UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/32**

Paper 3 Multiple Choice **May/June 2011**

1 hour

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

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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.

UNIVERSITY *of* CAMBRIDGE International Examinations

1 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.

2 Which is **not** included in a statement of cash flows?

A dividends received

B investments sold

C provision for depreciation

D purchase of non-current assets

3 Why would convertible loan stock be issued by a company?

A to increase the equity of the company at the issue date

B to increase gearing on conversion

C to increase the market value of the company's equity at the issue date

D to obtain low-cost finance when equity market conditions are unfavourable

4 A company redeems 1000 ordinary shares of \$1.00 each at a premium of 10 %. The shares were originally issued at par and there is no share premium account.

How much will be charged to retained earnings?

A \$100 **B** \$900 **C** \$1000 **D** \$1100

5 X and Y are in partnership, sharing profits equally. They agree to admit Z as an equal partner.

Z is to introduce \$100 000 as capital and his share of goodwill. The partnership goodwill is \$60 000 and all adjustments are to be made in the capital accounts.

Which shows the correct opening balances after the admission of Z?

	capital accounts					
	X \$		Y \$		Z \$	
A	credit	10 000	credit	10 000	credit	80 000
B	credit	10 000	credit	10 000	debit	20 000
C	credit	30 000	credit	30 000	debit	60 000
D	debit	30 000	debit	30 000	credit	160 000

6 Ess is to purchase the business of Tee. The purchase price is $100 000 in cash.

The net asset values of the two businesses at the date of purchase were Ess $250 000 and Tee $80 000.

What was the value of the net assets of the business of Ess immediately after the purchase?

A $150 000 **B** $230 000 **C** $250 000 **D** $270 000

7 A business was purchased by a company for $1.5 million. The table shows an extract from the balance sheet of the business purchased.

	$
non-current assets	400 000
net current assets	120 000
non-current liabilities	200 000

How much did the purchasing company pay for goodwill?

A $520 000 **B** $780 000 **C** $980 000 **D** $1 180 000

8 A company has redeemed ordinary shares without issuing any new shares.

What is the effect on the balance sheet?

	ordinary share capital	capital redemption reserve	retained earnings
A	decrease	decrease	no change
B	decrease	increase	decrease
C	no change	increase	decrease
D	no change	no change	increase

9 In published accounts, where will the details of directors' pay and benefits be found?

A accounting policies

B income statement

C statement of cash flows

D none of the above

10 The reserves of a company are as follows:

	$
share premium	60 000
property revaluation reserve	120 000
general reserve	80 000
retained earnings	160 000
	420 000

The company has in issue 15 000 shares which have a book value of $50 each in the financial statements.

What is the nominal (or par) value of one ordinary share?

A $22 **B** $24 **C** $28 **D** $50

11 A company is preparing its statement of changes in equity. It produces the following information.

	$000
retained earnings at start of year	40
profit for the year attributable to equity holders	30
transfer to reserves	15
dividends paid during the year	10
proposed dividends	5

What is the retained earnings figure at the end of the year?

A $40 000 **B** $45 000 **C** $55 000 **D** $60 000

12 A company's year end is 31 May. The following table shows dividends paid and proposed by it.

	$
proposed final dividend for year ended 31 May 2009, payable September 2009	100 000
interim dividend for year ended 31 May 2010, payable March 2010	50 000
proposed final dividend for year ended 31 May 2010, payable September 2010	120 000

Which figure will be shown as dividends in the note to the accounts for the year ended 31 May 2010?

A $120 000 **B** $150 000 **C** $170 000 **D** $270 000

13 The following is an extract from the statement of financial position of Zed Ltd.

	$
net assets	114 000
10 % debentures (2015)	(20 000)
	94 000
ordinary shares	60 000
reserves	34 000
	94 000

The profit from operations before interest and taxation for the year is $37 000 and taxation payable amounts to $9000.

What is the interest cover?

A 11.6 **B** 13.0 **C** 17.5 **D** 18.5

14 A company has a return on capital employed of 20 % and an asset turnover of 2.5 times.

What was the company's net profit ratio?

A 8 % **B** 16 % **C** 20 % **D** 50 %

15 A company has the following information.

	$
profit before tax	300 000
profit from operations	400 000
equity	1 200 000
non-current liabilities	800 000

What is the company's return on total capital employed?

A 15 % **B** 20 % **C** 25 % **D** 33.3 %

16 The following data is available for the **first year of trading** for a business to 31 December 2010.

inventory at 31 December 2010	$200 000
inventory turnover during 2010	6 times
average inventory during 2010	$180 000

What was the value of inventory purchased during 2010?

A $880 000 **B** $1 080 000 **C** $1 280 000 **D** $1 380 000

17 The following are extracts from a company's income statement.

	$
profit from operations	140 000
interest	40 000
profit before tax	100 000
tax	20 000
profit attributable to equity holders	80 000

What is the company's interest cover?

A 1.0 times **B** 2.0 times **C** 2.5 times **D** 3.5 times

18 Zachary plc has the following summary balance sheet at 31 Dec 2009.

	$ million
ordinary shares of $1 each	50
retained earnings	70
net assets	120

Zachary plc made a bonus issue (1 for 2) of ordinary shares on 1 January 2010 and a rights issue (1 for 5) of ordinary shares on 31 December 2010 at $2 per share.

The share issue was fully subscribed. Retained earnings were $12 million for 2010.

What were the net assets at 31 December 2010?

A $112 million **B** $150 million **C** $162 million **D** $187 million

19 A company has the following production budget details for the next period.

budgeted sales units	980 units
raw material per unit	1 kg
opening inventory of raw materials	100 kg
budgeted closing inventory of raw materials	140 kg
budgeted loss in process	2 %

There is no opening or closing inventory of finished goods.

How many kilos of raw material must it purchase in order to achieve its production budget?

A 960 **B** 1020 **C** 1040 **D** 1320

20 In a company at the end of a period, it was found that the work-in-progress of 100 000 units recorded as 50 % complete, should have been 100 000 units 60 % complete.

When this error is corrected, what will be the effect on the cost per unit and the total cost of work-in-progress?

	cost per unit	total cost of work-in-progress
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

21 A company has the following costs in respect of a process.

details	kg	$
direct material	1000	4000
direct labour		1000
overheads		415
normal loss sold as scrap	50	95

What is the cost per kg of finished production?

A \$5.32 **B** \$5.42 **C** \$5.60 **D** \$5.80

22 The following information relates to the budgeted and actual sales of a product.

	budget	actual
sales volume in units	40 000	36 000
contribution per unit	$2	$2.50
fixed costs (total)	$30 000	$30 000

What change in the break-even point has been caused by actual sales being different from budget?

A 20 % better

B 20 % worse

C 80 % better

D 80 % worse

23 A company plans to sell 200 000 units of a product next year.

Opening inventory will be 26 000 units and closing inventory will be equivalent to 9 % of units sold.

How many units need to be produced next year?

A 174 000 units

B 192 000 units

C 208 000 units

D 218 000 units

24 What are flexible budgets needed for?

A effective forecasts of future sales

B identification of budgeted fixed costs

C monitoring trends in material price changes

D taking effective budgetary control action

25 The table shows information for the last three months' production for a company.

	budgeted	actual
total of manufacturing hours	240 000	270 000
hours to make one unit	3.0	2.7

The budgeted manufacturing costs for the three month period are $720 000.

What is the budgeted cost per unit?

A $3.00 **B** $7.20 **C** $8.00 **D** $9.00

26 The following information relates to last months production of a component.

	actual	budget
units produced	600	650
input of material (in kgs)	2700	2600
cost of material used	$83 700	$78 000

What is the material price variance?

A $2600 **B** $2700 **C** $3000 **D** $3100

27 The table shows standard cost data for a unit of product.

	$
direct materials	22
direct labour (4 standard hours × $12)	48

The total standard overheads are $500 000 and standard direct labour hours are 100 000 hours. Overheads are absorbed on the basis of direct labour hours.

What will be the standard selling price, if the business seeks a mark up of 25 % on factory cost?

A $87.50 **B** $90.00 **C** $93.75 **D** $112.50

28 A company uses a standard costing system. Last month, actual fixed overhead expenditure was 4 % below budget. The actual fixed overhead expenditure was $1600 less than the budgeted fixed overheads.

How much was the actual fixed overhead expenditure last month?

A $36 800 **B** $38 400 **C** $40 000 **D** $41 600

29 A company is considering buying equipment at a cost of $80 000. This equipment will save $40 000 per annum in operating costs over the next three years, after which it will have no scrap value.

Using the following discount factors, what is the net present value of the equipment?

year 0	1.000
year 1	0.909
year 2	0.826
year 3	0.751

A $(19 440) **B** $19 440 **C** $40 000 **D** $99 440

30 How is working capital treated in a discounted cash flow statement?

A as an inflow at the start of the project and an inflow at the end

B as an inflow at the start of the project and an outflow at the end

C as an outflow at the start of the project and an inflow at the end

D as an outflow at the start of the project and an outflow at the end

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