



Cambridge International AS & A Level

CANDIDATE
NAME

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CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/31

Paper 3 Structured Questions

October/November 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.

This document has **24** pages. Any blank pages are indicated.

Section A: Financial Accounting

Answer **all** questions.

1 Read Source A1 in the insert.

- (a) State which bookkeeping entry reduced the ability of the company to pay dividends legally in the future.

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 [1]

Additional information

- 1 On 1 January 2020 the business had a bank overdraft of \$42 000. It paid interest of \$3000 on the overdraft during the year ended 31 December 2020.
- 2 Depreciation charges for the year totalled \$112 000.
- 3 During the year ended 31 December 2020 some machinery was disposed of for \$47 000. This had originally cost \$92 000 and depreciation of \$31 000 had been provided on it.
- 4 Several new delivery vehicles were purchased during the year, at a total cost of \$185 000. New machinery costing \$106 000 was also purchased.
- 5 On 1 April 2020 the company issued a 10% debenture of \$200 000. By the year end only six months' interest had been paid.
- 6 The working capital of the company, excluding the bank account and accrued interest, increased by \$45 000 during the year ended 31 December 2020.
- 7 The directors planned to expand the factory during 2021, using funds raised by the debenture issue.

(c) Advise the directors whether or not the performance of the company is satisfactory. Justify your answer.

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(d) Discuss the decision to issue the debenture to fund the planned expansion.

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..... [5]

[Total: 25]

Additional information

The company accountant prepared the draft income statement of the company for the year ended 31 December 2020. When the finance director reviewed it he thought that it might contain errors. He identified five areas where he thought an error might have occurred. These were as follows.

- 1 The staff training had cost \$5000. Since the employees of the company usually stay with the company for about ten years, the accountant had decided to charge \$500 to expenses for staff training each year for ten years, starting in 2020.
- 2 An impairment review had considered vehicles with a carrying amount of \$72 000. It found that their fair value was \$67 000 and their value in use was \$65 000. The accountant included an impairment loss on vehicles of \$7000 in expenses.
- 3 An impairment review had considered machinery with a carrying amount of \$98 000. It found that its fair value was \$81 000 and its value in use was \$102 000. The accountant included an impairment loss on machinery of \$17 000 in expenses.
- 4 Water damage had destroyed inventory costing \$8000 on 5 January 2021. The accountant took this loss into account when preparing the income statement.
- 5 The premises had been revalued upwards by \$28 000 at the year end. The accountant omitted to record this.

(b) Complete the table showing the **effect of the correction** of errors on the draft profit for the year.

In the second column enter the amount by which the draft profit for the year would change due to any correction of errors. State whether the correction increases or decreases the profit. If no correction is needed enter **Nil**.

In the third column explain why the correction is needed, or why no correction is needed.

	\$	Explanation
1 Training	
2 Vehicles	
3 Machinery	
4 Inventory	
5 Premises	

[15]

(c) Explain why the errors, corrected in (b), had not been caused by the computerised accounting system.

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..... [2]

[Total: 25]

3 Read Source A3 in the insert.

(a) Suggest **two** ways, other than the profit sharing ratio, in which a partnership could reward the introduction of capital and labour by partners.

1

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2

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[2]

Additional information

Eunice and Malcolm decided to retire and agreed to sell their business to FD Limited, receiving shares in return.

(b) State **three** differences between being a partner in a partnership and a shareholder in a limited company.

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[6]

Additional information

FD Limited took over the non-current assets at a valuation of \$130 000. All other assets and liabilities were taken over at their book values.

- (e) Prepare the journal entry recording the acquisition of the partnership in the books of FD Limited. A narrative is **not** required.

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[Total: 25]

(e) Explain why the accumulated fund of a not for profit organisation may not be equal to the balance on its bank account.

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(f) Explain why the financial statements of some not for profit organisations may contain entries for subscriptions.

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[Total: 25]

Section B: Cost and Management Accounting

Answer **all** questions.

5 Read Source B1 in the insert.

- (a) Prepare the purchases budget for direct materials (in dollars) for **each** of the months February, March and April 2022.

	February \$	March \$	April \$
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[6]

(c) Comment on the suitability of the month of April for the replacement of the machinery.

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Additional information

One of the directors has suggested that the company limit production to 140 units every month to avoid having to pay the overtime premium and so reduce costs.

(d) Advise the directors whether or not they should limit production to 140 units a month. Justify your answer.

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[Total: 25]

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