

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/03**

Paper 3 Multiple Choice

May/June 2006

**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 In cash flow analysis, which item is a cash inflow?

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

2 A company issued 10 000 \$10 ordinary shares at a price of \$20 each.

A month after the issue, the company used \$156 000 of the proceeds to repay an 8 % Loan Stock including six months' accrued interest due. The company prepared a cash flow statement just after repayment of the Loan Stock.

What amount of net cash inflow will appear under the heading 'Financing' in the cash flow statement?

- A \$38 000      B \$44 000      C \$50 000      D \$56 000

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

- A to obtain low-cost finance when equity market conditions are unfavourable
- B to increase gearing on conversion
- C to decrease the equity of the company at the issue date
- D to increase the market value of the company's equity at the issue date

4 A company is considering redeeming its debentures at par at the start of its financial year.

What will be the effect on the company's profit and net current assets in the year of redemption?

	profit	net current assets
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 5 The table shows details extracted from the Balance Sheet of a company.

	\$
6% preference shares of \$0.50	50 000
Share Premium Account	80 000
Profit and Loss Account	100 000

The preference shares were issued at par.

The company now wishes to purchase all of the shares from the present holders at \$0.65 per share.

Which items will appear in the Balance Sheet following the purchase of the shares?

	Share Premium Account \$	Capital Redemption Reserve \$	Profit and Loss Account \$
<b>A</b>	65 000	50 000	50 000
<b>B</b>	65 000	50 000	100 000
<b>C</b>	80 000	65 000	35 000
<b>D</b>	80 000	50 000	35 000

- 6 X Ltd has the following balance sheet summary:

	\$
Fixed assets at net book value	120 000
Net current assets	30 000
	150 000
Financed by capital and reserves	150 000

The fixed assets are valued at \$180 000, the net current assets at \$20 000. The business is acquired for \$225 000.

What is the payment for Goodwill?

- A** \$25 000      **B** \$45 000      **C** \$75 000      **D** \$105 000

- 7 A business is sold to a limited company. The net assets acquired have a total book value of \$90 000 and are valued at \$100 000. Goodwill is valued at \$30 000. The purchase price is settled by an issue of ordinary \$1.00 shares, valued at \$1.25 each.

How many shares are issued?

- A** 80 000      **B** 96 000      **C** 104 000      **D** 130 000

- 8 A company's year end is 30 June 2005. On 27 July 2005 a major fire took place at the company's factory. On 8 August 2005 a major debtor at 30 June 2005 went into liquidation.

In accordance with *SSAP 17, Accounting for post balance sheet events*, how should the two events be treated in the financial statements?

	fire	liquidation
<b>A</b>	accrued in accounts	accrued in accounts
<b>B</b>	accrued in accounts	disclosed in notes
<b>C</b>	disclosed in notes	accrued in accounts
<b>D</b>	disclosed in notes	disclosed in notes

- 9 Which item is **not** required in the Report of Directors of a limited company?
- A** details of export sales
- B** future developments for the business
- C** the names of the directors
- D** the proposed dividend details
- 10 Which of these items must be disclosed, according to company law, in the notes to a Company's published Profit and Loss Account?
- A** a review of the company's activities for the year
- B** the remuneration of the auditors
- C** exceptional items
- D** details of research and development activities undertaken
- 11 Companies are required to include a statement of total recognised gains and losses within their published financial accounts.

The table shows information extracted from the financial statements of a company for the year ended 31 March 2005.

	\$000
premium received on the issue of shares	150
profit on ordinary activities after taxation	600
unrealised surplus on the revaluation of property	280

What should the company show as the net gain for the year?

- A** \$730 000      **B** \$750 000      **C** \$880 000      **D** \$1 030 000

12 The following data is available for a company:

	\$ million
\$1 ordinary shares	100
\$1 preference shares	50
net profit (before dividends)	55
ordinary dividend	15
preference dividend	5

The market price of one ordinary share is \$10.

What is the price/earnings (P/E) ratio?

- A** 18.2                      **B** 20                      **C** 25                      **D** 28.6

13 The following information relates to a company.

profit after tax	\$240 000
dividend cover	3 times
number of ordinary shares of \$1	250 000
market price of one ordinary share	\$4

What is the dividend yield?

- A** 8%                      **B** 24%                      **C** 26%                      **D** 32%

14 Which event reduces the interest cover?

- A** a decrease in dividend  
**B** a decrease in interest rates  
**C** an increase in dividend  
**D** an increase in interest rates

- 15 A company acquires the net assets of a business for which it issues \$400 000 of ordinary shares. The business acquired has an overdraft of \$100 000 but no long term debt.

What is the impact on the gearing and the net cash position of the company?

	gearing	net cash
<b>A</b>	decreases	increases
<b>B</b>	decreases	decreases
<b>C</b>	increases	increases
<b>D</b>	increases	decreases

- 16 Which 'window dressing' technique (if permitted) could be used to improve a company's earnings per share figure?
- A** overstating the value of buildings by excessive revaluations
  - B** incorrectly classifying short term loans as long term loans
  - C** showing 'cash equivalents' as 'cash'
  - D** failing to account for a material bad debt provision

- 17 The table shows information from the Balance Sheets of two companies, X and Y.

	X \$000	Y \$000
Ordinary Shares	800	900
10% Debentures	600	150
Profit and Loss Account	300	650

Which providers of finance would experience the greatest degree of risk in times of falling profits?

- A** debenture holders of company X
  - B** debenture holders of company Y
  - C** ordinary shareholders of company X
  - D** ordinary shareholders of company Y
- 18 Which method will increase company profits?
- A** accepting deposits for customers' orders
  - B** decreasing rates of depreciation
  - C** increasing the value of opening stocks
  - D** writing down the value of closing stocks

19 What could cause an over-absorption of overhead expenditure?

1. Units produced exceeding the budgeted production
2. Units produced being less than the budgeted production
3. Overhead expenditure being less than budget
4. Overhead expenditure exceeding budget

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

20 A company is evaluating its plans to close a unit within its business. If closed, the employees at the unit would be redeployed elsewhere in the business. The costs associated with the closure are as follows:

	\$000
net book value of unit assets (no resale value)	35
estimated direct cost of closure of the unit	25
existing fixed overheads apportioned to unit	16
wages of unit employees	20

What is the relevant cost of closure of the unit?

**A** \$25 000      **B** \$41 000      **C** \$61 000      **D** \$96 000

21 At the beginning of a given period the value of work-in-progress was \$11 000.

The unit costs of production for the period were:

	\$
direct materials	5.00
direct labour	8.50

At the end of the period work-in-progress consisted of 700 units which were complete as to 80% of materials and 50% labour.

What was the change in the value of the work-in-progress during the period?

	decrease \$	increase \$
<b>A</b>	1550	-
<b>B</b>	-	1550
<b>C</b>	5225	-
<b>D</b>	-	5225

22 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 per hour. 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
<b>A</b>	X	Y	Z
<b>B</b>	Y	Z	X
<b>C</b>	Z	X	Y
<b>D</b>	X	Z	Y

23 Materials and labour are in plentiful supply and the following budgets are prepared.

1. cash
2. purchases
3. sales
4. overhead

In which order should the budgets be prepared?

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



24 A cash budget is prepared for a new business.

The information available is as follows:

	\$
capital introduced	60 000
goods sold in first month	12 000
loan from the bank	20 000

25% of sales constitute cash sales, with the balance payable over the following two months.

What are the total cash receipts in month one?

- A** \$60 000      **B** \$72 000      **C** \$80 000      **D** \$83 000

25 Cedric plans to set up a business selling hamburgers. He prepares his daily budget as follows.

	\$
selling price per hamburger	5.00
cost of raw materials	1.00
daily wages and cooking costs	960.00
depreciation of equipment	100.00

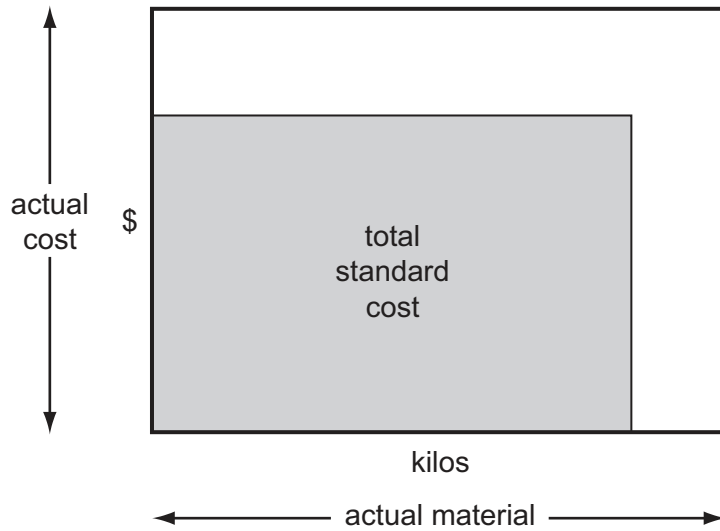
What is his budgeted cash-based break-even volume each day?

- A** 192      **B** 212      **C** 240      **D** 265

26 Which statement best describes the objectives of standard costing?

- A** It assists in budget preparation.  
**B** It improves control on a 'management by exception' basis.  
**C** It provides a prediction of future costs.  
**D** All of the above.

27 The shaded area in the diagram represents the standard material cost for a 2000 unit manufacturing run of Product X. The larger box represents the total material cost.



Which statement is true?

	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

28 During the year a company produces 10 000 units. The cost data relating to the production is shown.

	actual cost	total variance
direct materials	\$22 000	(\$2000) A
direct labour	\$32 000	\$4000 F

What was the standard prime cost per unit?

- A** \$5.20      **B** \$5.40      **C** \$5.60      **D** \$6.00

29 Which Investment Appraisal technique includes depreciation in the calculation?

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

30 A company can only 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

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