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International  
AS & A Level

**Cambridge International Examinations**  
Cambridge International Advanced Subsidiary and Advanced Level

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**ACCOUNTING**

**9706/33**

Paper 3 Structured Questions

**October/November 2018**

INSERT

**3 hours**

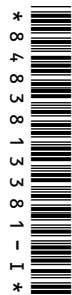
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**READ THESE INSTRUCTIONS FIRST**

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**

CL plc is a manufacturing business. Goods are transferred from the factory at a fixed percentage profit, which has remained unchanged for some years. The directors provided the following information for the year ended 31 December 2017.

|                                                                   | \$        |
|-------------------------------------------------------------------|-----------|
| Revenue                                                           | 1 820 000 |
| Prime cost                                                        | 780 000   |
| Factory overheads                                                 | 152 000   |
| Distribution costs                                                | 283 800   |
| Administrative expenses                                           | 343 100   |
| Finance charges                                                   | 47 100    |
| Work in progress at 1 January 2017                                | 17 000    |
| Inventory of finished goods at transfer price at 1 January 2017   | 126 000   |
| Work in progress at 31 December 2017                              | 25 000    |
| Inventory of finished goods at transfer price at 31 December 2017 | 96 000    |

The following information is also available:

- 1 The provision for unrealised profit account was as follows:

CL plc  
Provision for unrealised profit account

| 2017   |                  | \$            | 2017  |             | \$            |
|--------|------------------|---------------|-------|-------------|---------------|
| Dec 31 | Income statement | 5 000         | Jan 1 | Balance b/d | 21 000        |
|        | Balance c/d      | <u>16 000</u> |       |             |               |
|        |                  | <u>21 000</u> |       |             | <u>21 000</u> |
|        |                  |               | 2018  |             |               |
|        |                  |               | Jan 1 | Balance b/d | 16 000        |

- 2 Total rent for the business was \$100 000 for the year. All of this had been included in administrative expenses. However, 50% of it related to the factory, 25% to the offices and 25% to the distribution centres.
- 3 The taxation charge for the year was \$39 400.

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

- (a) Calculate the percentage of factory profit used by the company. [3]
- (b) Prepare the manufacturing account for the year ended 31 December 2017 in as much detail as possible. [4]
- (c) Prepare the income statement for the year ended 31 December 2017. [11]

**Additional information**

CL plc has the opportunity to buy in finished goods at a cost 5% lower than the cost of each unit it manufactures.

**(d)** Advise the directors whether or not they should take this opportunity. Justify your answer. [4]

**(e) (i)** State what is meant by the term 'prime cost'. [1]

**(ii)** State **one** example of a cost which would be included in prime cost. [1]

**(iii)** State **one** example of a cost which would be included in factory overheads. [1]

[Total: 25]

**Question 2****Source A2**

According to IAS 1 Presentation of financial statements, notes to the accounts should be included within the financial statements.

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

- (a) State **three** advantages to the shareholders of including notes to the accounts within the financial statements. [3]

**Additional information**

The following information has been extracted from the property plant and equipment note to the financial statements of S plc for the year ended 30 September 2016:

|                          | Land and<br>buildings | Fixtures<br>and fittings | Motor<br>vehicles | Total          |
|--------------------------|-----------------------|--------------------------|-------------------|----------------|
|                          | \$                    | \$                       | \$                | \$             |
| Cost                     | 200 000               | 95 000                   | 43 000            | 338 000        |
| Accumulated depreciation | <u>70 000</u>         | <u>28 000</u>            | <u>13 000</u>     | <u>111 000</u> |
| Net book value           | <u>130 000</u>        | <u>67 000</u>            | <u>30 000</u>     | <u>227 000</u> |

The following information is also available:

- The cost of the land was \$40 000.
- During the year ended 30 September 2017 the following events occurred:
 

On 1 January 2017 new fixtures and fittings were acquired at a cost of \$20 000.

On 1 July 2017 a motor vehicle which had cost \$10 000 was sold for \$7 000. There was a loss on disposal of \$1 000.
- Depreciation is charged on a monthly basis as follows:

|                       |               |                         |
|-----------------------|---------------|-------------------------|
| Buildings             | 5% per annum  | straight-line method    |
| Fixtures and fittings | 15% per annum | straight-line method    |
| Motor vehicles        | 20%           | reducing balance method |

- (b) Calculate the depreciation charge for the year ended 30 September 2017 for:

- buildings
- fixtures and fittings
- motor vehicles.

[7]

**5**

- (c) Prepare the property, plant and equipment note to the statement of financial position at 30 September 2017. Total columns **are** required. [8]

**Additional information**

The directors now wish to purchase more land. They propose to raise the required finance of \$100 000 by the issue of:

6% preference shares of \$1 each, or

ordinary shares of \$1 each at par, or

a 5% debenture redeemable in 2024.

- (d) Advise the directors of the most suitable option to finance the purchase of land. Justify your answer. [7]

[Total: 25]

**Question 3****Source A3**

Kia and Zarina entered into a joint venture sharing profits and losses in the ratio 3 : 2 respectively. Both took an active role in the business to buy and sell chains and necklaces after repairing them. Each recorded her own transactions in her own books of account.

The following transactions took place:

- April 1 Kia purchased broken chains and necklace parts for \$400.
- 2 Kia repaired the broken chains and necklaces at a cost of \$160.
- 4 Zarina paid rent of \$180 and advertising costs of \$90.
- 6 Zarina paid the packaging cost, \$60.
- 8 Kia sold all the repaired chains and necklaces for \$950.
- 10 Zarina purchased broken chains and necklace parts for \$120.
- 15 Kia purchased broken chains and necklace parts for \$200.
- 20 Zarina repaired the broken chains and necklaces at a cost of \$220.
- 26 Kia sold all the repaired chains and necklaces for \$840.
- 30 Kia and Zarina settled their accounts with each other and the joint venture was dissolved.

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

- (a) Calculate the profit or loss from the joint venture. [4]
- (b) Prepare the:
  - (i) joint venture with Kia's account in Zarina's books of account [8]
  - (ii) joint venture with Zarina's account in Kia's books of account. [6]
- (c) Explain **one** benefit to both Kia and Zarina of setting up a joint venture. [2]

**Additional information**

Zarina is interested in working with Kia again but is proposing that they enter into a formal partnership agreement, sharing profits and losses equally. Kia is not sure about this.

- (d) Advise Kia whether or not she should enter into a partnership with Zarina. Justify your answer. [5]

[Total: 25]

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**Question 4****Source A4**

AH Limited has produced its trial balance for the year ended 30 September 2017.

## Trial Balance at 30 September 2017

|                                   | \$             | \$             |
|-----------------------------------|----------------|----------------|
| Sales revenue                     |                | 558 000        |
| Purchases                         | 352 000        |                |
| Inventory at 1 October 2016       | 27 000         |                |
| Sales staff salaries              | 64 000         |                |
| Administrative staff salaries     | 27 000         |                |
| Carriage inwards                  | 4 000          |                |
| Administrative expenses           | 18 000         |                |
| Interest on debentures            | 1 000          |                |
| Interim dividend paid             | 4 000          |                |
| Freehold land at cost             | 250 000        |                |
| Vehicles at cost                  | 68 000         |                |
| Office machinery at cost          | 10 000         |                |
| Provision for depreciation on:    |                |                |
| Vehicles                          |                | 18 000         |
| Office machinery                  |                | 2 000          |
| Trade receivables                 | 34 000         |                |
| Trade payables                    |                | 29 000         |
| Cash and cash equivalents         | 36 000         |                |
| Ordinary share capital (\$1 each) |                | 200 000        |
| 5% Debentures (2023 – 2025)       |                | 40 000         |
| General reserve                   |                | 20 000         |
| Retained earnings                 |                | 28 000         |
|                                   | <u>895 000</u> | <u>895 000</u> |

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

- (a) Explain the difference between a bonus issue and a rights issue of shares. [3]

**Additional information**

The following information is also available:

- 1 Inventory at 30 September 2017 was \$24 000.
- 2 Depreciation is to be charged as follows:  
    office machinery at 10% on cost  
    vehicles at 20% on the net book value.
- 3 The debentures were issued on 1 April 2017.
- 4 On 30 September 2017 an additional 20 000 shares were issued at \$1.20 each. These shares had not been entered in the books of account.
- 5 At 30 September 2017 the directors transferred \$5000 to general reserve and decided to recommend a final dividend of \$0.05 per share on shares held on that date. The transfer to general reserve has not yet been recorded.

**(b)** Calculate the profit for the year ended 30 September 2017. [7]

**(c)** Prepare the statement of changes in equity at 30 September 2017 (a total column is **not** required). [8]

**(d)** Prepare the statement of financial position at 30 September 2017. [7]

[Total: 25]

**Section B: Cost and Management Accounting****Question 5****Source B1**

Kuldeep has been in business for several years. He has prepared an annual expenditure budget based on various levels of activity. The following budgeted information is available:

Per unit

|                  |                            |
|------------------|----------------------------|
| direct materials | 2 kilos at \$1.50 per kilo |
| direct labour    | 0.5 hours at \$10 per hour |
| direct expenses  | \$2                        |

Last year the selling price per unit was \$20. This is budgeted to increase by 2%.

Kuldeep also incurred semi-variable production overheads. He calculated that for 5000 units these were budgeted to be \$15 000 and for 8000 units \$21 000.

Annual fixed administration costs are expected to be \$35 000.

At the end of the year the actual level of sales was 12 000 units.

There were no opening or closing inventories.

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

- (a) Discuss **two** advantages of budgetary control. [4]
- (b) Prepare the flexed budget for the year for 12 000 units. [13]

**Additional information**

The following actual data are available for 12 000 units:

|                 |         |
|-----------------|---------|
|                 | \$      |
| Sales revenue   | 242 600 |
| Direct labour   | 63 000  |
| Direct material | 34 000  |

- (c) Explain to Kuldeep what may have caused a difference between the flexed budget and the actual data. [4]

**Additional information**

Anne, his sister, has advised him that he should produce an annual fixed budget instead of an annual flexed budget.

- (d) Assess **two** disadvantages to Kuldeep of producing an annual fixed budget. [4]

[Total: 25]

**Question 6****Source B2**

Asif is considering running a farming business, growing soya beans. He could rent land at an annual cost of \$800 per field. He has two options:

|          |                |
|----------|----------------|
| Option 1 | Rent 5 fields  |
| Option 2 | Rent 10 fields |

After 5 years he intends to retire.

The purchase of farm machinery requires an outlay of \$30 000 if 5 fields are farmed. If 10 fields are farmed then the necessary farm machinery would cost \$38 000. In either case the machinery would have no scrap value at the end of the 5-year period.

Other information is as follows:

Soya beans yields were expected to be:

- 1000 kilos per field in Year 1
- 2000 kilos per field in Year 2
- 3000 kilos per field in **each** of Years 3, 4 and 5.

Selling prices were expected to be:

- \$900 per 1000 kilos of soya beans in **each** of Years 1 and 2
- \$1100 per 1000 kilos of soya beans in **each** of Years 3, 4 and 5.

Labour costs were expected to be 20% of sales.

The annual costs of seeds is expected to be \$200 per field.

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

- (a) Calculate the annual net cash flow for Option 1. [8]
- (b) Calculate the accounting rate of return (ARR) for Option 1. [4]
- (c) Calculate the ARR for Option 2. [5]
- (d) State:
  - (i) **one** advantage of using ARR in comparison to other methods of investment appraisal
  - (ii) **two** disadvantages of using ARR in comparison to other methods of investment appraisal. [3]
- (e) Discuss other financial and non-financial factors which may affect Asif's decision to run a farming business. [5]

[Total: 25]

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