UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/33**

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)

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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.

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UNIVERSITY *of* CAMBRIDGE
International Examinations

1 600 000 shares are issued at $5.00 per share. A bank loan of $1 500 000 is repaid and non-current assets which cost $900 000 are sold for $250 000.

How will these transactions affect the following headings in the company's statement of cash flows?

	financing activities $000	investing activities $000	net change in cash $000
A	–1500	–250	–1750
B	+1500	+250	+1750
C	+1500	+650	+2150
D	+3000	–1250	+1750

2 A limited company with an issued share capital of $300 000 in $1 ordinary shares makes a 1 for 4 bonus issue followed by a 1 for 5 rights issue.

What will be the balance on the share capital account following these transactions?

A $75 000 **B** $150 000 **C** $375 000 **D** $450 000

3 A balance sheet extract shows the following.

	$
ordinary shares of $1 each	1000
10% convertible loan stock	400
retained earnings	140 (dr)
net assets	1800
net 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

4 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

5 A partner receives 8 % interest on a partnership loan of $100 000.

A company takes over all the assets and liabilities of the partnership. The consideration of $1 m is partly satisfied by the issue of 10 per cent debenture stock in place of the partnership loan. The total interest payable is to remain the same.

The balance will be settled by the issue of 800 000 $1.00 ordinary shares to the partners.

What will appear in the company's opening balance sheet?

	10 % debenture stock $	ordinary shares $	reserves $
A	80 000	800 000	120 000
B	80 000	920 000	–
C	100 000	800 000	100 000
D	100 000	900 000	–

6 A business owner agrees to sell his business. The value of the business being sold is shown.

	$
goodwill	32 000
non-current assets	100 000
current assets	60 000
current liabilities	12 000

The purchase consideration is shares with a nominal value of $1, to be issued at a premium of $0.20.

How many shares will the owner of the business receive?

A 150 000 **B** 160 000 **C** 170 000 **D** 180 000

7 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 an impairment provision for obsolete inventory

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

	$
ordinary share capital ($1 each)	60 000
retained earnings	5 400
9 % debentures repayable 2015 / 16	15 000
trade payables	4 500
other payables	3 600
other receivables	3 000
bank overdraft	19 500

How much are the current liabilities at 31 December?

A $7 500 **B** $22 500 **C** $27 600 **D** $39 000

9 A company's year end is 31 December. During the year ended 31 December 2010 it pays the following dividends.

Final dividend for the year ended 31 December 2009	$15 000
Interim dividend for the year ended 31 December 2010	$8 000

On 1 February 2011 it declares a final dividend of $10 000 for the year ended 31 December 2010.

How much should be recorded in the accounts as dividends for the year ended 31 December 2010?

A $8000 **B** $18 000 **C** $23 000 **D** $33 000

10 A company revalues its non-current assets upwards.

Which of the following shows the effect of this?

	return on capital employed	gearing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

11 PQR plc has the following accounting ratios for its financial years 2009 and 2010.

	2009 (days)	2010 (days)
trade receivables turnover	45	50
trade payables turnover	35	40
inventory turnover	60	70

What was the change in the working capital cycle for 2010 compared to 2009?

A no change

B 10 days increase

C 20 days increase

D 40 days increase

12 A company makes annual profits of $10 million before interest payable of $2 million and ordinary dividends of $5 million.

It has in issue 20 million shares of $0.20 each, currently valued on the stock exchange at $5 each.

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

A 10 **B** 12.5 **C** 25 **D** 33.3

13 A company has a bank overdraft and agrees with its bank that its current ratio will not fall below 2 times.

Forecasts indicate that inventory will fluctuate between $60 000 and $72 000, and that trade payables will fluctuate between $12 000 and $17 000. The company has no trade receivables.

What is the most the bank will lend by means of overdraft?

A $13 000 **B** $19 000 **C** $24 000 **D** $30 000

14 The following data relates to a company at 31 December.

details of a non-current asset	$ million
historic cost	15
accumulated depreciation	10
value in use	4
fair value less costs to sell	3

What would be the impairment loss for the non-current asset to be recognised at 31 December?

A $1 million **B** $3 million **C** $4 million **D** $5 million

15 Company X acquires the net assets of Company Y at 31 December 2009.

At the date of acquisition the value of Company Y based on fair value of assets was $387 000. Company X paid $467 000 for Company Y.

During the year Company X employed an advertising agency to promote its new brand of product. It paid the agency a fee of $45 000 and in addition paid advertising costs of $160 000 relating to the promotion.

At the end of the financial year Company X intends to capitalise the purchased goodwill.

What is the total of goodwill to be recognised in the accounts at 31 December 2010?

A $80 000 **B** $125 000 **C** $160 000 **D** $285 000

16 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
retained earnings	40 000

What is the maximum dividend per share?

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

17 A company is classifying its costs. It discovers that for any level of output between 10 000 and 15 000 units the freight cost per unit is always the same figure of $2 per unit.

Of which type of cost is this an example?

A fixed cost

B semi variable cost

C stepped fixed cost

D variable cost

18 The table shows the costs of manufacturing a component.

	$
direct labour	100
direct materials	400
prime cost	500

The company fixed overheads apportioned to the component are $150. The component can be purchased from another company at $600.

What is the minimum cost of one extra component?

A $400 **B** $500 **C** $600 **D** $650

19 The table contains information provided by a company.

actual direct labour hours worked	7500
budgeted direct labour hours	8000
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

20 A company makes and sells a single product. The following data relates to the current year's results.

sales and production in units	2000
variable cost per unit	$150
fixed cost per unit	$80
contribution / sales ratio	50 %
total net profit for year	$140 000

It is expected that the selling price next year will be $315 per unit and that total fixed costs will increase by 10 %.

How many units will need to be sold next year in order to achieve the same profit as in the current year?

A 1819 **B** 1900 **C** 1916 **D** 2100

21 What is a master budget?

A a budget based on the limiting factor

B a cash budget

C a flexible budget

D a set of budgeted financial statements

22 Which department would be most likely to use zero-based budgeting?

A administration

B labour

C manufacturing

D marketing

23 The budgeted output for a process is 6000 litres for a period. The opening inventory is 400 litres and the inventory is expected to increase by 50 % by the end of the period. The process has a normal loss of 10 %.

How much is the material usage budget?

A 5220 litres **B** 6200 litres **C** 6380 litres **D** 6667 litres

24 The cost accounting records of a company showed:

direct material price variance	adverse
direct material usage variance	favourable
direct labour efficiency variance	favourable

The company considered there was a direct relationship between these variances.

What was the most likely reason for this relationship?

A Direct labour was of a higher quality than standard.

B Direct labour was of a lower quality than standard.

C Material was of a higher quality than standard.

D Material was of a lower quality than standard.

25 The budgeted direct labour cost for the production of 1000 units is \$104 000 based on an hourly labour rate of \$8.

The actual production was 1100 units at 13 hours per unit and at a total direct labour cost of \$121 550.

What is the direct labour rate variance?

A \$7150 adverse

B \$7150 favourable

C \$10 400 adverse

D \$10 400 favourable

26 The budgeted overheads for a business for a year are \$600 000. The table shows information for the year's production.

	budget	actual
output (standard hours)	200 000	150 000
standard hours per unit	5	5

What is the standard overhead cost per unit?

A \$3.00 **B** \$4.00 **C** \$15.00 **D** \$20.00

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 required	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 Two projects have the same capital cost. Project 1 has a higher accounting rate of return than project 2.

Which statements about the projects are correct?

1 Project 1 has higher average profits than project 2.

2 Project 1 has lower average profits than project 2.

3 Project 1 uses a lower discount factor than project 2 in the calculation.

4 Project 1 has a lower maintenance cost of equipment than project 2.

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

29 A company is operating under a capital rationing constraint. It is considering investing in the following projects.

project	investment $	NPV $
X	300 000	50 000
Y	200 000	30 000
Z	400 000	55 000

In which order should the three projects be ranked for their ability to maximise the overall net present value?

A XYZ **B** XZY **C** YZX **D** ZYX

30 The following are extracts from the financial statements of a company for the two years ended 30 September.

	Year 2 $000	Year 1 $000
profit from operations	61 040	57 200
depreciation	12 200	10 400
inventory	29 200	26 400
trade receivables	17 430	15 230
cash and cash equivalents	1 020	840
trade payables	11 100	9 750

What is the net cash from operating activities for the year to 30 September Year 2?

A $59 190 **B** $66 890 **C** $69 590 **D** $76 890

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