

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/31

Paper 3 Structured Questions

October/November 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.

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
- one**
- use of a receipts and payments account.

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..... [2]

Additional information

- 1 Members subscriptions in arrears and in advance were as follows:

	1 January 2017	31 December 2017
	\$	\$
Members subscriptions in arrears	840	1 440
Members subscriptions in advance	480	240

- 2 Other assets and liabilities were as follows:

	1 January 2017	31 December 2017
	\$	\$
Inventory of sports wear	635	665
Gym equipment at cost	15 625	15 625
Wages owing	700	800
Rent paid in advance	1 200	1 400

- 3 The gym equipment is depreciated using the reducing balance method at 20% per annum. At 31 December 2017 the gym equipment was two years old.
- 4 All donations are capitalised.

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

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Workings:

[8]

Additional information

The new treasurer of the club discovered that the surplus for the previous year ended 31 December 2016 was \$23400. This included a life membership of \$19000 which had been credited in full to the income and expenditure account. The treasurer has suggested that the life membership should be credited to income and expenditure over five years.

(d) Explain why the new treasurer has suggested this treatment for life membership.

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(e) Calculate the impact on the surplus or deficit if the new treasurer’s suggestion for treatment of life membership had been adopted:

(i) for the year ended 31 December 2016

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(ii) for the year ended 31 December 2017.

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[Total: 25]

Question 2

Read Source A2 in the Insert.

(a) State **one** reason why the assets and liabilities may be revalued when a partnership is sold.

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(b) Calculate for the sale of partnership:

(i) the **total** purchase consideration

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(ii) the amount paid to partners in cash.

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(d) Prepare the capital accounts of Alfie and Bob to close the partnership business.

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Workings:

[4]

Question 3

Read Source A3 in the Insert.

(a) Explain **one** benefit of a company's audited financial statements to **each** of the following:

(i) shareholders

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(ii) potential investors

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(iii) bank.

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Additional information

The company purchased two plots of land in August 2017: Plot X for \$400 000 and Plot Y for \$320 000. Plot X has planning permission to build on and is expected to increase in value. Plot Y, however, has been found to have toxic chemicals and is expected to have a lower value.

The directors only want to record the increase in value of Plot X but not the decrease in value of Plot Y.

(d) Advise the directors whether they can only revalue Plot X but not Plot Y. Support your answer by referring to relevant accounting standard(s).

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[4]

[Total: 25]

Question 4

Read Source A4 in the Insert.

(a) Identify **four** control procedures which must be carried out when changing from a manual accounting system to a computerised accounting system.

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(b) State **four** precautions that should be taken to ensure the security of the computerised accounting data.

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(c) Explain **three** possible benefits to the directors of introducing a computerised accounting system.

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Additional information

The directors of H Limited provide the following information:

Profit from operations for the year ended 30 September 2017 was \$568 000.

8% Debentures (2023) for \$500 000 were issued in 2012.

6% Debentures (2028) for \$200 000 were issued on 1 May 2017.

The tax charge for the year was 20% of the profit before tax.

(d) Prepare a summarised income statement for the year ended 30 September 2017.

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Additional information

The share capital of H Limited has been unchanged for a number of years and consists of 500 000 ordinary shares of \$1 each. Dividend cover has been 5 times and is not expected to change. Roy, a prospective investor, is considering purchasing some shares in H Limited.

- (e) Advise Roy whether or not he should invest in H Limited. Justify your answer using relevant calculations.

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[Total: 25]

Section B: Cost and Management Accounting

Answer all questions.

Question 5

Read Source B1 in the Insert.

(a) Prepare a table to show the expected annual net cash flows arising from the project.

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Workings:

[7]

Additional information

Marie's cost of capital is 10%. Discount factors are as follows.

Year	Discount factor
0	1.000
1	0.909
2	0.826
3	0.751
4	0.683

(b) Calculate the Net Present Value (NPV) of the project.

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(c) Calculate the Accounting Rate of Return (ARR) for the project.

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Additional information

Marie expects an ARR of 20% on all projects.

(d) Recommend whether or not Marie should proceed with the project. Justify your answer.

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(e) Calculate for Year 1 the sensitivity of the project profit:

(i) to the selling price

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(ii) to the material cost.

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Question 6

Read Source B2 in the Insert.

(a) Calculate the following variances for the month of July:

(i) Material price

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(ii) Material usage

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(iii) Labour rate

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(iv) Labour efficiency

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(v) Fixed production overhead expenditure

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(vi) Sales price

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(vii) Sales volume

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(b) Prepare a statement reconciling the budgeted profit for 10 000 units with the actual profit for the month of July.

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Additional information

The supplier of direct materials has announced that he will change his price to \$3.10 per kilo with immediate effect.

- (c) Assess the implications of this change in material cost based on the actual material used for the month of July.

Support your answer with relevant calculations.

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[Total: 25]

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