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Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

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ACCOUNTING **9706/32**

Paper 3 Structured Questions **February/March 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 **23** printed pages, **1** blank page and **1** Insert.

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Section A: Financial Accounting
Answer all questions

Question 1

Read Source A1 in the Insert.

(a) Prepare the manufacturing account for Marco for the year ended 31 January 2018.

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(b) Prepare an extract from the statement of financial position at 31 January 2018 to show how inventories are recorded.

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(c) State **two** accounting concepts relating to the provision for unrealised profit.

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(d) **(i)** Explain why it is important for Marco to create a provision for unrealised profit.

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(ii) Analyse the effect on profit if Marco does **not** create a provision for unrealised profit.

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[Total: 25]

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Question 2

Read Source A2 in the Insert.

(a) Prepare a statement to calculate the profit or loss from the venture.

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(b) Prepare the:

(i) joint venture account with John in Raj's books of account

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(ii) joint venture account with Raj in John's books of account.

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(c) State **one** benefit to **both** Raj and John of setting up a joint venture.

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Additional information

John is interested in working with Raj again but is proposing that they form a partnership, sharing profits and losses equally. Raj is unsure whether he should take this action.

(d) Advise Raj whether or not he should enter into a partnership with John. Justify your advice and support your answer with calculations, where appropriate.

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[Total: 25]

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Question 3

Read Source A3 in the Insert.

(a) **(i)** Prepare a statement to calculate the operating expenses for each business for the year ended 31 December 2017.

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(ii) Prepare a statement to calculate the expected additional profit R Limited will make for the year ended 31 December 2018 if it buys Joe Tu's business.

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Additional information

1 Purchase consideration will be $180 000 payable to Joe Tu by issuing 150 000 ordinary shares of R Limited.

2 R Limited will take over Joe Tu's assets and liabilities, except the bank account, at the following values:

	$
Land and buildings	139 000
Plant and equipment	14 000
Inventory	40 000
Trade receivables	36 000
Trade payables	67 000

3 The directors of R Limited will also revalue their own land and buildings upwards by $28 000.

(b) State why a business may revalue its assets when it is being purchased by another business.

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(c) Prepare the statement of financial position of R Limited at 31 December 2017 if Joe Tu's business was purchased by it on that date.

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(d) Advise Robert and Paul whether or not they should buy Joe Tu's business. Justify your answer by discussing the **non-financial** advantages and disadvantages of this action.

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[Total: 25]

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Question 4

Read Source A4 in the Insert.

(a) Distinguish between the roles of the shareholders and the directors of a limited company.

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(b) State **one** reason why a sole trader does not require an audit of their financial statements.

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(c) Calculate the adjusted profit for the year ended 31 December 2017.

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(d) Explain the accounting treatment of information items 1 and 2.

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(e) Prepare the statement of changes in equity for the year ended 31 December 2017.

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Additional information

The directors are trying to obtain a bank loan for expanding the business. The bank has requested the audited financial statements for the last three years.

(f) Advise the directors whether or not the audited financial statements provide all the information required in order for the bank to make its decision. Justify your answer.

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[Total: 25]

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Section B: Cost and Management Accounting
Answer all questions

Question 5

Read Source B1 in the Insert.

(a) Explain what is meant by the term 'budgetary control'.

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(b) Prepare the labour budget for the year ending 31 January 2018.

Clearly show the number of labour hours, the number of employees and the annual labour cost for each department.

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(c) Analyse the benefits to Hyung Min of using budgetary control in order to achieve his target profit.

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Additional information

On 31 January 2018 the following information was available.

1 The actual production and sales during the year were 28 500 vases.

2 The labour variances were calculated as:

	Casting department	Polishing department	Finishing department
Rate	$28 750 favourable	$9500 adverse	$52 250 adverse
Efficiency	$57 000 adverse	$21 000 favourable	$70 500 favourable

(d) Discuss the possible causes of the adverse variances.

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(e) Advise Hyung Min whether or not he should be concerned about labour variances. Justify your answer.

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[Total: 25]

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Question 6

Read Source B2 in the Insert.

(a) Explain the difference between the net present value and payback methods of investment appraisal.

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(b) Calculate:

(i) the payback period for Machine B

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(ii) the net present value for Machine A

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(iii) the average rate of return for both machines.

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(c) Advise Daniyar which machine he should purchase. Justify your decision.

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[Total: 25]

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