

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level**ACCOUNTING****9706/03**

Paper 3 Multiple Choice

**For Examination from 2010**

SPECIMEN PAPER

**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's convertible loan stock will be converted to ordinary shares on 1 January 2012.

Under which heading should the company that has issued the convertible loan stock show it in its balance sheet at 31 December 2009?

- A** authorised capital
- B** non-current liabilities
- C** current liabilities
- D** issued share capital
- 2 A company has just been wound up and the only assets that remain have realised \$45 000.

A summary of the company's capital structure shows:

ordinary shares	\$20 000
preference shares	\$40 000
loan stock	\$30 000

How will the \$45 000 be distributed?

	ordinary shares	preference shares	loan stock
	\$	\$	\$
<b>A</b>	10 000	20 000	15 000
<b>B</b>	–	15 000	30 000
<b>C</b>	20 000	25 000	–
<b>D</b>	–	40 000	5 000

- 3 The table shows the fair value of net assets of a business.

	\$
intangibles other than goodwill	65 000
tangible non-current assets	160 000
net current liabilities	(25 000)
book value of goodwill	40 000

The assets are acquired by a company for \$215 000.

What is the value of goodwill arising on acquisition in the purchaser's books?

	goodwill	\$
<b>A</b>	positive	15 000
<b>B</b>	negative	15 000
<b>C</b>	negative	25 000
<b>D</b>	positive	40 000

- 4 The net assets of a business have been valued at \$90 000. The business is sold to a limited company for \$125 000. The purchase price is to be settled by the issue of 100 000 ordinary shares of \$1 fully paid in the company.

What will the shares be issued at?

- A** a premium of \$0.10  
**B** a premium of \$0.25  
**C** a premium of \$0.35  
**D** par
- 5 Which of the following actions will reduce a company's capital gearing?
- A** incur a bank overdraft  
**B** issue debentures  
**C** issue preference shares  
**D** retain profits

- 6 Which of the following shows the effect of a company increasing the value of its non-current assets?

	return on capital employed	asset utilisation ratio	gearing
<b>A</b>	decrease	decrease	decrease
<b>B</b>	decrease	decrease	increase
<b>C</b>	increase	decrease	increase
<b>D</b>	increase	increase	increase

- 7 A company has issued share capital as follows:

	\$
Ordinary shares of \$0.50 fully paid	100 000
10% Preference shares of \$1 fully paid	50 000

An extract from its latest income statement is as follows:

	\$	\$
Profit after tax		47 000
Transfer to general reserve		<u>(7 000)</u>
		40 000
Proposed dividends		
preference	5 000	
ordinary	<u>10 000</u>	<u>(15 000)</u>
Retained profit		25 000

What are the earnings per share?

- A** \$0.175      **B** \$0.21      **C** \$0.35      **D** \$0.40
- 8 Which adjustment will result in an increase in a company's profit for the year?
- A** the amortisation of goodwill
- B** the application of reserves for the issues of bonus shares
- C** the capitalisation of development costs
- D** the upward revaluation of fixed assets

- 9 An extract from the income statement of a company for the year ended 31 August 2009 shows the following:

	\$
operating profit	40 000
less debenture interest	<u>6 000</u>
	34 000
profit on sale of investment shares	<u>68 000</u>
	102 000
transfer to general reserve	<u>30 000</u>
unappropriated profit for year	<u>72 000</u>

What was the distributable profit for the accounting year ended 31 August 2009?

- A \$34 000      B \$40 000      C \$72 000      D \$102 000
- 10 A company's balance sheet includes:

	\$
Capital and Reserves:	
Ordinary shares of \$0.50 each fully paid	84 000
Income statement (accumulated profits)	<u>117 200</u>
	<u>201 200</u>

The company makes a one-for-two rights issue of ordinary shares of \$0.50 each, at \$1.30. The issue was fully subscribed.

A bonus issue of two-for-three ordinary shares of \$0.50 followed.

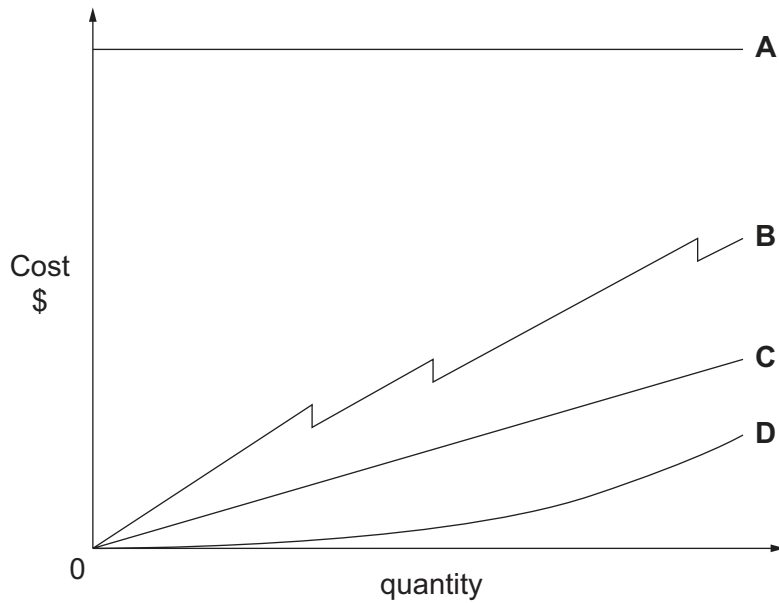
What is now the balance of the income statement (accumulated profits)?

- A \$117 200      B \$61 200      C \$33 200      D 75 200
- 11 A company has an authorised ordinary share capital of \$1 million (50% issued), \$200 000 of 10% fully paid-up preference shares and \$200 000 of 8% debentures. Profits before interest for the current year are \$100 000.

If the profits were fully distributed which ordinary share dividend would they be sufficient to pay?

- A 8%      B 12.8%      C 16%      D 16.8%

- 12 Which line in the graph best represents the behaviour of the purchase price of a stores item affected by bulk purchase discounts?



- 13 A carpenter and his one employee are working at full capacity and cannot take on more work. The bank overdraft is at its limit and the bank has asked to see budgets for the next 12 months.

Which of the following budgets should be prepared first?

- A cash
  - B labour
  - C materials
  - D sales
- 14 When preparing budgets, depreciation is
- A excluded from all budget statements
  - B included in the capital expenditure budget
  - C included in the cash budget
  - D included in the master budget

- 15 Which one of the following is normally the most appropriate sequence in preparing budgets?

Sales budget, followed by

- A cash budget, budgeted balance sheet, production budget
- B cash budget, production budget, budgeted balance sheet
- C production budget, cash budget, budgeted balance sheet
- D production budget, budgeted balance sheet, cash budget

- 16 A company has a policy of holding stock equal to next month's expected sales plus 10%.

The table shows the budgeted sales for the next three months.

month	units
April	200
May	180
June	240

What must be the company's production in May, in order to achieve its policy?

- A 178                      B 222                      C 246                      D 264

- 17 A company buys materials in one month and uses them in production the next month. The finished goods are sold in the third month after production (for example, materials bought in January are used in February, and the goods are sold in May). Suppliers allow two months' credit.

Sales are budgeted at \$75 000 in January, rising by \$5000 per month over the year. Material costs are 50% of sales revenue.

The budgeted payment for materials in August is:

- A \$50 000              B \$52 500              C \$55 000              D \$57 500

- 18 The cash budget of a company for the next six months shows a cash deficiency of \$30 000 at the end of the period.

Which possible remedy will overcome the cash deficiency?

- A a rights issue to existing ordinary shareholders; the issue's net proceeds will be \$31 000
- B cancelling a planned depreciation charge of \$34 000
- C delaying for one year a bonus issue of 30 000 shares of \$1 each to the existing ordinary shareholders
- D the inclusion of the company's freehold property in the accounts at its current valuation of \$100 000 instead of cost of \$64 000

19 The table shows the budget information for a business.

Sales and production	20 000 units
Sales	\$400 000
Variable costs	\$280 000
Fixed costs	\$50 000

Actual production and sales were 14 000 units.

Using a fixed budget, what would the profit be?

- A** \$28 000      **B** \$34 000      **C** \$49 000      **D** \$84 000

20 A company operates a standard costing system. Which of the following help the net profit to be improved?

- A** an allowance for idle time
- B** a favourable labour variance
- C** a flexible budget
- D** an over-recovery of overheads

21 A company's monthly budgeted sales were \$100 000, based on a selling price of \$50 per unit and a unit cost of \$25.

In Month 3, 2100 units were sold for \$100 800.

What was the sales price variance for the month?

- A** \$800 adverse
- B** \$800 favourable
- C** \$4200 adverse
- D** \$4200 favourable

22 A company that uses a standard costing system experiences an unfavourable material usage variance.

Which reason could **not** explain this?

- A** an increase in the price of raw materials
- B** low staff morale in the factory
- C** recruitment of a lower calibre of employee
- D** the use of a lower grade material



- 23 A company uses a standard costing system. The standard labour cost per unit is 4 hours at \$7.20 per hour.

2500 units were produced. 9700 hours were worked at a cost of \$72 800.

What were the labour rate variance and the labour efficiency variance?

	labour rate variance	labour efficiency variance
	\$	\$
<b>A</b>	800 (A)	2160 (F)
<b>B</b>	800 (A)	3600 (F)
<b>C</b>	2960 (A)	2160 (F)
<b>D</b>	2960 (A)	3600 (F)

- 24 Events occurring after a balance sheet date are classified as either 'adjusting events' or 'non-adjusting events'. An adjusting event is one which requires a change in the financial accounts.

Which of the following is an example of an adjusting event?

- A** changes in rates of foreign exchange
  - B** the issue of shares
  - C** the insolvency of a major debtor
  - D** the purchase of investments
- 25 A company manufactures three products for which the following details (per unit) are available.

	product X	product Y	product Z
sales value	\$12.00	\$12.00	\$22.50
direct material cost	\$5.00	\$4.00	\$8.00
labour cost	\$4.00	\$6.00	\$4.50
labour hours	2	0.8	3

If labour hours are restricted in supply, which order of priority should the company adopt when planning its production?

	first	→	last
<b>A</b>	Y	X	Z
<b>B</b>	Y	Z	X
<b>C</b>	Z	X	Y
<b>D</b>	Z	Y	X

26 Which technique of investment appraisal takes depreciation into account?

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

27 A company is considering an investment of \$50 000 which will yield the following annual net cash flows over the three-year life span.

The company's cost of capital is 10%

year	cash flow \$	present value at 10%
1	20 000	18 180
2	30 000	24 780
3	35 000	26 285

What is the NPV of the project?

- A \$15 165
- B \$19 245
- C \$21 560
- D \$35 000

28 A company plans to invest \$1 million in the current period. The table shows five projects.

project	capital requirement (current period) \$m	NPV \$m
1	1.2	5.0
2	1.0	2.5
3	0.6	1.5
4	0.4	1.2
5	0.4	1.0

Which project(s) should the company undertake to maximise its shareholders' wealth?

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

- 29 A company is proposing to introduce a new product, 'Neurin', which is expected to yield net receipts of \$12 000 per annum. Production of 'Neurin', will use two machines:

**Machine 1** was purchased a year ago at a cost of \$10 000.

It is currently being used to produce 'Parsin' a product which yields net cash receipts of \$8000 annually. If this machine is employed to produce 'Neurin', production of 'Parsin' will cease.

**Machine 2** will have to be purchased at a cost of \$16 000 and will be used exclusively on the production of 'Neurin'.

What is the payback period of the proposal to make 'Neurin'?

- A** 1.3 years      **B** 2.2 years      **C** 4 years      **D** 6.5 years
- 30 A project is forecast to cost \$600 000, with varying annual cash inflows.

The net present value has been calculated at two discount rates as shown.

discount rate	net present value
9%	+\$16 142
13%	-\$4931

What is the approximate Internal Rate of Return?

- A** 9%      **B** 10%      **C** 12%      **D** 13%

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