UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/31**

Paper 3 Multiple Choice **May/June 2013**

1 hour

Additional Materials: Multiple Choice Answer Sheet
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.
DO NOT WRITE IN ANY BARCODES.

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.

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UNIVERSITY *of* CAMBRIDGE
International Examinations

1 When do revenue reserves arise?

A following the revaluation of non-current assets

B from a rights issue

C from an issue of bonus shares

D from the trading activities of a company

2 A company purchases a new machine. The costs involved in the purchase are as follows.

	$
purchase price of machine	70 000
professional fees for negotiating the purchase	3 000
legal agreement with selling company selling the machine	5 000
increase in inventory to use on the new machine	1 000
wages paid to technician to assemble machine	2 000

The company depreciates its plant and machinery at 20% per annum on cost. A full year's depreciation is charged in the year of purchase.

What is the depreciation charge for the year?

A $14 000 **B** $15 400 **C** $16 000 **D** $16 200

3 How should proposed ordinary dividends be accounted for when preparing statements of cash flows?

A as part of the cash from operating activities

B as part of the financing activities

C as part of the investing activities

D not included in the statement

4 Which item will **not** appear on the income statement of a company?

A finance costs

B impairment costs

C ordinary share dividends paid

D taxation

5 Which item would be included as equity in a company's statement of financial position?

A debenture stock

B loan from a director

C retained earnings

D trade payables

6 X Ltd is considering the purchase of two different businesses. The details of the purchase of each are as follows.

business	book value of assets to purchase $	fair value of assets to purchase $	terms of purchase
Y	96000	120000	shares in X Ltd of $1 each issued at a premium of $0.20
Z	180000	225000	shares in X Ltd of $1 each issued at a premium of $0.50

How many more shares must X Ltd issue if it decides to purchase Z instead of Y?

A 20000 **B** 30000 **C** 40000 **D** 50000

7 The capital structure of a company is shown below.

	$
700000 ordinary shares of $0.25 each	175000
8% loan	160000

During the year the company made profits before finance charges of $105000.

What is the maximum dividend per share?

A $0.1317 **B** $0.15 **C** $0.5268 **D** $0.60

8 A Ltd acquires the assets and liabilities of B Ltd. Their values are as follows.

	$
assets	120 000
liabilities	15 000

A Ltd will issue a debenture of $50 000 and 10 000 $1 ordinary shares for the balance of the consideration.

What will be the credit to the share premium account?

A $45 000 **B** $55 000 **C** $60 000 **D** $95 000

9 A company has prepared its financial statements for the year ended 31 December 2012.

The following items occurred in January 2013 before they were authorised for issue.

1 A major customer was declared bankrupt. He owed $11 000 on 31 December 2012. No provision for this had been made in the accounts.

2 There was a fire at the company's premises resulting in uninsured losses of $15 000.

3 An impairment review identified the carrying value of non-current assets exceeded their recoverable amount by $20 000.

4 A court case was settled which resulted in the company being liable to pay damages of $18 000.

In accordance with IAS 10, by which amount should the profit for the year be reduced?

A $44 000 **B** $46 000 **C** $49 000 **D** $53 000

10 A company is preparing the statement of changes in equity for the year.

The following information is available.

	$
retained earnings at the beginning of the year	420 000
interest paid on debentures	45 000
interim dividends paid	20 000
proposed dividends for the year	35 000
issue of shares	40 000
profit for the year attributable to equity holders	145 000

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

A $465 000 **B** $505 000 **C** $545 000 **D** $550 000

11 Information from a company's financial statements at 31 December 2012 is as follows.

	$
ordinary share capital ($1 each)	70 000
retained earnings	6 200
6% debentures repayable 2016	10 000
trade payables	5 200
other payables	2 700
other receivables	4 100
bank overdraft	20 200

What amount is shown as current liabilities at 31 December 2012?

A $24 000 **B** $28 100 **C** $38 100 **D** $40 200

12 Extracts from a company's statement of financial position are as follows.

	$
non-current liabilities	50 000
ordinary shares ($1 each)	100 000
redeemable preference shares	25 000
retained earnings	200 000

What is the gearing ratio?

A 14% **B** 17% **C** 20% **D** 21%

13 A company converts some debentures into shares on 1 January 2012.

What is the impact on the following ratios in the 2012 financial statements?

	gearing	interest cover
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

14 A company's capital comprises 200 000 ordinary shares of $1 each. It also has a loan of $50 000.

At the end of the year its current ratio is 1.5 : 1 and its current liabilities are $30 000.

What is the value of the company's non-current assets at the end of the year?

A $135 000 **B** $185 000 **C** $205 000 **D** $235 000

15 A company has a Price Earnings ratio of 15. This is 20% less than the average for this type of business. Its earnings per share are $0.20.

What is the company's share price?

A $0.60 **B** $2.40 **C** $3.00 **D** $3.60

16 The following information is for two non-current assets.

	net book value $	value in use $	fair value less costs to sell $
asset 1	50 000	45 000	48 000
asset 2	20 000	18 000	21 000

What is the total impairment loss?

A $2000 **B** $4000 **C** $5000 **D** $7000

17 Which is an example of window dressing in financial statements?

A amortising goodwill as soon as it arises

B failure to write down freehold property following a revaluation shortly after the year end

C omitting to write down inventory which has been stolen after the year end

D writing off debts before they have become bad

18 The financial statements of a company shows the following.

	$
ordinary shares of $1 each	1 200 000
share premium	100 000
retained earnings	150 000
10% debenture	150 000

The directors of the company carry out the following actions.

1 issue 50 000 ordinary shares of $1 each at a premium of $0.20

2 repay $100 000 of the debenture at a premium of 20%

What is the equity of the company after these transactions have taken place?

A $1 490 000 **B** $1 500 000 **C** $1 510 000 **D** $1 540 000

19 The directors of a company carry out the following transactions.

1 A debenture of $10 000 is redeemed at par.

2 A long term loan of $25 000 is obtained.

3 The property is sold for $50 000.

What will be the improvement in working capital?

A $15 000 **B** $25 000 **C** $65 000 **D** $75 000

20 A company's annual sales this year are $200 000. This gives a contribution to sales ratio of 40%. Fixed overheads are $25 000.

The company expects that sales volume will fall next year by 10%.

What must the fixed overheads be to achieve the same level of profit as this year?

A $5000 **B** $9800 **C** $17 000 **D** $22 500

21 The manufacture of a product involves two processes. The costs for the processes for one month are given.

	process 1 $	process 2 $
materials used	4000	
additional materials		2000
other variable costs	5000	1000
fixed costs	3000	nil

There were no opening or closing inventories of materials or work in progress at the beginning or end of the month. All process 1 production was passed to process 2 in the month.

What is the value of the materials used in process 2 during the month?

A $2000 **B** $6000 **C** $12 000 **D** $14 000

22 A company's trade receivables are $27 000.

There is a collection period of 30 days.

The budget for the coming year provides for an increased turnover of 50% with the relevant collection period being increased to 60 days.

What are the budgeted trade receivables?

A $13 500 **B** $27 000 **C** $40 500 **D** $81 000

23 A manufacturing business is preparing its budget for the next year. It has identified that there will be a shortage of direct materials which will affect its level of output.

Which budget should the business produce first?

A cash

B overheads

C production

D purchase of materials

24 A budgetary control statement shows the following:

	original budget	revised budget	actual
units made	48 000	40 000	44 000
semi-variable costs heat/light $	62 000	54 000	66 800

If the budget is flexed, what is the variance?

A $8800 adverse

B $8800 favourable

C $16 800 adverse

D $16 800 favourable

25 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

26 During a month the following data was collected.

direct labour efficiency variance	$2000 favourable
budgeted direct labour rate per hour	$8
actual direct labour rate per hour	$10
actual direct labour hours worked	15 000

What were the standard labour hours?

A 14 750 **B** 14 800 **C** 15 200 **D** 15 250

27 A company is having difficulty buying materials to complete a contract. It buys some inferior quality materials at higher than the usual price.

Which variances are likely to arise because of this action?

	materials usage variance	materials price variance
A	adverse	adverse
B	adverse	favourable
C	favourable	adverse
D	favourable	favourable

28 Details of a capital investment project with a life of four years are as follows.

	$
cost of project	(50 000)
net cash flow year 1	15 000
net cash flow year 2	20 000
net cash flow year 3	25 000
net cash flow year 4	10 000

What is the accounting rate of return of the project?

A 10% **B** 20% **C** 35% **D** 70%

29 A company, operating under conditions of capital rationing, is considering investing in the following three projects.

project	investment $	NPV $
X	300 000	60 000
Y	350 000	52 500
Z	400 000	70 000

In which order should the projects be undertaken?

A $X \rightarrow Z \rightarrow Y$ **B** $Y \rightarrow Z \rightarrow X$ **C** $Z \rightarrow X \rightarrow Y$ **D** $Z \rightarrow Y \rightarrow X$

30 Which system of costing is most appropriate for companies such as petroleum and oil refining industries?

A batch costing

B job costing

C process costing

D unit costing

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