



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

www.PapaCambridge.com

**ACCOUNTING**

**9706/33**

Paper 3 Multiple Choice

**May/June 2010**

**1 hour**

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

\* 1 9 4 7 8 9 6 8 6 9 \*

**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 The following information has been extracted from the accounts of a company.

|   | at 31 May    |              |
|---|--------------|--------------|
|   | year 1<br>\$ | year 2<br>\$ |
| operating profit  | 700 000      | 880 000      |
| depreciation  | 54 000       | 62 000       |
| (loss) profit on disposal of non-current (fixed) assets | (8 000)      | 17 000       |
| working capital (excluding cash and bank)               | 107 000      | 123 000      |

What is the cash flow from operating activities in the year ended 31 May, year 2?

- A** \$909 000      **B** \$941 000      **C** \$943 000      **D** \$975 000

- 2 A partnership has been dissolved and \$15 000 is left in the bank.

How should this be distributed between the partners?

- A** according to the last agreed balances on their capital accounts  
**B** according to the last agreed profit sharing ratio  
**C** according to the last agreed total balances on their capital and current accounts  
**D** equally

- 3 X and Y are equal partners. They agree to admit Z as an equal partner.

Z agrees to pay \$33 000 for his share of the goodwill.

Goodwill is not to appear in the accounts.

The partnership offices are to be revalued at \$60 000 more than their present book value.

What changes are needed in the partners' capital accounts to record these events?

|          | X<br>\$ | Y<br>\$ | Z<br>\$ |
|----------|---------|---------|---------|
| <b>A</b> | +16 500 | +16 500 | -33 000 |
| <b>B</b> | +30 000 | +30 000 | +33 000 |
| <b>C</b> | +33 000 | +33 000 | +33 000 |
| <b>D</b> | +46 500 | +46 500 | nil     |

- 4 When is a capital redemption reserve created?
- A** when a non-current asset is revalued
- B** when a redemption of shares is not covered by a new issue of shares
- C** when debentures are redeemed without a new issue of shares
- D** when the authorised share capital is increased
- 5 A company makes a 1-for-3 bonus issue of shares. The book value of its shareholders' funds immediately before the issue are as follows.

|                         | \$      |
|-------------------------|---------|
| ordinary share capital  | 300 000 |
| share premium account   | 120 000 |
| profit and loss account | 100 000 |

The costs of the bonus issue are \$10 000.

What will be the book value of shareholders funds after the bonus issue?

- A** \$510 000      **B** \$520 000      **C** \$610 000      **D** \$620 000
- 6 The table shows the assets and liabilities of a company.

|                            | book value<br>\$000 | market value<br>\$000 |
|----------------------------|---------------------|-----------------------|
| non-current (fixed) assets | 60                  | 70                    |
| current assets             | 50                  | 45                    |
| goodwill                   | nil                 | 15                    |
|                            | <u>110</u>          |                       |
| share capital              | 40                  |                       |
| retained profits           | 40                  |                       |
| current liabilities        | 30                  | 25                    |
|                            | <u>110</u>          |                       |

What would be the purchase price of the net assets of the company?

- A** \$95 000      **B** \$105 000      **C** \$110 000      **D** \$130 000

- 7 A company had the following capital and reserves.

|  | \$      |
|--|---------|
| ordinary shares of \$1 each                | 100 000 |
| share premium                              | 20 000  |
| income statement (profit and loss account) | 10 000  |

It purchased a business for \$125 000 by means of

a cash payment of \$50 000

a debenture loan of \$15 000

an issue of 30 000 \$1 ordinary shares at a premium of 100%

What will be the shareholders' funds following the acquisition?

- A** \$130 000      **B** \$160 000      **C** \$180 000      **D** \$190 000
- 8 A business makes a profit for the financial year to 31 March 2010 of \$100 000.

After the balance sheet date the following three events occurred:

an adjusting event of \$40 000 profit

a non-adjusting event of \$30 000 profit

a dividend declared of \$20 000.

What is the adjusted profit?

- A** \$140 000      **B** \$160 000      **C** \$170 000      **D** \$190 000
- 9 A company is preparing its statement of changes in equity for the year ended 31 August.

The following information is available.

|   | \$000 |
|---|-------|
| balance of retained earnings (profits) at start of year | 350   |
| net profit for the year                                 | 140   |
| final dividend paid in respect of previous year         | 60    |
| interim dividend paid                                   | 30    |
| proposed final dividend for the current year            | 70    |
| transfer to capital redemption reserve                  | 100   |

What is the balance of retained earnings (profits) to transfer to the balance sheet at 31 August?

- A** \$230 000      **B** \$290 000      **C** \$300 000      **D** \$390 000

10 The financial statements of a company for the year to 30 June includes the following.

| Income (profit and loss) account | \$m |
|----------------------------------|-----|
| operating profits                | 109 |
| interest payable                 | 14  |
| profit before tax                | 95  |
| taxation                         | 25  |
| profit after tax                 | 70  |
| dividends paid                   | 38  |
| retained profit for year         | 32  |

| Balance sheet                              | \$m |
|--|-----|
| ordinary shares (\$0.50 each) in issue     | 150 |
| income statement (profit and loss account) | 160 |
| shareholders funds                         | 310 |

What are the earnings per share for the year?

- A** 22.6 cents      **B** 23.3 cents      **C** 31.7 cents      **D** 46.7 cents

11 A company has an issued share capital of 50 000 \$1 ordinary shares. Profits for distribution average \$20 000 per annum. The expected rate of return on shares in similar companies is 25%.

What are the 50 000 shares worth?

- A** \$32 500      **B** \$50 000      **C** \$62 500      **D** \$80 000

12 The following investment information is available.

|                         | \$   |
|-------------------------|------|
| earnings per share      | 0.35 |
| dividend per share      | 0.21 |
| market price per share  | 1.40 |
| nominal value per share | 1.00 |

What is the percentage return to an investor who buys a share?

- A** 15%      **B** 21%      **C** 25%      **D** 35%

- 13 Which action will reduce the gearing of a company?
- A bonus issue of ordinary shares
  - B issue of debentures
  - C purchase of own ordinary shares
  - D rights issue of ordinary shares
- 14 Which statement about the issue by a company of bonus shares is correct?
- A They can be issued at a premium.
  - B They can be issued by using both capital and revenue reserves.
  - C They can only be issued from capital reserves.
  - D They can only be issued from revenue reserves.
- 15 A company calculated its gearing as loan capital plus bank and other borrowings as a percentage of total capital employed.

The table shows an extract from the company's balance sheet.

|  | \$m |
|--|-----|
| ordinary shares (at \$1 nominal value) | 29  |
| reserves                               | 43  |
| debentures                             | 48  |
| bank overdraft (long term)             | 20  |

What is the gearing ratio?

- A 48.6%
  - B 51.4%
  - C 94.4%
  - D 105.9%
- 16 What should be included when valuing work in progress?
- A direct materials + direct labour + indirect labour
  - B prime cost + all other overheads
  - C prime cost + production overheads based on actual level of activity
  - D prime cost + production overheads based on normal level of activity

- 17 In marginal costing, how can the total contribution from a given activity be calculated?
- A total sales + total fixed costs  
 B total sales – total profit  
 C total fixed costs + total profit  
 D total direct costs – total profit
- 18 A product is sold for \$100 per unit. Fixed costs are \$90 000 and variable costs are 60 % of the selling price.

What is the break-even sales revenue?

- A \$36 000      B \$90 000      C \$150 000      D \$225 000
- 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 (units)  | 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 What is an advantage of an effective budgetary control system?
- A Managers spend a lot of their time in preparing budgets.  
 B Resources of an organisation are given their fullest and most economical use.  
 C The budget figures are not changed once they have been set, whatever happens during the trading year.  
 D The budget may be imposed from the top down by senior managers.

- 21 In order to prepare the budget figures for next year a company uses last year's actual figures and adds to it or subtracts from it to reflect changes.

What is this an example of?

- A fixed budgeting
  - B flexible budgeting
  - C incremental budgeting
  - D zero based budgeting
- 22 A company currently uses a fixed budget. The details for the next trading period are as follows.

|                         |        |        |
|-------------------------|--------|--------|
| output in units         | 10 000 | 12 000 |
|                         | \$     | \$     |
| direct materials        | 10 000 | 10 000 |
| direct labour           | 4 000  | 4 000  |
| semi variable overheads | 3 000  | 3 000  |
| fixed overheads         | 2 000  | 2 000  |
| total                   | 19 000 | 19 000 |

It now wishes to use a flexible budget.

Semi variable overheads are 50 % variable.

What will be the total flexible budgeted cost for 12 000 units?

- A \$19 300
  - B \$22 100
  - C \$22 400
  - D \$22 500
- 23 Which variance measure changes in volume?
- A labour efficiency
  - B labour rate
  - C material price
  - D sales price



24 Budgeted figures for a product are as follows.

|                |                      |
|----------------|----------------------|
| production     | 5000 units           |
| sales revenue  | \$45 000             |
| variable costs | \$20 000             |
| overheads      | 10% of selling price |

All units produced were sold.

What is the standard cost per unit?

- A** \$4.00      **B** \$4.40      **C** \$4.90      **D** \$5.00

25 Budgeted and actual results are as follows.

|                          | budgeted  | actual   |
|--------------------------|-----------|----------|
| labour hours per unit    | 100       | 120      |
| labour rate per hour     | \$8       | \$9      |
| materials usage per unit | 100 kilos | 80 kilos |
| materials price per unit | \$5       | \$5      |

What is the total variance per unit manufactured?

- A** \$80 adverse  
**B** \$80 favourable  
**C** \$180 adverse  
**D** \$180 favourable

26 A company makes a product with a standard material cost of \$15, as follows.

|            |                        | \$    |
|------------|------------------------|-------|
| material P | 3 kg @ \$2 per kilo    | 6.00  |
| material Z | 6 kg @ \$1.50 per kilo | 9.00  |
|            |                        | 15.00 |

A production of 1200 units of product required the following.

|            |         |      | \$     |
|------------|---------|------|--------|
| material P | 3500 kg | cost | 7 560  |
| material Z | 7500 kg | cost | 10 500 |

What is the total material usage variance?

- A \$190 adverse
- B \$190 favourable
- C \$250 adverse
- D \$250 favourable

27 A machine costs \$160 000 with an estimated residual value of \$20 000 after four years. During each of the four years of its life the machine will earn cash inflows of \$64 000 and incur cash outflows of \$14 000. The machine is to be depreciated on a straight-line basis over its useful life.

What is the accounting rate of return for this machine based upon the average investment?

- A 11.11%
- B 14.29%
- C 16.67%
- D 21.43%

- 28 A three year capital investment project costing \$80 000 generates the following net cash flows at the end of each year.

| year | \$     |
|------|--------|
| 1    | 50 000 |
| 2    | 40 000 |
| 3    | 40 000 |

The company's cost of capital is 20 %.

Discount factors for 20 % are as follows.

| year | discount factor |
|------|-----------------|
| 1    | 0.833           |
| 2    | 0.694           |
| 3    | 0.578           |

What is the discounted payback period?

- A** 1.63 years    **B** 1.75 years    **C** 2.46 years    **D** 2.75 years
- 29 A company has decided to lease a piece of equipment, paying \$8000 each year for 4 years. The first payment is to be made on receipt of the equipment.

The company's cost of capital is 10 % per annum.

The discount factors are as follows.

| year | discount factors |
|------|------------------|
| 0    | 1.000            |
| 1    | 0.909            |
| 2    | 0.826            |
| 3    | 0.751            |

What is the present value of the lease payments?

- A** \$19 890    **B** \$21 890    **C** \$27 890    **D** \$32 000

30 Which increases the net cash inflow from operating activities?

- A increase in inventory (stock)
- B increase in trade payables (creditors)
- C receipt of a bank loan
- D sale of non-current (fixed) assets