UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ACCOUNTING **9706/32**

Paper 3 Multiple Choice **October/November 2011**

1 hour

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

4158766340

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.

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UNIVERSITY *of* CAMBRIDGE
International Examinations

1 A partnership achieved an average profit during the year of $15 000 per month.

Halfway through the year X and Y were joined by a new partner Z and profits were shared equally before and after the change. X's drawings amounted to $60 000 during the year.

By how much would the current account balance of X increase as a result of the years trading?

A zero **B** $15 000 **C** $30 000 **D** $75 000

2 During the year a company issued one million ordinary shares at $1.20 per share. It repaid a debenture of $1 000 000 and assets costing $500 000 were purchased.

How will these transactions be recorded in the different sections of the company's statement of cash flow?

	financing $000	investment $000
A	+200	–500
B	–200	+500
C	+1200	–1500
D	–1200	+1500

3 A company has the following items in its statement of financial position.

	$
ordinary share capital, shares of $0.50 each	900 000
retained earnings	450 000
long-term bank loan	30 000

The company issues 100 000 bonus shares of $0.50 each to its shareholders.

What is the total amount of shareholders' funds after the issue of the bonus shares?

A $1 300 000 **B** $1 350 000 **C** $1 380 000 **D** $1 400 000

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 has the following summarised statement of financial position at 31 December.

	$
ordinary share capital ($1 shares)	500 000
share premium	100 000
retained earnings	150 000
	750 000

The company decides to purchase 50 000 of its own shares for $80 000.

What reflects the correct position after the purchase?

	share capital $	retained earnings $
A	420 000	70 000
B	420 000	100 000
C	450 000	70 000
D	450 000	100 000

6 The summarised statement of financial position of company A is as follows.

	$		$
assets	600 000	capital and reserves	460 000
		loan capital	140 000

Company Z agrees to buy the net assets of company A by means of issuing a debenture of $200 000 and 65 000 ordinary shares of $1 each for the balance of the consideration.

How much will company Z credit to its share premium account?

A $195 000 **B** $260 000 **C** $335 000 **D** $395 000

7 A company is to purchase an unincorporated business by the issue of 120 000 ordinary shares of $0.50, 10 000 $10 8 % debentures and by paying $20 000 cash. The current market value of the ordinary shares is $1.45 and the debentures are each trading at $95.

What is the total value of the consideration for the purchase?

A $180 000 **B** $240 000 **C** $269 000 **D** $289 000

8 X Ltd purchases the net assets of a partnership for a cash payment of $1 200 000.

The agreed values for the partnership at the date of acquisition were as follows.

	$000
non-current assets	2 000
current assets	600
current liabilities	400
non-current liabilities	800
capital accounts (credit)	1 700
current accounts (debit)	300

Which figure will appear for goodwill in X Ltd's book of account?

A $200 000 negative

B $200 000 positive

C $800 000 negative

D $800 000 positive

9 Which statements are true in relation to International Accounting Standards?

1 They assist investors to understand financial statements.

2 They enable the movement towards global harmonisation of accounting practice.

3 They ensure that errors and fraud are prevented.

4 They restrict the opportunity for creative accounting.

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

10 What would **not** appear in the income statement of a limited company?

1 finance costs

2 revenue

3 ordinary dividends paid

4 ordinary dividends payable

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

11 At the start of the year a company has plant and machinery valued at $20 000.

Depreciation policy is to depreciate plant and machinery at 25 % using the reducing balance method.

Following an impairment review the fair value of plant and machinery is $16 000 and its value in use is $25 000.

At which value should plant and machinery be shown in the year end statement of financial position?

A $15 000 **B** $16 000 **C** $20 000 **D** $25 000

12 A company's statement of financial position shows the following information.

	$000
ordinary shares of $10 each	120
7 % non-redeemable preference shares of $1 each	80
share premium account	50
general reserve	70
retained earnings	210
	530

What is the book value of one ordinary share?

A $27.50 **B** $37.50 **C** $44.20 **D** $53.00

13 A company makes annual profits of $50 million, before paying interest of $10 million and ordinary dividends of $20 million.

It has in issue 80 million ordinary shares of $0.50 each, with a current market value of $7 each.

What is the price-earnings ratio?

A 7 **B** 11.2 **C** 14 **D** 28

14 The issued share capital of a company is as follows.

500 000 4 % non-redeemable preference shares of $1.00 each

1 400 000 ordinary shares of $ 0.50 each

The company's profit after interest and tax is $314 000. An appropriate dividend cover for the ordinary shares is 2.0 times.

What is the dividend per ordinary share?

A $0.105 **B** $0.112 **C** $0.210 **D** $0.224

15 Which action will improve a company's quick ratio?

A collecting all outstanding debtors

B using cash at the bank to buy equipment

C using cash at the bank to pay creditors

D using cash at the bank to repay a loan

16 Which two changes would result in a reduction in a company's working capital cycle?

1 increase trade payables; reduce trade receivables

2 increase trade receivables; reduce trade payables

3 reduce inventory; increase trade payables

4 reduce trade payables; increase inventory

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

17 A company revalues its buildings upwards.

What is the impact on the following ratios?

	gearing	return on capital employed
A	decrease	decrease
B	decrease	no effect
C	increase	decrease
D	no effect	increase

18 Which effect will a bonus issue of shares have on a company's gearing ratio and earnings per share?

	gearing	earnings per share
A	no effect	increase
B	increase	decrease
C	decrease	increase
D	no effect	decrease

19 A particular cost is classified as fixed.

Which effect will a 20 % increase in activity have on the unit cost?

A decrease by 20 %

B decrease by less than 20 %

C increase by 20 %

D increase by more than 20 %

20 A company budgets to produce 110 000 units. Market research shows that the demand for the product will be for 90 000 units.

The information below shows the resources required for the budgeted production, and the resources available.

	resources required per unit	resources available
material	3.0	335 000 kilos
direct labour hours	2.5	300 000 hours
machine hours	0.5	110 000 machine hours

What is the principal limiting factor in this case?

A direct labour

B machine hours

C material

D sales

21 In July, a business had opening inventory of 10 000 units and closing inventory of 16 000 units.

The profit calculated on marginal costing principles was $220 000 and that calculated on absorption costing principles was $268 000.

What was the fixed overhead absorption rate per unit?

A $8.00 **B** $13.75 **C** $16.75 **D** $22.00

22 The following data is taken from a business.

budgeted labour hours	16 000
actual labour hours	13 000
budgeted overheads	$192 000
actual overheads	$188 500

What is the amount of overhead under-absorbed?

A $3500 **B** $32 500 **C** $36 000 **D** $43 500

23 A process has an input of 12 000 kg at a cost of $236 400. Normal wastage is 10 % of input, and this is sold for $8 per kg.

What is the cost per kg of output from the process?

A $18.90 **B** $19.70 **C** $21.00 **D** $21.89

24 A company has the following production and sales budget for the next accounting period.

budgeted sales units	200
raw material per unit	2 kg
opening inventory of raw materials	20 kg
budgeted closing inventory of raw materials	25 kg

There is no opening or closing inventory of finished goods.

How many kilos of raw material must it purchase to achieve its production budget?

A 195 **B** 205 **C** 395 **D** 405

25 The information below shows an annual budget for production of 10 000 units.

	$
direct materials	60 000
direct labour	35 000
direct expenses	12 000
fixed costs	70 000
total cost	177 000

The actual production is 12 000 units and the company decides to flex its budget.

What is the revised total budgeted cost?

A $147 500 **B** $184 000 **C** $198 400 **D** $212 400

26 Budgeted and actual sales of a product are shown below.

	budget	actual
sales in units	3000	2800
selling price per unit	$25	?
sales revenue	$75 000	$67 200

What is the sales price variance?

A $2800 adverse

B $2800 favourable

C $3000 adverse

D $3000 favourable

27 A company has the following sales data.

details	$
total actual sales	50 000
sales volume variance	(6000) adverse
sales price variance	1000 favourable

What were the budgeted sales for the month?

A $43 000 **B** $45 000 **C** $55 000 **D** $57 000

28 Budgeted and actual results are as shown.

	budgeted	actual
materials usage per unit	8 kilos	11 kilo
materials price per unit	$14	$16
labour hours per unit	6	5
labour rate per hour	$20	$21

What is the total variance per unit manufactured?

A $22.00 adverse

B $22.00 favourable

C $49.00 adverse

D $49.00 favourable

29 A company is considering investing in a project costing $300 000. Estimates show the project will earn a cash surplus of $120 000 over a five-year period. As a result of the investment depreciation will increase by $6000 per annum.

What is the accounting rate of return?

A 6% **B** 8% **C** 12% **D** 16%

30 A company is operating under a capital rationing constraint.

How should it rank possible investments in order to achieve the highest possible overall net present value?

A by their internal rates of return

B by their investment costs

C by their net present values

D by their profitability indexes

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