



# Cambridge International AS & A Level

CANDIDATE  
NAME

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CENTRE  
NUMBER

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CANDIDATE  
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## ACCOUNTING

9706/31

Paper 3 Structured Questions

May/June 2022

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 **20** pages.

**Section A: Financial Accounting**

Answer **all** questions.

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

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

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[3]

(b) Prepare the café trading account for the year ended 31 December 2021 to find the profit or loss on its trading activity.

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..... [4]



**Additional information**

The club will admit life members from 1 January 2023. A life membership fee of \$1 500 will be payable on the date of admission.

- (e) Explain to the treasurer how the club should account for the life membership fees in the club's financial statements.

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..... [3]

**Additional information**

The committee of the club is thinking of closing the café. Vending machines would be installed to provide snacks and drinks for the members.

- (f) Advise the committee whether or not the café should be closed. Justify your answer.

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[Total: 25]

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

- (a) Prepare a revised statement of financial position at 31 December 2021.

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Workings:

(b) Explain the correct accounting treatments of the claim and the legal cost in item 3 with reference to the relevant international accounting standard (IAS).

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(c) State what is meant by:

(i) events after the reporting period

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(ii) adjusting events

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..... [1]

(iii) non-adjusting events.

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..... [1]

[Total: 25]

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

**(a)** Prepare a statement showing the movement of retained earnings for the year ended 31 December 2021.

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**(b)** Calculate, to **two** decimal places, the following:

**(i)** price earnings ratio

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**(ii)** dividend yield

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..... [2]

**(iii)** gearing ratio

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(iv) income gearing

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..... [2]

(v) return on capital employed.

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(c) Explain what is meant by a 'highly geared company'.

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**Additional information**

At 31 December 2020, the market value of one ordinary share was \$3.64 and the price earnings ratio was 9.27.

(d) Explain the change in the price earnings ratio with reference to your calculation in (b)(i).

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**Additional information**

On 1 January 2021, E plc had an opportunity to invest \$150 000 in a new project. The directors had two options to finance the new project:

Option 1: issue a 9% debenture for \$150 000

Option 2: issue 120 000 ordinary shares at a price of \$1.25 per share.

The directors chose Option 1 and the new project contributed a pre-interest profit of \$70 000 to the 2021 profit.

(e) Assess whether or not the directors of E plc made the correct decision in issuing the debenture to finance the new project. Justify your answer.

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[Total: 25]

4 Read Source A4 in the insert.

(a) Prepare the memorandum joint venture account. Dates are **not** required.

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[7]

(b) Prepare the joint venture account with Adam in Mary’s books. Dates are **not** required.

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[7]

(c) Explain **one** benefit to **each** of Adam and Mary of entering the joint venture.

Benefit to Adam .....

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Benefit to Mary .....

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[4]

(d) State **three** differences between a joint venture and a consignment.

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[3]

**Additional information**

Due to the success of the joint venture, Mary suggests to Adam that they form a partnership. They would set up an office and sell the products which would be bought from bankrupt companies. Adam is a management consultant. He has concerns about forming a partnership with Mary.

(e) Explain **two** disadvantages to Adam of forming a partnership with Mary.

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[4]

[Total: 25]

**PLEASE TURN OVER**

**Section B: Cost and Management Accounting**

Answer **all** questions.

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

- (a) Prepare a statement to calculate the selling price per unit for **each** of Product S and Product P. The statement should also show the total cost per unit for **each** product.

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**Additional information**

The management accountant suggested that activity based costing should be adopted and provided an analysis of the budgeted annual factory overheads as follows:

Activity	Cost \$	Cost driver	Expected usage of cost driver	
			Product S	Product P
Purchasing materials	120 000	Purchases order	24	8
Machine running	162 000	Machine hours	36 000	18 000
Machine setups	72 000	Number of setups	40	8
Inspecting	<u>111 000</u>	Inspection hours	400	100
Factory overheads	<u>465 000</u>			

(b) Explain what is meant by the term 'activity based costing'.

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(c) Prepare a statement to calculate the selling price per unit for **each** of Product S and Product P by using activity based costing. The statement should also show separately the total cost **and** total cost per unit for **each** product.

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(d) Advise the directors whether or not they should adopt activity based costing. Support your answer with reference to (a) and (c).

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[Total: 25]



**6 Read Source B2 in the insert.**

**(a)** Calculate the budgeted profit for the budgeted sales of 6 000 units.

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**Additional information**

The actual result for April was as follows:

Production and sales (units)	5 800
	\$
Selling price per unit	72
Direct materials	35 113
Direct labour	221 760
Factory overhead	70 400

**(b)** Calculate the following variances:

**(i)** sales price variance

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(ii) sales volume variance (as a measure of change in profit)

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(iii) direct material total variance

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(iv) direct labour total variance

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..... [2]

(v) fixed overhead volume variance

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..... [2]

(vi) fixed overhead expenditure variance.

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**Additional information**

The management accountant is going to perform variance analysis. The actual labour hours used in April were 17 600.

(c) Explain the likely causes of:

(i) sales volume variance calculated in (b)(ii)

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(ii) direct labour total variance calculated in (b)(iv).

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**Additional information**

By analysing the direct material total variance the direct material usage variance was found to be \$1275 adverse.

- (d)** Assess whether or not the company has been successful in controlling the direct material cost price. Justify your answer.

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[Total: 25]

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