



Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

| CANDIDATE NAME | | | | | | | | | | |
|-------------------|--|--|--|--|--|--|---------------|--|--|--|
| CENTRE NUMBER | | | | | | | IDIDA IBER | | | |

ACCOUNTING

9706/32

Paper 3 Structured Questions

May/June 2018

QUESTION PAPER

3 hours

Candidates answer on the Question Paper.

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.



Section A: Financial Accounting

Answer all questions.

Question 1

| Read Source A | A1 in the | Insert. |
|---------------|-----------|---------|
|---------------|-----------|---------|

| (a) | Cal | culate for 2017: | |
|-----|-------|-----------------------------------|-----|
| | (i) | revenue for the year | |
| | | | |
| | | | |
| | | | [1] |
| | (ii) | cost of sales for the year | |
| | | | |
| | | | |
| | | | [1] |
| | (iii) | trade receivables at the year end | |
| | | | |
| | | | |
| | | | [1] |
| | (iv) | average inventory at cost price. | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | [3] |

| (b) | State what is measured by the working capital cycle. |
|-----|--|
| | |
| | |
| | [2] |
| | [2] |
| (c) | Calculate the working capital cycle for the year. |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [7] |

The directors of the business are considering a new strategy of increasing the selling price to \$90 per unit and offering 10% cash discount for payment in the month following sale. The directors believe that demand will be unchanged and that all customers will take the discount offered.

| (d) | Calculate a revised working capital cycle for 2017 if this strategy had been implemented from the start of the year. | |
|-----|--|-----|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | ••• |
| | | ••• |
| | | |
| | Į: | 5] |
| (e) | Advise the directors whether or not they should proceed with this strategy. Justify you answer. | ur |
| | | ••• |
| | | ••• |
| | | ••• |
| | | ••• |
| | | ••• |
| | | ••• |
| | | ••• |
| | | ••• |
| | | |
| | [1 | 5] |

[Total: 25]

PLEASE TURN OVER

Read Source A2 in the Insert.

| (a) | Prepare the income statement for the year ended 31 December 2017. |
|-----|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

| |
|------|
| |
| |
| |
| |
| |
| |
| |
| |
| |
| |
| |
| |
| |
| |
| 1101 |

| (b) | Calculate the balance on the revaluation reserve account at 1 January 2017 following the revaluation. |
|-----|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [5] |
| Add | ditional information |
| | ere was a water leak in the company's printing room in January 2018. This destroyed the new tocopier which was not insured. |
| (c) | State how this should be treated in both 2017 financial statements and 2018 financial statements. |
| | |
| | |
| | |
| | |
| | |
| | [3] |

| (d) | State what is meant by impairment loss in respect of non-current assets. |
|-----|--|
| | |
| | |
| | |
| | [2] |
| | [Total: 25] |

Read Source A3 in the Insert.

| (a) | Calculate the cost per unit to be used when valuing inventory. |
|-----|--|
| | |
| | |
| | |
| | |
| | |
| | |
| | [2] |
| (b) | Prepare the consignment account in the books of Y Limited for the year ended 31 December 2017. |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

| Workings: | |
|--|---------------------------------|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [13] |
| | |
| Prepare Mahood's account in the books of Y Limited for t | he year ended 31 December 2017. |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [5] |

The directors of Y Limited are thinking of opening a branch overseas to sell its goods rather than having a consignment agreement with Mahood.

|) | Suggest whether Y Limited should continue consigning goods to Mahood or open a branch overseas. Justify your answer. |
|---|--|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [5] |
| | [Total: 25] |

PLEASE TURN OVER

Read Source A4 in the Insert.

| (a) | Prepare the opening statement of financial position for the partnership at 1 October 2017 | |
|-----|---|--------|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | ••••• |
| | | ••••• |
| | | ••••• |
| | | ••••• |
| | | ••••• |
| | | |
| | | •••••• |
| | | [13] |

The average annual profit earned by Ephraim for the past three years was \$60 000. The average annual profit earned by Fikriyah for the past three years was \$40 000.

The budgeted profit for the partnership for its first year's trading is expected to be \$100000. In each of the following three years it is expected to be 10% less than the previous year. This is as a result of the increasing competition.

| (b) | Discuss the benefits and limitations of the merger to each partner. Justify your answer us both financial and non-financial factors. | sing |
|-----|--|----------|
| | | |
| | | ••••• |
| | | ••••• |
| | | ••••• |
| | | ••••• |
| | | |
| | | |
| | | ••••• |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | ••••• |
| | | ••••• |
| | | |
| | | |
| | | [12] |

Section B: Cost and Management Accounting

Answer **all** questions.

Question 5

Read Source B1 in the Insert.

| (a) | (i) | Calculate the net present value (NPV) of investing in the building, using estimation of the sale proceeds. | ıg Alan's |
|-----|-----|--|-----------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | ••••• |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

| | | [12] |
|-----|------|--|
| | | |
| | (ii) | Calculate the net present value (NPV) of investing in the building, using Bob's estimation of the sale proceeds. |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | [3] |
| | | |
| (b) | | culate the sales proceeds at the end of year 4 which would result in a net present value VV) of zero. |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | [3] |

| (c) | Advise Jason whether or not he should proceed with investing in the building. Justify your answer. |
|-----|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [5] |
| (d) | State two reasons why the calculation of the payback period is a less useful investment appraisal technique than the calculation of net present value (NPV). |
| | 1 |
| | |
| | |
| | 2 |
| | |
| | [2] |
| | [Total: 25] |

PLEASE TURN OVER

Read the Source B2 in the Insert.

| (a) | Sta | te two limitations of a standard costing system. |
|-----|-------|---|
| | 1. | |
| | | |
| | | |
| | | roz |
| | | [2] |
| (b) | Cal | culate the following variances: |
| | (i) | direct materials price |
| | | |
| | | |
| | | |
| | | |
| | | |
| | (ii) | direct materials usage |
| | | |
| | | |
| | | |
| | | |
| | | |
| (| (iii) | direct labour rate |
| | | |
| | | |
| | | |
| | | |
| | | |

| (iv) | direct labour efficiency |
|------|----------------------------|
| | |
| | |
| | |
| (v) | fixed overhead expenditure |
| | |
| | |
| | |
| | |
| (vi) | fixed overhead volume |
| | |
| | |
| | |
| | [12] |

| (c) | Prepare a statement reconciling the budgeted cost of producing 4800 tables with the actual cost. |
|-----|--|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [8] |

| The | directors are considering using higher quality wood and increasing the selling price. |
|-----|--|
| (d) | Advise the directors whether or not they should make these changes. Justify your answer. |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

[3]

[Total: 25]

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.