



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/03**

Paper 3 Multiple Choice

**October/November 2007**

**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.



- 1 In a cash flow statement, which item is a cash outflow?
- A** a decrease in stock  
**B** a decrease in trade debtors  
**C** a decrease in trade creditors  
**D** an issue of bonus shares
- 2 The amount shown on the cash flow statement for 2006 as taxation paid amounts to \$96 000.

The profit and loss account extract of the company is as follows.

	2006 \$	2005 \$
operating profit for the year	350 000	336 000
provision for taxation	(110 000)	(104 000)
profit after taxation	240 000	232 000

The liability for taxation at the 2005 year end was \$100 000.

What is the total tax provision disclosed in the balance sheet for 2006?

- A** \$14 000      **B** \$110 000      **C** \$114 000      **D** \$210 000
- 3 **X** and **Y** are in partnership, sharing profits equally. They agree to admit **Z** as an equal partner. **Z** is to introduce capital of \$100 000. The partnership goodwill is \$60 000 and all adjustments are to be made in the capital accounts.

Which shows the correct situation after the admission of **Z**?

	Capital Accounts					
	<b>X</b> \$		<b>Y</b> \$		<b>Z</b> \$	
<b>A</b>	credit	10 000	credit	10 000	credit	80 000
<b>B</b>	credit	10 000	credit	10 000	debit	20 000
<b>C</b>	credit	30 000	credit	30 000	debit	60 000
<b>D</b>	debit	30 000	debit	30 000	credit	160 000

4 When a company redeems shares, it may create a capital redemption reserve.

Why does it create this reserve?

- A to protect the rights of creditors
- B to protect the rights of shareholders
- C to provide cash for the redemption
- D to replace the cash used in the redemption

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

- 1 Reduce the \$2 preference shares by 25%.
- 2 Reduce the \$5 ordinary shares to shares of \$0.50 each.

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

number of preference shares of \$2 each	150 000
number of ordinary shares of \$5 each	60 000

By how much has the total share capital been reduced?

- A \$255 000
- B \$270 000
- C \$300 000
- D \$345 000

6 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.

	\$
fixed assets	2 000 000
current assets	600 000
current liabilities	400 000
long term debt	800 000
capital accounts (credit)	1 700 000
current accounts (debit)	300 000

What is the figure for goodwill?

- A \$200 000 negative
- B \$200 000 positive
- C \$800 000 negative
- D \$800 000 positive

- 7 The balance sheet of a business shows net assets of \$500 000. A limited company buys this business for \$800 000 by issuing new share capital. The fair value of the net assets acquired is \$700 000.

By how much do the net assets of the purchasing company increase?

- A** \$300 000      **B** \$500 000      **C** \$700 000      **D** \$800 000

- 8 Acorn Ltd acquires the assets and assumes the liabilities of Bird Ltd which have open market values of:

	\$
assets	120 000
liabilities	15 000

Acorn is to issue a debenture of \$50 000 and 10 000 \$1 ordinary shares for the balance of consideration.

What will be the credit to the share premium account in the books of Acorn Ltd?

- A** \$45 000      **B** \$55 000      **C** \$60 000      **D** \$95 000

- 9 A company agrees to buy assets from another company for \$200 000. The book value of the assets is \$170 000. The purchase price comprises cash of \$60 000, an issue of \$50 000 debenture stock at a discount of 5 %, and an issue of 18 500 ordinary shares with a nominal value of \$0.50 each.

What is the market value of each ordinary share?

- A** \$3.24      **B** \$3.38      **C** \$4.86      **D** \$5.00

- 10 The following events occurred after the year end, but before the financial statements were approved by the directors.

Which is a non-adjusting event?

- A** additional depreciation following a property revaluation  
**B** a fire at a warehouse  
**C** a major debtor becoming bankrupt  
**D** a provision for obsolete stock

11 A company shows the following balance sheet extracts at 31 March 2007.

	\$000
general reserve	125
provision for re-organisation	90
trade creditors	50
accruals	12
estimated tax refund	25
bills payable	32
bank overdraft	74
cash at bank	44

What amount is shown as current liabilities in the accounts?

- A** \$136 000      **B** \$168 000      **C** \$193 000      **D** \$258 000

12 What is **not** required to be disclosed in the published company accounts?

- A** auditors' remuneration  
**B** depreciation policy  
**C** legal costs  
**D** salary of highest paid director

13 The table shows the capital structure of a company.

	\$000
share capital \$5 shares	300
share premium account	200
profit and loss account	500
10 % debenture stock (issued 3 years ago)	600
	1600

Operating profits average \$150 000 a year.

What is the return on shareholders' funds?

- A** 9%      **B** 9.4%      **C** 15%      **D** 18.75%

14 Which of the following will increase gearing?

- A conversion of loan stock into shares
- B transfer of a general reserve to the profit and loss account
- C upward revaluation of freehold premises
- D writing off goodwill

15 A company's authorised share capital is 1 million ordinary shares of \$1 each. 800 000 shares have been issued and have a market value of \$2.50 each.

Year end results show the following.

	\$
profits before interest and taxation	100 000
profits after interest and taxation	80 000
profits after interest, taxation and ordinary dividends	50 000

What is the price-earnings ratio?

- A 10                      B 20                      C 25                      D 40

16 What measures the rate of return on an ordinary share?

- A dividend paid
- B dividend yield
- C earnings per share
- D price-earnings ratio

17 A limited company has the following capital structure:

	\$
\$1 ordinary shares	500
general reserve	300
profit and loss account	200
	<u>1 000</u>

The following transactions will take place:

a bonus issue of 1 share for every 5 held;

an issue of 500 000 shares of \$1 each at a premium of \$0.50;

an issue of debentures of \$250 000.

What will be the total of the share capital and reserves after the completion of these transactions?

- A** \$1 500 000    **B** \$1 750 000    **C** \$1 850 000    **D** \$2 000 000

18 What is a reason for a company issuing bonus shares?

- A** to increase liquidity  
**B** to increase profitability  
**C** to reduce gearing  
**D** to reduce revenue reserves

19 A company revalues its buildings upwards.

What is the impact on the following ratios?

	gearing	return on capital
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 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 table shows the resources required for the budgeted production, and the available resources.

	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 Contribution by product is an important aspect of costing.

How is it calculated?

- A income from sales plus fixed costs
  - B income from sales plus variable costs
  - C income from sales minus fixed costs
  - D income from sales minus variable costs
- 22 The table contains information provided by a business.

actual direct labour hours worked	18 000
actual overhead expenditure	\$504 000
budgeted direct labour hours	17 000
budgeted overhead expenditure	\$510 000

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

- A \$6000 over-recovered
- B \$6000 under-recovered
- C \$30 000 over-recovered
- D \$36 000 over-recovered



23 The following information relates to the budgeted and actual sale of a product.

	budget	actual
sales volume in units	40 000	36 000
contribution per unit	\$2	\$2.50
fixed costs (total)	\$30 000	\$30 000

What change in the break-even point has been caused by actual sales being different from budget?

- A 20% better
- B 20% worse
- C 80% better
- D 80% worse

24 A business produces the following figures.

	actual
production	210 units
quantity of direct material	483 tonnes
total cost of direct materials	\$1 449 000

A standard unit uses 2.25 tonnes of material at a price of \$3100 per tonne.

What are the usage and price variances?

	usage \$	price \$
<b>A</b>	32 550 adv	48 300 fav
<b>B</b>	32 550 fav	48 300 adv
<b>C</b>	176 700 adv	48 300 fav
<b>D</b>	176 700 fav	48 300 adv

25 What is a flexible budget?

- A a budget based on expected level of production
- B a budget based on past performance but updated to take account of present conditions
- C a budget that reflects changes in activity levels
- D a budget that links fixed overheads to production

- 26 The standard material specification for a unit of production is 2 kg costing \$7.50 per kilo. Budgeted production for a period was 600 units, actual production was 620 units. The actual material cost of purchasing 1200 kilos was \$9400.

What was the material price variance?

- A \$100 adverse
- B \$100 favourable
- C \$300 adverse
- D \$300 favourable

- 27 The following information about the sale of a product is given.

	budget	actual
sales volume in units	1 000	900
sales revenue	\$10 000	\$9 900

Which of the following is true?

	sales price variance \$	sales volume variance \$
<b>A</b>	100 adverse	–
<b>B</b>	–	100 adverse
<b>C</b>	900 favourable	1000 adverse
<b>D</b>	1000 adverse	900 favourable

- 28 The cost of sales of a business comprises direct materials and direct labour. At the end of a trading period the following variances are calculated.

	\$
direct materials price variance	1400 favourable
direct materials usage variance	900 adverse
direct labour efficiency variance	500 favourable
direct labour rate variance	1200 adverse

If the actual cost of sales was \$18 500, what was the standard cost of sales?

- A \$18 100
- B \$18 300
- C \$18 500
- D \$18 700

29 The following four methods are used to evaluate projects.

- 1 accounting rate of return
- 2 internal rate of return
- 3 net present value
- 4 payback

Which methods are based on using cash flows?

- A** 1, 2, 3 and 4
- B** 1, 3 and 4 only
- C** 2, 3 and 4 only
- D** 2 and 3 only
- 30 Discounting methods have been used to evaluate an investment project over a three year life. The project will produce annual net inflows of \$2m.

\$500 000 of the initial investment can be recovered at the end of the third year.

Discount factors at 10% are:

year	factor
1	0.91
2	0.83
3	0.75

What is the present value of project cash inflows?

- A** \$4.98 m      **B** \$5.36 m      **C** \$5.48 m      **D** \$6.38 m

**BLANK PAGE**

---

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.