



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level



**ACCOUNTING**

**9706/32**

Paper 3 Multiple Choice

**October/November 2012**

**1 hour**

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

\* 3 6 3 8 5 4 5 9 0 2 \*

**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 X, Y and Z are in partnership sharing the profits 3:2:1 respectively. The net profit for the year was \$120 000. During the year, Z withdrew a salary of \$12 000 in cash. This had not been recorded in the books.

What was X's share of the residual profit?

- A** \$22 000      **B** \$30 000      **C** \$36 000      **D** \$54 000

- 2 X and Y are in partnership sharing profit and losses equally. They admit Z into the partnership and profits and losses are still shared equally.

The following transactions take place.

- 1 Z introduces capital of \$50 000.
- 2 Goodwill is valued at \$30 000. No goodwill account is to be kept in the books of account.
- 3 X takes a computer from the business at a value of \$3000.

After all the above transactions have taken place, the balance on X's capital account is \$60 000.

What was the opening balance on X's capital account?

- A** \$55 000      **B** \$58 000      **C** \$65 000      **D** \$75 000

- 3 The financial year for a manufacturer ends on 30 June. Finished goods are valued at cost plus 25%.

The following information is available.

|                             | start of year 1<br>\$ | end of year 1<br>\$ |
|-----------------------------|-----------------------|---------------------|
| inventory of finished goods | 400 000               | 500 000             |

How much should be deducted from the inventory of finished goods for unrealised profit at the end of year 1 in the statement of financial position?

- A** \$20 000      **B** \$80 000      **C** \$100 000      **D** \$125 000

- 4 The summary statement of financial position for a limited company is shown below.

|                     | \$               |
|---------------------|------------------|
| net assets          | <u>1 600 000</u> |
| \$1 ordinary shares | 2 000 000        |
| retained earnings   | (1 600 000)      |
| debentures          | <u>1 200 000</u> |
|                     | <u>1 600 000</u> |

The company proposes a capital reconstruction scheme with the following terms.

- 1 Losses will be eliminated.
- 2 Net asset values will be reduced to \$1 400 000.
- 3 All existing shares and debentures will be cancelled.
- 4 2 400 000 new \$0.25 ordinary shares and \$800 000 debentures will be issued at par to existing stakeholders.

What is the value of the capital employed of the company immediately after the reconstruction?

- A** \$600 000      **B** \$1 400 000      **C** \$1 600 000      **D** \$3 000 000

- 5 A company has issued shares at a premium.

For what purpose may the balance on the share premium account be used?

- A** to write off a loss on the revaluation of non-current assets  
**B** to write off the discount on a new issue of shares  
**C** to write off the losses on a capital reduction  
**D** to write off the preliminary expenses incurred in forming the company

- 6 A company's statement of financial position at 31 December 2011 includes the following.

|                           | \$     |
|---------------------------|--------|
| ordinary shares of \$1.00 | 12 000 |
| retained earnings         | 4 000  |

In January 2012, the company made a bonus issue of one share for every four held.

In June 2012, the company made a rights issue at \$1.60 of one share for every two held.

By how much did these transactions increase the company's bank balance?

- A** \$9 600      **B** \$12 000      **C** \$12 800      **D** \$19 200

- 7 A business has the following capital structure.

|                                | \$ million |
|--------------------------------|------------|
| ordinary shares of \$1.00 each | 20         |
| retained earnings              | 25         |
| capital employed               | 45         |

The company makes a bonus issue of one share for every 10 held.

After this, the company makes a rights issue at par of one share for every 5 held.

What is the capital employed after these transactions take place?

- A** \$47.2 million  
**B** \$49.2 million  
**C** \$49.4 million  
**D** \$51.4 million
- 8 A statement of financial position for a company shows the following.

|                                  | \$000      |
|----------------------------------|------------|
| \$1 ordinary shares              | 40         |
| \$1 redeemable preference shares | 10         |
| capital redemption reserve       | 10         |
| retained profits                 | <u>140</u> |
|                                  | 200        |

The preference shares are redeemed at a cost of \$30 000.

What is the resulting final capital redemption reserve balance?

- A** \$0                      **B** \$10 000                      **C** \$20 000                      **D** \$40 000
- 9 X Ltd purchases Y Ltd. The purchase consideration was one million ordinary shares of \$1.00 each. The shares had a market value of \$1.50 each. Y Ltd had net assets of \$500 000 with a fair value of \$700 000.
- How much is the goodwill on acquisition?
- A** \$300 000                      **B** \$500 000                      **C** \$800 000                      **D** \$1 000 000

10 A company's statement of financial position is as follows.

|        | \$      |                      | \$      |
|--------|---------|----------------------|---------|
| assets | 750 000 | capital and reserves | 600 000 |
|        |         | loans                | 150 000 |

Company X agrees to buy all the assets of this company at net book value. The purchase consideration is the issue of a debenture of \$200 000 plus 36 000 \$5 ordinary shares for the balance.

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

- A** \$180 000      **B** \$220 000      **C** \$370 000      **D** \$380 000

11 The following information is available for a limited company for years 1 and 2.

|                    | year 1<br>\$ | year 2<br>\$ |
|--------------------|--------------|--------------|
| dividends proposed | 90 000       | 110 000      |
| interim dividend   | 20 000       | 30 000       |

What is the amount to be entered as cash flow from financing activities in the statement of cash flow for year 2?

- A** \$110 000      **B** \$120 000      **C** \$130 000      **D** \$140 000

12 In a set of limited company accounts, which item would be included in the statement of changes in equity?

- A** accountant's fees  
**B** debenture interest  
**C** directors' remuneration  
**D** interim dividend payment

13 What is required to be disclosed in the directors' report?

- A** accounting policies  
**B** directors' remuneration  
**C** earnings per share  
**D** the principal activity of the company

- 14 The following is an extract from the statement of financial position of a limited company at the start of the financial year.

|                             | \$000      |
|-----------------------------|------------|
| ordinary shares of \$1 each | 50         |
| convertible 10% loan stock  | 30         |
| retained earnings           | <u>120</u> |
| total equity                | 200        |

During the year, the following took place.

- 1 The company made a profit from operations of \$40 000.
- 2 The interest on the convertible loan stock was paid.
- 3 The loan stock was converted to an equal number of ordinary shares.
- 4 A dividend of 10% was paid on the new total share capital.

What was the total of the total equity at the end of the financial year?

- A** \$229 000      **B** \$232 000      **C** \$237 000      **D** \$240 000

- 15 According to IAS37 (Provisions, contingent liabilities and contingent assets), when should a provision be recognised?

- A** There is a possible future obligation to pay an amount which cannot be reliably estimated.  
**B** There is a possible future obligation to pay a known amount.  
**C** There is a present obligation to pay a known amount.  
**D** There is a probable future obligation to pay an amount which can be reliably estimated.

- 16 A company has a share price that gives a dividend yield of 4%. Earnings per share are \$0.32 and half the earnings are paid out as dividends.

What is the share price?

- A** \$2.00      **B** \$4.00      **C** \$6.00      **D** \$8.00

- 17 A company's trade receivables are \$120 000 and the credit period is 30 days.

The company's budget for next year provides for an increase in trade receivables of 25% and the credit period given will increase to 60 days.

What will be the budgeted trade receivable total at the end of next year?

- A** \$150 000      **B** \$240 000      **C** \$300 000      **D** \$480 000

- 18** A company has an issued share capital of 8 million shares at \$0.50 par value.  
It pays a dividend of \$1.6 million. The dividend yield is currently 12.5%.

What is the current market price of each share?

- A** \$0.50            **B** \$0.80            **C** \$1.60            **D** \$3.20
- 19** What is a reason for a company issuing bonus shares?
- A** to increase liquidity  
**B** to increase profitability  
**C** to reduce gearing  
**D** to reduce reserves
- 20** The following information relates to the production data for a process.

| details         | kgs  | \$   | finished units<br>in kgs | work in progress<br>in kgs |
|-----------------|------|------|--------------------------|----------------------------|
| direct material | 1000 | 3000 | 900                      | 100                        |
| direct labour   |      | 3800 |                          |                            |
| overheads       |      | 1900 |                          |                            |

The work in progress is fully complete in respect of direct materials and 50% complete in respect of direct labour and overheads.

What is the value of the finished goods stock?

- A** \$7830            **B** \$8100            **C** \$8130            **D** \$8700
- 21** Which statement about marginal costing is correct?
- A** It is used for decision-making.  
**B** It is used to assess capital expenditure.  
**C** It is used when preparing published accounts.  
**D** It only considers fixed costs.

- 22** Using marginal costing to value its inventory, a company made a loss of \$31 000.

Opening inventory was 6500 units and closing inventory was 5000 units. The fixed overhead absorption rate was \$5 per unit.

How much would the loss have been if the company valued its inventory using absorption costing?

- A** \$23 500      **B** \$31 000      **C** \$38 500      **D** \$56 000

- 23** A company prepares an expenses budget for three different levels of output. This is shown in the table below.

| output                  | 10 000 units<br>\$ | 11 000 units<br>\$ | 12 000 units<br>\$ |
|-------------------------|--------------------|--------------------|--------------------|
| direct materials        | 30 000             | 30 000             | 30 000             |
| direct labour           | 10 000             | 10 000             | 10 000             |
| semi-variable overheads | 12 000             | 12 000             | 12 000             |
| fixed overheads         | 8 000              | 8 000              | 8 000              |

What is this an example of?

- A** fixed budget
- B** flexible budget
- C** master budget
- D** rolling budget
- 24** What is regarded as a problem when operating a budgetary control system?
- A** All managers participate in the budgetary process to feel involved in its achievement.
- B** Budgetary slack is built in by managers, meaning standards are of little use in measuring performance.
- C** Financial incentives and rewards for managers are based on their achievement of the budget.
- D** Managers are provided with regular feedback on their performance against budget.



25 The following budgeted information is supplied.

|                        |            |
|------------------------|------------|
| selling price per unit | \$150      |
| total costs per unit   | \$120      |
| budgeted sales         | 6000 units |

Variable costs are 40 % of total costs.

What are the total budgeted fixed overheads for the period?

- A** \$288 000      **B** \$360 000      **C** \$432 000      **D** \$540 000

26 The standard material cost of producing 1500 units of a product are shown below

|            |                          | \$     |
|------------|--------------------------|--------|
| material X | 9000 kgs at \$4 per kg   | 36 000 |
| material Y | 18 000 kgs at \$3 per kg | 54 000 |

The actual material cost to produce 1500 units was as follows.

|            |            | \$     |
|------------|------------|--------|
| material X | 8500 kgs   | 34 425 |
| material Y | 18 200 kgs | 53 690 |

What is the total material usage variance?

- A** \$1400 favourable  
**B** \$1435 favourable  
**C** \$2600 favourable  
**D** \$2615 favourable

27 A company sells its products at \$2.10 per unit. The standard selling price is \$1.80.

In order to try to increase its sales it reduced the selling price by \$0.20. The effect of this was to sell 100 units more than the budgeted sales figure of 1000 units.

What effect will this have on the following variances?

|          | sales price variance | sales volume variance |
|----------|----------------------|-----------------------|
| <b>A</b> | adverse              | adverse               |
| <b>B</b> | adverse              | favourable            |
| <b>C</b> | favourable           | adverse               |
| <b>D</b> | favourable           | favourable            |

28 A company has set its standard price for raw material at \$1.90 per kg.

Its current supplier has recently increased the price from \$1.80 per kg to \$1.85 per kg.

For the month, the company used 3000 kg in production. The standard usage should have been 2800 kg.

What were the material variances for the month?

|          | material price variance | material usage variance |
|----------|-------------------------|-------------------------|
| <b>A</b> | adverse                 | adverse                 |
| <b>B</b> | adverse                 | favourable              |
| <b>C</b> | favourable              | adverse                 |
| <b>D</b> | favourable              | favourable              |

29 A company is negotiating a price for some capital equipment to modernise its production process.

It has evaluated the impact the equipment will have on its future manufacturing costs. The details are shown.

|  | \$        |
|--|-----------|
| expected cash flows without the purchase of the new equipment            | (180 000) |
| expected discounted cash flows without the purchase of the new equipment | (132 000) |
| expected cash flows when the equipment is purchased                      | (100 000) |
| expected discounted cash flows when the equipment is purchased           | (65 000)  |

What is the maximum price the company should pay for the equipment?

- A** \$35 000      **B** \$58 000      **C** \$67 000      **D** \$80 000

30 Which capital investment appraisal methods do **not** take into account all the cash flows of a project?

- 1 discounted payback
- 2 internal rate of return
- 3 net present value
- 4 payback period

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

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