

Candidate Name

Candidate Number

Centre Name

Centre Number

Paper 3: Accounting

Sample paper

(1 hour 30 minutes)

It is necessary to respond on the answer sheet provided alongside this question paper. Additionally, you must have a dark blue or black pen.

INSTRUCTIONS:

- You must write your name, candidate number, centre name and centre number on the answer sheet in the designated space.
- This paper consists of 3 sections and it is essential that you attempt all of them.
- It is important to follow the instructions provided on the answer sheet.
- Do not use correction fluid.
- Avoid writing on any bar codes.

INFORMATION:

- This paper has a total of 100 marks

Structured Questions:

Section A:

1. BlastOff has recently introduced an innovative sports mp3 player. Following transactions and events have been reported by the company related to december 2020:
 1. The company borrowed \$10,000,000 at an 8% per annum interest rate on December 1. The loan and all accrued interest is due in 4 months.
 2. BlastOff licensed their new product to Techno Roar, Inc. this allowed for an agreed royalty payment from the licensed company to BlastOff on the basis of their new product line's sales. \$80,000 is due as of December 31, after the agreement from Techno, upto date.
 3. BlastOff's employees are paid on hourly rates and as of december 31, there are 11,730 underpaid labour hours worked, with an hourly rate of \$35.
 4. BlastOff has estimated that the utilities used during December amount to \$50,000 and the bills will be received in January.

Solve:

- (a) Prepare the end-of-year adjusting entries needed at December 31.
- (b) Explain the purpose of financial accounting.
- (c) Analyze the phases of the audit process.

2. Evaluate the following information:

1. Company A had a beginning account receivable of \$15,000. Cash basis revenues of \$300,000 was reported by the company. Ending accounts receivable amounted to \$35,000.
2. \$40,000 of supplies were purchased by company B. During the period, supplies at hand decreased by \$9,000.
3. Company C started the year with no prepaid rent and ended it with \$1,000 prepaid rent. On a cash basis, rent expense was \$25,000.
4. Company purchased and expensed an item of equipment for \$30,000 at the beginning of the year. The life of the equipment is three years.
5. At the start of the year, no wages were payable. Company E paid \$280,000 in wages during the year, and an additional \$250,000 was owed at the end of year.

Solve:

- (a) Determine the correct amount to report on the income statement for each of the items, using accrual basis of accounting for reference period of time.
- (b) Analyze features of revenue and income.
- (c) Assess the purpose of income statements.

3. Consider the following scenarios:
1. A one year insurance policy of \$3,000 was purchased on July 1, 2019.
 2. Unearned revenue of \$50,000 was collected on September 1, 2019. 30% of this amount was earned by the end of year.

Solve:

- (a) Prepare initial journal entries, assuming use of balance sheet and income statement.
- (b) Prepare end of year adjusting entries, assuming use of balance sheet and income statement.

Section B:

1. Work Pvt. Ltd is a newcomer in a small manufacturing firm of formal and casual wear. The Finance Manager has to decide the accounting method for maintaining books of Account in a factory. Manager has decided to follow the Cost Accounting for maintaining factory A/c or Manufacturing A/c. Cost Accounting includes detailed & relevant cost figures of closing stock, raw material, work-in-progress and finished goods. These helped him to avoid material wastages, use of obsolete machinery, poor planning, etc. They reevaluated material, labour and overhead expenses, and started discussing day-to-day operations of business. A cost reduction programme combined with operational research and value analysis were also introduced to the firm:

Solve:

- (a) Explain the role of cost accounting in determining the selling price of firm.
- (b) Explain the advantages gained by the firm after implementation of cost accounting.
- (c) Analyse the interrelation of cost accounting with the preparation of a financial statement.

2. A contractor has to supply 9,000 paper cones per day to a Textile unit. After starting the production run, he finds that he can produce 24000 paper cones per day. The cost of holding a paper cone in stock for one year is \$2 and setup cost of production run is 50 cents. Working days of the factory are 290 per year.

Solve:

- (a) Assess the case if he runs a factory for all 365 days of the year.
- (b) Explain the causes of variances within standard costing.
- (c) Explain limitations of standard costing method.

Section C:

1. BH is currently preparing the production budget for Product A and the material purchase budget for material B for the forthcoming year. Each unit of Product A requires 5 kgs of material B. The anticipated opening inventory for Product A is 6,000 units and the company wishes to increase the closing inventory by 40% by the end of the year. The anticipated opening inventory for material B is 60,000 kgs and in order to avoid stock outs, the required closing inventory has been increased to 70,000 kgs. The Sales Director has confirmed a sales requirement of 80,000 units of Product A.

Solve:

- (a) Assess how many units of Product A will need to be produced.
- (b) Evaluate the objective of investment appraisal.
- (c) Explain the advantages of budgeting.

2. Michael is the general manager of a concrete mixing and delivery facility located in Minneapolis. His firm buys the raw materials for concrete (i.e., sand, gravel, and cement), mixes the concrete according to customer specifications, and delivers the concrete to the job sites (including residential, industrial, and road construction sites). His cost accountant has observed that the real (inflation adjusted) average cost of production has declined as the business has grown, so the business may exhibit economies of scale. Michael confirms this observation with a market analyst who studies the construction industry.

Solve:

- (a) Explain the implications this feature of Michael's cost structure has for the way he manages the business.
- (b) Assess the impact of ethical behavior on accounting.
- (c) Explore the significance of management accounting.