UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/31**

Paper 3 Multiple Choice **May/June 2010**

1 hour

Additional Materials: Multiple Choice Answer Key
Soft clean eraser
Soft pencil (type B or HB is recommended)

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READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.
Calculators may be used.

IB10 06_9706_31/7RP

UNIVERSITY *of* CAMBRIDGE
International Examinations

1 Which increases the net cash inflow from operating activities?

A increase in inventory (stock)

B increase in trade payables (creditors)

C receipt of a bank loan

D sale of non-current (fixed) assets

2 The following information has been extracted from the accounts of a company.

	at 31 May	
	year 1 $	year 2 $
operating profit	700 000	880 000
depreciation	54 000	62 000
(loss) profit on disposal of non-current (fixed) assets	(8 000)	17 000
working capital (excluding cash and bank)	107 000	123 000

What is the cash flow from operating activities in the year ended 31 May, year 2?

A $909 000 **B** $941 000 **C** $943 000 **D** $975 000

3 A partnership has been dissolved and $15 000 is left in the bank.

How should this be distributed between the partners?

A according to the last agreed balances on their capital accounts

B according to the last agreed profit sharing ratio

C according to the last agreed total balances on their capital and current accounts

D equally

4 X and Y are equal partners. They agree to admit Z as an equal partner.

Z agrees to pay $33 000 for his share of the goodwill.

Goodwill is not to appear in the accounts.

The partnership offices are to be revalued at $60 000 more than their present book value.

What changes are needed in the partners' capital accounts to record these events?

	X $	Y $	Z $
A	+16 500	+16 500	−33 000
B	+30 000	+30 000	+33 000
C	+33 000	+33 000	+33 000
D	+46 500	+46 500	nil

5 When is a capital redemption reserve created?

A when a non-current asset is revalued

B when a redemption of shares is not covered by a new issue of shares

C when debentures are redeemed without a new issue of shares

D when the authorised share capital is increased

6 A company makes a 1-for-3 bonus issue of shares. The book value of its shareholders' funds immediately before the issue are as follows.

	$
ordinary share capital	300 000
share premium account	120 000
profit and loss account	100 000

The costs of the bonus issue are $10 000.

What will be the book value of shareholders funds after the bonus issue?

A $510 000 **B** $520 000 **C** $610 000 **D** $620 000

7 The table shows the assets and liabilities of a company.

	book value $000	market value $000
non-current (fixed) assets	60	70
current assets	50	45
goodwill	nil	15
	110	
share capital	40	
retained profits	40	
current liabilities	30	25
	110	

What would be the purchase price of the net assets of the company?

A $95 000 **B** $105 000 **C** $110 000 **D** $130 000

8 A company had the following capital and reserves.

	$
ordinary shares of $1 each	100 000
share premium	20 000
income statement (profit and loss account)	10 000

It purchased a business for $125 000 by means of

a cash payment of $50 000

a debenture loan of $15 000

an issue of 30 000 $1 ordinary shares at a premium of 100 %

What will be the shareholders' funds following the acquisition?

A $130 000 **B** $160 000 **C** $180 000 **D** $190 000

9 A business makes a profit for the financial year to 31 March 2010 of $100 000.

After the balance sheet date the following three events occurred:

an adjusting event of $40 000 profit

a non-adjusting event of $30 000 profit

a dividend declared of $20 000.

What is the adjusted profit?

A $140 000 **B** $160 000 **C** $170 000 **D** $190 000

10 A company is preparing its statement of changes in equity for the year ended 31 August.

The following information is available.

	$000
balance of retained earnings (profits) at start of year	350
net profit for the year	140
final dividend paid in respect of previous year	60
interim dividend paid	30
proposed final dividend for the current year	70
transfer to capital redemption reserve	100

What is the balance of retained earnings (profits) to transfer to the balance sheet at 31 August?

A $230 000 **B** $290 000 **C** $300 000 **D** $390 000

11 The financial statements of a company for the year to 30 June includes the following.

Income (profit and loss) account	$m
operating profits	109
interest payable	14
profit before tax	95
taxation	25
profit after tax	70
dividends paid	38
retained profit for year	32

Balance sheet	$m
ordinary shares ($0.50 each) in issue	150
income statement (profit and loss account)	160
shareholders funds	310

What are the earnings per share for the year?

A 22.6 cents **B** 23.3 cents **C** 31.7 cents **D** 46.7 cents

12 A company has an issued share capital of 50 000 $1 ordinary shares. Profits for distribution average $20 000 per annum. The expected rate of return on shares in similar companies is 25%.

What are the 50 000 shares worth?

A $32 500 **B** $50 000 **C** $62 500 **D** $80 000

13 The following investment information is available.

	$
earnings per share	0.35
dividend per share	0.21
market price per share	1.40
nominal value per share	1.00

What is the percentage return to an investor who buys a share?

A 15% **B** 21% **C** 25% **D** 35%

14 Which action will reduce the gearing of a company?

A bonus issue of ordinary shares

B issue of debentures

C purchase of own ordinary shares

D rights issue of ordinary shares

15 Which statement about the issue by a company of bonus shares is correct?

A They can be issued at a premium.

B They can be issued by using both capital and revenue reserves.

C They can only be issued from capital reserves.

D They can only be issued from revenue reserves.

16 A company calculated its gearing as loan capital plus bank and other borrowings as a percentage of total capital employed.

The table shows an extract from the company's balance sheet.

	\$m
ordinary shares (at \$1 nominal value)	29
reserves	43
debentures	48
bank overdraft (long term)	20

What is the gearing ratio?

A 48.6 % **B** 51.4 % **C** 94.4 % **D** 105.9 %

17 What should be included when valuing work in progress?

A direct materials + direct labour + indirect labour

B prime cost + all other overheads

C prime cost + production overheads based on actual level of activity

D prime cost + production overheads based on normal level of activity

18 In marginal costing, how can the total contribution from a given activity be calculated?

A total sales + total fixed costs

B total sales – total profit

C total fixed costs + total profit

D total direct costs – total profit

19 A product is sold for $100 per unit. Fixed costs are $90 000 and variable costs are 60 % of the selling price.

What is the break-even sales revenue?

A $36 000 **B** $90 000 **C** $150 000 **D** $225 000

20 The table contains information for the two products of a company.

product	X	Y
contribution per unit	$12	$9
machine hours required per unit	6	3
estimated sales demand (units)	200	200
required machine hours	1200	600
machine capacity limited to	1200 hours	

What is the maximum possible contribution?

A $2100 **B** $3000 **C** $3300 **D** $4200

21 What is an advantage of an effective budgetary control system?

A Managers spend a lot of their time in preparing budgets.

B Resources of an organisation are given their fullest and most economical use.

C The budget figures are not changed once they have been set, whatever happens during the trading year.

D The budget may be imposed from the top down by senior managers.

22 In order to prepare the budget figures for next year a company uses last year's actual figures and adds to it or subtracts from it to reflect changes.

What is this an example of?

A fixed budgeting

B flexible budgeting

C incremental budgeting

D zero based budgeting

23 A company currently uses a fixed budget. The details for the next trading period are as follows.

output in units	10 000	12 000
	$	$
direct materials	10 000	10 000
direct labour	4 000	4 000
semi variable overheads	3 000	3 000
fixed overheads	2 000	2 000
total	19 000	19 000

It now wishes to use a flexible budget.

Semi variable overheads are 50 % variable.

What will be the total flexible budgeted cost for 12 000 units?

A $19 300 **B** $22 100 **C** $22 400 **D** $22 500

24 Which variance measure changes in volume?

A labour efficiency

B labour rate

C material price

D sales price

25 Budgeted figures for a product are as follows.

production	5000 units
sales revenue	$45 000
variable costs	$20 000
overheads 10 % of selling price	

All units produced were sold.

What is the standard cost per unit?

A $4.00 **B** $4.40 **C** $4.90 **D** $5.00

26 Budgeted and actual results are as follows.

	budgeted	actual
labour hours per unit	100	120
labour rate per hour	$8	$9
materials usage per unit	100 kilos	80 kilos
materials price per unit	$5	$5

What is the total variance per unit manufactured?

A $80 adverse

B $80 favourable

C $180 adverse

D $180 favourable

27 A company makes a product with a standard material cost of $15, as follows.

		$
material P	3 kg @ $2 per kilo	6.00
material Z	6 kg @ $1.50 per kilo	9.00
		15.00

A production of 1200 units of product required the following.

			$
material P	3500 kg	cost	7 560
material Z	7500 kg	cost	10 500

What is the total material usage variance?

A $190 adverse

B $190 favourable

C $250 adverse

D $250 favourable

28 A machine costs $160 000 with an estimated residual value of $20 000 after four years. During each of the four years of its life the machine will earn cash inflows of $64 000 and incur cash outflows of $14 000. The machine is to be depreciated on a straight-line basis over its useful life.

What is the accounting rate of return for this machine based upon the average investment?

A 11.11 % **B** 14.29 % **C** 16.67 % **D** 21.43 %

29 A three year capital investment project costing \$80 000 generates the following net cash flows at the end of each year.

year	\$
1	50 000
2	40 000
3	40 000

The company's cost of capital is 20 %.

Discount factors for 20 % are as follows.

year	discount factor
1	0.833
2	0.694
3	0.578

What is the discounted payback period?

A 1.63 years **B** 1.75 years **C** 2.46 years **D** 2.75 years

30 A company has decided to lease a piece of equipment, paying \$8000 each year for 4 years. The first payment is to be made on receipt of the equipment.

The company's cost of capital is 10 % per annum.

The discount factors are as follows.

year	discount factors
0	1.000
1	0.909
2	0.826
3	0.751

What is the present value of the lease payments?

A \$19 890 **B** \$21 890 **C** \$27 890 **D** \$32 000