Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/32**

Paper 3 Financial Accounting **May/June 2024**

INSERT **1 hour 30 minutes**

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INFORMATION
- This insert contains all of the sources referred to in the questions.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **8** pages. Any blank pages are indicated.

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Source A for Question 1

AA Social Club's financial year ends on 31 December. It also runs a café for its members. The mark-up of the café is 50%. The balances of some accounts are shown as follows:

	31 December 2023 $	31 December 2022 $
Club equipment		
cost	?	335 000
provision for depreciation	?	144 000
Café equipment		
cost	?	36 000
provision for depreciation	?	26 000
Café inventory	?	11 200
Café trade payables	29 800	23 600
Subscriptions		
owing	5 600	4 800
prepaid	3 200	4 000
Club expenses		
accrued	3 900	–
prepaid	–	5 800

The treasurer also prepared a summarised bank account for the year ended 31 December 2023.

Summarised bank account

	$		$
Balance b/d	45 700	Café suppliers	172 000
Café receipts	212 000	Subscription refund	1 600
Subscriptions	336 000	Club equipment	25 000
		Café equipment	4 500
		Club expenses	274 000
		Balance c/d	116 600
	593 700		593 700

All the café sales are on a cash basis.

The following information is also available for the year ended 31 December 2023.

1 On 31 December 2023, the café section of the club was broken into. Some cash was stolen.

2 After paying the café wages of $34 800 and café expenses of $15 500, the remaining cash was banked. The cash register recorded that the total cash sales for the year were $264 000.

3 Subscriptions of $2400 owing at 31 December 2022 were irrecoverable. Subscriptions of $1600 prepaid at 31 December 2022 were fully refunded because some members did not renew their membership.

4 Club equipment is depreciated at 15% per annum using the reducing balance method. Café equipment is depreciated at 20% per annum using the straight-line method. A full year's depreciation is provided in the year of purchase and none in the year of disposal.

5 A coffee machine in the café, purchased in 2020 for $3000, was damaged. It is to be written off.

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Source B for Question 2

An accounts clerk of W plc has prepared the draft statement of financial position and the draft statement of changes in equity for 2023.

Draft statement of financial position at 31 December 2023

	$	$
Non-current assets		642 000
Current assets		
Inventory	54 000	
Trade receivables	226 000	
Cash and cash equivalents	60 500	
Total current assets		340 500
Total assets		982 500
Equity		
Ordinary share capital ($1 share)		500 000
Share premium		62 000
Retained earnings		153 500
		715 500
Non-current liabilities		
8% debenture		52 000
Current liabilities		
Trade payables	152 000	
Other payables	63 000	
Total current liabilities		215 000
Total equity and liabilities		982 500

Draft statement of changes in equity for the year ended 31 December 2023

	Share capital $	Share premium $	Retained earnings $	Total $
Balance 1 January	400 000	32 000	151 000	583 000
Profit for the year			122 000	122 000
New issue	60 000	18 000		78 000
Bonus issue	40 000	12 000	(52 000)	–
Dividend paid			(60 000)	(60 000)
Dividend proposed			(42 500)	(42 500)
Revaluation of land			35 000	35 000
Balance 31 December	500 000	62 000	153 500	715 500

The company accountant found that errors had been made in some items.

Further information is available.

1 Land and buildings, with land costing $175 000 and buildings costing $80 000, were purchased on 1 January 2022. The company's policy was not to depreciate land or buildings.

In March 2023, the land had been revalued upwards by $35 000. For the year ended 31 December 2023, the company decided to adopt the following new depreciation policy to be applied from the date of acquisition:

Land	Not depreciated
Buildings	2% on cost

The accounts clerk had not implemented the new depreciation policy.

2 The following information is from the inventory records on 31 December 2023.

Category	Cost $	Estimated selling price $
A	30 500	45 000
B	5 900	6 000
C	3 800	3 000
	40 200	54 000

The accounts clerk had used the estimated selling price of $54 000 for the inventory value. To sell the inventory of each category, a sales commission of 5% on selling price is required.

3 On 1 March 2023, the company issued 60 000 ordinary shares of par value $1 at the price of $1.30 each. At the same time, a bonus issue was made of 1 for 10 shares held immediately before that date. The accounts clerk had used the issue price to record the bonus issue.

4 Accrued debenture interest of $2000 was included in the value of 8% debenture.

5 Other payables of $63 000 included the proposed dividend of $42 500.

Source C for Question 3

Ray and Steve had been in partnership sharing profits and losses equally.

On 1 January 2023, they merged their business with Tina's sole trading business to form a new partnership.

The statements of financial position at 31 December 2022 were as follows:

	Ray and Steve $	Tina $
Non-current assets		
Land and buildings	230 000	109 000
Plant and machinery	68 000	31 000
	298 000	140 000
Current assets		
Inventory	38 000	23 000
Trade receivables	75 000	45 000
Cash at bank	19 000	11 000
	132 000	79 000
Total assets	430 000	219 000
Capital account		186 000
Ray	198 000	
Steve	177 000	
	375 000	
Current liabilities		
Trade payables	55 000	33 000
Total capital and liabilities	430 000	219 000

The following arrangements were agreed for the new partnership.

1 Profit and loss sharing ratio would be Ray 40%, Steve 40% and Tina 20%.

2 There would be no partners' salaries and interest on capital.

3 Goodwill was valued at two times the average profits of the last three years. The profits for the last three years were:

	Ray and Steve $	Tina $
2022	97 000	19 000
2021	74 000	22 000
2020	78 000	28 000

No goodwill account is to be kept in the books of the new business.

4 All tangible assets and liabilities were valued at their book value except:

	Ray and Steve $	Tina $
Land and buildings	280 000	130 000
Inventory	35 000	21 500
Trade receivables	68 000	43 000

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