UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/31**

Paper 3 Multiple Choice **October/November 2012**

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.

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

[Turn over

1 X and Y are in partnership and revalue their assets as follows.

asset	book value $	revalued amount $
freehold property	50 000	70 000
fixtures and fittings	20 000	16 000
inventory	15 000	14 000

X and Y share profits and losses in the ratio of 2 : 1.

How much will the credit to X's capital account from the revaluation account be?

A $5000 **B** $10 000 **C** $16 000 **D** $20 000

2 At 31 December 2010 an extract from a company's non-current asset schedule showed the following.

	$
cost at year end	40 000
opening depreciation	2 000
charge for the year	4 000
closing depreciation	6 000
net book value	34 000

A full year's depreciation was charged on the cost of the non-current assets at the end of the year.

During the year ended 31 December 2011 an old asset was sold. This had cost $1000 and had been fully depreciated.

At 31 December 2011 the cost of the remaining non-current assets was $59 000.

What was the net book value of the non-current assets at 31 December 2011?

A $44 150 **B** $45 150 **C** $47 100 **D** $48 100

3 X and Y are in partnership with combined capital and current account balances of $125 000.

Z is admitted as a partner, introducing capital of $40 000. At that time, the assets of the partnership are revalued upwards by $50 000 and goodwill was valued at $18 000.

What was the total capital employed of the partnership immediately after the admission of Z?

A $183 000 **B** $197 000 **C** $215 000 **D** $233 000

4 An extract from a company's statement of financial position shows the following.

	$000
issued ordinary shares of $0.25 each	600
share premium account	150
retained earnings	300

The company makes a rights issue of one new ordinary share for each three held, at a price of $0.30 per share. All shares are taken up.

What does the new statement of financial position show?

	issued ordinary share capital $000	share premium $000
A	600	120
B	800	150
C	800	190
D	800	600

5 A company would begin a capital reduction scheme in order to achieve which objective?

A to allow a company to cease trading

B to allow loan interest to be paid

C to eliminate accumulated trading losses

D to expand the current business

6 A limited company has the following capital and reserves.

	$
ordinary share capital	200 000
capital reserves	80 000
revenue reserves	100 000

What is the maximum amount that can be distributed to shareholders by way of dividends?

A $80 000 **B** $100 000 **C** $180 000 **D** $380 000

7 A company's statement of financial position shows the following.

	$
share capital ordinary shares of $10 each	100 000
general reserve	60 000
retained earnings	210 000

The following transactions take place.

1. The company pays a dividend of $70 000.
2. The company makes a bonus issue of 5000 ordinary shares.
3. The company issues a debenture of $120 000.

What will be the total of share capital and reserves after these transactions are completed?

A $250 000 **B** $300 000 **C** $350 000 **D** $420 000

8 An extract from a company's statement of financial position is as follows.

	$000
ordinary shares of $1.00	600
10 % redeemable preference shares	400
share premium	160
retained earnings	900

The company has decided to redeem its preference shares at a premium of $0.20. No new shares are issued.

Which row shows the effect of the redemption?

	capital redemption reserve $000	share premium $000	retained earnings $000
A	–	160	–
B	400	–	900
C	400	80	500
D	–	160	500

9 A company agrees to buy assets from another company for $200 000. The book value of the assets is $170 000. The purchase consideration is made up as follows:

1 a cash payment of $60 000

2 an issue of a $50 000 debenture at a discount of 5%

3 18 500 ordinary shares with a nominal value of $0.50 each.

What is the market value of each ordinary share?

A $3.24 **B** $3.38 **C** $4.86 **D** $5.00

10 A sole trader sold his business to a limited company. His net assets had a book value of $150 000 and a fair value of $200 000.

The consideration for the sale was satisfied by the issue of 90 000 shares of $1 each at an agreed value of $2.50 each. He also received a cash payment of $35 000.

What amount did the company pay for goodwill?

A $25 000 **B** $50 000 **C** $60 000 **D** $110 000

11 What is **not** a criterion for the recognition of an intangible asset according to IAS38?

A ownership of the item

B the ability to control the item

C the ability to measure reliably the value of the item

D the expectation of future economic benefits from the item

12 Which non-current asset need **not** be depreciated?

A freehold buildings

B freehold land

C leasehold properties

D plant and machinery

13 A company reported a profit from operations of $15 000 for the year, after charging the following.

	$
depreciation	2500
loss on sale of assets	1000

During the year there was a decrease in working capital of $500.

What was the net cash from operating activities?

A $12 000 **B** $17 500 **C** $18 000 **D** $19 000

14 What is an intangible asset?

A an identifiable non–monetary item lacking physical substance which is controlled by an entity

B an identifiable non–monetary item used by a company

C an identifiable non–monetary item where future economic benefits are in doubt

D an identifiable non–monetary item which a company intends to purchase

15 Why is a Directors' Report required in the accounts of a company?

A It contains information regarding the company's accounting policies.

B It is a requirement of company law.

C It is required by accounting standards.

D The shareholders require it to be included.

16 A company has an issued ordinary share capital of 240 000 ordinary shares of $0.50 each.

The company pays a total ordinary share dividend of $9600.

The current market price of an ordinary share is $3.20.

What is the current dividend yield?

A 1.25 % **B** 2 % **C** 4 % **D** 8 %

17 Why would an investor use a price/earnings (P/E) ratio for a public limited company?

A to assess the level of borrowing in a company

B to assess the liquidity of the company

C to calculate earnings per share for the company

D to compare its performance against other similar companies

18 Extracts from a company's accounts show the following information.

	$000
profit before tax	400
finance costs	200
ordinary share capital	1 600
long-term loan	400
bank overdraft	500

What is the company's return on capital employed?

A 16 % **B** 20 % **C** 24 % **D** 30 %

19 A company has 1 million ordinary shares in issue and the following reserves.

	$
share premium	40 000
revaluation reserve	20 000
general reserve	80 000
retained earnings	30 000

What is the maximum dividend per share?

A $0.03 **B** $0.11 **C** $0.13 **D** $0.17

20 A company operates a marginal costing system. For the past year variable costs were 60 % of sales value and fixed costs were 15 % of sales.

The company plans to increase its prices by 5 % but fixed costs, variable costs per unit and sales volume will remain the same.

What will be the effect on the contribution?

A increase by 5 %

B increase by 8.33 %

C increase by 12.5 %

D increase by 20 %

21 The following information relates to the production level and costs for period 1.

production for the period	1200 units
closing inventory	200 units
direct material costs	$10 000
direct labour costs	$8 000
factory fixed expenses	$2 400

Production and closing inventory are valued using the absorption costing method.

What is the cost per unit of the closing inventory?

A $15.00 **B** $17.00 **C** $18.00 **D** $20.40

22 A company produces its goods using a number of processes. In respect of process 1 the normal loss is sold as scrap.

What are the book-keeping entries to record this transaction?

	account to be debited	account to be credited
A	bank	process
B	bank	raw materials inventory
C	bank	sales
D	bank	work in progress

23 A company is reviewing its costs.

It discovers the following in respect of its factory supervision expenses.

output in units	cost per unit/$
8 000	8.00
10 000	6.40

Which type of cost is this an example of?

A fixed cost

B semi–variable cost

C stepped fixed cost

D variable cost

24 A business sets the production cost budget shown.

	$
month 1	100 000
month 2	120 000

At the start of month 1 the opening inventory is $20 000. It is agreed that the closing inventory will be 25 % of the cost of production.

What is the cost of purchases for month 1?

A $90 000 **B** $95 000 **C** $100 000 **D** $105 000

25 The following budgets have been prepared for production (volume and costs).

	production volume	
	100 000 units	105 000 units
direct materials	$180 000	$189 000
direct labour	$215 000	$225 750
overheads	$330 000	$335 500

What would be the budgeted production cost of 110 000 units?

A $7.00 per unit

B $7.05 per unit

C $7.15 per unit

D $7.25 per unit

26 The table shows extracts from a company's forecast statements.

	month 1 $	month 2 $
cash sales	500	750
credit sales	1 000	1 500
cash purchases	250	500
credit purchases	400	800
depreciation	200	300

If all credit transactions are settled a month in arrears, what is the net cash flow for month 2?

A $550 **B** $650 **C** $850 **D** $950

27 Budgeted and actual results are:

	budgeted	actual
materials (kgs per unit)	24	26
materials (price per kg)	$12	$16
labour (hours per unit)	8	6
labour (rate per hour)	$25	$22

What is the total variance per unit manufactured?

A $60 adverse

B $72 adverse

C $86 adverse

D $120 adverse

28 A company uses a standard costing system. The standard labour cost per unit is four hours at $7.20 per hour.

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

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

	rate variance	efficiency variance
A	$800 (A)	$2160 (F)
B	$800 (A)	$3600 (F)
C	$2960 (A)	$2160 (F)
D	$2960 (A)	$3600 (F)

29 A company is considering the purchase of capital equipment. It has made the following calculations **before** taking the capital cost of the equipment into account.

	$
expected net cash flows from the project	160 000
expected discounted net cash flows from the project	100 000

When the capital cost of the equipment is taken into account the project has a net present value of $5000.

What is the capital cost of the equipment?

A $95 000 **B** $105 000 **C** $155 000 **D** $165 000

30 Which investment appraisal method discounts cash flows at the company's cost of capital?

A accounting rate of return

B internal rate of return

C net present value

D payback

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