

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING

9706/03

Paper 3 Multiple Choice

October/November 2005

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 **10** printed pages and **2** blank pages.



- 1 Which item would **not** appear under “Returns on investments and servicing of finance” in a cash flow statement?
- A** ordinary share dividends paid
B ordinary share dividends received
C preference share dividends paid
D preference share dividends received
- 2 Extracts from the Balance Sheets of a company show:

	at 30 September 2004 \$	at 30 September 2005 \$
net assets	<u>16 000</u>	<u>24 000</u>
financed by:		
issued share capital	10 000	15 000
share premium account	–	2 500
revaluation reserve	500	800
Profit and Loss Account	3 500	4 200
debentures	<u>2 000</u>	<u>1 500</u>
	16 000	24 000

What is the net cash movement from “Financing” for the year ended 30 September 2005?

- A** \$7 000 **B** \$7 300 **C** \$7 500 **D** \$8 000
- 3 The following items appear in a company’s Profit and Loss Account.

	\$
profit, after charging or crediting the following items	16 800
annual depreciation charge	6 000
loss on sale of tangible assets	1 800
interest paid	7 500
profit on sale of tangible assets	1 100

What is the cash flow from operating activities?

- A** \$15 700 **B** \$29 600 **C** \$31 000 **D** \$33 200

4 Which statement is correct?

- A A capital redemption reserve may be used to finance the redemption of redeemable preference shares.
- B All of the issued share capital may be redeemed.
- C Partly paid redeemable preference shares may be redeemed.
- D The company's Articles of Association must authorise the issue of redeemable shares.

5 A business redeems debentures by cash payment.

What is the effect of this?

	equity	long term liabilities	working capital
A	decrease	decrease	decrease
B	decrease	decrease	no change
C	no change	decrease	decrease
D	no change	increase	decrease

6 When may a company issue redeemable preference shares?

- A when it has already issued non-redeemable debentures
- B when it has already issued non-redeemable shares
- C when it has already redeemed its debentures
- D when it has sufficient reserves to fund the issue

7 The Balance Sheet of a company includes the following.

	\$000
Ordinary share capital	600
Share Premium account	200
Retained profit	<u>100</u>
	900
10% Debenture stock 2003/2005	120

The company has decided to redeem all its debenture stock at a premium of 10%.

Which of the following is true?

- A** The company must create a Capital Redemption Reserve.
 - B** The debenture stock must have been issued at a premium.
 - C** The premium may be debited to the Share Premium account.
 - D** The premium must be debited in the Profit and Loss Account.
- 8 Why might a company repay part of its share capital?
- A** Its cash reserves exceed its requirements for the foreseeable future.
 - B** Its shareholders need the cash.
 - C** Its shares are valued below their nominal value on the open market.
 - D** It wishes to decrease its gearing.
- 9 A limited company purchases a business by issuing 320 000 ordinary shares of \$1.00 each at a premium of \$0.75 per share. Goodwill of \$150 000 arises on the purchase.

What is the fair value of the separable net assets?

- A** \$170 000
- B** \$410 000
- C** \$560 000
- D** \$710 000

10 The summarised Balance Sheet of a sole trader shows:

	\$
fixed assets	200 000
net current assets	10 000
	<u>210 000</u>
capital	<u>210 000</u>

He agrees to sell his business to a limited company. The purchase consideration is \$260 000 being made up of \$60 000 cash
\$80 000 debentures and
180 000 ordinary shares of \$0.50 each.

Which amount will be credited to the share premium account of the limited company?

- A** \$30 000 **B** \$50 000 **C** \$90 000 **D** \$120 000

11 X Ltd buys the business of Y with an issue of 400 000 shares of \$1.00 each at a premium of \$0.25 and \$100 000 in cash.

The table shows an extract from the balance sheet of Y.

	\$000
fixed assets	260
current assets	80
current liabilities	50

How much is paid for Goodwill by X Ltd?

- A** \$210 000 **B** \$260 000 **C** \$310 000 **D** \$340 000

12 Which item is required in the directors' report of a limited company?

- A** changes in stocks of finished goods
B distribution costs
C principal activities of the company
D turnover

- 13** A company has issued \$1 000 000 of 8 % convertible loan stock, which the holder can convert in November 2007 into ordinary shares at a rate of 1 share for each \$2.00 of loan stock held.

What is the correct presentation in the final accounts for the year ended 31 December 2004?

	Balance Sheet	\$	Profit and Loss	\$
A	Long Term loan	1 000 000	Dividend	80 000
B	Long Term loan	1 000 000	Loan Interest	80 000
C	Ordinary Share Capital	500 000	Dividend	40 000
D	Ordinary Share Capital	500 000	Loan Interest	40 000

- 14** A company's convertible loan stock will be converted into ordinary shares on 1 January 2007.

How should the company show it in its Balance Sheet at 31 December 2004?

- A** authorised capital
- B** creditors : amounts falling due after more than one year
- C** creditors : amounts falling due within one year
- D** issued share capital
- 15** What is the correct treatment of non-purchased (inherent) goodwill in the accounts of a company?
- A** do not recognise its existence
- B** include it in the Balance Sheet as an asset at valuation
- C** include it in the Balance Sheet as an asset, to be amortised
- D** write it off against reserves
- 16** A company has an authorised share capital of one million shares of \$1.00 each and an issued capital of 800 000 shares of \$1.00 each. It pays a 10 % dividend. The current dividend yield is 5%.

What is the market price of one share?

- A** \$1.00 **B** \$1.60 **C** \$2.00 **D** \$2.50

- 17 A company has ordinary share capital of \$5 million in shares of \$0.50 and has the following results:

	\$000
operating profit before depreciation	12 000
depreciation	1 500
interest payable	2 000
preference dividends paid	500

What is the company's earnings per share for the period?

- A** \$0.80 **B** \$0.85 **C** \$1.00 **D** \$1.70
- 18 A company has decided to increase its gearing.
By which method can this be achieved?
- A** increasing retained profits
B issuing additional debentures
C issuing new ordinary shares
D redeeming debentures
- 19 Which of the following may be used to smooth distributable profits from one year to another?
- A** asset revaluation reserve
B capital redemption reserve
C general reserve
D provisions for depreciation
- 20 For what purpose might management undertake sensitivity analysis?
- A** to calculate employees' bonuses
B to determine levels of depreciation
C to determine the effect of dividends on profit
D to determine the selling price of a product

21 The data is given for four products.

product	number of units to be made	selling price per unit \$	variable cost per unit \$	total fixed cost of product \$
1	1000	5.00	3.50	700
2	2000	6.00	4.80	1500
3	1000	7.00	5.00	1400
4	3000	4.00	2.50	3800

The fixed cost of each product will be incurred only if the product is made.

There is sufficient capacity in the factory to make only three of the product lines.

Which choice of products will give the greatest profit?

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

22 When should a manufacturing company purchase its products from an outside supplier?

When the price is:

- A** less than the selling price but more than the total cost.
- B** less than the marginal cost of production.
- C** less than the marginal cost of sales but more than the marginal cost of production.
- D** less than the total cost but more than the marginal cost of sales.

23 A company makes 500 units and sells these units at \$50 each. The direct materials cost \$7500, direct labour costs \$2500 and fixed overheads are \$8400.

How much profit will be made if the company increases the number of units to 600?

- A** \$7920
- B** \$9600
- C** \$10 100
- D** \$11 600

- 24 A company has forecast the following sales for the first three months of next year.

month	units
1	2000
2	2100
3	2400

At the start of month 1 there were 300 units in stock. The company requires that the closing stock at the end of each month should be equal to $\frac{1}{3}$ of the sales for the following month.

How many units must be produced in month 2?

- A 2000 units
 B 2200 units
 C 2400 units
 D 2900 units
- 25 A businessman starts trading with a bank balance of \$124 000. The budget for the first three months shows the following:

	month 1 \$	month 2 \$	month 3 \$
cash sales in month	30 000	40 000	35 000
credit sales (terms 30 days)	20 000	22 000	24 000
purchases (terms 60 days)	25 000	28 000	30 000
expenses paid in month	12 000	13 000	64 000

What is the budgeted opening bank balance at the start of month 3?

- A \$123 000 B \$158 000 C \$164 000 D \$189 000
- 26 K Limited is planning an advertising campaign to promote its product. The campaign will cost \$14 000.

This is budgeted to increase sales volume in the second half of the year by 12%. Sales for the first half of the accounting year are budgeted at 30 000 units at a contribution of \$4.20.

How much additional net profit should be budgeted as a result of the advertising campaign?

- A nil B \$400 C \$560 D \$1120

27 A business operates a standard costing system.

At the end of the year the hourly rate paid to workers and the production per worker are less than budgeted.

A greater amount of lower priced materials than budgeted has been used.

What is the correct combination of variances?

	labour rate	labour efficiency	material price	material usage
A	adverse	adverse	favourable	favourable
B	favourable	adverse	favourable	adverse
C	favourable	adverse	adverse	adverse
D	favourable	adverse	adverse	favourable

28 Which statement about standard costing is **not** true?

- A** It can be used for budgeting.
- B** It can be used for responsibility accounting.
- C** It can be used to calculate marginal costs.
- D** It can be used to calculate the average cost of stock.

29 Which method of investment appraisal uses profits as the basis for calculation?

- A** accounting rate of return
- B** discounted cash flow
- C** internal rate of return
- D** payback

30 The table shows the calculation of the net present value of a potential project.

year	cash flow	\$	discount factor at 10%	present value
0	initial cost	(10 000)	1.00	(10 000)
1	receipt	6 000	0.91	5 460
2	receipt	6 000	0.83	<u>4 980</u>
			net present value	<u>440</u>

Which cash inflow during Year 1 will give a net present value of zero for the project?

- A** \$5516
- B** \$5560
- C** \$5900
- D** \$6440

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