

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING

9706/03

Paper 3 Multiple Choice

October/November 2003

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 When a company calculates the net present value of proposed capital expenditure, which rate does it use to discount annual income and expenditure?
- A** cost to the company of providing the initial outlay
B current rate of inflation
C rate of interest payable on a bank overdraft
D rate which will give the highest net present value
- 2 What is not included in cash flow statements?
- A** capital commitments
B foreign currency deposits
C liquid investments
D taxation
- 3 The table shows an extract taken from the final accounts of a limited company.

	\$
purchases of	
machine	100 000
vehicle	10 000
disposal of motor vehicle	
original cost	5 000
net book value	500
part exchange value	1 500

The only acquisitions and disposals were those stated above.

What will be the net cash outflow as a result of these transactions?

- A** \$103 500 **B** \$108 500 **C** \$110 000 **D** \$115 000
- 4 When a company redeems shares, it may create a capital redemption reserve. Why does it create this reserve?
- A** to make the Balance Sheet balance
B to protect the creditors' rights
C to provide cash for the redemption
D to replace the cash used in the redemption

5 A company's Balance Sheet shows:

	\$
Ordinary share capital	60 000
Redeemable preference shares	300 000
Revaluation reserve	100 000
Share premium	200 000
Profit and Loss Account	400 000

The preference shares are to be redeemed at par with no new issue of shares. The company wishes to maintain maximum distributable profits.

What will the balance on the Profit and Loss Account be after redemption of the shares?

- A** \$100 000 **B** \$200 000 **C** \$300 000 **D** \$400 000

6 A company's Balance Sheet extract is given.

	\$
Share capital and reserves	
Ordinary share capital (shares of \$1.00)	1 000 000
Profit and Loss Account	(300 000)
	<u>700 000</u>

The directors have decided to write off the debit balance on the Profit and Loss Account together with Goodwill of \$100 000.

The shareholders agreed to exchange their shares for new ordinary shares of \$0.50.

How many shares will the directors have to issue to the shareholders?

- A** 600 000 **B** 700 000 **C** 1 200 000 **D** 1 400 000

7 A limited company purchases a partnership. It issues to the partners 10% debentures and pays them cash in full settlement of the purchase price.

Which of the following is true?

- A** The company's gearing is reduced.
B The company intended to expand its business.
C The company's reserves are reduced.
D The partners now own some of the equity in the company.

- 8 A limited company acquires a business from a sole trader.

The net assets of the business are \$612 000. The purchase price has been agreed at \$700 000.

The Goodwill element is to be paid in cash. The balance of the consideration is to be made by the issue of 300 000 shares of \$0.50 each valued at \$1.80 per share and the balance in 7% loan stock valued at \$90 per \$100.

What is the par value of the loan stock?

- A \$64 800 B \$72 000 C \$80 000 D \$177 778

- 9 A company acquires the business of an unincorporated trader.

The net assets are acquired at the following agreed values.

	\$
premises	35 000
other fixed assets	19 500
net current assets	25 000
bank overdraft	8 000

The company pays for the business by issuing 75 000 shares of \$0.50 each.

What is the premium on each share, to the nearest cent?

- A \$0.17 B \$0.45 C \$0.56 D \$0.67

- 10 What does the Companies Act 1985 require to be disclosed in the directors' report?

- A audit fee
 B directors' remuneration
 C the company's accounting policies
 D the main activity of the company

- 11 An accounting standard (FRS 3 'Reporting Financial Performance') requires a special format for the Profit and Loss Account.

Under this standard which of the following need not be separately disclosed?

- A profit or loss on continuing operations
 B profit or loss on discontinued operations
 C profit or loss on disposal of an operation
 D profit or loss on overseas operations

- 12 An accounting standard (SSAP 25 'Segmental Reporting') requires companies to disclose certain information in published accounts.

What does this standard require to be disclosed?

- A amounts of annual depreciation
- B earnings per share
- C stock valuation methods
- D turnover in different classes of business

- 13 Which of the following correctly shows the effect of a company revaluing upwards its fixed assets?

	return on capital employed	gearing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 14 When deciding whether to transfer money from an interest bearing bank account to an investment in ordinary shares, which of the following ratios should be considered?

- A dividend yield
- B earnings per share
- C interest cover
- D return on shareholders' funds

- 15 A company wishes to reduce its gearing.

What will achieve this?

- A a bonus issue of ordinary shares
- B an issue of debentures
- C an issue of convertible loan stock
- D a rights issue of ordinary shares

16 How may a company 'window dress' its financial statements?

- A amortising Goodwill as soon as it arises
- B failure to write down freehold property following a revaluation shortly after the Balance Sheet date
- C omitting to write down stock which has been stolen after the Balance Sheet date
- D writing off debts before they have become bad

17 The capital structure of a company is given.

	\$
300 000 ordinary shares of \$0.50	150 000
reserves	85 000
10 % debentures 2004 - 2005	60 000

The company then issues \$20 000 8 % debenture stock 2008 - 2010 followed by the issue of bonus shares on a one for three basis. Finally it makes a rights issue of 1 ordinary share for every two already held at \$0.80 per share.

How will these transactions affect the Balance Sheet?

	gearing	reserves
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

18 A company makes three products for which details per unit are given.

	product X	product Y	product Z
selling price	\$18	\$35	\$50
direct materials	\$4	\$5	\$5
direct labour hours	0.5	2	2.5

The direct labour rate is \$8.00. Direct labour hours are limited.

In which order should the products be ranked to achieve the maximum profit with the available labour hours?

	first	next	last
A	X	Y	Z
B	Y	Z	X
C	Z	X	Y
D	X	Z	Y

19 A product passes through two processes. Information for process 2 is given.

	\$
material transferred from process 1 (2000 units)	40 000
added material	2 400
labour	16 000
overheads (based on 50 % of labour)	8 000

There was no opening stock of work-in-progress but at the end of the period 400 units were complete as to 100 % of materials and 50 % labour.

What was the value of the closing stock of work-in-progress?

- A** \$2080 **B** \$2880 **C** \$10 080 **D** \$10 880

20 What is a master budget?

- A** a budget based on a limited factor
B a cash budget
C a flexible budget
D a set of budgeted final accounts

21 The table shows a company's estimated sales.

	cash (\$)	credit (\$)
February	10 000	15 000
March	10 000	25 000
April	10 000	35 000

Debtors are expected to pay as follows:

60% in month following sale
40% in second month following sale

How much cash from sales is received in April?

- A** \$21 000 **B** \$25 000 **C** \$31 000 **D** \$45 000

22 The table shows the budget for a business.

	fixed budget
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 profit be?

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

23 A company plans to sell 12 000 units in month 1 and 13 000 units in month 2. Sales will increase by 1000 units each month after that.

Production will be scheduled so that at any one time a stock of finished goods equal to the next month's sales will be held, and a stock of raw materials equivalent to next month's required production.

What will be the budgeted stocks, in units, at the end of month 3?

	raw material (equivalent units)	finished goods
A	15 000	14 000
B	15 000	16 000
C	16 000	15 000
D	17 000	16 000

- 24 A company's debtors total \$42 000 when the debtors' days are 40.

The company budgets in the coming year for a 30% increase in turnover and debtors' days reduced to 30.

What will the budgeted debtors be at the year end?

- A \$24 231 B \$31 500 C \$40 950 D \$43 077

- 25 The cost of sales for a business comprises direct materials and direct labour. At the end of a trading period the following variances are calculated.

	\$
direct materials price variance	800 adverse
direct materials usage variance	700 favourable
direct labour rate variance	650 favourable
direct labour efficiency variance	750 adverse

If the actual cost of sales was \$12 220, what is the standard cost of sales?

- A \$12 020 B \$12 120 C \$12 320 D \$12 420

- 26 The following information relates to labour costs.

standard pay rate per hour	\$7.50
actual pay rate per hour	\$9.00
actual hours worked	60 000
labour efficiency variance	\$12 000 adverse

What is the standard number of labour hours for actual output?

- A 48 667 B 51 333 C 58 400 D 61 600

27 Budgeted and actual sales of a product are given.

	budget	actual
sales : number of units	1 200	1 240
selling price per unit	\$16	?
sales revenue	?	\$19 530

What is the sales price variance?

- A \$310 adverse
- B \$310 favourable
- C \$330 adverse
- D \$330 favourable

28 Budgeted and actual labour costs for making a product are given.

standard hours	4 000
budgeted wages	\$33 000
actual labour rate paid per hour	\$8.10
labour rate variance	\$630 favourable
wages paid	\$33 390

What is the labour efficiency variance?

- A \$1620 adverse
- B \$1620 favourable
- C \$1650 adverse
- D \$1650 favourable

29 Which method of investment appraisal is based on profits?

- A accounting rate of return
- B internal rate of return
- C net present value
- D payback

30 In a cash flow statement, which item is a cash outflow?

- A** a decrease in trade debtors
- B** an increase in stock
- C** an increase in trade creditors
- D** an issue of preference shares

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