Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING	**9706/33**
Paper 3 Structured Questions	**October/November 2022**
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 **16** pages. Any blank pages are indicated.

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Section A: Financial Accounting

Question 1

Source A1

GHY is a club which provides social facilities for members and also sells refreshments to them. The cash book is the only book-keeping record which is maintained.

The treasurer prepared the following **accurate** receipts and payments account.

GHY
Receipts and payments account for the year ended 31 December 2021

	$		$
Balance b/d	420	Suppliers of refreshments	810
Subscriptions	9 200	Rent	6 000
Sales of refreshments	1 180	Purchases of fixtures	2 600
Balance c/d	50	Other operating costs	1 440
	10 850		10 850

The treasurer then prepared the following calculations and the financial statements. These contained **errors** and **omissions** although the component amounts used were correct.

1 Subscriptions for the year

	$
Receipts	9200
Arrears at start of the year	300
In advance at end of the year	250
In advance at start of the year	(400)
Arrears at end of the year	(200)
Subscriptions for the year	9150

The treasurer did not take into account that $150 of the arrears at the start of the year had been written off.

2 Benefit from selling refreshments

	$
Payments to suppliers	810
Amounts owing to suppliers at start of the year	60
Amounts owing to suppliers at end of the year	95
	965
Sales	1180
Benefit	215

3 Increase in inventory of refreshments

	$
Inventory at end of the year	170
Inventory at start of the year	(80)
Increase	90

4 Depreciation charge for the year

	$
Fixtures at valuation at end of the year	9100
Fixtures at valuation at start of the year	(7600)
Fixtures purchased	2600
Depreciation	4100

5 Income and expenditure account for the year ended 31 December 2021

	$	$
Subscriptions		9 150
Benefit from sales of refreshments		215
Increase in inventory		90
		9 455
Rent	6 000	
Other operating costs	1 440	
Depreciation	4 100	11 540
Deficit		(2 085)

6 Statement of financial position at 31 December 2021

	$	$
Non-current assets		
Fixtures at valuation		9 100
Current assets		
Inventory	170	
Subscriptions in advance	250	
Bank	50	470
Total assets		9 570
Accumulated fund at 1 January 2021		7 940
Deficit for the year		(2 085)
Accumulated fund at 31 December 2021		5 855
Current liabilities		
Owing to suppliers	95	
Subscriptions in arrears	200	295
Total liabilities		6 150

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

(a) Prepare the **correct**:

(i) income and expenditure account [12]

(ii) statement of financial position, clearly disclosing the surplus or deficit for the year. [7]

(b) Advise the managing committee whether or not they should introduce a policy of cancelling the membership of members whose subscriptions are overdue by more than one month. Justify your answer. [3]

Additional information

Some clubs offer life membership.

(c) Outline the method of accounting for life membership subscriptions and state the accounting concept which is being applied. [3]

[Total: 25]

Question 2

Source A2

Three separate companies all had a profit for the year of $200 000 before taking into account costs related to research and development and patents.

AB plc spent $80 000 on research and development. Of this, $30 000 was research cost and the remainder was development cost incurred in upgrading its current processes. The sales of the company's existing product will be unchanged, as will its selling price and costs.

CD plc also spent $30 000 on research and $50 000 on developing a new product which it was starting to sell by the end of the year, and which it expected to sell for 20 years in total.

EF plc spent $80 000 buying patents allowing it to produce and sell a new product which it also expected to sell for 20 years.

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

(a) State when an intangible asset can be recognised in accordance with IAS 38. [2]

Additional information

All three companies had ordinary share capital of $400 000. It is the policy of the companies to charge a full year's amortisation (depreciation) on any intangible asset.

Information relating to one ordinary share was as follows:

	Par value	Market price
	$	$
AB plc	1.00	1.20
CD plc	0.50	1.08
EF plc	0.80	2.35

(b) Calculate for **each** company:

(i) the earnings per share to the nearest **whole cent** [10]

(ii) the price earnings ratio to **two** decimal places. [3]

Additional information

Simon is considering investing in one of the three companies.

(c) Name **two** other ratios of these companies which Simon might wish to consider. [2]

(d) Advise Simon which company he should invest in. Justify your answer. [4]

Additional information

The directors' report of AB plc stated that the development costs had enabled the company to drastically reduce its greenhouse gas emissions.

(e) Explain how this information might affect potential investors. [2]

(f) State **two** other matters which might be covered in the directors' report of AB plc. [2]

[Total: 25]

Question 3

Source A3

Alan and Doreen were two sole traders. Alan ran a manufacturing business and Doreen was a retailer. They decided to merge their businesses and form a partnership on 1 July 2022.

Their financial statements for the year ended 30 June 2022 were as follows:

Income statements for the year ended 30 June 2022

	Alan $	Doreen $
Revenue	76 900	112 000
Inventory of finished goods at 1 July 2021	8 120	5 550
Purchases	0	58 600
Cost of production	31 110	0
	39 230	64 150
Inventory of finished goods at 30 June 2022	(6 190)	(7 290)
Cost of sales	(33 040)	(56 860)
Gross profit	43 860	55 140
Administrative expenses	(20 950)	(21 200)
Distribution costs	(11 200)	(18 600)
Profit from operations	11 710	15 340
Finance costs	(1 510)	(0)
Profit for the year	10 200	15 340

Statements of financial position at 30 June 2022

	Alan $	Doreen $
Non-current assets	98 600	123 000
Current assets	9 800	22 120
Total assets	108 400	145 120
Capital	89 200	126 230
Current liabilities	11 200	18 890
Non-current liability (8% loan)	8 000	0
Total capital and liabilities	108 400	145 120

Further information is available.

1 The partnership would continue to supply all of Alan's and Doreen's customers. They did not expect a change in the volume of sales.

2 The partners would share the profit of the partnership in the ratio of Alan 2 : Doreen 3.

3 For the purposes of the merger the non-current assets from Alan's business were valued at $122 000 and from Doreen's business at $192 000. Other assets and liabilities were to be taken over and recorded at their existing book values.

4 Goodwill of the businesses was valued at $30 000 for Alan and $50 000 for Doreen, but it was not to be retained in the books of account.

5 Doreen's bank account contained enough funds to pay off Alan's loan immediately.

6 Estimated cost savings from the merger were as follows:

Alan's administrative expenses	20%
Doreen's administrative expenses	10%
Alan's distribution costs	15%

7 Finance costs other than loan interest are expected to be unchanged.

8 Production costs and purchases are expected to be unchanged.

9 It was estimated that the value of the inventory of finished goods at 30 June 2023 would be $13 290.

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

(a) Suggest **two** reasons why the merger made possible the savings in administrative expenses. [2]

(b) Prepare the forecast income statement for the partnership for the year ending 30 June 2023. [8]

Additional information

The partners expect that in the year ending 30 June 2023 they will make drawings as follows:

	$
Alan	19 800
Doreen	17 200

The partners decided to maintain fluctuating capital accounts.

(c) Prepare the partners' forecast capital accounts for the year ending 30 June 2023. [10]

(d) State **two** advantages of a partnership maintaining fixed capital accounts and current accounts. [2]

(e) Advise Doreen whether or not merging her business with Alan's business is a good strategy. Justify your answer. [3]

[Total: 25]

Question 4

Source A4

XY plc makes all of its sales and purchases on credit.

It provided the following summarised information for the year ended 31 December 2021.

Income statement

	$	$
Revenue		722 500
Sales returns		(12 100)
		710 400
Inventory at 1 January 2021	40 100	
Purchases	426 800	
	466 900	
Inventory at 31 December 2021	(50 000)	
Cost of sales		416 900
Gross profit		293 500
Expenses		(215 800)
Finance costs		(11 200)
Profit for the year		66 500

Bank account

	$		$
Credit customers	701 600	Balance b/d	22 600
Refunds from credit suppliers	1 900	Dishonoured cheques	4 100
		Credit suppliers	431 700
Proceeds of sale of motor vehicle	17 600	Fittings	3 700
		Interest	8 600
		Dividend	24 000
		Expenses	181 800
		Loan repayment	32 000
		Balance c/d	12 600
	721 100		721 100

The company had considerable sales ledger balances and purchases ledger balances at both the start and the end of the year.

The following information is also available.

1 An irrecoverable debt of $5000 had been written off during the year.

2 Fittings had a net book value of $44 000 at the start of the year and $40 600 at the end.

3 Expenses in the income statement included the depreciation charge on motor vehicles of $20 800. The balance on the accumulated depreciation of motor vehicles was $53 200 at the start of the year and $66 800 at the end.

4 The original cost of the motor vehicle sold during the year was $25 900.

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

(a) State **three** reasons why a business prepares a statement of cash flows. [3]

(b) Prepare the statement of cash flows for XY plc for the year ended 31 December 2021 in accordance with IAS 7. [22]

[Total: 25]

Section B: Cost and Management Accounting

Question 5

Source B1

Tommy started a new business manufacturing and selling one product. He decided to use a system of standard costing and calculated the following standard data.

Selling price per unit	$105
Direct materials per unit	2 metres at $12 per metre
Direct labour per unit	3 hours at $11 per hour
Production per month	10 000 units

During month 1 Tommy produced and sold 8500 units. At the end of the month he considered his actual costs and calculated the following variances.

	$
Material price	18 700 adverse
Material usage	20 400 adverse
Labour rate	24 480 favourable
Labour efficiency	56 100 adverse

During month 2 Tommy produced and sold 12 500 units and achieved the expected selling price per unit. His total direct costs were as follows:

Materials	$312 375, at $11.90 per metre
Labour	$424 000, for 40 000 hours

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

(a) Calculate, for month 2, the following:

(i) sales volume variance [2]

(ii) material price variance [2]

(iii) material usage variance [2]

(iv) labour rate variance [2]

(v) labour efficiency variance. [2]

(b) Discuss the change between month 1 and month 2 for **each** of the following variances. Suggest **one** reason for the change.

(i) material price variance [2]

(ii) material usage variance [2]

(iii) labour rate variance [2]

(iv) labour efficiency variance [2]

Additional information

Tommy so far has only calculated variances for sales, direct material and direct labour. His brother has suggested that in future Tommy should extend his variance analysis to fixed overheads.

(c) Advise Tommy whether or not he should also start to calculate fixed overhead variances. Justify your answer. [5]

(d) State **two** reasons why setting standard costs might be useful, other than for variance analysis. [2]

[Total: 25]

Question 6

Source B2

LT plc is a manufacturing business which uses activity based costing (ABC). Each month it manufactures and sells 2000 units of Product A and 3000 units of Product B.

Per unit information is as follows:

	Product A	Product B
	$	$
Selling price	54	35
Direct material	15	12
Direct labour	25	8

Total overheads for the month are:

	$
Production overheads	
Machine set-ups	21 000
Quality inspections	15 000
Other overheads	
Administration and distribution	28 755
	64 755

The directors wished to divide the overhead costs between the two products so as to know the profit made by each product. They agreed that machine set-up costs and quality inspection costs should be allocated using the following activity data for the month.

	Product A	Product B
Number of machine set-ups	300	400
Number of quality inspections	50	100

However the directors were unable to agree on how to apportion the administration and distribution costs.

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

(a) State the term used to describe the factor which causes a change in the cost of an activity. [1]

(b) Complete the table (**in the question paper**) to calculate the **total** profit made in the month by **each** of Product A and Product B. Apportion the administration and distribution costs on the basis of the number of units sold. [11]

(c) Calculate the **total** profit made in the month by **each** of Product A and Product B if the administration and distribution costs are apportioned on the basis of sales value. Start your calculation with your answer from **(b)**. [6]

(d) Suggest **two** different bases which LT plc could use to apportion administration and distribution costs, other than sales units and sales value. [2]

Additional information

The directors are also considering changing their pricing strategy so that a fixed mark-up on total cost is applied to both products.

(e) Advise the directors whether or not a fixed mark-up on total cost should be applied. Justify your answer. [5]

[Total: 25]

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