	9	97
Profit on disposal of machinery		(12)
Increase in inventory		(46)
Increase in trade receivables		(14)
Decrease in trade payables		(4)
Cash from operations		309
Interest paid		(29)
Tax paid		(87)
Net cash from operating activities		193
Cash flow from investing activities		
Purchase of non-current assets	(272)	
Proceeds of sale of machinery	42	
Net cash used in investing activities		(230)
Cash flow from financing activities		
Proceeds from rights issue of shares	480	
Dividend paid	(80)	
Repayment of debentures	(200)	
Net cash from financing activities		200
Net increase in cash and cash equivalents		163
Cash and cash equivalents on 31 December 2017		(81)
Cash and cash equivalents on 31 December 2018		82

Further information relating to the year ended 31 December 2018 was as follows:

1 Balances at 1 January 2018 were

	$000
Land and buildings	
Cost	400
Accumulated depreciation	12
Machinery	
Cost	214
Accumulated depreciation	112
Fixtures and fittings	
Cost	82
Accumulated depreciation	17
Ordinary share capital ($1 shares)	500
Retained earnings	105
General reserve	40

2 The cost of the non-current assets purchased was $262 000 for new machinery and $10 000 for fixtures and fittings.

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3 The machinery sold during the year had an original cost of $100 000.

4 The rights issue was made at a premium of $0.20 per share.

5 Tax owing amounted to $72 000 at the start of the year and $85 000 at the end of the year.

6 Interest accrued amounted to $10 000 at the start of the year and $2000 at the end of the year.

7 A transfer to general reserve, $10 000, had been made by the directors.

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

(a) (i) State why a bonus issue of shares would not be recorded in a statement of cash flows. [1]

(ii) Name **one** financial item, other than a bonus issue of shares and a transfer to general reserve, which would **not** be recorded in a statement of cash flows. [1]

(b) Prepare the non-current assets schedule for the year ended 31 December 2018 for inclusion in the notes to the financial statements of the company. A total column **is** required. [9]

(c) Prepare the statement of changes in equity for the year ended 31 December 2018. A total column **is** required. [9]

Additional information

The directors are considering publishing a cash budget instead of preparing a statement of cash flows in the future.

(d) Advise the directors whether or not to proceed with this change. Justify your answer. [5]

[Total: 25]

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Section B: Cost and Management Accounting

Question 5

Source B1

B Limited produces two products – Premier and Standard. The budgeted cost information for the month of June 2019 is as follows:

	Premier	Standard
Units produced and sold	500	800
Direct materials per unit	$80	$50
Direct labour hourly rate	$30	$25
Direct labour hours per unit	3	2

Budgeted fixed overheads $480 000 for 2019 are allocated to products based on 40 000 budgeted total direct labour hours.

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

(a) Calculate the cost per unit for **each** product using absorption costing. [3]

Additional information

A newly recruited management accountant suggests that B Limited should adopt activity based costing (ABC). He has provided an analysis of fixed overheads as follows:

	Cost	Cost driver	Annual quantity
	$		
Materials requisition	90 000	Number of material requisitions	75
Machine set up	240 000	Number of setups	60
Inspection	150 000	Number of inspection hours	5000
	480 000		

Budgeted use of cost driver for each product for June 2019 is as follows:

	Premier	Standard
Number of material requisitions	2	6
Number of setups	2	3
Number of inspection hours	120	320

(b) Explain the meaning of the term ‘cost driver’. [2]

(c) State **two** advantages and **three** disadvantages of ABC. [5]

(d) Calculate the cost per unit for **each** product if ABC is adopted. [8]

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Additional information

The selling price of **each** product is cost plus 40%.

(e) (i) Calculate the selling price of **each** product using absorption costing. [2]

(ii) Calculate the selling price of **each** product using ABC. [2]

(iii) Explain, using suitable calculations, why your answers in **(i)** and **(ii)** are different. [3]

[Total: 25]

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Question 6

Source B2

Jack makes a single product and uses a standard costing system. The budget for each month is based on the following standard data per unit.

Direct material	0.5 kilos at $6 per kilo
Direct labour	1.5 hours at $4.50 per hour
Fixed production overhead	1.5 hours at $5 per hour

Budgeted production and sales for each month are 6500 units.

The actual data for the month of September was:

Direct material	2800 kilos cost $17 350
Direct labour	9500 hours cost $42 275
Total fixed production overheads	$52 100

Actual production and sales for September were 5900 units.

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

(a) Calculate the following variances for the month of September.

(i) Material price [2]

(ii) Material usage [2]

(iii) Labour rate [2]

(iv) Labour efficiency [2]

(b) Suggest **one** possible cause for **each** of the variances calculated in **(a)**. [4]

(c) Calculate the following variances for the month of September.

(i) Fixed overhead expenditure [2]

(ii) Fixed overhead volume [2]

Additional information

For the month of October, Jack has calculated an adverse fixed overhead volume variance.

(d) Explain how October's fixed overhead volume variance can be further analysed to provide Jack with more information about the performance of the business. [5]

(e) State **two** advantages and **two** disadvantages to Jack of using standard costing system. [4]

[Total: 25]

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