

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/32

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 **21** printed pages, **3** blank pages and **1** Insert.

Section A: Financial Accounting

Answer **all** questions.

Question 1

Read Source A1 in the Insert.

- (a) State **three** reasons why it is useful to a business to record its manufacturing costs in this way.

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Additional information

HT Limited is a manufacturing business that makes a single product. It provided the following information.

- 1 Factory profit had been accounted for at 20% on cost for some years.
- 2 The company earned a uniform gross margin of 40%.
- 3 Sales for the year ended 31 December 2017 amounted to \$800 000.
- 4 The provision for unrealised profit account for the year ended 31 December 2017 was as follows:

Provision for unrealised profit account

	2017		\$		2017		\$
Dec 31	Balance c/d		12 000		Jan 1	Balance b/d	10 000
			12 000		Dec 31	Income statement	2 000
							12 000
					2018		
					Jan 1	Balance b/d	12 000

Additional information

The following information was also available for the year ended 31 December 2017.

1 Prime costs were \$250 000.

2 The value of work in progress decreased by \$10 000.

(c) Prepare a summarised manufacturing account for the year ended 31 December 2017. This account should include a **total** for factory overheads.

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Additional information

Administrative expenses and distribution costs were \$148 000 and \$72 000 respectively.

(d) Prepare a statement to calculate the profit for the year ended 31 December 2017.

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Additional information

The machinery in the factory is depreciated at the rate of 25% per annum using the reducing balance method. It currently has a net book value of \$85 000.

The directors are considering replacing all the old machinery with new machinery costing \$160 000. The new machinery, if purchased, would cause direct labour costs to fall by \$14 000 a year.

(e) Advise the directors whether or not they should proceed with the purchase of the new machinery. Justify your answer.

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[Total: 25]

Question 2

Read Source A2 in the Insert.

(a) Explain what is meant by a ‘non-adjusting event’.

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(b) Prepare the income statement for the year ended 30 September 2017.

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Workings:

[13]

Additional information

Sales for the year ended 30 September 2016 were \$4 500 000.

The industry average for the trade receivables collection period is 35 days.

(c) Calculate the percentage change in trade receivables during the year ended 30 September 2017.

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(d) (i) Calculate the trade receivables collection period for **both** years.

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(ii) Advise the directors whether or not their present credit control procedures are satisfactory. Justify your answer.

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[Total: 25]

(iii) Belinda account

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(iv) Joint venture bank account

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Additional information

Belinda is now considering repeating the joint venture. She could repeat it with Alice, in which case all cash flows could be expected to be the same as before. Alternatively she could enter into a joint venture with Veena.

Veena creates higher quality greeting cards. The selling price would be double that of Alice's greeting cards and material costs would be 50% higher than with Alice. Veena would want a profit share of 80%. Belinda assumes the number of greeting cards sold would be unchanged and that all other costs would be the same as before.

(b) (i) Calculate Belinda's profit share if she enters into a joint venture with Veena.

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(ii) Advise Belinda whether or not she should enter into the joint venture with Veena. Justify your answer.

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[Total: 25]

(iii) dividend yield

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(iv) dividend cover

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(v) return on capital employed.

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Additional information

Brian decided to apportion the purchasing costs of direct material on the basis of the number of orders being made, and to apportion the employment overheads for direct labour on the number of employees working in production.

Brian also decided to apportion other factory overheads on the basis of units produced.

- (b) Prepare a statement to work out the proposed selling price per unit for **both** Product X and Product Y as calculated by Brian.

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- (c) Explain to the directors how to proceed with the setting of the selling price. Support your answer with reference to your calculations in parts (a) and (b) together with any other factors.

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- (d) State **one** reason why selling and distribution costs are not included in a valuation of inventory suitable for inclusion in a statement of financial position.

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[Total: 25]

Question 6

Read Source B2 in the Insert.

(a) Explain **three** advantages of preparing a cash budget.

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(b) Prepare the cash budget for **each** of the three months beginning on 1 July 2019.

A series of 35 horizontal dotted lines provided for writing the cash budget.

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Additional information

Stanley has calculated the payback period for the new machine as 4 years. He has been advised to evaluate his purchase using the net present value (NPV) method.

(c) Discuss how the NPV method might give Stanley a more accurate evaluation compared to the payback method.

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[Total: 25]

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