



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level



ACCOUNTING

9706/03

Paper 3 Multiple Choice

May/June 2007

1 hour

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

* 7 1 0 9 0 2 5 5 6 4 *

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 Which decreases the net cash inflow from operating activities?
- A decrease in stock
 B increase in creditors
 C increase in debtors
 D repayment of borrowings
- 2 During the year ended 31 March 2007, a company sold plant and machinery for \$8000. This plant had cost \$60 000 and had a book value of \$10 000.

An additional \$140 000 was spent on new plant and machinery, which was depreciated at the end of the year by 20%.

In preparing the cash flow statement at the end of the year, how are the above transactions shown under the capital expenditure heading?

	cash inflow \$	cash outflow \$
A	nil	132 000
B	8 000	112 000
C	8 000	140 000
D	10 000	140 000

- 3 A public company's balance sheet showed:

	\$million
net assets	<u>10</u>
\$1 ordinary shares	5
profit and loss account	<u>5</u>
	<u>10</u>

The company intends to purchase one million of its own shares at a price of \$1.50 per share.

What is the value of the resulting profit and loss account balance **after** the purchase?

- A** \$3.5 million **B** \$4.0 million **C** \$4.5 million **D** \$5.0 million

- 4 The table shows a company's balance sheet.

	\$
issued share capital - \$1.00 ordinary shares	600 000
share premium account	150 000
distributable profits	<u>130 000</u>
	<u>880 000</u>

A cash redemption of 100 000 ordinary shares at a premium of 20% is now proposed.

What will the company's balance sheet include following the redemption of shares?

	share premium account	capital redemption reserve
	\$	\$
A	130 000	100 000
B	130 000	120 000
C	150 000	100 000
D	150 000	120 000

- 5 The following is an extract from a company's balance sheet.

share capital and reserve	\$
ordinary shares of \$1	400
6% redeemable preference shares of \$1	200
share premium account	100
general reserve	80
retained profit	50
	<u>830</u>

It has been decided to redeem all the preference shares at par. The directors propose to issue sufficient ordinary shares of \$1 at par to enable them to retain the reserves in the most flexible form.

How many ordinary shares must the directors issue?

- A** 20 000 **B** 70 000 **C** 100 000 **D** 200 000

- 6 A company purchases a business with net assets of \$110 000. In addition, the goodwill of the business is valued at \$10 000.

The purchase price of the business is settled by the issue of 80 000 \$1 ordinary shares in the company.

What will be the entry in the company's share premium account?

- A credit \$30 000
 B debit \$30 000
 C credit \$40 000
 D debit \$40 000
- 7 Michael has made a loan of \$20 000 to his partnership with interest at 8 % per annum. The partnership business has been sold to a limited company. The company issued sufficient 10 % debentures to Michael to ensure that he continued to receive the same amount of interest.

What is the nominal amount of debentures that Michael received?

- A \$12 800 B \$16 000 C \$20 000 D \$25 000
- 8 A business owner agrees to sell his business. The value of the business being sold is shown.

	\$
goodwill	32 000
fixed 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
- 9 What is required to be disclosed in the directors' report?
- A accounting policies
 B directors' remuneration
 C earnings per share
 D the main activity of the company

10 Which will show the lowest figure in the balance sheet of a company?

- A authorised share capital
- B called-up share capital
- C issued share capital
- D paid up share capital

11 Which item need **not** be disclosed in a set of company accounts?

- A accounting policies
- B audit fees
- C directors' remuneration
- D vehicle running costs

12 Events occurring after a balance sheet date are classified as either 'adjusting events' or 'non-adjusting events'.

Which is an example of an adjusting event?

- A change in interest rates
- B the issue of loan stock
- C the insolvency of a major debtor
- D the purchase of a new vehicle

13 What will increase gearing?

- A a bonus issue of shares
- B an increase in the value of intangible assets
- C depreciating a fixed asset
- D repaying a bank loan

14 An ordinary share in a quoted company has a nominal value of \$0.50. The latest financial statements show earnings per share of \$0.10 and a price-earnings ratio of 15.

What is the market value of an ordinary share?

- A \$0.50
- B \$1.50
- C \$2.00
- D \$2.50

- 15 Which ratio measures the return on an investment in shares which continue to be held?
- A dividend per share
 - B dividend yield
 - C earnings per share
 - D interest cover
- 16 How may a company improve its profit by window dressing?
- A applying an impairment test to goodwill
 - B making a provision for redundancy
 - C increasing the bad debts provision
 - D reducing the rates of depreciation
- 17 What is a reason for a company issuing bonus shares to its existing shareholders?
- A to capitalise reserves
 - B to increase profits available for dividend
 - C to raise the market value of shares
 - D to raise additional cash
- 18 The table shows the budgeted resources required for production and sales, and the available resources.

Market research shows sales demand for 120 000 units.

	resources required per unit	resources available
material	4.0	460 000 kg
direct labour hours	3.0	400 000 hours
machine hours	0.5	70 000 hours

What is the principal limiting factor in this case?

- A direct labour hours
- B machine hours
- C material
- D sales

19 The details of a planned college course are shown below.

	\$
course fee per student	100
variable course cost per student	20
total fixed costs of the course	480

The budgeted number of students is 10. However, if a lower fee is charged 20 students would take the course.

What is the maximum reduction in the course fee of \$100, to earn the same total profit from either 10 or 20 students?

- A** \$16 **B** \$24 **C** \$40 **D** \$50

20 The costs of manufacturing a component are:

	\$
direct labour	100
direct materials	<u>400</u>
prime cost	500

The company 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

- 21 A company manufactures four different qualities of carpet. The details of these products, their selling prices, material costs etc., are shown in the table.

In this manufacturing process, labour is in short supply and this limiting factor is taken into account when selecting products for manufacture.

	carpet 1 \$	carpet 2 \$	carpet 3 \$	carpet 4 \$
selling price	<u>200</u>	<u>168</u>	<u>180</u>	<u>220</u>
material cost (\$20 per unit)	60	20	60	80
labour cost (\$16 per unit)	32	48	16	48
variable overhead	20	28	24	16
fixed costs	24	28	20	8
profit	64	44	60	68
	<u>200</u>	<u>168</u>	<u>180</u>	<u>220</u>
sales demand (units)	50 000	40 000	60 000	30 000

Which quality of carpet should be chosen first?

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

- 22 A company's policy is to close any branch that does not benefit the company financially.

When should a branch be closed?

- A** when its gross profit is declining each year
B when both its sales and its net profit are declining
C when its variable costs are greater than its sales revenues
D when its fixed costs are greater than its net profit

- 23 The master budget of a company is being prepared. The following information is available.

budgeted sales	\$800 000
budgeted purchases	\$620 000
opening stock	\$30 000
budgeted mark-up	one third

What is the cost of the budgeted closing stock?

- A** \$20 000 **B** \$30 000 **C** \$50 000 **D** \$80 000

24 The following budgeted information is available.

selling price per unit	\$200
total costs per unit	\$150
budgeted sales for the period	2500 units

Variable costs are 60% of total costs.

What are the budgeted fixed overheads for the period?

- A** \$125 000 **B** \$150 000 **C** \$225 000 **D** \$375 000

25 A company's sales revenue is split as follows:

25% cash sales

75% credit sales payable in one month

Total projected sales for the company for the following months are shown in the table.

month	total projected sales \$
January	30 000
February	32 000
March	40 000

What will be the cash receipts in March?

- A** \$10 000 **B** \$24 000 **C** \$34 000 **D** \$40 000

26 A company has a favourable direct material price variance, an adverse direct material usage variance and an adverse direct labour efficiency variance. There is a direct relationship between all of the variances.

What is the most likely reason for this relationship?

- A** Direct labour is of a higher quality than standard.
B Direct labour is of a lower quality than standard.
C The material is of a higher quality than standard.
D The material is of a lower quality than standard.

- 27 A company has a standard labour cost for one unit of 8 hours of direct labour at \$6 per hour. In a given period 540 units were produced in 4300 hours at a total direct labour cost of \$26 000.
- What is the labour efficiency variance for the period?
- A \$120 adverse
 - B \$120 favourable
 - C \$860 adverse
 - D \$860 favourable
- 28 What does this formula show?
- $$\frac{\text{average annual profit}}{\text{average investment}}$$
- A accounting rate of return
 - B internal rate of return
 - C net present value
 - D payback period
- 29 What is the net present value of an investment equal to when the internal rate of return is calculated?
- A the aggregate anticipated future cash income at compound interest
 - B the initial expenditure on the investment
 - C the resale value of the asset on completion of the project
 - D zero

30 The following information relates to a capital investment, costing \$900 000.

year	cash flow \$	discounted cash flow at 6 % \$	discounted cash flow at 8 % \$
0	(900)	(900)	(900)
1	400	377	370
2	600	534	514
	<u>100</u>	<u>11</u>	<u>(16)</u>

The company has a cost of capital of 8 %.

Which statement about the project is correct?

- A** It has an internal rate of return greater than the cost of capital.
- B** It has an internal rate of return less than the cost of capital.
- C** It will be viable if discounted at 9 %.
- D** It will be viable if the capital cost is increased to \$1 m.

