

# Cambridge International AS & A Level

CANDIDATE NAME				
CENTRE NUMBER		CANDIDATE NUMBER		

427307651

ACCOUNTING 9706/32

Paper 3 Structured Questions

February/March 2022

3 hours

You must answer on the question paper.

You will need: Insert (enclosed)

#### **INSTRUCTIONS**

- Answer all questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do not use an erasable pen or correction fluid.
- Do not write on any bar codes.
- You may use an HB pencil for any diagrams, graphs or rough working.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

#### **INFORMATION**

- The total mark for this paper is 150.
- The number of marks for each question or part question is shown in brackets [].
- The insert contains all of the required information and questions.

# **Section A: Financial Accounting**

		Answer all questions.
1	Rea	nd Source A1 in the insert.
	(a)	Explain the term 'indirect manufacturing costs'.
		[2]
	(b)	Prepare the manufacturing account for the year ended 31 December 2021.
	(~)	. repend and management graded and year ended on December 2021.

......[7]

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(c)	Prepare the revised income statement for the year ended 31 December 2021. Use space on the <b>next page</b> to show your workings.
	Your statement should show separately the gross profit for <b>each</b> of standard furniture and luxury furniture.
	It should also show expenses split into 'total administrative expenses' and 'total selling and distribution costs'.

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[Total: 25]

## 2 Read Source A2 in the insert.

(a)	Explain why a business may need to impair its non-current assets.
	[3]
(b)	Explain to what extent the value of the diesel lorry is to be impaired. Support your answer with calculations.
	[6]

٠.		
Γ		
	Vorkings:	

The repair and maintenance cost of \$30 000 for the 5-year contract for the new machine was paid on 1 March 2021.

(d)	Advise the directors whether or not X Limited should have entered into the contract. Justif your answer.
	[5
	[Total: 25

## 3 Read Source A3 in the insert.

(a)	Explain what is meant by the term 'cash equivalents'.
	[2]
(b)	Prepare the statement of cash flows for the year ended 31 December 2021 in accordance with IAS 7.

Workings:	
workings.	

	1	
	2	
		[4]
Add	ditional information	
	uring a directors' meeting, the finance director had been asked why he had ra erdraft to finance the acquisition of non-current assets.	ised a bank
(d)	Advise the directors whether or not the finance director was correct in raising a ba	
()	to finance the acquisition of non-current assets. Justify your answer.	ank overdraft
()		
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	to finance the acquisition of non-current assets. Justify your answer.	

[Total: 25]

		11
4	Rea	ad Source A4 in the insert.
	(a)	Explain <b>two</b> reasons why Javeed should ask for commission based on gross sales.
		1
		2
		[4]
	Add	ditional information
	1	Both parties later agreed that the commission of Javeed should be based on gross sales.
	2	After incurring repair costs of \$5 for each defective unit, all the returned goods can be sold for \$160 each.
	(b)	Calculate the value of inventory held by Javeed at 31 December 2021.

(c)	Prepare the of 31 December 2	consignment 2021.	account	in the	books	of	G L	imited	for	the	year	ended
												[7]
(d)	Complete the G Limited's final						nent	to Jav	eed	on (	each	item in
	Item	Effect	(Increase	/ Decre	ase) in \$	6	Rea	son				
	Other receival	bles										
	Cash at bank											
	Purchases											
	Profit for the y	rear					_					
		1										[8]

**PLEASE TURN OVER** 

# **Section B: Cost and Management Accounting**

	Answer all	questions.
Read S	ource B1 in the insert.	
(a) Pre	epare the flexed budget to show the bu	dgeted profit for the month of July.
		[5
Additio	nal information	
The act	ual result for the month of July is also a	available.
		\$
Sales		277 760
	naterial (\$11.80 per kilo)	(72688)
	abour (\$25.50 per labour hour)	(128 520)
Fixed o	verhead	(25600)
Actual p	profit	50 952
The cos	st accountant is going to conduct a vari	ance analysis for the July performance.
( <b>b)</b> Sta	ate what is meant by the term 'variance	analysis'.

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(c)	Cal	culate the following:	
	(i)	sales price variance	
			. [1]
	(ii)	sales volume variance	
			. [1]
	(iii)	direct material total variance	
	(i)	direct lebour total variance	. [1]
	(iv)	direct labour total variance	
			. [1]
	(v)	fixed overhead total variance.	. [.]
	( )		
			. [1]

The directors are interested in further analysis of the variances in direct materials.

(d)	(i)	Calculate the <b>two</b> variances which combine to give the direct material total variance.
		[4]
	(ii)	Explain the likely causes of the variances calculated in (d)(i).
		[4]

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In July, Y Limited had adopted a new strategy to increase sales by reducing the selling price.

(e)	Advise the directors of Y Limited whether or not the company should continue the strategy in the long run. Justify your answer.				
	[5]				
	[Total: 25]				

(a)	Exp	lain what is meant by the term 'cost of capital'.	
(b)	Cal	culate for the proposed investment:	[2
	(i)	payback period (in years and months)	
	(ii)	accounting rate of return (to <b>two</b> decimal places)	
	(iii)	net present value (NPV)	

.....[3]

	(iv)	internal rate of return (IRR) (to <b>two</b> decimal places).
		[4]
(c)	Advi	se the directors whether or not the company should purchase the machine. Justify your ver.
		[3]
Add	lition	al information
		ctors decide to use the NPV method for investment appraisal. Due to recent adverse c conditions, the directors think that they should use a cost of capital of 16%.
(d)	Expl 16%	ain the impact on the directors' decision to purchase the machine if the cost of capital is
		[2]

In view of the increase in the cost of capital to 16%, the directors consider that net cash inflows for each year need to be improved.

(e)	Calculate the net cash inflows for <b>each</b> of the four years so that the NPV of the proposed investment is zero.
	[6]

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[Total: 25]

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