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CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Advanced Level

ACCOUNTING 9706/3

PAPER 3 Multiple Choice (Extension)

MAY/JUNE SESSION 2002

1 hour

Additional materials:
Multiple Choice answer sheet
Soft clean eraser
Soft pencil (Type B or HB is recommended)

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **thirty** questions in 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 very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

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.

This question paper consists of 11 printed pages and 1 blank page.

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1 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
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

2 The table shows a company's Balance Sheet.

	$
Issued share capital –	
$1.00 ordinary shares	600 000
Share Premium account	150 000
Distributable profits	130 000
	880 000

A cash redemption of 100 000 ordinary shares at a premium of 20% is now proposed.

What will the company's Balance Sheet include following the redemption of shares?

	Share Premium account	Capital Redemption Reserve
	$	$
A	130 000	100 000
B	130 000	120 000
C	150 000	100 000
D	150 000	120 000

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3 The Balance Sheet of a company includes the following.

	$000
Ordinary share capital	600
Share Premium account	200
Retained profit	100
	900
10% Debenture stock 2000/2003	120

The company has decided to redeem all its debenture stock at a premium of 10%.

Which of the following is true?

A The company must create a Capital Redemption Reserve.

B The debenture stock must have been issued at a premium.

C The premium may be debited to the Share Premium account.

D The premium must be debited in the Profit and Loss Account.

4 A business with net tangible assets of $110 000 is purchased by a company for $150 000.

The company completes the transaction by a cash payment of $20 000 and an issue of its $0.50 ordinary shares, fully paid, at $1.30 each.

By how much will the balance on the company's Ordinary Share Capital account increase?

A $50 000 **B** $90 000 **C** $100 000 **D** $130 000

5 A limited company purchases a business by issuing 320 000 $1.00 ordinary shares at a premium of $0.75 per share. Goodwill of $150 000 arises on the purchase.

What is the fair value of the separable net assets?

A $170 000 **B** $410 000 **C** $560 000 **D** $710 000

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6 The table shows an extract from the Balance Sheet of a business.

	$
Intangible fixed asset : Goodwill	20 000
Tangible fixed assets	162 000
Net current assets	58 000
	240 000

A company offers to buy the business and to pay for the fixed and net current assets at Balance Sheet values. The purchase price is agreed at $200 000.

What will appear in the company's Balance Sheet after the acquisition?

A Capital Reserve $20 000

B Capital Reserve $40 000

C Goodwill $20 000

D Goodwill $40 000

7 Which accounting policy is **not** required to be disclosed in published company accounts?

A basis of calculation of provision for doubtful debts

B basis of calculation of cost and net realisable value of stocks

C depreciation methods used

D treatment of Goodwill

8 What must be disclosed in the Report of the Directors?

A accounting policies

B directors' interests in shares of the company

C overdraft facility

D segmental analysis of turnover

9 Certain information must be disclosed in the notes to the financial statements.

To which of the following does this rule **not** apply?

A estimated useful life of asset

B method of depreciation used

C scrap value of asset

D total depreciation for period

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10 What is the main purpose of Accounting Standards?

A to prevent unqualified accountants from preparing company accounts

B to provide useful information for shareholders

C to reduce the range and variety of financial accounting practices

D to set out uniform accounting bases

11 What will cause a company's gearing to increase?

A bonus issue of ordinary shares

B conversion of debentures into ordinary share capital

C issue of convertible debentures

D rights issue of ordinary shares

12 A company's issued share capital consists of the following.

	$
Ordinary shares of $0.25 fully paid	100 000
8% preference shares of $1.00 fully paid	50 000

The table shows an extract from the current year's Profit and Loss Account.

		$
Profit after tax		88 000
Transfer to Asset Replacement Reserve		25 000
		63 000
Dividends proposed		
preference	4 000	
ordinary	20 000	24 000
		39 000

What are the earnings per share?

A $0.0975 **B** $0.1475 **C** $0.21 **D** $0.22

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13 The table shows the capital structure of a company.

	$000
Share capital, $1 shares	100
Share Premium account	200
Retained profits	300
	600
15% loan stock (issued 5 years ago)	400
	1000

Operating profits average $260 000 per annum.

What is the return on shareholders' funds?

A 26.0% **B** 33.3% **C** 43.3% **D** 66.7%

14 A company has an authorised share capital of 750 000 ordinary shares at $1.00 each. 500 000 shares have been issued and have a market value of $3.50 each.

The net profit after taxation for the year is $140 000. The directors are proposing a dividend of $0.70 per share for the year.

What is the price/earnings ratio?

A 12.5 **B** 18.75 **C** 25 **D** 37.5

15 The issued share capital of XYZ Limited is:

400 000 4% preference shares of $1.00 each fully paid
1 600 000 ordinary shares of $0.50 each fully paid.

The company's net profit after interest and tax is $128 000.

An appropriate dividend cover for the ordinary shares is 2.0 times.

What will be the dividend per ordinary share?

A $0.035

B $0.040

C $0.070

D $0.080

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16 Which of the following correctly shows the effect of a company increasing the value of its freehold property?

	asset use ratio	gearing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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 of the following 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 What will reduce the gearing of a company?

A amortisation of Goodwill

B an issue of bonus shares

C conversion of loan stocks into shares

D an increase in bank overdraft

19 What is an example of a method used to “window dress” financial statements?

A accepting orders from new, high-risk customers

B anticipating profits on long-term contracts

C delaying payments to suppliers

D having an excessive gearing ratio

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20 What is the purpose of cost accounting?

A to aid decision-making

B to calculate the value of fixed assets

C to give a true and fair view of a company's financial situation

D to value the contribution made by a firm's workforce

21 A company manufactures three products, X, Y and Z. The table provides information concerning the three products.

	product X	product Y	product Z
	$	$	$
selling price per unit	100.00	120.00	130.00
direct material cost per unit	40.00	45.00	48.00
direct labour cost per unit	20.00	25.50	29.00
variable overhead cost per unit	15.00	18.00	20.00
fixed overhead cost per unit	18.00	18.00	27.00
profit per unit	7.00	13.50	6.00

All three products are made from the same material.

If the material is in short supply, which manufacturing pattern will maximise profit?

	order of priority		
	1	2	3
A	Y	X	Z
B	Y	Z	X
C	Z	Y	X
D	Z	X	Y

22 A company revalues its buildings upwards.

What is the impact on the following ratios?

	gearing	return on capital
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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23 A builder and his one employee are working at full capacity and turning away work. The builder does not wish to recruit another employee.

The bank overdraft is at its limit and the bank has asked to see budgets for the next 12 months.

Which budget should be prepared first?

A cash **B** labour **C** materials **D** sales

24 A unit of a product uses 3 kg of raw material. The year's production budget is shown.

budgeted sales	12 000 units
increase in raw materials stock	2 000 kg
decrease in finished goods stock	1 000 units

What are the budgeted purchases of raw materials for the year?

A 35 000 kg **B** 36 000 kg **C** 38 000 kg **D** 39 000 kg

25 The cash budget of Greenbranch Limited for the next six months shows a cash deficiency of $30 000 arising at the end of the period.

Which possible remedy will overcome the cash deficiency?

A a rights issue to existing ordinary shareholders; the issue's net proceeds will be $31 000

B cancelling a planned depreciation charge of $34 000

C delaying for one year a bonus issue to existing ordinary shareholders

D the inclusion of the company's freehold property in the accounts at its current valuation of $100 000 instead of cost of $64 000

26 The budgeted overheads for a company for a three month period are $315 000. The table shows information for the production for the three months.

	budget	actual
output (standard hours)	180 000	168 750
standard hours per unit	2.25	2.25

What is the standard overhead cost per unit?

A $1.75 **B** $1.87 **C** $3.94 **D** $4.21

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27 The table shows variances taken from the profit statement of a company
[F = favourable; A = adverse.]

		$
1	sales total variance	800 F
2	sales volume variance	1200 F
3	sales price variance	?
4	materials total variance	500 F
5	materials usage variance	300 A
6	materials price variance	?
7	labour total variance	240 A
8	labour efficiency variance	1060 A
9	labour rate variance	?

What is the effect **in total** of variances 3, 6 and 9 on the company's profit?

A $380 A **B** $420 F **C** $1220 A **D** $1220 F

28 A company has established that 25 units of Product X should be manufactured in a standard hour, paid for at a standard rate of $6.00 per hour. In a period when 25 000 units of Product X were manufactured there was a favourable labour efficiency variance of $240.

What were the actual direct labour hours per hundred units of Product X in the period?

A 3.04 **B** 3.84 **C** 4.00 **D** 4.16

29 A company that uses a standard costing system experiences an unfavourable material usage variance.

Which reason could **not** explain this?

A an increase in the price of raw materials

B low staff morale in the factory

C recruitment of a lower calibre of employee

D the use of a lower grade material

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30 The net present values of a capital project are as follows

Discount rate	NPV ($)
10%	6000
16%	(3000)

What is the internal rate of return for this project?

A 10% **B** 12% **C** 14% **D** 16%

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