



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education  
Advanced Subsidiary Level and Advanced Level

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**ACCOUNTING**

**9706/32**

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)

\* 4 1 5 8 7 6 6 3 4 0 \*

**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 A partnership achieved an average profit during the year of \$15 000 per month.

Halfway through the year X and Y were joined by a new partner Z and profits were shared before and after the change. X's drawings amounted to \$60 000 during the year.

By how much would the current account balance of X increase as a result of the years trading?

- A** zero                      **B** \$15 000                      **C** \$30 000                      **D** \$75 000

- 2 During the year a company issued one million ordinary shares at \$1.20 per share. It repaid a debenture of \$1 000 000 and assets costing \$500 000 were purchased.

How will these transactions be recorded in the different sections of the company's statement of cash flow?

|          | financing<br>\$000 | investment<br>\$000 |
|----------|--------------------|---------------------|
| <b>A</b> | +200               | -500                |
| <b>B</b> | -200               | +500                |
| <b>C</b> | +1200              | -1500               |
| <b>D</b> | -1200              | +1500               |

- 3 A company has the following items in its statement of financial position.

|   | \$      |
|---|---------|
| ordinary share capital, shares of \$0.50 each | 900 000 |
| retained earnings                             | 450 000 |
| long-term bank loan                           | 30 000  |

The company issues 100 000 bonus shares of \$0.50 each to its shareholders.

What is the total amount of shareholders' funds after the issue of the bonus shares?

- A** \$1 300 000                      **B** \$1 350 000                      **C** \$1 380 000                      **D** \$1 400 000

- 4 The capital structure of a company is:

|                        | \$     |
|------------------------|--------|
| \$1 ordinary shares    | 40 000 |
| convertible loan stock | 20 000 |
| share premium          | 10 000 |

The loan stock conversion is made on the basis of 1 new ordinary share for every \$4 of convertible stock held.

What is the capital structure after the conversion?

|          | ordinary shares<br>\$ | share premium<br>\$ |
|----------|-----------------------|---------------------|
| <b>A</b> | 40 000                | 30 000              |
| <b>B</b> | 45 000                | 25 000              |
| <b>C</b> | 50 000                | 20 000              |
| <b>D</b> | 60 000                | 10 000              |

- 5 A company has the following summarised statement of financial position at 31 December.

|                                     | \$             |
|-------------------------------------|----------------|
| ordinary share capital (\$1 shares) | 500 000        |
| share premium                       | 100 000        |
| retained earnings                   | <u>150 000</u> |
|                                     | <u>750 000</u> |

The company decides to purchase 50 000 of its own shares for \$80 000.

What reflects the correct position after the purchase?

|          | share capital<br>\$ | retained earnings<br>\$ |
|----------|---------------------|-------------------------|
| <b>A</b> | 420 000             | 70 000                  |
| <b>B</b> | 420 000             | 100 000                 |
| <b>C</b> | 450 000             | 70 000                  |
| <b>D</b> | 450 000             | 100 000                 |

- 6 The summarised statement of financial position of company A is as follows.

|        | \$      |                      | \$      |
|--------|---------|----------------------|---------|
| assets | 600 000 | capital and reserves | 460 000 |
|        |         | loan capital         | 140 000 |

Company Z agrees to buy the net assets of company A by means of issuing a debenture of \$200 000 and 65 000 ordinary shares of \$1 each for the balance of the consideration.

How much will company Z credit to its share premium account?

- A** \$195 000      **B** \$260 000      **C** \$335 000      **D** \$395 000
- 7 A company is to purchase an unincorporated business by the issue of 120 000 ordinary shares of \$0.50, 10 000 \$10 8% debentures and by paying \$20 000 cash. The current market value of the ordinary shares is \$1.45 and the debentures are each trading at \$95.

What is the total value of the consideration for the purchase?

- A** \$180 000      **B** \$240 000      **C** \$269 000      **D** \$289 000
- 8 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.

|                           | \$000 |
|---------------------------|-------|
| non-current assets        | 2 000 |
| current assets            | 600   |
| current liabilities       | 400   |
| non-current liabilities   | 800   |
| capital accounts (credit) | 1 700 |
| current accounts (debit)  | 300   |

Which figure will appear for goodwill in X Ltd's book of account?

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

9 Which statements are true in relation to International Accounting Standards?

- 1 They assist investors to understand financial statements.
- 2 They enable the movement towards global harmonisation of accounting practice.
- 3 They ensure that errors and fraud are prevented.
- 4 They restrict the opportunity for creative accounting.

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

10 What would **not** appear in the income statement of a limited company?

- 1 finance costs
- 2 revenue
- 3 ordinary dividends paid
- 4 ordinary dividends payable

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

11 At the start of the year a company has plant and machinery valued at \$20 000.

Depreciation policy is to depreciate plant and machinery at 25 % using the reducing balance method.

Following an impairment review the fair value of plant and machinery is \$16 000 and its value in use is \$25 000.

At which value should plant and machinery be shown in the year end statement of financial position?

**A** \$15 000      **B** \$16 000      **C** \$20 000      **D** \$25 000

12 A company's statement of financial position shows the following information.

|  | \$000      |
|--|------------|
| ordinary shares of \$10 each                     | 120        |
| 7 % non-redeemable preference shares of \$1 each | 80         |
| share premium account                            | 50         |
| general reserve                                  | 70         |
| retained earnings                                | 210        |
|  | <u>530</u> |

What is the book value of one ordinary share?

**A** \$27.50      **B** \$37.50      **C** \$44.20      **D** \$53.00

- 13** A company makes annual profits of \$50 million, before paying interest of \$10 million and dividends of \$20 million.
- It has in issue 80 million ordinary shares of \$0.50 each, with a current market value of \$7 each.
- What is the price-earnings ratio?
- A** 7                      **B** 11.2                      **C** 14                      **D** 28
- 14** The issued share capital of a company is as follows.
- 500 000 4% non-redeemable preference shares of \$1.00 each
- 1 400 000 ordinary shares of \$ 0.50 each
- The company's profit after interest and tax is \$314 000. An appropriate dividend cover for the ordinary shares is 2.0 times.
- What is the dividend per ordinary share?
- A** \$0.105                      **B** \$0.112                      **C** \$0.210                      **D** \$0.224
- 15** Which action will improve a company's quick ratio?
- A** collecting all outstanding debtors
- B** using cash at the bank to buy equipment
- C** using cash at the bank to pay creditors
- D** using cash at the bank to repay a loan
- 16** Which two changes would result in a reduction in a company's working capital cycle?
- 1 increase trade payables; reduce trade receivables
- 2 increase trade receivables; reduce trade payables
- 3 reduce inventory; increase trade payables
- 4 reduce trade payables; increase inventory
- A** 1 and 2                      **B** 1 and 3                      **C** 2 and 3                      **D** 2 and 4

17 A company revalues its buildings upwards.

What is the impact on the following ratios?

|          | gearing   | return on capital employed |
|----------|-----------|----------------------------|
| <b>A</b> | decrease  | decrease                   |
| <b>B</b> | decrease  | no effect                  |
| <b>C</b> | increase  | decrease                   |
| <b>D</b> | no effect | increase                   |

18 Which effect will a bonus issue of shares have on a company's gearing ratio and earnings per share?

|          | gearing   | earnings per share |
|----------|-----------|--------------------|
| <b>A</b> | no effect | increase           |
| <b>B</b> | increase  | decrease           |
| <b>C</b> | decrease  | increase           |
| <b>D</b> | no effect | decrease           |

19 A particular cost is classified as fixed.

Which effect will a 20% increase in activity have on the unit cost?

- A** decrease by 20%
- B** decrease by less than 20%
- C** increase by 20%
- D** increase by more than 20%

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

|                     | 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 In July, a business had opening inventory of 10 000 units and closing inventory of 16 000 units.

The profit calculated on marginal costing principles was \$220 000 and that calculated on absorption costing principles was \$268 000.

What was the fixed overhead absorption rate per unit?

- A** \$8.00      **B** \$13.75      **C** \$16.75      **D** \$22.00
- 22 The following data is taken from a business.

|                       |           |
|-----------------------|-----------|
| budgeted labour hours | 16 000    |
| actual labour hours   | 13 000    |
| budgeted overheads    | \$192 000 |
| actual overheads      | \$188 500 |

What is the amount of overhead under-absorbed?

- A** \$3500      **B** \$32 500      **C** \$36 000      **D** \$43 500



- 23 A process has an input of 12 000 kg at a cost of \$236 400. Normal wastage is 10 % this is sold for \$8 per kg.

What is the cost per kg of output from the process?

- A \$18.90      B \$19.70      C \$21.00      D \$21.89

- 24 A company has the following production and sales budget for the next accounting period.

|   |       |
|---|-------|
| budgeted sales units                        | 200   |
| raw material per unit                       | 2 kg  |
| opening inventory of raw materials          | 20 kg |
| budgeted closing inventory of raw materials | 25 kg |

There is no opening or closing inventory of finished goods.

How many kilos of raw material must it purchase to achieve its production budget?

- A 195      B 205      C 395      D 405

- 25 The information below shows an annual budget for production of 10 000 units.

|                  | \$             |
|------------------|----------------|
| direct materials | 60 000         |
| direct labour    | 35 000         |
| direct expenses  | 12 000         |
| fixed costs      | 70 000         |
| total cost       | <u>177 000</u> |

The actual production is 12 000 units and the company decides to flex its budget.

What is the revised total budgeted cost?

- A \$147 500      B \$184 000      C \$198 400      D \$212 400

26 Budgeted and actual sales of a product are shown below.

|                        | budget   | actual   |
|------------------------|----------|----------|
| sales in units         | 3000     | 2800     |
| selling price per unit | \$25     | ?        |
| sales revenue          | \$75 000 | \$67 200 |

What is the sales price variance?

- A \$2800 adverse
- B \$2800 favourable
- C \$3000 adverse
- D \$3000 favourable

27 A company has the following sales data.

| details               | \$              |
|-----------------------|-----------------|
| total actual sales    | 50 000          |
| sales volume variance | (6000) adverse  |
| sales price variance  | 1000 favourable |

What were the budgeted sales for the month?

- A \$43 000
- B \$45 000
- C \$55 000
- D \$57 000

28 Budgeted and actual results are as shown.

|                          | budgeted | actual  |
|--------------------------|----------|---------|
| materials usage per unit | 8 kilos  | 11 kilo |
| materials price per unit | \$14     | \$16    |
| labour hours per unit    | 6        | 5       |
| labour rate per hour     | \$20     | \$21    |

What is the total variance per unit manufactured?

- A \$22.00 adverse
- B \$22.00 favourable
- C \$49.00 adverse
- D \$49.00 favourable

- 29 A company is considering investing in a project costing \$300 000. Estimates show that the project will earn a cash surplus of \$120 000 over a five-year period. As a result of the investment, the company's depreciation will increase by \$6000 per annum.

What is the accounting rate of return?

- A** 6%                      **B** 8%                      **C** 12%                      **D** 16%

- 30 A company is operating under a capital rationing constraint.

How should it rank possible investments in order to achieve the highest possible overall net present value?

- A** by their internal rates of return  
**B** by their investment costs  
**C** by their net present values  
**D** by their profitability indexes

