



## Cambridge International AS & A Level

CANDIDATE  
NAME

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CENTRE  
NUMBER

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**ACCOUNTING**

**9706/32**

Paper 3 Structured Questions

**May/June 2020**

**3 hours**

You must answer on the question paper.

You will need: Insert (enclosed)

### INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any diagrams, graphs or rough working.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

### INFORMATION

- The total mark for this paper is 150.
- The number of marks for each question or part question is shown in brackets [ ].
- The insert contains all of the required information and questions.

This document has **24** pages. Blank pages are indicated.

**Section A: Financial Accounting**

Answer **all** questions.

**1 Read Source A1 in the Insert.**

(a) State the usefulness of a statement of cash flows to potential shareholders.

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(b) Calculate the profit from operations for the year ended 31 December 2019.

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(c) Prepare a reconciliation of the profit from operations to the cash from operations or cash used in operations for the year ended 31 December 2019.

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Workings:

[7]

(d) Prepare an extract of statement of cash flows for the year ended 31 December 2019, showing the net cash from or used in:

(i) operating activities

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..... [3]

(ii) financing activities.

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**Additional information**

During a directors' meeting in April 2020, one of the directors said:

'We have to make our shareholders happy. Even though the bank overdraft has increased since 31 December 2019, we still have to pay cash dividends for 2020 to our shareholders.'

All the directors agreed with this view.

- (e) Discuss whether or not it is appropriate for P plc to pay out cash dividends to shareholders in 2020. Justify your answer.

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[Total: 25]

**2 Read Source A2 in the Insert.**

(a) Calculate the net amount payable to Raj by Amir and Ishan.

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**Additional information**

The partners also agreed to the following terms.

- 1 The profit and loss sharing ratio among Amir, Ishan and Raj would be 3:2:1 respectively.
- 2 The total goodwill would **not** be maintained in the books.



Workings:

[12]

(c) Explain **two** reasons why Amir and Ishan prefer asking for a loan from Raj instead of from the bank.

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**Additional information**

Amir's friend Lala has just left an international IT firm and wants to join the partnership.

**(d)** Advise whether or not Amir, Ishan and Raj should admit Lala as a partner. Justify your answer.

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[Total: 25]

**3 Read Source A3 in the Insert.**

(a) Prepare a statement to show the shop’s gross profit **and** profit for the year ended 31 December 2019.

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(b) Prepare the club’s income and expenditure account for the year ended 31 December 2019.

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(c) Prepare a statement showing the **movement** in the club's accumulated fund for the year ended 31 December 2019.

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(d) State **four** differences between the financial statements of a limited company and the financial statements of a not-for-profit organisation.

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**Additional information**

All the club equipment was purchased on 1 January 2015. The replacement cost of club equipment is \$50 000.

(e) Analyse the club's ability to replace the club equipment in 2020.

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**Additional information**

The treasurer of the club proposes that the club could increase members' subscriptions to finance the replacement of club equipment.

(f) Discuss whether or not the club should increase members' subscriptions for this purpose. Justify your answer.

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[Total: 25]

**4 Read Source A4 in the Insert.**

- (a) Prepare the summarised equity and liabilities section of the draft statement of financial position of W plc at 31 December 2019.

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Workings:

[4]

**Additional information**

The non-current liabilities were represented by the bank loan obtained in 2018. The interest is 5% per annum.

Return on capital employed was 22.50%.

(b) Calculate the draft profit for the year ended 31 December 2019.

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Workings:

[3]

**Additional information**

W plc had the following balances at 1 January 2019.

	\$
Ordinary share capital (\$1 shares)	200 000
Share premium	35 000
General reserve	21 000

In January 2019, 100 000 ordinary shares were issued at \$1.40 per share.

On 30 November 2019, a final dividend was paid. The dividend cover for the year was 2.5 times.

In December 2019, a bonus issue of one ordinary share for every six held was made. The reserves were maintained in their most flexible form.

On 31 December 2019, retained earnings of \$18 000 were transferred to the general reserve.

- (c) Prepare the draft statement of changes in equity for the year ended 31 December 2019. The total column is **not** required.

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Workings:

**Additional information**

On 18 January 2020, before the draft financial statements were presented to the auditors, it was found that one of the customers, owing \$8000 at 31 December 2019, had been declared bankrupt.

(d) Define the meaning of the terms 'adjusting events' and 'non-adjusting events' according to IAS 10.

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(e) Explain the appropriate accounting treatment of the amount of \$8000 owed by a customer declared bankrupt at 31 December 2019.

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[Total: 25]



**Section B: Cost and Management Accounting**

Answer **all** questions.

**5 Read Source B1 in the Insert.**

(a) Prepare a cost statement, in a columnar form, showing the master budget, flexed budget, and the actual result.

	Master budget \$	Flexed budget \$	Actual \$
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(b) (i) Calculate the direct materials variance.

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(ii) Analyse the reasons for the direct materials variance. Support your answer with calculations.

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(c) (i) Calculate the direct labour variance.

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(ii) Analyse the reasons for the direct labour variance. Support your answer with calculations.

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(d) (i) Calculate the total fixed overheads variance.

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(ii) Calculate the fixed overheads expenditure variance.

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(iii) Calculate the fixed overheads volume variance.

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**Additional information**

In a meeting reviewing the **April 2020** budget, a director suggested that the production manager should be fully accountable for the adverse variances of direct materials and direct labour in **April 2020**. The production manager explained that due to the main supplier’s failure to supply the required materials, he had to ask the manager of the purchasing department to buy the materials from another supplier. This had caused a delay in production.

- (e) Discuss whether or not the production manager should be fully accountable for the adverse variances in direct materials and direct labour. Justify your answer.

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[Total: 25]



Workings:

A large empty rectangular box for working out the answer to the question on the previous page.

[13]

**(b)** Explain **two** purposes of preparing a monthly cash budget.

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**(c)** Assess whether the budgeted April sales will achieve or exceed the break-even point.

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[4]

**Additional information**

The directors are considering measures to improve the company's cash position.

**(d)** Explain to what extent making sales exceeding the break-even point will improve the company's cash position.

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[Total: 25]



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