

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/03**

Paper 3 Multiple Choice

October/November 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 **12** printed pages.



- 1 Cash flow statements include the heading 'Returns on investments and servicing of financial liabilities'. Which item would **not** be shown under this heading?
- A dividends paid on ordinary shares  
 B dividends paid on preference shares  
 C interest paid on loans from the bank  
 D interest paid on debentures

- 2 A company issued 100 000 10 % preference shares of \$1 each on 1 April 2005 at \$1.20 per share.

Dividends on the shares are payable half-yearly on 1 April and 1 October.

How much will the company show for preference dividends in its cash flow statement for the year ended 31 December 2005?

- A \$5000      B \$6000      C \$7500      D \$10 000
- 3 The table shows a company's Balance Sheet.

	\$		\$
Fixed assets	60 000	Issued share capital	100 000
		less	
Current assets	10 000	Profit and Loss Account	30 000 Dr
	<u>70 000</u>		<u>70 000</u>

The company has decided the following:

The issued shares of \$0.50 each to be reduced to shares of \$0.25 each.

The fixed assets to be revalued at \$40 000.

The Profit and Loss balance to be written off.

What will be the total of fixed and current assets?

- A \$20 000      B \$50 000      C \$70 000      D \$80 000

- 4 A company has the following capital structure:

	\$
50 000 ordinary \$10 shares	500 000
1 000 000 5 % convertible loan stock	1 000 000

One half of the loan stock holders converted at the rate of three new ordinary shares of \$10 each per \$100 of loan stock.

How many new ordinary shares were issued?

- A** 15 000      **B** 150 000      **C** 200 000      **D** 300 000
- 5 A company converts \$2 000 000 debenture stock into \$0.50 ordinary shares. The conversion rate is 40 ordinary shares per \$100 debenture stock.

What amount is credited to the Share Premium account?

- A** \$800 000      **B** \$1 000 000      **C** \$1 200 000      **D** \$1 600 000

- 6 A limited company purchases a partnership. It issues to the partners 10 % debentures and pays them cash in full settlement of the purchase price.

What is true?

- A** The company's gearing is reduced.  
**B** The company intended to expand its business.  
**C** The company's reserves are reduced.  
**D** The partners now own some of the equity in the company.

- 7 A trader provides the following information.

	\$
goodwill	10 000
fixed assets at net book value	20 000
current assets	15 000
trade creditors	5 000
bank overdraft	2 000

The trader accepts an offer from a company to take over all his assets and liabilities, excluding the bank overdraft.

The trader receives ordinary shares of \$1.00 each at a premium of \$0.25.

How many shares will the trader receive?

- A** 24 000      **B** 30 400      **C** 32 000      **D** 40 000
- 8 Rencorn Ltd acquires the whole of the net assets of Drew and Co., an unincorporated business, for \$450 000 in cash and \$200 000 in shares.

The book values and fair values of Drew and Co. at the time of acquisition are shown.

	net book value (\$)	fair value (\$)
fixed assets	235 000	315 000
current assets	465 000	290 000
current liabilities	(197 000)	(230 000)
	503 000	375 000

What is the value of the goodwill arising on acquisition?

- A** \$75 000      **B** \$128 000      **C** \$147 000      **D** \$275 000

- 9 FRS 18 is an accounting statement that describes certain accounting policies including:
1. accruals
  2. consistency
  3. going concern
  4. prudence.

Which two accounting policies must be applied in the preparation of published accounts?

- A** 1 and 2  
**B** 1 and 3  
**C** 2 and 3  
**D** 2 and 4
- 10 A company has issued a debenture loan carrying interest at the rate of 8 % payable every 31 December. Also, each 31 December \$20 000 of the debenture is redeemed. At 31 December 2005 the total debenture loan outstanding was \$100 000.

Which amounts should be disclosed in the company's published Balance Sheet at 31 December 2006?

	accrued interest \$	current liabilities \$	long term loan \$
<b>A</b>	nil	20 000	60 000
<b>B</b>	nil	20 000	80 000
<b>C</b>	6 400	nil	80 000
<b>D</b>	8 000	20 000	80 000

11 A published Balance Sheet for a company at 1 January 2005 included:

	\$ million
Ordinary share capital	500
Profit and Loss Account	200

The company results for the year to 31 December 2005 included:

	\$ million
profit before taxation	50
taxation	15
dividends proposed	10
revaluation surplus on land	15

What was the Profit and Loss Account balance at 31 December 2005?

- A** \$225 million    **B** \$240 million    **C** \$250 million    **D** \$265 million

12 Which profit figure is used in the calculation of earnings per share?

- A** accumulated profits  
**B** net profit after interest  
**C** net profit after interest and dividends  
**D** operating profit

13 The following information has been obtained for a company.

declared dividend rate	\$0.05
market price per share	\$4.00
nominal value of shares	\$0.50

What is the dividend yield?

- A** 1.25%    **B** 2.50%    **C** 5.00%    **D** 10.00%

14 A company has ordinary shares with a nominal value of \$10 each and a current market price of \$20 each. Earnings per share is \$0.50, and dividend per share is \$0.20.

What is the price earnings ratio?

- A** 20    **B** 40    **C** 50    **D** 100

15 What will increase a company's gearing?

- A an issue of debentures
- B an issue of ordinary shares
- C redemption of debentures
- D repayment of a long-term loan

16 The net assets of a company are shown below.

	\$ million
net assets at original cost	100
net book value	50
fair value	70

A company pays \$100 million cash plus \$20 million in shares for all the net assets.

What will the annual goodwill amortisation charge be if the company applies a ten year economic life to goodwill?

- A \$2 million      B \$3 million      C \$5 million      D \$7 million

17 The information in the table relates to a company.

	\$
share premium account	240 000
10% debentures	100 000
retained profit	180 000

The company redeems the debentures at a premium of 10%.

What will be the effect on the company's Balance Sheet?

	retained profit \$	share premium account \$
<b>A</b>	70 000	240 000
<b>B</b>	80 000	230 000
<b>C</b>	170 000	240 000
<b>D</b>	180 000	230 000

- 18 A company issues a 5-year bond of \$1 000 000. Interest for years 1 and 2 will be 10% per annum, and for years 3, 4 and 5 it will be 12% per annum.

What will be the charge for interest shown in its Profit and Loss Account each year?

- A \$100 000 in each year  
 B \$100 000 in years 1 and 2, and \$120 000 in years 3, 4 and 5  
 C \$112 000 in each year  
 D \$120 000 in each year
- 19 The table contains information for the two products of a company.

product	X	Y
contribution per unit	\$12	\$9
machine hours required per unit	6	3
estimated sales demand	200	200
required machine hours	1200	600
machine capacity limited to	1200 hours	

What is the maximum possible contribution?

- A \$2100      B \$3000      C \$3300      D \$4200
- 20 The data relates to two different levels of output in a department.

machine hours	16 000	20 000
overheads	\$214 000	\$230 000

What is the amount of fixed overheads?

- A \$16 000      B \$64 000      C \$150 000      D \$198 000



21 A product passes through two processes. Information for process 2 is given.

	\$
material transferred from process 1 (2000 units)	40 000
added material	2 400
labour	16 000
overheads (based on 50% of labour)	8 000

At the end of the period 400 units were complete as to 100% of materials and 50% labour.

What was the total value of the closing stock of work-in-progress?

- A** \$2080      **B** \$2880      **C** \$10 080      **D** \$10 880

22 A company manufactures four products using different quantities of the same material, which is in short supply. The following data is given:

Product	Y1 \$ per unit	Y2 \$ per unit	Y3 \$ per unit	Y4 \$ per unit
Selling price	64	68	84	100
Materials, \$6 per kg	18	24	27	30
Production costs	<u>37</u>	<u>30</u>	<u>36</u>	<u>33</u>
Profit	9	14	21	37
Machine time per unit (in minutes)	45	30	40	30

The production costs include fixed costs which have been absorbed using a machine hour rate of \$36.

Which product gives the most profitable use of the raw materials?

- A** Y1      **B** Y2      **C** Y3      **D** Y4

23 The sales budget shows monthly sales of 300 units for July and 600 units for August. Stock at the start of a month is budgeted to be 50% of the month's planned sales. 10% of production in a month is faulty.

What is the actual production quantity for July to achieve the budgeted sales?

- A** 300 units  
**B** 450 units  
**C** 495 units  
**D** 500 units

- 24 The cash budget of Greenbranch Limited for the next six months shows a cash deficiency of \$30 000 arising at the end of the period.

Which possible remedy will overcome the deficiency?

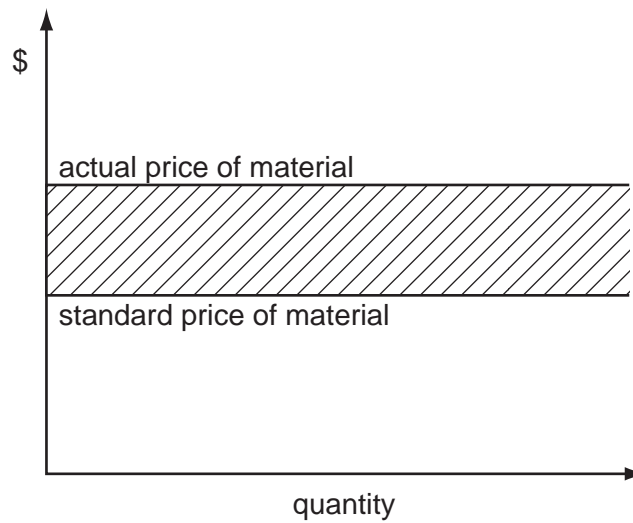
- A** a rights issue to existing ordinary shareholders; the issue's net proceeds will be \$31 000
- B** cancelling a planned depreciation charge of \$34 000
- C** delaying for one year a bonus issue to existing ordinary shareholders
- D** the inclusion of the company's freehold property in the accounts at its current valuation of \$100 000 instead of cost of \$64 000
- 25 Budgets for the production of metal posts are shown.

	1000 units \$	1500 units \$
direct materials	20 000	30 000
direct labour	30 000	45 000
production overhead	40 000	50 000
marketing	40 000	40 000

What is the unit cost for a production run of 1200 units to the nearest dollar?

- A** \$70                      **B** \$87                      **C** \$112                      **D** \$120
- 26 Which would be the reason for an adverse material usage variance?
- A** Production has been at a lower level than budgeted.
- B** The company has paid its suppliers more for the material than planned.
- C** The material has been used inefficiently in the factory.
- D** There has been difficulty in obtaining the material from suppliers.

27 The graph shows the cost and usage of a material.



What does the shaded area represent?

- A adverse price variance
  - B adverse usage variance
  - C favourable price variance
  - D favourable usage variance
- 28 The standard cost of materials for production amounts to \$17 100. The materials price variance is \$1800 favourable, the materials usage variance is \$1000 adverse.
- What is the actual material cost?
- A \$14 300      B \$15 300      C \$16 100      D \$16 300
- 29 What is an advantage of using the pay back method of capital investment appraisal?
- A calculates hire purchase instalments
  - B calculates profitability
  - C determines the efficiency of a process
  - D evaluates risk

- 30 A company is considering a project which will last for three years. The expected discounted cash flows are as follows:

	14 %	21 %
Year 1	17 544	16 529
Year 2	19 237	17 075
Year 3	<u>23 624</u>	<u>19 756</u>
	60 405	53 360
Less Project cost	<u>56 000</u>	<u>56 000</u>
NPV	4 405	(2 640)

What is the internal rate of return (IRR) of the project?

- A** 16.6%      **B** 17.5%      **C** 18.4%      **D** over 21%