

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING

9706/03

Paper 3 Multiple Choice

October/November 2004

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 **11** printed pages and **1** blank page.



- 1 A company bought new equipment costing \$200 000. It paid \$150 000 in cash and received a part-exchange allowance of \$50 000 on some old equipment, which had a book value of \$40 000. It also sold another item of equipment, with a book value of \$20 000, for \$15 000.

How should these transactions appear in a cash flow statement?

| | purchase of tangible assets \$ | sale of tangible assets \$ |
|----------|-----------------------------------|-------------------------------|
| A | 150 000 | 15 000 |
| B | 150 000 | 65 000 |
| C | 200 000 | 60 000 |
| D | 200 000 | 65 000 |

- 2 The following items have been extracted from the Income and Expenditure Account of a club.

| | \$ |
|------------------------------------|------|
| depreciation of equipment | 1000 |
| subscriptions paid in advance | 25 |
| subscriptions owing at year end | 100 |
| expenses paid in advance | 70 |
| expenses accrued | 30 |
| surplus of income over expenditure | 400 |

What effect will the items above have on the cash flow?

- A** \$515 inflow **B** \$885 inflow **C** \$1115 inflow **D** \$1285 inflow
- 3 Company X regularly pays a dividend. It has converted \$50 m 10% loan stock into ordinary shares.

Which describes the likely effect of the conversion on its financial statements?

| | dividend | interest | gearing |
|----------|----------|----------|----------|
| A | decrease | increase | decrease |
| B | decrease | increase | increase |
| C | increase | decrease | decrease |
| D | increase | decrease | increase |

- 4 A sole trader sold his business to a limited company on 31 March. The net assets of his business had a total book value of \$160 000 and a total fair value of \$200 000.

The consideration for the sale was satisfied by the issue of 200 000 \$1 ordinary shares (worth \$1.25 each) and a cash payment of \$20 000.

What is the amount of goodwill arising on the transfer?

- A** \$20 000 **B** \$60 000 **C** \$70 000 **D** \$110 000

- 5 The business of a sole trader is acquired by a limited company.

| | |
|------------------------------|-----------|
| net assets at valuation | \$167 000 |
| agreed purchase price | \$137 000 |
| cash paid in part settlement | \$50 000 |
| shares at \$1 each | 60 000 |

What is the premium per share?

- A** \$0.45 **B** \$0.95 **C** \$1.28 **D** \$1.78

- 6 X 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 X to ensure that he continued to receive the same amount of interest.

What is the nominal amount of debentures that X received?

- A** \$12 800 **B** \$16 000 **C** \$20 000 **D** \$25 000

- 7 A business is purchased for \$125 000 satisfied by
- a cash payment of \$50 000,
 - and a debenture loan of \$15 000,
 - and an issue of 30 000 \$1 ordinary shares at a premium of 100%.

Prior to the acquisition the company had the following capital and reserves.

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

What will be the shareholders' funds following the acquisition?

- A** \$160 000 **B** \$180 000 **C** \$190 000 **D** \$205 000
- 8 What item does **not** need to be included in the directors report of a limited company?
- A** a director's emoluments
 - B** directors' names
 - C** directors' shareholdings
 - D** dividend recommended by directors
- 9 Which item in the cash flow statement required by Financial Reporting Standard 1 (FRS 1) gives an indication of the company's long-term capital investment policy?
- A** capital expenditure
 - B** increase in borrowings
 - C** level of dividends paid
 - D** total cash generated from operating activities
- 10 Which event, occurring after the Balance Sheet date, should be adjusted in the Balance Sheet?
- A** amounts received in respect of insurance claims which were in course of negotiation at the balance sheet date
 - B** a debtor in the Balance Sheet subsequently becoming bankrupt
 - C** a property valuation which provides evidence of a permanent diminution in value
 - D** renegotiation of amounts owing by debtors

- 11 The accounts of limited companies must disclose changes in the methods of providing for depreciation of fixed assets.

Why is this important to users of corporate reports?

- A It allows the market value of assets to be shown.
- B It enables comparison with previous years accounts.
- C It helps to assess company liquidity.
- D It helps to assess future dividends.

- 12 An extract from the final accounts of a company shows:

| | \$ | \$ |
|-------------------------------|-----------|-----------|
| operating profit | | 200 |
| interest payable | | <u>40</u> |
| profit on ordinary activities | | 160 |
| taxation | | <u>35</u> |
| profit after tax | | 125 |
| dividends - preference shares | 25 | |
| - ordinary shares | <u>50</u> | <u>75</u> |
| retained profit for the year | | <u>50</u> |

What are the interest cover and the dividend cover?

| | interest cover | ordinary dividend cover |
|----------|----------------|-------------------------|
| A | 4 | 2 |
| B | 4 | 2.5 |
| C | 5 | 2 |
| D | 5 | 2.5 |

13 A company has the following information.

| | |
|----------------------------|------|
| price earnings (P/E) ratio | 14 |
| | \$ |
| earnings per share (EPS) | 0.60 |
| dividend per share | 0.40 |

What is the market price of an ordinary share?

- A** \$2.80 **B** \$5.60 **C** \$8.40 **D** \$14.00

14 If a company issues convertible loan stock what effect will this have on the gearing ratio and return on capital employed?

| | gearing ratio | return on capital employed |
|----------|---------------|----------------------------|
| A | increase | increase |
| B | increase | decrease |
| C | decrease | increase |
| D | decrease | decrease |

15 You are given the following information about a company.

| | |
|-----------------------|----------|
| dividend yield | 4 % |
| dividend for the year | \$10 000 |
| dividend cover | 4 times |

What is the company's price earnings ratio?

- A** 4 **B** 6.25 **C** 10 **D** 25

- 16 The following is an extract from a company's accounts at 31 December 2003.

| | \$ |
|---|-----------|
| Issued shares of \$0.50 | 206 000 |
| Share Premium account | 309 000 |
| Profit and Loss Account balance at 1 January 2003 | 200 000 |
| Net profit for the year after tax | 1 030 000 |

What is the earnings per share (EPS)?

- A** \$2.00 **B** \$2.50 **C** \$2.99 **D** \$5.00

- 17 A company is preparing a cash flow forecast for the forthcoming year.

Present estimates suggest increased cash of \$50 000 will be required.

Which will provide the necessary cash?

- A** a bonus issue of 50 000 shares with a par value of \$1 each
B net proceeds from the sale of land for \$50 000
C paying creditors of \$50 000 early
D reduction of the depreciation charge by \$50 000

- 18 Which of the following is a reason for a company issuing bonus shares?

- A** to increase liquidity
B to increase profitability
C to reduce gearing
D to reduce revenue reserves

- 19 A company plans to reduce its capital gearing.

How can this be achieved?

- A** by issuing new preference shares
B by making a bonus issue of shares
C by obtaining a long term loan
D by redeeming debentures

20 A company has 1 million ordinary shares in issue and the following reserves.

| | \$ |
|-------------------------|--------|
| share premium | 40 000 |
| revaluation reserve | 20 000 |
| general reserve | 80 000 |
| Profit and Loss Account | 30 000 |

What is the maximum dividend per share?

- A** \$0.03 **B** \$0.11 **C** \$0.13 **D** \$0.17

21 A chemical processing company puts a product through a single process. In a period it put 600 kg of material into a process at a cost of \$2.50 per kg, and conversion costs were \$348.

The normal loss is 20% with no scrap value. The output was 470 kg. There was no opening and no closing work-in-progress.

What is the price per kg of the normal output?

- A** \$3.08 **B** \$3.23 **C** \$3.85 **D** \$3.93

22 A product is manufactured using two processes (process 1 followed by process 2).

What is the cost of the materials used in process 2?

- A** the cost of materials added in process 2
B the cost of materials used in process 1 and materials added in process 2
C the cost of materials, labour, and overhead transferred from process 1
D the cost of materials, labour and overhead transferred from process 1 plus the cost of materials added in process 2

23 A company manufactures products W, X, Y and Z using a common material.

| | product W | product X | product Y | product Z |
|----------------------------|-----------|-----------|-----------|-----------|
| contribution per unit | \$10 | \$12 | \$14 | \$16 |
| units of material required | 5 litres | 4 litres | 6 litres | 7 litres |

If there is only enough material to make three of the products, which product should be discontinued?

- A product W
 - B product X
 - C product Y
 - D product Z
- 24 How are abnormal losses treated in process costing?
- A added to the process cost
 - B transferred from the one process to the following process
 - C transferred from the process account to cost of sales
 - D written off to the Profit and Loss Account
- 25 Which figures would **not** be incorporated into a budgeted Profit and Loss Account?
- A cash budgets
 - B overhead budget
 - C purchases budget
 - D wages budget
- 26 What should a company prepare to forecast its state as a going concern at the end of next year?
- A cash budget
 - B cash flow statement
 - C forecast Balance Sheet
 - D forecast Profit and Loss Account

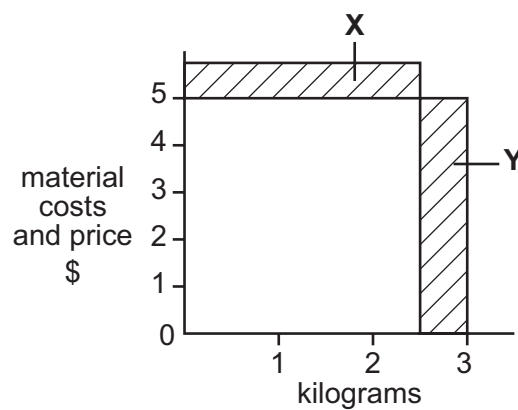
27 What is not a purpose of a budget?

- A to communicate strategies and objectives downwards to staff at all levels
- B to design an action plan to help achieve the next year's objectives
- C to develop a long-term strategy
- D to prepare an operational plan for the immediate future

28 The table shows the unit material costs of a product.

| standard | | actual | |
|--------------------|----------|--------------------|----------|
| quantity kilograms | price \$ | quantity kilograms | price \$ |
| 3.00 | 5.00 | 2.50 | 5.50 |

The material costs and quantities are shown in the graph.



What do the areas **X** and **Y** represent?

| | X | Y |
|----------|-----------------------------|-----------------------------|
| A | favourable price variance | favourable usage variance |
| B | favourable price variance | unfavourable usage variance |
| C | unfavourable price variance | favourable usage variance |
| D | unfavourable price variance | unfavourable usage variance |

- 29 A sales budget for one product was based on 500 units at \$10 per unit. The actual sales were 600 units for total sales revenue of \$5850.

What are the volume and price variances?

| | volume/\$ | price/\$ |
|----------|-----------|----------|
| A | 150 F | 850 F |
| B | 850 F | 150 F |
| C | 1000 F | 150 A |
| D | 1000 A | 150 F |

- 30 A company has \$5 000 000 to invest and has identified the following five projects.

| project number | capital required \$ million | NPV of project \$ million |
|----------------|-----------------------------|---------------------------|
| 1 | 5 | 1.4 |
| 2 | 4 | 1.2 |
| 3 | 3 | 1.0 |
| 4 | 2 | 0.8 |
| 5 | 1 | 0.5 |

Which projects should it select?

- A** 1 only **B** 2 and 5 **C** 3 and 4 **D** 3 and 5

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