Cambridge Assessment International Education

# Cambridge International AS & A Level

**ACCOUNTING** **9706/34**

Paper 3 Structured Questions **May/June 2021**

INSERT **3 hours**

**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**

ZV Sports Club provides sports facilities and also sells refreshments to members. It has a membership list with details of 200 members. The annual subscription is $100. The club has a financial year end of 31 December.

Before preparing the financial statements for the year ended 31 December 2020 the subscriptions account appeared as follows.

Subscriptions account

| | $ | | $ |
|---|---|---|---|
| Balance b/d | 2100 | Balance b/d | 300 |
| | | Bank | 19700 |

At 31 December 2020 there were 5 members who had paid in advance for 2021. Details of members whose subscriptions were in arrears at that date were as follows.

2 members had **not** paid for 2020 only.

6 members had **not** paid for 2019 and 2020.

3 members had **not** paid for 2017, 2018, 2019 and 2020.

During the year ended 31 December 2020 the managing committee of the club had decided that in future it would only carry forward unpaid subscriptions for the year just ended.
Unpaid subscriptions for earlier years would be written off.

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

**(a)** Prepare the complete subscriptions account for the year ended 31 December 2020. [7]

### Additional information

For the year ended 31 December 2020

| | $ |
|---|---|
| Profit on sale of refreshments | 6200 |
| Purchase of equipment | 10120 |
| Depreciation on equipment | 4050 |
| Proceeds from sale of equipment | 8440 |
| Profit on disposal of equipment | 510 |
| Staff costs | 18310 |
| Other costs | 3100 |

**(b)** Prepare the income and expenditure account for the year ended 31 December 2020. [7]

**(c)** Advise the managing committee whether or not the new policy on unpaid subscriptions should be continued. Justify your answer. [5]

**Additional information**

Inventory of refreshments was $600 at 1 January 2020 and $750 at 31 December 2020.

Amounts paid during the year to suppliers of refreshments totalled $16 000.

Amounts owing to suppliers of refreshments were $1100 at 1 January 2020 and $920 at 31 December 2020.

**(d)** Prepare the refreshments trading account for the year ended 31 December 2020, showing sales as the balancing figure. [4]

**(e)** State **two** reasons why a club or society might engage in a trading activity. [2]

[Total: 25]

**Question 2**

**Source A2**

NT plc had the following balances on 1 January 2020.

| | $ |
|---|---|
| Ordinary share capital ($1 shares) | 400 000 |
| Share premium | 90 000 |
| General reserve | 20 000 |
| Retained earnings | 421 000 |
| Bank overdraft | 62 000 |
| Trade payables | 108 000 |

During the year ended 31 December 2020 the following took place.

| | |
|---|---|
| March 1 | Paid the final dividend for 2019, $0.10 per share. |
| May 28 | Made a 1 for 8 rights issue of ordinary shares at $2.10 per share. The rights issue was fully subscribed and all shares were fully paid. |
| June 30 | Revalued the premises upwards from $105 000 to $375 000. |
| July 1 | Issued an 8% debenture, $200 000, to be repaid in 2031. The funds raised enabled the company to repay the bank overdraft. Interest paid on the overdraft in the first six months of the year amounted to $7000. No debenture interest had been paid. |
| July 5 | Paid an interim dividend of $0.05 for each share held at the start of the year. |
| December 31 | Transferred $30 000 to the general reserve. |

The following information is also available.

1 The balance on the retained earnings account on 31 December 2020 was $505 000.

2 Trade payables increased by $9000 over the year.

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

**(a)** Prepare the equity and liabilities section of the **statement of financial position** at 31 December 2020. [10]

**(b)** Calculate for the year ended 31 December 2020:

**(i)** the profit for the year [4]

**(ii)** profit from operations. [3]

**(c)** Explain **two** accounting ratios for which the knowledge of the value of profit from operations is needed. [4]

**Additional information**

The directors have proposed a final dividend for 2020 to be paid on 1 March 2021.

**(d)** State how the proposed dividend will affect:

**(i)** the books of account [2]

**(ii)** the financial statements. [2]

[Total: 25]

**Question 3**

**Source A3**

The directors of DW plc seek to comply with all International Accounting Standards.

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

**(a)** Explain what is meant by the following terms:

**(i)** an adjusting event [2]

**(ii)** a non-adjusting event. [2]

**Additional information**

DW plc has a financial year end of 31 December. On 31 December 2020 the draft profit for the year was calculated as $8100 and the draft statement of financial position at that date included the following values.

| | $ |
|---|---|
| Machinery (at cost) | 186 000 |
| Accumulated depreciation of machinery | 91 500 |

On 1 January 2021 the directors reviewed the values of all the non-current assets. This indicated that the machinery could be sold for $87 000. The cost of dismantling the machinery and transporting it to a new owner would amount to $3000.

The present value of future total estimated net cash flows arising from the use of the machinery was $90 000.

**(b)** State the amounts of the following with regard to the machinery:

**(i)** its fair value [1]

**(ii)** its value in use. [1]

**(c)** Calculate with regard to the machinery:

**(i)** the carrying amount [1]

**(ii)** the recoverable amount [1]

**(iii)** the impairment loss. [2]

**(d)** Explain how the impairment loss should be recorded in the financial statements. [4]

**Additional information**

On 3 January 2021 there was a fire in the company's warehouse, and inventory costing $18 000 was destroyed. It was expected that the company's insurance would cover only part of the cost.

**(e)** Explain how the financial effects of the fire should be recorded in the financial statements for 31 December 2020. [3]

**(f)** Explain what is meant by an audit of a limited company. [3]

**(g)** Discuss how the shareholders of DW plc are likely to react to an unqualified audit report. [3]

**(h)** Explain what is meant by the term 'stewardship' in relation to the directors of DW plc. [2]

[Total: 25]

**Question 4**

**Source A4**

Amit and Barry decided to enter into a joint venture, selling pastries from a market stall during a festival period. They decided to share profits in the ratio of 2:1 as this was the ratio of the amounts they contributed to open a joint venture bank account.

The bank account was opened with total contributions of $1200. During the period of the joint venture a total of $1000 was spent buying pastries to sell.

Barry looked after the takings but did not record the amounts. However, Amit and Barry knew that at the end of each day they sold 90% of the pastries from the stall with a mark-up of 80%. At the end of the day unsold pastries were disposed of elsewhere and these incurred a gross loss of 50%.

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

**(a)** Calculate the sales revenue of the joint venture. [3]

**Additional information**

1 Rent of the market stall, $420, was paid from the joint venture bank account.

2 Amit paid for fittings for the stall, $180, from his own funds. These were later sold for $50 and the proceeds paid into the joint venture bank account.

3 Barry paid $1400 of the takings from sales into the joint venture bank account. The remainder he took for his own use.

4 At the end of the festival period the profit was calculated and the bank account closed.

**(b)** Prepare in the books of the joint venture:

**(i)** the joint venture account [5]

**(ii)** Amit account [4]

**(iii)** Barry account [4]

**(iv)** the joint venture bank account. [4]

**(c)** Suggest **two** ways in which the profit could be increased if the joint venture was repeated at the next festival. [2]

**Additional information**

Barry wishes to repeat the joint venture but feels that more help is needed in staffing the stall. He wants to bring in Clara as a third party to the joint venture.

**(d)** Advise Amit whether or not he should agree to repeat the joint venture if it included Clara as a third party. Justify your answer. [3]

[Total: 25]

## Section B: Cost and Management Accounting

**Question 5**

**Source B1**

GS Limited makes all its sales and purchases on credit. It has a policy of paying for one-third of its net purchases in the month of purchase so that it can receive cash discount, and paying for the remainder in the month following purchase.

In 2020 the company set its budgets for 2021. These included the following.

Budgeted income statement for the month ending 31 January 2021

| | $000 | $000 |
|---|---|---|
| Revenue | | 252 |
| Opening inventory | 28 | |
| Purchases, net of returns | 180 | |
| | 208 | |
| Closing inventory | 20 | 188 |
| Gross profit | | 64 |
| Discount received | | 3 |
| Selling and distribution costs | 21 | |
| Administrative expenses | 36 | 57 |
| Profit from operations | | 10 |

Cash budget for January 2021

| | $000 |
|---|---|
| Balance b/f | 56 |
| Receipts from trade receivables | 271 |
| | 327 |
| Payments to trade payables | 162 |
| Other payments | 191 |
| Balance c/f | (26) |

The following information is also available.

1 Trade payables at 1 January were expected to be $105 000.

2 Purchases returns were expected to be one-tenth of the total purchases.

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

**(a)** Calculate the total purchases **and** the purchases returns expected in January 2021. [2]

**(b)** Prepare the trade payables budget for January 2021. Show separately the payments made in the month of purchase and the payment made a month in arrears. [6]

**Additional information**

In February 2021 the **actual** results for January 2021 were available. These showed:

1 Trade payables had been $96 000 at the start of the month.

2 Net purchases had been 10% higher than budgeted.

3 The value of purchases returns had been the same as had been expected.

4 The company had maintained its policy of paying for one-third of net purchases in the month of purchase and the remainder in the month following. The rate of cash discount received had been the same as had been expected.

5 A contra with the sales ledger control account, $5000, had been made on 1 January. This related to debts incurred in 2020.

**(c)** Prepare a statement reconciling the opening and closing **actual** figures for trade payables for January 2021. [10]

**Additional information**

One of the directors has suggested that the business discontinues the use of budgets.

**(d)** Advise the directors whether or not the business should discontinue the use of budgets. Justify your answer. [5]

**(e)** Explain what is meant by the term ‘flexed budget’. [2]

[Total: 25]

**Question 6**

**Source B2**

AN plc wishes to manufacture a new product for a period of three years. To do this it can take either option 1 or option 2.

Option 1 involves buying all the machinery at a cost of $460 000 and selling it at the end of year 3 for an estimated $160 000.

Option 2 involves buying some of the machinery at a cost of $100 000 and selling it at the end of year 3 for an estimated $10 000, and renting some of the machinery.

The following additional estimated data relating to the options is also available.

Option 1

| Year | Cash inflows | Cash outflows | Depreciation |
|---|---|---|---|
| | $ | $ | $ |
| 1 | 350 000 | 200 000 | 100 000 |
| 2 | 350 000 | 200 000 | 100 000 |
| 3 | 350 000 | 200 000 | 100 000 |

Option 2

| Year | Cash inflows | Cash outflows | Depreciation |
|---|---|---|---|
| | $ | $ | $ |
| 1 | 350 000 | 310 000 | 30 000 |
| 2 | 350 000 | 310 000 | 30 000 |
| 3 | 350 000 | 310 000 | 30 000 |

AN plc uses a cost of capital of 10%. The discount factors for this are as follows.

| Year | |
|---|---|
| 1 | 0.909 |
| 2 | 0.826 |
| 3 | 0.751 |
| | 2.486 |

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

**(a)** State **two** ways in which the directors may have estimated the future cash inflows. [2]

**(b)** Calculate for option 1:

**(i)** the net present value (NPV) [6]

**(ii)** the payback period, in years. [3]

**(c)** Calculate for option 2:

**(i)** the net present value (NPV) [6]

**(ii)** the payback period, in years. [3]

**(d)** Advise the directors which, if either, of the options they should choose. Justify your answer. [5]

[Total: 25]

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