UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/03**

Paper 3 Multiple Choice **May/June 2008**

1 hour

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

0387004885

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.

This document consists of **11** printed pages and **1** blank page.

UNIVERSITY *of* CAMBRIDGE
International Examinations

1 The following information has been taken from a trader's accounts for the year ended 31 December.

	$
net profit	70 600
depreciation	20 100
loss on sale of fixed assets	1 900
increase in working capital	14 300

What is the net cash flow from operating activities?

A $38 100 **B** $74 500 **C** $78 300 **D** $103 100

2 The following extracts are taken from the financial statements of a company for the year to 30 September.

	year 1 $000	year 2 $000
operating profit before depreciation	1140	1220
depreciation for the year	80	110
stock	55	68
debtors	43	35
creditors	59	47

What is the operating cash flow for year 2?

A $1 203 000 **B** $1 213 000 **C** $1 237 000 **D** $1 313 000

3 A company redeems 1000 preference shares of $1.00 each at a premium of 10 %. The shares were originally issued at par and there is no share premium account.

How much will be charged to the profit and loss account?

A $100 **B** $900 **C** $1000 **D** $1100

4 The capital structure of a company is:

	$
$1 ordinary shares	40 000
convertible loan stock	20 000
share premium	10 000

The loan stock conversion is made on the basis of 1 new ordinary share for every $4 of convertible stock held.

What is the capital structure after the conversion?

	ordinary shares $	share premium $
A	40 000	30 000
B	45 000	25 000
C	50 000	20 000
D	60 000	10 000

5 A company's capital reduction scheme is as follows.

1 Reducing the $1.00 preference shares by $0.60.

2 Reducing the $1.00 ordinary shares to shares of $0.05.

The balance sheet of the company immediately before the approval of the scheme was:

	$
preference shares	100 000
ordinary shares	400 000
	500 000
net assets	500 000

What will be the issued share capital after the capital reduction?

A $20 000 **B** $60 000 **C** $80 000 **D** $260 000

6 A company's balance sheet shows the following:

	$
ordinary share capital	4 500
preference share capital	2 000
share premium account	500
profit and loss account	3 000
	10 000
net assets	10 000

The share premium account arose on the issue of the ordinary shares.

The preference shares are now to be redeemed at a premium of 20 %.

What will be the balance on the capital redemption reserve fund after this transaction?

A nil **B** $1900 **C** $2000 **D** $2400

7 A sole trader sold his business to a limited company on 31 March. The net assets of his business had a total book value of $160 000 and a total fair value of $200 000.

The consideration for the sale was satisfied by the issue of 200 000 $1 ordinary shares (worth $1.25 each) and a cash payment of $20 000.

What is the amount of goodwill arising on the transfer?

A $20 000 **B** $60 000 **C** $70 000 **D** $110 000

8 The business of a sole trader is acquired by a limited company.

net assets at valuation	$167 000
agreed purchase price	$137 000
cash paid in part settlement	$50 000
ordinary shares of $1 each	60 000

What is the premium per ordinary share?

A $0.45 **B** $0.95 **C** $1.28 **D** $1.78

9 A business has assets with a fair value of $150 000. There is agreed negative goodwill of $30 000. 16 000 ordinary shares of $2.00 each were issued at a premium of $3 each to acquire the net assets.

How much were the liabilities acquired?

A $40 000 **B** $70 000 **C** $80 000 **D** $100 000

10 A company's balance sheet at 31 December 2007 included the following

long term liabilities	$
loan (repayable on 30 June 2009)	120 000
8 % debentures (2007-2010)	70 000

The company intends to redeem half the debentures on 31 December 2009 and the remainder on 1 June 2010.

How should these liabilities be shown in the balance sheet at 31 December 2008?

	current liabilities		long term liabilities	
A	debentures	$35 000	loan debentures	$120 000 $35 000
B	debentures	$70 000	loan	$120 000
C	loan debentures	$120 000 $35 000	debentures	$35 000
D	–		loan debentures	$120 000 $35 000

11 A company has issued $1 000 000 of 8 % convertible loan stock, which the holder can convert in November 2010 into ordinary shares at a rate of one share for each $2.00 of loan stock held.

What is the correct presentation in the final accounts for the year ended 31 December 2007?

	balance sheet	$	profit and loss	$
A	long term loan	1 000 000	dividend	80 000
B	long term loan	1 000 000	loan interest	80 000
C	ordinary share capital	500 000	dividend	40 000
D	ordinary share capital	500 000	loan interest	40 000

12 A company makes annual profits of \$30 million before paying interest of \$6 million and ordinary dividends of \$10 million.

It has in issue 20 million shares of \$0.50 each, currently valued on the stock exchange at \$15 each.

What is the company's price-earnings ratio?

A 8.3 **B** 10.0 **C** 12.5 **D** 21.4

13 During a financial year, a business made cash sales of \$63 875 and credit sales of \$146 000.

Debtors pay every 40 days.

What is the total debtors at the end of the year?

A \$7000 **B** \$12 167 **C** \$16 000 **D** \$23 000

14 Which of the following shows the effect of a company raising a loan to buy fixed assets?

	asset use ratio	gearing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

15 A company wishes to reduce its gearing.

What will achieve this?

A a bonus issue of ordinary shares

B an issue of debentures

C an issue of convertible loan stock

D a rights issue of ordinary shares

16 A company's annual results are shown.

	$	$
net profit for the year		215 000
preference dividends	15 000	
ordinary dividends – interim paid	25 000	
– final approved	75 000	115 000
retained profit for the year		100 000

The final ordinary dividend has been approved by the shareholders, but for financial reasons will only be paid after one year.

What are the 'earnings' to be included in the earnings per share calculation?

A $100 000 **B** $175 000 **C** $200 000 **D** $215 000

17 A company wishes to present its financial statements in the most favourable light.

What will achieve this?

A first-in first-out stock valuation

B provision for bad debts

C revaluation of fixed assets

D window dressing

18 What is **not** a source of long-term finance?

A bank overdraft

B debentures

C ordinary shares

D preference shares

19 For what purpose might management undertake sensitivity analysis?

A to calculate employees´ bonuses

B to determine levels of depreciation

C to determine the effect of dividends on profit

D to determine the selling price of a product

20 The following information relates to the budgeted and actual sales of a product.

	budgeted	actual
sales volume in units	25 000	23 000
contribution per unit	$3	$4
fixed costs	$30 000	$30 000

Which change in the break-even point has been caused by the actual being different from the budgeted?

A 25 % better

B 25 % worse

C 75 % better

D 75 % worse

21 The table contains information provided by a company.

actual direct labour hours worked	7 500
budgeted direct labour hours	8 000
budgeted overhead expenditure	$104 000
overheads under-recovered	$15 000

What is the amount of the actual overhead expenditure?

A $89 000 **B** $97 500 **C** $112 500 **D** $119 000

22 The table shows budgets for the next production period.

costs	output 2000 units	output 4000 units
	$	$
direct materials	30 000	60 000
direct labour	48 000	96 000
production overhead	76 000	92 000
	154 000	248 000

What would be the budgeted production cost of 3000 units?

A $141 000 **B** $147 000 **C** $171 000 **D** $201 000

23 The table shows an annual budget for a company.

units produced	20 000
	$
direct material	80 000
direct labour	120 000
variable overheads (at 100 % of prime cost)	200 000
fixed costs	280 000
	680 000

As the actual production is only 16 000 units, the company produces a flexible budget.

What is the revised total budgeted cost?

A $320 000 **B** $560 000 **C** $600 000 **D** $640 000

24 A business using flexible budgeting shows:

output in units	120 000	80 000
total fixed and variable costs	$660 000	$500 000

What are the variable costs per unit?

A $1.50 **B** $2.25 **C** $3.00 **D** $4.00

25 The table shows information for the last three months' production for a company.

	budgeted	actual
total of manufacturing hours	240 000	270 000
hours to make one unit	3.0	2.7

The budgeted manufacturing costs for the three month period are $720 000.

What is the budgeted cost per unit?

A $3.00 **B** $7.20 **C** $8.00 **D** $9.00

26 Budgeted and actual results are:

	budgeted	actual
materials (kgs per unit)	24	26
materials (price per kg)	$12	$16
labour (hours per unit)	8	6
labour (rate per hour)	$25	$22

What is the total variance per unit manufactured?

A $60 adverse

B $72 adverse

C $86 adverse

D $120 adverse

27 The following data relates to production of a product for a month.

quantity produced (units)	610
actual kilos of material used	4350
standard kilos of material	4270
standard cost per kilo	$9
material price variance	$435 favourable

What was the actual cost of material used?

A $38 430 **B** $38 715 **C** $39 150 **D** $39 585

28 What would **not** be included in a net present value (NPV) capital investment appraisal?

A any expenditure incurred after the payback period

B depreciation of capital expenditure

C increase in working capital

D residual value of the capital cost

29 A company is considering investing in a project costing \$200 000.

Initial estimates show the project will earn a total net profit of \$100 000 over a five year period.

Following further investigation:

a further \$20 000 depreciation must be charged

other costs will reduce by \$10 000

What is the accounting rate of return?

A 14 % **B** 18 % **C** 22 % **D** 26 %

30 A company is considering buying equipment at a cost of \$80 000. This equipment will save \$40 000 per annum in operating costs over the next three years, after which it will have no scrap value.

Using the following discount factors, what is the net present value of the equipment?

year 0	1.000
year 1	0.909
year 2	0.826
year 3	0.751

A \$(10 600) **B** \$19 440 **C** \$40 000 **D** \$99 440

BLANK PAGE