

Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME		
CENTRE NUMBER		CANDIDATE NUMBER
ACCOUNTING	3	9706/31
Paper 3 Struc	tured Questions	May/June 2018
QUESTION PA	APER	3 hours
Candidates answer on the Question Paper.		5 110urs

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name in the spaces at the top of this page. Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

DO NOT WRITE IN ANY BARCODES.

Answer **all** questions.

The Insert contains all the sources referred to in the questions.

At the end of the examination, fasten all your work securely together. The number of marks is given in brackets [] at the end of each question or part question.

International accounting terms and formats should be used as appropriate. Workings should be shown. You may use a calculator.

This document consists of 24 printed pages and 1 Insert.

Section A: Financial Accounting

Answer all questions.

Question 1

Read Source A1 in the Insert.

(a) Explain why a manufacturing business might prepare a manufacturing account as part of its financial statements.

	[4]
(b)	Prepare the manufacturing account for the year ended 31 October 2017 in as much detail as possible.
	[5]

(c) Prepare the income statement for the year ended 31 October 2017.

[9]

The selling price of one unit is based on the transfer price from the factory plus a mark-up.

Bob, the financial director of JH Limited, has been notified that their main competitor has increased prices. He wishes to increase the fixed percentage of the transfer price by 5%. The other directors are concerned that this will affect profit.

(d) Advise the directors whether or not they should increase the transfer price. Justify your answer using any relevant calculations.

[7]
[Total: 25]

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5

Question 2

Read Source A2 in the Insert.

(a) State three uses of the notes to the accounts within the financial statements.

1	
2	
••••	
3	
	[3]

(b) Prepare the statement of changes in equity for the year ended 31 December 2017. A total column is **not** required.

Workings:

7

.....

[15]

After the share issues there was a decrease in the market price of one ordinary share to \$2.10. One of the shareholders at the Annual General Meeting (AGM) stated that instead of the share issues the directors should have carried out the following:

- 1 Financed the purchase of the new factory through a loan of \$2200000 repayable over 5 years with total interest payable of \$68000.
- 2 Paid the shareholders an extra \$0.50 per share in their final dividend rather than a bonus issue of shares.
- (c) Advise whether or not the directors acted in the best interests of the shareholders. Justify your answer with relevant calculations.

[7]
[Total: 25]

Question 3

Read S	Read Source A3 on the Insert.	
(a)	Explain the role of an external auditor.	
	[2]	
(b)	Explain the correct accounting treatment of the items in notes 1 and 2.	
	[5]	

(c) Calculate the revised profit for the year ended 31 December 2017 after taking into account notes 1, 2 and 3.

[8]
•••

(d) State the values at which the following should be included in the statement of financial position at 31 December 2017. (i) Software licence [2] (ii) Inventory [1] (iii) Retained earnings [1] (iv) Other payables [1]

K Limited needs additional computer software. The directors are considering whether to buy the computer software or acquire the right to use the new software for three years.

(e) Evaluate whether the directors should buy the computer software or acquire the right to use it for three years. Justify your answer.

[5]
al: 25]

Question 4

Read Source A4 in the Insert.

(a) State two differences between a club and a limited company.

1
2
[4]

(b) Prepare the income and expenditure account for the year ended 31 December 2017.

Workings:



(c) Prepare the statement of financial position at 31 December 2017. Use the space provided on the next page for your workings.

Workings:

Additional information

The management committee of the club is considering increasing the price of the coach trip tickets to members.

(d) Advise the management committee whether or not it should increase the price of the coach trip tickets. Justify your answer.

[4]

[Total: 25]

Section B: Cost and Management Accounting

Answer all questions.

Question 5

Read Source B1 in the Insert.

(a) State three advantages and two disadvantages of operating a budgetary control system.

Advantages:

1	
2	
3	
Dis 1	advantages
I	
2	
	[5]

(b) Prepare the production budget in **units** for **each** of the four months from January to April 2019.

Jan	Feb	Mar	Apr

[6]

Additional information

Each unit produced requires 3 kilos of raw material which is expected to cost \$2 per kilo.

The opening inventory of raw material at 1 January 2019 is expected to be 200 kilos. The closing inventory of raw material is expected to remain the same for January. It is then expected to increase by 10% for February and a further 10% for March. After that it will remain unchanged.

- Jan
 Feb
 Mar
 Apr

 Image: Im
- (c) Prepare the purchases budget in **both** kilos and dollars for **each** of the four months from January to April 2019.

The directors are expecting an increase in demand later in the year and are considering a proposal to increase the storage capacity of the warehouse. The proposal will be beneficial to the company as it will allow an increase in the maximum inventory of finished goods holding to 500 units. The cost associated with the storage of each unit (holding cost) is \$10.

(d) Calculate for the month of February the difference between the current holding cost for the closing inventory of finished goods and the holding cost if the proposal is accepted.

[4]

[6]

The cost of increasing the storage capacity is expected to be \$20000. A cash budget which includes this proposed cost has been prepared. This shows an overdrawn bank balance of \$18000 at the end of February.

However, the bank has refused to give the business an overdraft. The directors are now considering investing their own money as a loan to the business to finance the proposal.

(e) Discuss the advantages and disadvantages to the directors of investing their own funds into the business.

	[4]
[Total: 25]

Question 6

Read Source B2 in the Insert.

- (a) Calculate for each product:
 - (i) the total production costs

[3]

(ii) the production cost per unit

[1]

Additional information

The sales price per unit is calculated by adding 50% to the cost.

(b) Calculate the selling price per unit for **each** product.

[2]

The directors of the company have been advised that they should adopt activity based costing to allocate the production overheads. They have identified the four major activities involved in the production cycle as machine set-up, materials handling, maintenance of machinery and production inspection and packing. The costs of each activity have been established and the overheads apportioned between the activities as follows:

	Production Overheads	Alpha	Omega
	\$	-	-
Machine set-up	90 000	15 times	10 times
Materials handling	80 000	6 receipts	14 receipts
Machine maintenance	46 000	130 hours	100 hours
Inspection and packing	<u>180 000</u>	40 hours	20 hours
	<u>396 000</u>		

(c) State two disadvantages to a business of adopting activity based costing.

(d) Calculate the **total** production overhead to be allocated to **each** product using activity based costing.

[4]

(e) Recalculate the cost per unit and selling price of each product maintaining the 50% mark-up.

		Alpha	Omega
		\$	\$
			[3]
(f)	Explain three reasons why B Limited shoul	d change the method	of allocating overheads to
	using activity based costing.		
	4		
	1		
	2		
	2		
	3		
			[6]
			L-1

It has been suggested that customers will not accept the increase in price of Omega. The directors are therefore considering changing the profit margins to 60% on Alpha and 30% on Omega.

(g) (i) Calculate the new total profit for each product if this change is adopted.

[2]

(ii) Give two reasons why B Limited should adopt this change.

1		
••••		
2		
		••••
		[2]
	[Total: 2	251

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