

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/03**

Paper 3 Multiple Choice

May/June 2004

**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 Which statement regarding the content of headings on a cash flow statement is correct?
- A** Current asset investments are included under 'management of liquid resources'.
- B** 'Financing' includes interest payments to lenders.
- C** Ordinary share dividends paid are included under 'returns on investment and servicing finance'.
- D** Proceeds from the sale of fixed assets are included under 'financing'.
- 2 The following are extracts from the financial statements of a company for the two years ended 30 June 2001 and 2002.

	<b>2002</b>	<b>2001</b>
	\$	\$
operating profit	47 200	42 460
(after depreciation of	9 600	8 900)
net current assets		
stock	32 990	30 000
debtors	16 200	14 000
creditors and accruals	10 340	10 000

What is the operating cash flow for the year ended 30 June 2002?

- A** \$42 350      **B** \$43 050      **C** \$51 950      **D** \$61 650

- 3 The following information has been extracted from the final accounts of Company A for the last two years.

Profit and Loss Account (extract)	year 2 \$	year 1 \$
operating profit for year	175 000	168 000
taxation	(55 000)	(52 000)
profit after tax	120 000	116 000

Balance Sheet (extract)	year 2 \$	year 1 \$
creditors – taxation	57 000	50 000

What will be the amount appearing on the cash flow statement for year 2 with respect to taxation paid?

- A \$48 000      B \$50 000      C \$52 000      D \$55 000
- 4 J Limited's balance sheet at 30 June is as follows:

	\$
net assets	<u>10 000</u>
ordinary share capital	4 500
preference share capital	2 000
share premium account	500
Profit and Loss Account	3 000
	<u>10 000</u>

The share premium account arose on the issue of the ordinary shares.

The preference shares are now redeemed at a premium of 20%.

What will be the balance on the Capital Redemption Reserve after this transaction?

- A nil      B \$1900      C \$2000      D \$2400
- 5 What right does convertible loan stock give the investor?
- A to acquire ordinary shares in the company at a given price in addition to the loan stock
- B to obtain higher rates of interest on future convertible loan stock
- C to convert the loan into ordinary shares issued at a discount
- D to convert the loan into ordinary shares at a given future date and at a specified price

6 A Balance Sheet extract shows:

	\$
\$1 ordinary shares	1 000
10% convertible loan stock	400
Profit and Loss Account	140 (dr)
assets	1 800
liabilities	540

All the loan stock is to be converted to ordinary shares in the proportion of \$1 loan stock to 1 new ordinary share.

After the conversion, what will be the net asset value per share?

- A** \$0.80      **B** \$0.90      **C** \$1.00      **D** \$1.29

7 The Balance Sheet of a sole trader shows net assets of \$500 000. A limited company buys this business for \$800 000 by issuing new share capital. The fair value of the net assets acquired is \$700 000.

How much do the net assets of the purchasing company increase?

- A** \$300 000      **B** \$500 000      **C** \$700 000      **D** \$800 000

8 What is required to be shown in a company's published Profit and Loss Account?

	administrative expenses	particulars of directors' emoluments
<b>A</b>	shown	shown
<b>B</b>	shown	not shown
<b>C</b>	not shown	shown
<b>D</b>	not shown	not shown

- 9 A company's Balance Sheet at 31 December 2001 included the following

Long term liabilities	\$
loan (repayable on 30 April 2003)	50 000
10 % debentures (2001-2004)	100 000

The company intends to redeem half the debentures on 31 December 2003 and the remainder on 1 July 2004.

How should these liabilities be shown in the Balance Sheet at 31 December 2002?

	current liabilities		long term liabilities	
<b>A</b>	debentures	\$50 000	loan	\$50 000
			debentures	\$50 000
<b>B</b>	debentures	\$100 000	loan	\$50 000
<b>C</b>	loan	\$50 000	debentures	\$50 000
	debentures	\$50 000		
<b>D</b>			loan	\$50 000
			debentures	\$50 000

- 10 Which item is **not** required by the Companies Act 1985 to be disclosed in a company's published accounts?
- A auditors' remuneration
  - B depreciation
  - C directors' remuneration
  - D legal expenses
- 11 What is included in the Directors' Report?
- A directors' emoluments
  - B principal activities of the company
  - C trade debtors
  - D turnover

- 12** H Limited suffered a substantial uninsured loss of \$60 000 when stock was stolen from its premises.

How will the loss be disclosed in the company's published accounts?

- A** adjustment to reserves  
**B** exceptional item  
**C** extraordinary item  
**D** prior year adjustment
- 13** What can cause interest cover to fall?
- A** conversion of debentures into shares  
**B** fall in interest rates  
**C** fall in operating profits  
**D** preference share issue

- 14** The Profit and Loss Account of a limited company is shown.

	\$
operating profit before interest	800
interest payable	(200)
	600
preference dividend payable	(200)
	400
ordinary dividend payable	(200)
retained profits	200

The company has issued 100 000 ordinary shares of \$1 each. Their current market price is \$12.

What is the company's price earnings ratio?

- A** 1.5                      **B** 2                      **C** 3                      **D** 6
- 15** A company has an issued share capital of 8 million shares at \$0.50 par value each. It pays a dividend of \$1.6 million. The dividend yield is currently 12.5%. What is the current market price of each share?
- A** \$0.50                      **B** \$0.80                      **C** \$1.60                      **D** \$3.20

- 16 A company converts some debentures into shares on 1 January 2002.

What is the impact on the following ratios in the 2002 financial statements?

	gearing	interest cover
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 17 What does this formula show?

$$\frac{\text{profit available for distribution to ordinary shareholders}}{\text{ordinary dividend payable}}$$

- A** dividend cover
- B** dividend yield
- C** earnings per share
- D** price earnings ratio
- 18 Which transaction will cause an increase in share holders' capital?
- A** disposal of a fixed asset for more than its book value
- B** increasing the provision for bad debts
- C** receipt of a loan
- D** receipt of payment from debtor in cash
- 19 A company redeems its preference shares and makes a bonus issue of one ordinary share for every four held.

How will these transactions affect the balance sheet?

	ordinary shares	reserves	bank
<b>A</b>	decrease	no effect	increase
<b>B</b>	increase	decrease	decrease
<b>C</b>	increase	decrease	no effect
<b>D</b>	increase	increase	decrease

- 20 Which is a reason for a company issuing bonus shares to its existing shareholders?
- A to capitalise reserves
  - B to increase profits available for dividend
  - C to raise the market value of shares
  - D to raise additional cash
- 21 Which of the following are **not** capital instruments?
- A debentures
  - B share options
  - C shares
  - D title deeds to freehold property
- 22 On the company's accounting date, the accountant writes cheques to pay creditors and records them in the books immediately. The cheques are then deliberately retained by the accountant for two weeks.
- What effect does this have on the Balance Sheet?
- A the accounts show a higher figure for cash
  - B the accounts show a lower figure for creditors
  - C to improve the company's cash flow
  - D to improve the company's gearing



23 The data relates to the production of three products.

product	X	Y	Z
	\$	\$	\$
contribution per unit	160	175	190
fixed overhead per unit	125	130	160
labour hours per unit	1	1.25	0.75

The company is experiencing a shortage of labour.

In which order should the products be ranked to maximise profit?

	1	2	3
<b>A</b>	X	Y	Z
<b>B</b>	Y	X	Z
<b>C</b>	Z	X	Y
<b>D</b>	Z	Y	X

24 The following figures relate to the budgeted figures for a product.

	\$	\$
sales		1 100 000
direct materials	150 000	
direct labour	300 000	
fixed overheads	400 000	850 000
profit		<u>250 000</u>

The volume of sales for the product increased by 20%.

What would be the increase in profit?

- A** 20%      **B** 52%      **C** 76%      **D** 88%

25 The information relates to the production of 50 000 units of a product.

per unit	\$
selling price	25
variable costs	15
contribution	<u>10</u>

The fixed costs are \$300 000. The unit selling price is increased by 10%.

What is the increase in the margin of safety?

- A** 13.6%      **B** 20%      **C** 24.2%      **D** 30%

26 A company is about to quote a price for making a special order which requires 1000 kg of material X and 1500 kg of material Y.

The following information is available about these resources.

type of material	original cost per kg \$	current purchase price per kg \$	net realisable value per kg \$
X	3	4	2
Y	5	7	6

The stock of material X can not be used by the company for any other product. Material Y is used frequently for other products.

Which cost of materials should be included in the quotation for the manufacture of this special order?

- A** \$10 500      **B** \$11 000      **C** \$12 500      **D** \$14 500

27 Which is normally the most appropriate sequence of events in the preparation of budgets?

- A** cash budget, budgeted Balance Sheet, production budget  
**B** cash budget, production budget, budgeted Balance Sheet  
**C** production budget, cash budget, budgeted Balance Sheet  
**D** production budget, budgeted Balance Sheet, cash budget

28 What is a flexible budget?

- A a budget based on expected level of production
- B a budget based on past performance but updated to take account of present conditions
- C a budget that reflects changes in activity levels
- D a budget that links fixed overheads to production

29 Which cost is described by the following?

'Costs which should be achieved under efficient conditions, but allowing for normal wastage'.

- A basic standard
- B currently attainable standard
- C flexible standard
- D ideal standard

30 The following information relates to a possible capital investment, costing \$900 000.

year	cash flow \$	discounted cash flow at 6 % \$	discounted cash flow at 8 % \$
0	(900)	(900)	(900)
1	400	377	370
2	600	534	514
	<u>100</u>	<u>11</u>	<u>(16)</u>

The company has a cost of capital of 8 %.

Which statement about the project is correct?

- A It has an internal rate of return greater than the cost of capital.
- B It has an internal rate of return less than the cost of capital.
- C It will be viable if discounted at 9 %.
- D It will be viable if the capital cost is increased to \$1 m.

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