UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/03**

Paper 3 Multiple Choice **October/November 2008**

1 hour

Additional Materials: Multiple Choice Answer Sheet
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.

This document consists of **12** printed pages.

1 Which heading in a company's cash flow statement would include an investment of surplus funds for six months?

A capital expenditure and financial investment

B financing

C management of liquid resources

D returns on investment and servicing of finance

2 Extracts from the balance sheets of a company show:

	at 30 September year 1 $	at 30 September year 2 $
net assets	16 000	24 000
financed by:		
issued share capital	10 000	15 000
share premium account	–	2 500
revaluation reserve	500	800
profit and loss account	3 500	4 200
debentures	2 000	1 500
	16 000	24 000

What is the net cash movement from 'Financing' for the year ended 30 September year 2?

A $7000 **B** $7300 **C** $7500 **D** $8000

3 A company has issued $1 000 000 of 6 % convertible loan stock.

80 % of holders converted at the rate of 48 ordinary shares of $0.25 each for each $100 of convertible loan stock.

How many new ordinary shares were issued?

A 384 000 shares

B 400 000 shares

C 480 000 shares

D 800 000 shares

4 A balance sheet extract shows:

	$
ordinary shares of $1 each	1000
10 % convertible loan stock	400
profit and loss account	140 (dr)
assets	1800
liabilities	540

All the loan stock is to be converted to ordinary shares in the proportion of $1 loan stock to one new ordinary share.

After the conversion, what will be the net asset value per share?

A $0.80 **B** $0.90 **C** $1.00 **D** $1.29

5 A public company has the following summarised balance sheet at 31 December.

	$
net assets	750 000
ordinary share capital ($1 shares)	500 000
share premium	100 000
profit and loss	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 re-purchase?

	share capital $	profit and loss account $
A	450 000	100 000
B	450 000	70 000
C	420 000	100 000
D	420 000	70 000

6 A company purchases the business of a sole trader for $100 000.

The purchase consideration involved is:

1 The issue of 60 000 ordinary shares of $1 each in the company at $1.40 each.

2 The issue of $5000 debenture stock at par in the company.

3 The balance of the purchase price in cash.

What is the amount of cash to be paid?

A $11 000 **B** $16 000 **C** $35 000 **D** $40 000

7 A company has just acquired a business in exchange for 1 million ordinary shares of $1.00 each (market value $1.50 each). The business had net assets of $0.5 million (fair value $0.7 million) at the date of acquisition.

How much is the goodwill on acquisition?

A $300 000 **B** $500 000 **C** $800 000 **D** $1 000 000

8 The fair value of the net assets of a business is $300 000. The business is acquired as a going concern by a company for $275 000.

Which term is used to describe the difference between the valuation of the net assets and the purchase price?

A badwill

B inherent goodwill

C negative goodwill

D purchased goodwill

9 A company's balance sheet appears as follows.

	$		$
assets	750 000	capital and reserves	600 000
		loans	150 000

Company X agrees to buy all the assets of this company at net book value. The consideration is the issue of a debenture of $200 000 plus 36 000 $5 ordinary shares for the balance.

How much will Company X credit to its share premium account?

A $180 000 **B** $220 000 **C** $370 000 **D** $380 000

10 A company buys a business by issuing shares in full payment. The shares have a par value of \$1.00 each and an agreed market value of \$2.50 each. The assets and liabilities of the business together with the agreed values are as follows.

	net book value \$	agreed valuation \$
plant and machinery	15 000	22 000
motor vehicles	17 500	13 250
stock	24 000	21 500
debtors	2 500	2 250
creditors	8 000	9 000

How many shares will be issued to satisfy the purchase of the business?

A 20 000 **B** 20 100 **C** 20 400 **D** 51 000

11 Certain information concerning fixed assets must be disclosed in the notes to the financial statements.

To which of the following does this rule **not** apply?

A economic useful life of asset

B method of depreciation used

C scrap value of asset

D total depreciation for period

12 A company shows the following balance sheet extract at 31 December 2007.

	\$
ordinary share capital (\$1 each)	70 000
profit and loss account	6 200
6 % debentures repayable 2010/12	10 000
creditors for purchases	5 200
accruals	2 700
prepayments	4 100
bank overdraft	20 200

What amount is shown as current liabilities at 31 December 2007?

A \$24 000 **B** \$28 100 **C** \$38 100 **D** \$40 200

13 Which accounting policy is **not** required to be disclosed in published company accounts?

A basis of calculation of provision for doubtful debts

B basis of calculation of cost and net realisable value of stocks

C depreciation methods used

D treatment of goodwill

14 A limited company has the following share capital at 31 December.

	$000
ordinary shares of $1 each fully paid	5000
7.5% preference shares of $1 each fully paid	200

The market price of the company's ordinary shares at 31 December is $1.45.

The company's profit and loss appropriation account for the year ended 31 December shows:

	$000	$000
profit after tax		470
preference dividend	15	
ordinary dividend	52	67
retained profit for the year		403

What is the price earnings (P/E) ratio at 31 December?

A 15.4 **B** 15.9 **C** 16.6 **D** 18.0

15 In a year a business purchases stock in cash for $11 680, and also on credit for $32 485.

Creditors are paid every 30 days.

What is the closing creditors balance?

A $960 **B** $1710 **C** $2670 **D** $3630

16 The issued share capital of a company is:

400 000 4 % preference shares of $1.00 each fully paid;

1 600 000 ordinary shares of $0.50 each fully paid.

The company's net profit after interest and tax is $128 000.

An appropriate dividend cover for the ordinary share is 2.0 times.

What will be the dividend per ordinary share?

A $0.035 **B** $0.040 **C** $0.070 **D** $0.080

17 A company has 500 000 ordinary shares in issue and the following reserves.

	$
share premium	20 000
revaluation reserve	50 000
general reserve	80 000
profit and loss account	40 000

What is the maximum dividend per share?

A $0.08 **B** $0.24 **C** $0.34 **D** $0.38

18 At the company's accounting year-end, the accountant writes cheques to pay creditors and records them in the books immediately. The cheques are then deliberately retained by the accountant for two weeks.

What effect does this have on the year-end balance sheet?

A the accounts show a higher figure for cash

B the accounts show a lower figure for creditors

C to improve the company's cash flow

D to improve the company's gearing

19 The table shows the annual results of a company's three departments.

department	X	Y	Z
	$	$	$
sales	200 000	240 000	320 000
less: variable costs	130 000	150 000	100 000
headquarters fixed costs - apportioned	80 000	90 000	130 000
	210 000	240 000	230 000
net profit (loss)	(10 000)	–	90 000

Headquarters fixed costs will not be reduced if any department is closed.

What should the company do, on the basis of these results?

A close department X

B close department Y

C close departments X and Y

D keep all departments open

20 A company makes three products for which the following details are given.

	product X $	product Y $	product Z $
selling price per unit	40	48	72
direct material per unit	18	24	30
direct labour per unit	10	6	18

The same material is used by all three products and it costs $2.00 per kilo.

There is a shortage of material.

In which priority should the product be made in order to achieve maximum profit from the available material?

	first	⟶	last
A	X	Y	Z
B	Y	Z	X
C	Z	X	Y
D	Z	Y	X

21 A product is manufactured using two processes (process 1 followed by process 2).

What is the full cost of the materials used in process 2?

A the cost of materials added in process 2

B the cost of materials used in process 1 and materials added in process 2

C the cost of materials, labour, and overhead transferred from process 1

D the cost of materials, labour and overhead transferred from process 1 plus the cost of materials added in process 2

22 The table contains information provided by a company.

budgeted direct labour hours	8 000
actual direct labour hours worked	7 500
budgeted overhead expenditure	$104 000
actual overhead expenditure	$112 500

What is the amount of the overhead over / under recovery?

A $7500 under-recovered

B $8500 over-recovered

C $8500 under-recovered

D $15 000 under-recovered

23 A cash budget indicates that a company will exceed its overdraft limit.

Which item should the company consider delaying?

A capital expenditure

B extending the credit period allowed to debtors

C loan interest

D wages of employees

24 The table shows an annual budget for a company.

budget for production of 12 000 units	
	$
direct materials	30 000
direct labour	25 000
variable overheads	17 000
fixed costs	60 000
total cost	132 000

The actual production is 15 000 units and the company decides to flex its budget.

What is the revised total budgeted cost?

A $145 750 **B** $150 000 **C** $156 000 **D** $165 000

25 The following budgeted information is supplied.

selling price per unit	$150
total costs per unit	$120
budgeted sales	6000 units

Variable costs are 40 % of total costs.

What are the total budgeted fixed overheads for the period?

A $288 000 **B** $360 000 **C** $432 000 **D** $540 000

26 The standard material cost of producing 1500 units of a product are shown below

		$
material X	9000 kg at $4 per kg	36 000
material Y	18 000 kg at $3 per kg	54 000

The actual material cost to produce 1500 units was as follows.

			$
material X	8500 kg	cost	34 425
material Y	18 200 kg	cost	53 690

What is the total material usage variance?

A $1400 favourable

B $1435 favourable

C $2600 favourable

D $2615 favourable

27 Budgeted and actual sales of a product are given.

	budget	actual
sales in units	2 000	1 800
selling price per unit	$15	?
sales revenue	$30 000	$28 800

What is the sales price variance?

A $1200 adverse

B $1200 favourable

C $1800 adverse

D $1800 favourable

28 A company invests in a project which cost $210 000. The project will yield annual cash flows of $90 000 for each of the next three years. After providing annual depreciation of $10 000 the project will yield an annual profit of $80 000.

What is the payback period, assuming profits and depreciation arise at the year-end?

A 2.33 years **B** 2.50 years **C** 2.62 years **D** 3 years

29 A company is evaluating whether to invest in a project.

The table shows estimates for the project.

	$	discount factor (8 %)
initial investment – year 0	58 500	1.000
projected cash flows		
year 1	37 300	0.926
year 2	21 200	0.857
year 3	19 500	0.794

What is the net present value (NPV) of the project?

A –$19 500 **B** –$9691 **C** +$9691 **D** +$19 500

30 A company has $5 000 000 to invest and has identified the following five projects.

project number	capital required $	NPV of project $
1	5 million	1.4 million
2	4 million	1.2 million
3	3 million	1.0 million
4	2 million	0.8 million
5	1 million	0.5 million

Which projects should it select?

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