

Cambridge International AS & A Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

566637447

ACCOUNTING 9706/33

Paper 3 Structured Questions

May/June 2021

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	Read	Source	A1	in	the	inser

(a)	Prepare the manufacturing account for the year ended 31 December 2020.
	[8]

(b)	Prepare the provision for unrealised profit account for the year ended 31 December 2020.					
	[3]					
(c)	Explain the treatment of unrealised profit in G Limited's statement of financial position at 31 December 2020. Your answer should refer to relevant accounting concepts.					
	[5]					

(d) Prepare the trading section of the income statement for the year ended 31 December 2020 showing separately the gross profit from **each** of luxury sofas and standard sofas.

Luxury sofas \$	Standard sofas \$

[4]

Additional information

The directors have the opportunity in 2021 of buying in the luxury sofas which would sell at a gross profit margin of 20%. They are considering two options:

Option 1 continue manufacturing luxury sofas without buying in

Option 2 cease production and buy in luxury sofas for resale

(e)	Advise the directors which option to choose. Justify your answer and support the answer with calculations.
	[5]
	[Total: 25]

2 Read Source A2 in the insert.

(a)	Prepare the total assets section of the statement of financial position at 31 December 2020, showing the cash and cash equivalents as the balancing figure. Use the space provided to show your workings.					
	Workings:					
	workings.					

(b)	Calculate the working capita	al cycle (in days).	
		[6	3]
Add	ditional information		
The	following accounting ratios f	for 2019 are also available.	
Nor	n-current asset turnover	2.05 times	
Woı	rking capital cycle	30 days	
(c)	Compare the performance of turnover and working capital	of D Limited over both years by considering the non-current asse al cycle.	∍t
			••
		[3]	31

The price earnings ratio of D Limited has increased from 2019 to 2020.

(d)	Explain two possible reasons for the change in the ratio from 2019 to 2020.
	1
	2
	[6]
(e)	State four limitations of ratio analysis.
	1
	2
	3
	4
	[4]

[Total: 25]

PLEASE TURN OVER

3	Read	Source	Δ3 i	n the	insert
J	IXEau	Jource	ΔU	II LIIC	HISCIL

(a)	State four benefits of a computerised accounting system to a business.			
	1			
	2			
	3			
	4			
	[4]			
	7			

The draft statements of financial position for both businesses at 31 December 2020 are as follows.

	Adul and	
	Basha	Carl
	\$	\$
Office equipment	564 000	265 000
Motor vehicles	98 200	65000
Inventory	46 000	28000
Trade receivables	83300	36000
Cash and cash equivalents	21200	9000
Total assets	812700	403 000
Capital account Adul Basha Carl Current account	360 000 360 000	371100
Adul	22000	
Basha	(5600)	
	736400	371 100
Trade payables	76300	31900
Total equity and liabilities	812700	403 000

1 Profit for the year ended 31 December 2020 was:

\$
Adul and Basha 64 000
Carl 21 160

The goodwill for the partnership had been valued at \$50000. The goodwill value for Carl's business was to be the average profit for the last three years. Carl's profit had increased by 15% each year for the last three years.

3 All assets and liabilities were valued at their net book value except:

	Adul and Basha	Carl
	\$	\$
Office equipment	580 000	230 000
Motor vehicles	88 000	62000
Trade receivables		35000

- There was no partnership agreement between Adul and Basha. After the merger, it was agreed that the profit and loss sharing ratio among Adul, Basha and Carl would be 2:2:1.
- 5 All the partners agreed that the combined goodwill would not be maintained in the books of account of the new partnership.
- Two motor vehicles had an equal value in the business of Adul and Basha. Immediately after the merger, Adul would take one of the motor vehicles for his own use.

(b)	Calculate the goodwill of Carl's business.
	[2]
(c)	Explain why the calculation of Carl's goodwill is based on the profit of the business.
	[2]

(d) Prepare a statement showing the movement in the capital account for **each** of Adul, Basha and Carl immediately after the merger.

Adul \$	Basha \$	Carl \$

Workings:	

[6]

(e)	Calculate the value of the total assets of the new business immediately after the merger Show your workings.
	ro

(f)

Better profitability of the business of Adul and Basha is one of the reasons for Carl's decision to merge.

Advise Carl whether or not he has made the correct decision to merge with the partnership business. Justify your answer using both financial and non-financial factors.
[5]

[Total: 25]

			16	
4	Rea	ıd So	ource A4 in the insert.	
	(a)	Stat	te three features of a joint venture.	
		1		
		2		
		3		
				[3
	(b)	Pre	pare the following accounts:	
		(i)	the joint venture account	

the joint w	onturo with				 	
the joint v	enture with	Wang ac				
the joint v	enture with	Wang ac				
the joint v	enture with	Wang ac				
the joint v	enture with	Wang ac				
the joint v	enture with	Wang ac				
the joint v	enture with	Wang ac				
the joint v	enture with	Wang ac				
	enture with					
			count in	Tan's books		
			count in	Tan's books		
			count in	Tan's books		
			count in	Tan's books		
			count in	Tan's books		

From Tan's experience of the joint venture in the city festival market, she has found that the goods are well accepted by the city people. She now plans to sell the ornaments in the city through Wang as a consignee.

Explain tw consignme				,				
	 	• • • •						

[Total: 25]

Section B: Cost and Management Accounting

Answer all questions.

5	Read	Source	B1	in t	he	insert
•	ILCUG	Coulco				111361 6

(a)	State two benefits of preparing a cash budget.	
	1	
	2	
		[2
(b)	Prepare a production budget (in units) for each of the months July and August.	
		[4
		-

Pre	epare a c	asn bud	iget for e	eacn o	tne mo	onths J	uly and	Augus	SI.		
			,							 	

Workings:	

[11]

N Limited wishes to improve the cash position at the end of August and wants to have a minimum ending bank balance of \$24500. To achieve this, one of the directors proposes that a cash discount of 4% be offered to some of the credit customers in August so that they will make an early payment in August.

(d)	Calculate the minimum amount of credit sales to be offered the cash discount in order to achieve an ending bank balance of \$24500.
	[4]
(e)	Explain two other methods to improve the cash position at the end of August.
	1
	2
	[4]
	[7]

[Total: 25]

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6 Read Source B2 in the insert.

(a)	Calculate for the new machine:		
	(i)	the accounting rate of return (ARR)	
		[5]	
	(ii)	the net present value (NPV)	
		101	
		[3]	

	(iii)	the internal rate of return (IRR)	
			[4]
(b)	Adv	ise the directors whether or not they should buy the new machine. Justify your answer	
(b)	Adv		
(b)			

The directors are of the view that the NPV method should be used to make decisions on investment.

(c)	State three advantages of using the NPV method.
	1
	2
	3
	[3]
Add	litional information
	to a change in economic conditions, the directors consider that the cost of capital should 12%.
(d)	Explain the effect on the directors' decision on investment of the change in the cost of capital.

The directors also consider that the negative impact from the increase of cost of capital can be offset by increasing the revenue. Additional advertising costing \$20000 incurred in year 1 can help increase the sales revenue in years 2 and 3. Year 2 sales revenue is expected to increase by \$24000.

(e)	Calculate the minimum increase in sales revenue in year 3 to justify the directors deciding to buy the new machine.
	[5

[Total: 25]

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