UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

**ACCOUNTING** **9706/03**

Paper 3 Multiple Choice

May/June 2006

**1 hour**

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

**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.

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UNIVERSITY of CAMBRIDGE International Examinations

1 In cash flow analysis, which item is a cash inflow?

**A** a decrease in stock

**B** a bonus issue of shares

**C** a decrease in trade creditors

**D** an increase in debtors

2 A company issued 10 000 $10 ordinary shares at a price of $20 each.

A month after the issue, the company used $156 000 of the proceeds to repay an 8 % Loan Stock including six months' accrued interest due. The company prepared a cash flow statement just after repayment of the Loan Stock.

What amount of net cash inflow will appear under the heading 'Financing' in the cash flow statement?

**A** $38 000 **B** $44 000 **C** $50 000 **D** $56 000

3 Why would convertible loan stock be issued by a company?

**A** to obtain low-cost finance when equity market conditions are unfavourable

**B** to increase gearing on conversion

**C** to decrease the equity of the company at the issue date

**D** to increase the market value of the company's equity at the issue date

4 A company is considering redeeming its debentures at par at the start of its financial year.

What will be the effect on the company's profit and net current assets in the year of redemption?

| | profit | net current assets |
|---|---|---|
| **A** | decrease | decrease |
| **B** | decrease | increase |
| **C** | increase | decrease |
| **D** | increase | increase |

**5** The table shows details extracted from the Balance Sheet of a company.

| | $ |
|---|---|
| 6 % preference shares of $0.50 | 50 000 |
| Share Premium Account | 80 000 |
| Profit and Loss Account | 100 000 |

The preference shares were issued at par.

The company now wishes to purchase all of the shares from the present holders at $0.65 per share.

Which items will appear in the Balance Sheet following the purchase of the shares?

| | Share Premium Account $ | Capital Redemption Reserve $ | Profit and Loss Account $ |
|---|---|---|---|
| **A** | 65 000 | 50 000 | 50 000 |
| **B** | 65 000 | 50 000 | 100 000 |
| **C** | 80 000 | 65 000 | 35 000 |
| **D** | 80 000 | 50 000 | 35 000 |

**6** X Ltd has the following balance sheet summary:

| | $ |
|---|---|
| Fixed assets at net book value | 120 000 |
| Net current assets | 30 000 |
| | 150 000 |
| Financed by capital and reserves | 150 000 |

The fixed assets are valued at $180 000, the net current assets at $20 000. The business is acquired for $225 000.

What is the payment for Goodwill?

**A** $25 000 **B** $45 000 **C** $75 000 **D** $105 000

**7** A business is sold to a limited company. The net assets acquired have a total book value of $90 000 and are valued at $100 000. Goodwill is valued at $30 000. The purchase price is settled by an issue of ordinary $1.00 shares, valued at $1.25 each.

How many shares are issued?

**A** 80 000 **B** 96 000 **C** 104 000 **D** 130 000

8 A company's year end is 30 June 2005. On 27 July 2005 a major fire took place at the company's factory. On 8 August 2005 a major debtor at 30 June 2005 went into liquidation.

In accordance with *SSAP 17, Accounting for post balance sheet events,* how should the two events be treated in the financial statements?

| | fire | liquidation |
|---|---|---|
| **A** | accrued in accounts | accrued in accounts |
| **B** | accrued in accounts | disclosed in notes |
| **C** | disclosed in notes | accrued in accounts |
| **D** | disclosed in notes | disclosed in notes |

9 Which item is **not** required in the Report of Directors of a limited company?

**A** details of export sales

**B** future developments for the business

**C** the names of the directors

**D** the proposed dividend details

10 Which of these items must be disclosed, according to company law, in the notes to a Company's published Profit and Loss Account?

**A** a review of the company's activities for the year

**B** the remuneration of the auditors

**C** exceptional items

**D** details of research and development activities undertaken

11 Companies are required to include a statement of total recognised gains and losses within their published financial accounts.

The table shows information extracted from the financial statements of a company for the year ended 31 March 2005.

| | \$000 |
|---|---|
| premium received on the issue of shares | 150 |
| profit on ordinary activities after taxation | 600 |
| unrealised surplus on the revaluation of property | 280 |

What should the company show as the net gain for the year?

**A** \$730 000 **B** \$750 000 **C** \$880 000 **D** \$1 030 000

**12** The following data is available for a company:

| | $ million |
|---|---|
| $1 ordinary shares | 100 |
| $1 preference shares | 50 |
| net profit (before dividends) | 55 |
| ordinary dividend | 15 |
| preference dividend | 5 |

The market price of one ordinary share is $10.

What is the price / earnings (P / E) ratio?

**A** 18.2 **B** 20 **C** 25 **D** 28.6

**13** The following information relates to a company.

| | |
|---|---|
| profit after tax | $240 000 |
| dividend cover | 3 times |
| number of ordinary shares of $1 | 250 000 |
| market price of one ordinary share | $4 |

What is the dividend yield?

**A** 8 % **B** 24 % **C** 26 % **D** 32 %

**14** Which event reduces the interest cover?

**A** a decrease in dividend

**B** a decrease in interest rates

**C** an increase in dividend

**D** an increase in interest rates

**15** A company acquires the net assets of a business for which it issues $400 000 of ordinary shares. The business acquired has an overdraft of $100 000 but no long term debt.

What is the impact on the gearing and the net cash position of the company?

| | gearing | net cash |
|---|---|---|
| **A** | decreases | increases |
| **B** | decreases | decreases |
| **C** | increases | increases |
| **D** | increases | decreases |

**16** Which 'window dressing' technique (if permitted) could be used to improve a company's earnings per share figure?

**A** overstating the value of buildings by excessive revaluations

**B** incorrectly classifying short term loans as long term loans

**C** showing 'cash equivalents' as 'cash'

**D** failing to account for a material bad debt provision

**17** The table shows information from the Balance Sheets of two companies, X and Y.

| | X<br>$000 | Y<br>$000 |
|---|---|---|
| Ordinary Shares | 800 | 900 |
| 10% Debentures | 600 | 150 |
| Profit and Loss Account | 300 | 650 |

Which providers of finance would experience the greatest degree of risk in times of falling profits?

**A** debenture holders of company X

**B** debenture holders of company Y

**C** ordinary shareholders of company X

**D** ordinary shareholders of company Y

**18** Which method will increase company profits?

**A** accepting deposits for customers' orders

**B** decreasing rates of depreciation

**C** increasing the value of opening stocks

**D** writing down the value of closing stocks

**19** What could cause an over-absorption of overhead expenditure?

1. Units produced exceeding the budgeted production
2. Units produced being less than the budgeted production
3. Overhead expenditure being less than budget
4. Overhead expenditure exceeding budget

**A** 1 and 2 **B** 1 and 3 **C** 2 and 4 **D** 3 and 4

**20** A company is evaluating its plans to close a unit within its business. If closed, the employees at the unit would be redeployed elsewhere in the business. The costs associated with the closure are as follows:

| | $000 |
|---|---|
| net book value of unit assets (no resale value) | 35 |
| estimated direct cost of closure of the unit | 25 |
| existing fixed overheads apportioned to unit | 16 |
| wages of unit employees | 20 |

What is the relevant cost of closure of the unit?

**A** $25 000 **B** $41 000 **C** $61 000 **D** $96 000

**21** At the beginning of a given period the value of work-in-progress was $11 000.

The unit costs of production for the period were:

| | $ |
|---|---|
| direct materials | 5.00 |
| direct labour | 8.50 |

At the end of the period work-in-progress consisted of 700 units which were complete as to 80 % of materials and 50 % labour.

What was the change in the value of the work-in-progress during the period?

| | decrease $ | increase $ |
|---|---|---|
| **A** | 1550 | - |
| **B** | - | 1550 |
| **C** | 5225 | - |
| **D** | - | 5225 |

**22** A company makes three products for which details per unit are given.

| | product X | product Y | product Z |
|---|---|---|---|
| selling price | $18 | $35 | $50 |
| direct materials | $4 | $5 | $5 |
| direct labour hours | 0.5 | 2 | 2.5 |

The direct labour rate is $8.00 per hour. Direct labour hours are limited.

In which order should the products be ranked to achieve the maximum profit with the available labour hours?

| | first | next | last |
|---|---|---|---|
| **A** | X | Y | Z |
| **B** | Y | Z | X |
| **C** | Z | X | Y |
| **D** | X | Z | Y |

**23** Materials and labour are in plentiful supply and the following budgets are prepared.

1. cash
2. purchases
3. sales
4. overhead

In which order should the budgets be prepared?

**A** 1, 2, 3 and 4

**B** 2, 4, 1 and 3

**C** 3, 2, 4 and 1

**D** 4, 3, 2 and 1

**24** A cash budget is prepared for a new business.

The information available is as follows:

| | $ |
|---|---|
| capital introduced | 60 000 |
| goods sold in first month | 12 000 |
| loan from the bank | 20 000 |

25 % of sales constitute cash sales, with the balance payable over the following two months.

What are the total cash receipts in month one?

**A** $60 000 **B** $72 000 **C** $80 000 **D** $83 000

**25** Cedric plans to set up a business selling hamburgers. He prepares his daily budget as follows.

| | $ |
|---|---|
| selling price per hamburger | 5.00 |
| cost of raw materials | 1.00 |
| daily wages and cooking costs | 960.00 |
| depreciation of equipment | 100.00 |

What is his budgeted cash-based break-even volume each day?

**A** 192 **B** 212 **C** 240 **D** 265

**26** Which statement best describes the objectives of standard costing?

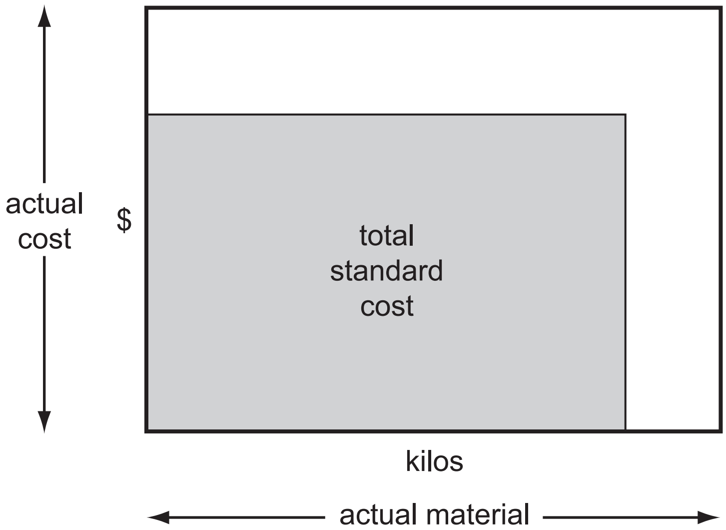
**A** It assists in budget preparation.

**B** It improves control on a ‘management by exception’ basis.

**C** It provides a prediction of future costs.

**D** All of the above.

**27** The shaded area in the diagram represents the standard material cost for a 2000 unit manufacturing run of Product X. The larger box represents the total material cost.




Which statement is true?

| | material price variance | material usage variance |
|---|---|---|
| **A** | adverse | adverse |
| **B** | adverse | favourable |
| **C** | favourable | adverse |
| **D** | favourable | favourable |

**28** During the year a company produces 10 000 units. The cost data relating to the production is shown.

| | actual cost | total variance |
|---|---|---|
| direct materials | $22 000 | ($2000) A |
| direct labour | $32 000 | $4000 F |

What was the standard prime cost per unit?

**A** $5.20 **B** $5.40 **C** $5.60 **D** $6.00

**29** Which Investment Appraisal technique includes depreciation in the calculation?

**A** accounting rate of return

**B** internal rate of return

**C** net present value

**D** payback

**30** A company can only invest $1 million in the current period. The table shows five projects.

| project | capital requirement (current period) $m | NPV $m |
|---|---|---|
| 1 | 1.2 | 5.0 |
| 2 | 1.0 | 2.5 |
| 3 | 0.6 | 1.5 |
| 4 | 0.4 | 1.2 |
| 5 | 0.4 | 1.0 |

Which project(s) should the company undertake to maximise its shareholders' wealth?

**A** 1 **B** 2 **C** 3 and 5 **D** 3 and 4

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