Cambridge A Level 9706 Syllabus

ACCOUNTING

TOPICAL PAPER 3

for Cambridge 2021 and onwards Exams

Questions with Mark Scheme

2016-2021 | All variants

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Content

Topic 1

Company Financial Statements

Accounting 9706 Topical Paper 3

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1 9706/33/M/J/16/Q3

ACM plc provided the following information about its non-current assets.

	Accumulated depreciation at 1 January 2015	Cost at 1 January 2015	Cost at 31 December 2015
	$	$	$
Property	17 000	200 000	200 000
Plant and machinery	210 000	258 000	310 000
Delivery vans	10 000	23 000	23 000

Additional information

1 Half of the value of property relates to land. Property is depreciated at the rate of 1% per annum using the straight-line method.

2 Plant and machinery is depreciated at the rate of 10% per annum using the straight-line method. A full year's depreciation is provided in the year of purchase and none in the year of disposal.

On 1 June 2015 a machine, bought on 10 July 2007, was sold for $17 800. This resulted in a profit on disposal of $13 000.

3 The delivery vans are depreciated at the rate of 25% per annum on the reducing balance basis.

REQUIRED

(a) Prepare the disposal of machinery account for the year ended 31 December 2015. [6]

(b) Prepare the non-current assets schedule for inclusion in the published financial statements of the company for the year ended 31 December 2015 in accordance with International Accounting Standards. [8]

(c) Explain why a business depreciates its non-current assets. [3]

Additional information

The Return on Capital Employed (ROCE) of the company was 9.81%. This was lower than the industry average and the directors wished to find a way to increase it.

Some of the machinery was 10 years old at the start of January 2016 and it had become unreliable and unproductive. The marketing director suggested that it should be scrapped and replaced at a cost of $120 000, to be financed by the issue of 8% debentures. This would increase production. Annual sales and costs would be as follows:

	$
Revenue	62 000
Prime costs	39 000
Selling and distribution costs	3 000

He calculated that the return from the new machinery would be 62 000 / 120 000 or 51.67%, which, being higher than the existing 9.81%, would cause the Return on Capital Employed (ROCE) to increase.

REQUIRED

(d) Evaluate the marketing director's proposal. Support your answer with calculations. [8]

[Total: 25]

2 9706/32/F/M/17/Q1

XY Limited produces annual financial statements in accordance with International Accounting Standards. Its non-current assets consist of both tangible and intangible assets.

REQUIRED

(a) Define an intangible asset in accordance with IAS 38. [3]

Additional information

The following are the selected balances from the trial balance produced for the year ended 31 March 2016.

	$
Revenue	680 000
Purchases	378 000
Distribution costs	70 152
Administrative expenses	145 267
Inventories at 1 April 2015	117 257
Provision for doubtful debts	1 569
6% Debenture (2022)	150 000
Trade receivables	87 450
Trade payables	26 550

The directors of XY Limited also provided the following information:

1 The inventories at 31 March 2016 were valued at cost, $108 543. This included a batch of inventory which had been valued at its cost price of $50 000. It can now only be sold for $35 000.

2 The debenture was issued on 1 October 2015 and no interest has been paid at 31 March 2016.

3 The provision for doubtful debts is to be increased to 2% of trade receivables. The increase is to be split equally between distribution costs and administrative expenses.

4 There was an amount of $2480 outstanding for administrative expenses.

5 There was a prepayment of $3635 for distribution costs.

6 The tax charge for the year is estimated to be $12 385.

REQUIRED

(b) Prepare the income statement for XY Limited for the year ended 31 March 2016. [13]

[Total: 25]

Additional information

All of the company revenues and purchases are operated on a credit basis.
The company allows all of its customers 30 days' credit. The company is also allowed 30 days' credit by all of its suppliers.

REQUIRED

(c) Calculate the working capital cycle (in days). [4]

(d) Discuss whether or not the liquidity of XY Limited could be improved. Justify your answer. [5]

[Total: 25]

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3 9706/31/M/J/17/Q1

The following balances were extracted from the books of XY plc on 31 January 2017.

	$
Land and buildings - at cost	700 000
Equipment - at cost	320 000
Motor vehicles - at cost	230 000
Accumulated depreciation	
Land and buildings	100 000
Equipment	186 000
Motor vehicles	96 000
Ordinary shares of $5 each	500 000
Share premium	120 000
Retained earnings at 1 February 2016	125 000
Inventory at 1 February 2016	37 100
Trade receivables	102 000
8% Loan	150 000
Provision for doubtful debts	2 100
Revenue	985 000
Purchases	428 000
Administrative expenses	346 000
Distribution costs	144 000
Interim dividend paid	20 000

Additional information

1 Inventories at 31 January 2017 included 100 units of damaged items. These items, with a unit cost of $80, were all sold on 2 February 2017 for $65 each.
At 31 January 2017 all other inventories were valued at cost, $36 000, and had a net realisable value of $85 400.

2 The administrative expenses include an amount of $30 000 for a machine purchased on 1 February 2016. The machine has a useful life of three years and will then be scrapped with nil proceeds. Any costs related to the machine should be charged to the cost of sales.

3 The figure for land and buildings (at cost) includes land which had cost $300 000.

4 During the year, XY plc purchased a motor vehicle which cost $60 000. This was settled by a payment of $40 000 from the bank and the part exchange of an old vehicle. This old vehicle had originally cost $75 000 and had been depreciated by $27 000. Only the bank payment had been recorded in the books of account.

5 Depreciation is to be charged on the following basis:

Land	not depreciated
Buildings	straight-line method over 25 years, charged to cost of sales
Equipment	straight-line method over 5 years, charged to administrative expenses
Motor vehicles	reducing balance method at 20% per annum, charged to distribution costs.

The company policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

6 Trade receivables included an irrecoverable debt of $8800. A provision for doubtful debts of 4% is to be maintained. These items need to be included in administrative expenses.

7 The loan was obtained on 1 September 2016.

REQUIRED

(a) State **two** objectives of financial statements of a limited company. [2]

(b) Prepare the income statement for the year ended 31 January 2017. [15]

Additional information

In October 2016 XY plc made a bonus issue of 1 ordinary share for every 10 ordinary shares held. No entry had been made in the books of account.

REQUIRED

(c) Prepare the statement of changes in equity for the year ended 31 January 2017. (A total column is not required.) [4]

Additional information

The directors are considering making a further issue of bonus shares rather than paying a cash dividend.

REQUIRED

(d) Advise the directors which course of action they should take. Justify your answer. [4]

[Total: 25]

4 9706/32/O/N/17/Q2

FS plc's statement of financial position on 1 January 2016 showed the following:

	$000
Ordinary share capital (shares of $1 each)	1000
Share premium	300
General reserve	100
Retained earnings	220

During the year ended 31 December 2016 the following took place:

1. On 30 June 2016, an interim dividend of $55 000 was paid.
2. On 1 October 2016, an issue of 700 000 ordinary shares was made at $1.80 per share. All the funds raised from this share issue were used to buy a second factory on 7 January 2017.
3. On 1 November 2016, a bonus issue of shares was made with 3 new shares being issued for every 10 held. Reserves were maintained in their most flexible form.
4. For the year ended 31 December 2016, the company made a profit from operations of $288 000. Finance charges of $52 000 had been paid. The directors provided $41 000 for the tax liability for the year.
5. At 31 December 2016, $40 000 was transferred to general reserve and a final dividend of $75 000 was proposed.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 31 December 2016 (a total column is **not** required). [12]

(b) Explain how the proposed final dividend should be treated in the financial statements for the year ended 31 December 2016. [2]

(c) Explain the treatment in the financial statements for the year ended 31 December 2016 of the purchase of the second factory on 7 January 2017. [3]

Additional information

A shareholder at the Annual General Meeting said that the purchase of the new factory would cause non-current asset turnover to fall, with an adverse effect on shareholder confidence.

REQUIRED

(d) Advise the directors whether or not they should be concerned about the shareholder's comment. Justify your answer. [5]

(e) State how an upward revaluation of an existing non-current asset is recorded in the financial statements of a company. [3]

[Total: 25]

5 9706/33/O/N/17/Q4

W Limited has been trading for several years. The company is now in a position to expand operations and trade abroad. A new warehouse is required for this expansion, which will cost $550 000.

An extract from the statement of financial position at 31 March 2016 showed the following:

	$
Ordinary shares of $1 each	400 000
Revaluation reserve	150 000
Share premium	50 000
Retained earnings	350 000

REQUIRED

(a) Explain how share premium arises. [2]

Additional information

The directors believe that the purchase of the new warehouse can be financed by:

A rights issue of ordinary shares on the basis of one share for every share currently held and any remaining balance by an issue of a 5% debenture.

The directors expect that 60% of the ordinary shareholders will take up the rights issue of ordinary shares at $1.75 per share.

REQUIRED

(b) Calculate the amount of finance that will need to be raised by the issue of the debenture. [3]

Additional information

The following information is available for the year ended 31 March 2017:

On 1 October 2016

An interim dividend of $0.02 was paid on the ordinary shares held at that date.

On 1 January 2017

The company made the planned rights issue on the ordinary shares. These were taken up as expected. A 5% debenture was also issued.

On 31 March 2017

The profit from operations for the year was $245 000.
Finance charges were $70 000 excluding any debenture interest.
A taxation charge of 20% was to be provided.
A final dividend of $0.04 was proposed on **all** the ordinary shares held at that date.

REQUIRED

(c) **(i)** Prepare the statement of changes in equity for the year ended 31 March 2017 (total column is **not** required) [9]

(ii) Prepare any supporting note to the financial statements in respect of the proposed dividend. [2]

Additional information

Profits have been constant for a number of years.

At the Annual General Meeting, the directors were confident that following the expansion next year the ordinary shareholders will see an increase in dividends as profits for the year were expected to increase by 20%.

However, one of the ordinary shareholders expressed concerns that the Earnings Per Share would fall following the rights issue on 1 January 2017. He proposed that a further expansion planned for two years' time should be financed by a long-term loan instead.

REQUIRED

(d) Recommend whether the directors should finance the future expansion with loans or rights issues. Justify your choice using relevant calculations. [9]

[Total: 25]

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6 **9706/31/IN/M/J/18/Q2**

The directors of D plc are preparing the end of year financial statements including the notes to the accounts.

The following information is available at 1 January 2017:

	$
Ordinary share capital (shares of $2 each)	2 000 000
Share premium	300 000
Revaluation reserve	400 000
General reserve	100 000
Retained earnings	1 500 000

During the year ended 31 December 2017 the following took place:

1 On 1 June an interim dividend of $0.20 per ordinary share was paid.

2 On 1 October an issue of 500 000 ordinary shares was made at $2.40 per share to raise money to purchase an additional factory.

3 On 1 November there was a rights issue of 2 shares for every 5 currently held at $2.25. The rights issue was necessary to fund the unexpected costs on the purchase of the factory. The issue was fully subscribed.

4 On 1 December there was a bonus issue of 4 shares for every 10 held on that date. The reserves were maintained in their most flexible form.

On 31 December 2017 the finance director informed the other directors that:

1 The profit from operations for the year was $520 000.

2 Finance charges of $64 000 had been paid during the year.

3 The end of year tax liability on profits had been calculated as $93 000.

4 There had been a transfer to the general reserve of $47 000.

5 A final dividend of $0.10 per ordinary share had been proposed.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) State **three** uses of the notes to the accounts within the financial statements. [3]

(b) Prepare the statement of changes in equity for the year ended 31 December 2017. A total column is **not** required. [15]

Additional information

After the share issues there was a decrease in the market price of one ordinary share to $2.10. One of the shareholders at the Annual General Meeting (AGM) stated that instead of the share issues the directors should have carried out the following:

1 Financed the purchase of the new factory through a loan of $2 200 000 repayable over 5 years with total interest payable of $68 000.

2 Paid the shareholders an extra $0.50 per share in their final dividend rather than a bonus issue of shares.

(c) Advise whether or not the directors acted in the best interests of the shareholders. Justify your answer with relevant calculations. [7]

[Total: 25]

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7 9706/31/IN/O/N/18/Q3

The external auditor of Z Limited has raised some issues relating to the non-current assets.

Information relating to the company's non-current assets at 30 June 2017 and 30 June 2016 is as follows:

	30 June 2017	30 June 2016
	$	$
Non-current assets		
Cost		
Land and buildings	2 400 000	2 400 000
Plant and machinery	540 000	420 000
Motor vehicles	320 000	240 000
Accumulated depreciation		
Land and buildings	192 000	160 000
Plant and machinery	264 000	195 000
Motor vehicles	184 000	150 000

The following additional information was available.

1 Land and buildings represent the company's office premises. One-third of the value is attributable to buildings and two-thirds to land.
On 1 July 2016 land and buildings were revalued at $2 700 000. No accounting entries to record this had been made.

2 A new motor vehicle was purchased for $110 000. This was paid for with a cheque for $80 000 and the part-exchange of an old motor vehicle. The old vehicle had cost $75 000 and had been depreciated by $27 000. The cheque payment had been recorded in the bank account and motor vehicle at cost account.

There were no other purchases or disposals of motor vehicles during the year.

3 A customer who owed $23 500 was unable to pay. The directors have agreed to take over one of the customer's machines at the value of $20 000 in full settlement of the debt. The machine was received on 15 May 2017. No record had been made of this arrangement.

4 Depreciation has been charged as follows and included as an expense when calculating the draft profit for the year.

Land	Nil
Buildings	4% per annum on cost
Plant and machinery	20% per annum using reducing balance method
Motor vehicles	20% per annum using reducing balance method

A full year's depreciation is charged in the year of purchase and no depreciation in the year of disposal.

The draft profit for the year ended 30 June 2017 was $95 000.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

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

(i) shareholders [2]

(ii) potential investors [2]

(iii) bank. [2]

(b) Prepare a statement to calculate the adjusted profit for year ended 30 June 2017, taking into account additional information 1 to 4. [9]

(c) Prepare the **motor vehicles column** of the non-current assets schedule as shown in the note to the financial statements for the year ended 30 June 2017. [6]

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). [4]

[Total: 25]

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8 **9706/32/IN/O/N/18/Q2**

R plc has the year end of 30 September.

The directors have provided the following information before preparing the financial statements.

1 For the year ended 30 September 2017

	$
Administrative expenses	397 500
Carriage inwards	6 320
Carriage outwards	8 650
Distribution costs	156 850
Inventory at 1 October 2016	426 750
Provision for doubtful debts at 1 October 2016	12 150
Purchases	2 150 000
Returns inwards	24 200
Returns outwards	19 750
Sales revenue	3 832 500
Trade receivables	630 000

2 Inventory was valued at cost of $462 350 on 30 September 2017. This included inventory costing $85 000. This can now only be sold for $33 500.

3 The provision for doubtful debts was to remain at 2% of trade receivables. Any change in the provision is to be treated as an administrative expense.

4 A bank loan of $600 000 was taken on 1 May 2017. The agreed fixed rate of interest payable on the loan was 4% per annum. No capital repayments will be made on the loan for 5 years.

5 The taxation charge for the year was $162 600.

6 All sales are made on credit.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain what is meant by a 'non-adjusting event'. [2]

(b) Prepare the income statement for the year ended 30 September 2017. [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. [3]

(d) **(i)** Calculate the trade receivables collection period for **both** years. [2]

(ii) Advise the directors whether or not their present credit control procedures are satisfactory. Justify your answer. [5]

[Total: 25]

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9 **9706/33/IN/O/N/18/Q4**

AH Limited has produced its trial balance for the year ended 30 September 2017.

Trial Balance at 30 September 2017

	$	$
Sales revenue		558 000
Purchases	352 000	
Inventory at 1 October 2016	27 000	
Sales staff salaries	64 000	
Administrative staff salaries	27 000	
Carriage inwards	4 000	
Administrative expenses	18 000	
Interest on debentures	1 000	
Interim dividend paid	4 000	
Freehold land at cost	250 000	
Vehicles at cost	68 000	
Office machinery at cost	10 000	
Provision for depreciation on:		
Vehicles		18 000
Office machinery		2 000
Trade receivables	34 000	
Trade payables		29 000
Cash and cash equivalents	36 000	
Ordinary share capital ($1 each)		200 000
5% Debentures (2023 – 2025)		40 000
General reserve		20 000
Retained earnings		28 000
	895 000	895 000

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Explain the difference between a bonus issue and a rights issue of shares. [3]

Additional information

The following information is also available:

1 Inventory at 30 September 2017 was $24 000.

2 Depreciation is to be charged as follows:

office machinery at 10% on cost
vehicles at 20% on the net book value.

3 The debentures were issued on 1 April 2017.

4 On 30 September 2017 an additional 20 000 shares were issued at $1.20 each. These shares had not been entered in the books of account.

5 At 30 September 2017 the directors transferred $5000 to general reserve and decided to recommend a final dividend of $0.05 per share on shares held on that date. The transfer to general reserve has not yet been recorded.

(b) Calculate the profit for the year ended 30 September 2017. [7]

(c) Prepare the statement of changes in equity at 30 September 2017 (a total column is **not** required). [8]

(d) Prepare the statement of financial position at 30 September 2017. [7]

[Total: 25]

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10 9706/31/M/J/19/Q1

The directors of K Limited have provided the following information at 31 December 2018.

	$	
Land and building		
cost	400 000	
accumulated depreciation at 1 January 2018	40 000	
Plant and machinery		
cost	248 000	
accumulated depreciation at 1 January 2018	121 600	
Motor vehicles		
cost	153 000	
accumulated depreciation at 1 January 2018	84 800	
Trade receivables	126 000	
Other receivables	12 500	
Cash and cash equivalents	80 300	debit
Trade payables	108 000	
Other payables	13 200	
Ordinary shares of $1 each	500 000	
Retained earnings at 1 January 2018	94 300	
Draft profit for the year	152 000	

The following **items** have **not** been taken into account:

1 Administrative expenses include a payment of $7500 for insurance which covers the period from 1 December 2018 to 31 May 2019.

2 Inventory at 31 December 2018 was valued at cost $94 100.

3 Trade receivables include $2000 for a customer who has gone bankrupt. The directors are also of the opinion that a 3% provision for doubtful debts should be created.

4 Land, with the original cost of $150 000, was revalued to $240 000 on 31 December 2018.

5 On 28 December 2018, a new motor vehicle was purchased at a cost of $25 000. An old motor vehicle was part-exchanged for $13 000. This had cost $20 000 and had been depreciated by $9760. The balance of the purchase price was paid on 31 January 2019.

6 Depreciation for the year ended 31 December 2018 has not been provided. Annual depreciation is to be charged on the following basis:

Land	Nil
Building	25 years using the straight-line method
Plant and machinery	10% using the straight-line method
Motor vehicles	20% using the reducing balance method

A full year's depreciation is charged in the year of purchase, but no depreciation is charged in the year of disposal.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Identify the accounting concept to be applied in respect of:

(i) item 1 [1]

(ii) item 2. [1]

(b) Prepare a statement showing the revised profit for the year ended 31 December 2018. [9]

(c) Calculate the net book value of motor vehicles at 31 December 2018. [4]

(d) Prepare the statement of financial position at 31 December 2018. [10]

[Total: 25]

11 9706/32/O/N/19/Q1

The directors of Z Limited have produced a draft income statement for the year ended 30 June 2019. The following remaining balances have been extracted from the books of account.

	Debit $	Credit $
8% Debentures (2021–2022)		250 000
Cash and cash equivalents	116 300	
Freehold property at valuation	525 000	
Inventory at 30 June 2019	69 000	
Plant and machinery at cost	386 800	
Plant and machinery accumulated depreciation		200 500
Ordinary shares of $1 each		500 000
Motor vehicles at cost	240 000	
Motor vehicles accumulated depreciation		147 000
Retained earnings		46 000
Revaluation reserve		165 000
Share premium		50 000
Trade and other payables		64 800
Trade and other receivables	86 200	
	1 423 300	1 423 300

During the year ended 30 June 2019, the following transactions had occurred in respect of non-current assets.

1 New machinery had been purchased at a cost of $43 000.

2 Machinery that had originally cost $2200, which had been fully depreciated, was scrapped. No sales proceeds were received.

3 A new motor vehicle had been purchased at a total cost of $36 000. The cost had been settled by the payment of $20 800 by cheque and the part-exchange of an old motor vehicle. The part-exchange motor vehicle had originally cost $24 000 and at the date of sale had been depreciated by $10 000.

4 The freehold property had been revalued from its original cost of $360 000.

5 Depreciation charged during the year ended 30 June 2019 was as follows.

Freehold property	Nil
Plant and machinery	$20 700
Motor vehicles	$59 000

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate the cost, accumulated depreciation and the net book value for each class of non-current asset at **30 June 2018**.

	Cost $	Accumulated depreciation $	Net book value $
Freehold property			
Plant and machinery			
Motor vehicles			

[7]

Additional information

The directors have decided that the following adjustments should be made to the financial statements for the year ended 30 June 2019 before they are finalised.

1 Irrecoverable debts of $18 000 should be written off.

2 Prepaid expenses amounted to $25 000.

3 The value of closing inventory should be increased by $6000.

(b) Prepare a statement of financial position for Z Limited at 30 June 2019. [8]

(c) Explain the factors that should be considered before deciding which method to use when depreciating a non-current asset. [4]

Additional information

The directors of Z Limited wish to raise $1 million for expansion. They are considering the following two ways of raising the necessary finance.

1 Issue a further 8% debenture (2025–2027) for the full amount of funds required; or

2 Make an offer of a rights issue at a premium of $0.50 per share.

(d) Advise the directors which method of raising the finance they should use. Use any ratios as appropriate to support your answer. [6]

[Total: 25]

12 7110/31/O/N/20/Q2

PL plc is a trading company. A trainee in the finance department made a start on preparing the financial statements for the year ended 31 December 2019. He produced the following statement, **which contains errors**.

Statement of changes in equity for the year ended 31 December 2019

	Ordinary share capital ($1 shares)	Retained earnings	Bank loans
	$	$	$
Balance at 1 January 2019	250 000	76 000	80 000
Issue of new ordinary shares at $2.50 each	150 000		
Dividend paid	(20 000)		
1 for 10 bonus issue of ordinary shares	(31 000)	31 000	
New five-year bank loan received			25 000
Profit from operations for the year		63 000	
Loan interest paid			(12 000)
Balance at 31 December 2019	349 000	170 000	93 000

In addition to the obvious errors, the following had not been considered.

1 At the end of the year, the premises had been revalued from $100 000 to $195 000.

2 A general reserve had been created, $30 000.

3 Accrued interest had amounted to $3000 on 1 January 2019 and $5000 on 31 December 2019.

The following information was also available.

1 Trade payables at the year end were $67 000.

2 It is the policy of the company to keep its reserves in the most flexible form.

3 Of the original bank loan, $20 000 is due to be repaid during 2020, with the remainder due in the following years.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the profit for the year ended 31 December 2019. [3]

(b) Prepare the **correct** equity and liabilities section of the **statement of financial position** at 31 December 2019. [16]

Additional information

The financial statements of PL plc also contain a value for goodwill.

(c) Explain the event which has taken place and caused the company to record the value for goodwill. [2]

(d) State **two** other reasons why goodwill might arise. [2]

(e) Explain what is meant by the term ‘audit’. [2]

[Total: 25]

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13 9706/32/M/J/21/Q2

The accounting year of Y Limited ends on 31 December.

For the year ended 31 December 2019, Y Limited had revenue of $806 400 and a non-current asset turnover of 2.10 times.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) (i) State how non-current asset turnover is calculated. [1]

(ii) Explain why a company may want to know this ratio. [2]

(b) Calculate the total net book value of non-current assets of Y Limited at 31 December 2019. [1]

Additional information

Y Limited classifies non-current assets into three categories. The accumulated depreciation at 31 December 2019 for each category was:

	$
Property	128 000
Plant and equipment	168 800
Furniture and fixtures	101 200

The net book values of the three categories at 31 December 2019 were in the proportion of 5 : 3 : 2.

The following information relates to the accounting year ended 31 December 2020.

1 On 1 January 2020, the property was revalued at $360 000.
2 On 1 March 2020, office furniture was purchased at the cost of $25 000.

3 On 1 July 2020, an item of old equipment was part exchanged for a new item. Y Limited paid cash, $34 000, as a part payment for the new item. The old item had an original cost of $35 000 and was fully depreciated. Its part exchange value was $8000.

4 A full year's depreciation is charged in the year of purchase and none in the year of sale.

5 Non-current assets are depreciated as follows:

Property	Straight-line method over 20 years
Plant and equipment	20% per annum reducing balance method
Furniture and fixtures	20% per annum straight-line method

(c) Prepare the non-current assets schedule to use as a note to the financial statements for the year ended 31 December 2020. [14]

Additional information

The directors plan to buy new motor vehicles in 2021.

(d) Explain to the directors why they need to depreciate motor vehicles. [3]

(e) Explain to the directors the impact on the profit of using **each** of the straight-line and the reducing balance method of depreciation. [4]

[Total: 25]

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14 9706/34/M/J/21/Q2

NT plc had the following balances on 1 January 2020.

	$
Ordinary share capital ($1 shares)	400 000
Share premium	90 000
General reserve	20 000
Retained earnings	421 000
Bank overdraft	62 000
Trade payables	108 000

During the year ended 31 December 2020 the following took place.

March 1	Paid the final dividend for 2019, $0.10 per share.
May 28	Made a 1 for 8 rights issue of ordinary shares at $2.10 per share. The rights issue was fully subscribed and all shares were fully paid.
June 30	Revalued the premises upwards from $105 000 to $375 000.
July 1	Issued an 8% debenture, $200 000, to be repaid in 2031. The funds raised enabled the company to repay the bank overdraft. Interest paid on the overdraft in the first six months of the year amounted to $7000. No debenture interest had been paid.
July 5	Paid an interim dividend of $0.05 for each share held at the start of the year.
December 31	Transferred $30 000 to the general reserve.

The following information is also available.

1 The balance on the retained earnings account on 31 December 2020 was $505 000.

2 Trade payables increased by $9000 over the year.

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Prepare the equity and liabilities section of the **statement of financial position** at 31 December 2020. [10]

(b) Calculate for the year ended 31 December 2020:

(i) the profit for the year [4]

(ii) profit from operations. [3]

(c) Explain **two** accounting ratios for which the knowledge of the value of profit from operations is needed. [4]

Additional information

The directors have proposed a final dividend for 2020 to be paid on 1 March 2021.

(d) State how the proposed dividend will affect:

(i) the books of account [2]

(ii) the financial statements. [2]

[Total: 25]

15 9706/32/O/N/21/Q1

LC plc provided the following summarised trial balance at 31 December 2020 after the draft gross profit had been calculated. Depreciation for the year had already been charged.

Summarised trial balance at 31 December 2020

	$	$
Gross profit		96 200
Inventory	6 212	
Administrative expenses	32 700	
Distribution costs	19 405	
Finance costs	4 410	
Final dividend (2019)	7 000	
Interim dividend (2020)	5 000	
Ordinary share capital ($1 shares)		100 000
Retained earnings		54 732
Long-term bank loan		50 000
Trade receivables	25 400	
Trade payables		16 200
Bank		11 200
Premises	200 000	
Provision for depreciation of premises		4 000
Fixtures and fittings	27 600	
Provision for depreciation of fixtures and fittings		5 520
Motor vehicles	18 000	
Provision for depreciation of motor vehicles		7 875
	345 727	345 727

Answer the following questions in the question paper. Questions are printed here for reference only.

(a) Calculate the draft profit for the year based on the trial balance figures. [1]

Additional information

The following took place on 31 December 2020 after the trial balance had been prepared.

1 The bank informed the company that its account was being debited with $120 in relation to a dishonoured cheque from a credit customer, and with $150 and $110 for bank charges and bank interest.

2 A bonus issue of 10 000 ordinary shares of $1 each was made.

3 It was decided to create a general reserve of $14 000.

4 The premises were revalued to $244 000. The fixtures and fittings and motor vehicles were deemed to have a recoverable amount of $22 300 and $9200 respectively.

5 It was decided to provide $5000 for compensation to customers arising from the use of damaged goods sold to them by the company.