



Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME					
CENTRE NUMBER			DIDATE 1BER		

ACCOUNTING

9706/33

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 A1 in the Insert.

(a)	Explain why a manufacturing business might prepare a manufacturing account as part of financial statements.	its
		••••
		[+]
(b)	Prepare the manufacturing account for the year ended 31 October 2017 in as much detail a possible.	as
		[51

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

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.

	Advise the directors whether or not they should increase the transfer price. Justify you answer using any relevant calculations.
	[7

PLEASE TURN OVER

Read Source A2 in the Insert.

(a)	State three uses of the notes to the accounts within the financial statements.
	1
	2
	3
	roz
	[3]
(b)	Prepare the statement of changes in equity for the year ended 31 December 2017. A total column is not required.
	Workings:

	 	[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:

- 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]

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.
	[2]

(d) State the values at which the following should be included in the statement of financial

pos	sition 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 i for three years. Justify your answer.
	[5

[Total: 25]

Read Source A4 in the Insert.

limited company.
[4

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

(C)	the next page for your workings.

	Workings:
	[10]
d	ditional information
ıe	e management committee of the club is considering increasing the price of the coach tripets to members.
)	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
	Disadvantages
	1
	2
	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.

(c)	Prepare the purchases budget in January to April 2019.	both kilos and	d dollars for ea	ach of the four	months from								
		Jan	Feb	Mar	Apr								
					[6]								
Add	ditional information												
pro	directors are expecting an incre cosal to increase the storage capa npany as it will allow an increase units. The cost associated with the	city of the ware in the maxim	house. The pro um inventory (posal will be be of finished goo	eneficial to the								
(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]

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]
	[4]

[Total: 25]

Read Source B2 in the Insert.

(a)	Cal	culate for each product:	
	(i)	the total production costs	
			•••••
			•••••
			•••••
			[3]
	(ii)	the production cost per unit	
			[1]
Add	ditio	nal information	
The	sale	es price per unit is calculated by adding 50% to the cost.	
(b)	Cal	culate 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:

Alpha

Omega

Production Overheads

		Φ	,pc.	gu	
Mad	chine set-up	\$ 90 000	15 times	10 times	
Mat	erials handling	80 000	6 receipts	14 receipts	
	chine maintenance	46 000	130 hours	100 hours	
	pection and packing	<u>180 000</u>	40 hours	20 hours	
	pasiming	396 000			
		<u> </u>			
(c)	State two disadvantage	es to a business of adopt	ing activity based co	sting.	
	1				
	2				
					-
					•
				[2	1
					-
(d)	Calculate the total processing.	duction overhead to be a	llocated to each pro	duct using activity based	t
					_
					-
					•
				ΓA	

e) Recalculate the cost per unit and selling pri																					•																					
																										Α	lpl \$		1								Or	neg \$	за			
		••••					••••				•••	•••	••••			••••		•••	•••		•••	•••	•••	•••		•••	••••			••••	••••	•••	••••	••••							••••	
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																																										[6]

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:	25]

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