

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING

9706/03

Paper 3 Multiple Choice

May/June 2003

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 Information regarding a proposed investment in a project is given.

estimated life of project	5 years
cost of machine	\$90 000
estimated proceeds of disposal of machine after 5 years	\$10 000
additional working capital required throughout the project	\$30 000
additional annual revenue (net)	\$15 000

What will be the accounting rate of return on the project?

- A** 13.6% **B** 21.4% **C** 25% **D** 27.3%

- 2 The table shows the capital and reserves of a company according to its last published accounts.

	\$
ordinary shares of \$1.00 each	200 000
redeemable preference shares of \$1.00 each	50 000
Profit and Loss Account	68 000

The redeemable preference shares were originally issued at par. They have now been redeemed at a premium of 25%.

A new issue of 50 000 ordinary shares of \$1.00 was made at a premium of \$0.15 per share to finance the redemptions.

What will be the balance on the Share Premium account and Profit and Loss Account after the share redemption?

	Share Premium account \$	Profit and Loss Account \$
A	-	13 000
B	5000	18 000
C	7500	55 500
D	-	63 000

- 3 A company has been wound up and the only assets that remain have realised \$45 000.

A summary of the company's capital structure shows:

	\$
ordinary shares	20 000
preference shares	40 000
loan stock	30 000

How will the \$45 000 be distributed?

	ordinary shares \$	preference shares \$	loan stock \$
A	10 000	20 000	15 000
B	-	15 000	30 000
C	20 000	25 000	-
D	-	40 000	5 000

- 4 A partner receives 8% interest on a partnership loan of \$100 000.

A company takes over all the assets and liabilities of the partnership. The consideration of \$1 m is partly satisfied by the issue of 10 per cent debenture stock in place of the partnership loan, but the total interest payable is to remain the same.

The balance will be settled by the issue of 800 000 \$1.00 ordinary shares to the partners.

What will appear in the company's opening Balance Sheet?

	10% debenture stock \$	ordinary shares \$	reserves \$
A	80 000	800 000	120 000
B	80 000	920 000	-
C	100 000	800 000	100 000
D	100 000	900 000	-

- 5 A company agrees to buy assets from another company for \$200 000. The book value of the assets is \$170 000. The purchase price comprises cash of \$60 000, an issue of \$50 000 debenture stock at a discount of 5%, and an issue of 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

- 6 A business was purchased by a company for \$1.5 million. The table shows an extract from the Balance Sheet of the business purchased.

	\$
fixed assets	400 000
net current assets	120 000
long-term loan	200 000

If these values were agreed by the purchasing company, how much was paid for Goodwill?

- A \$520 000 B \$780 000 C \$980 000 D \$1 180 000
- 7 A company has issued 8% debentures redeemable 31 December 2003.
- Under which heading should the company show the debentures in its Balance Sheet at 31 December 2002?
- A authorised capital
B creditors : amounts falling due after more than one year
C creditors : amounts falling due within one year
D issued share capital
- 8 Which changes does a cash flow statement show?
- A bank and cash balances
B funds flow
C gearing
D net book value of investments
- 9 Which material event, occurring shortly after the year end, should be disclosed **only** as a note to the accounts?
- A discovery of a payroll computer fraud
B insolvency of a major debtor
C loss of stock due to flood damage
D permanent reduction in value of property

10 In its accounts, a company makes a transfer from profits to general reserve.

How will this be shown in the cash flow statement?

- A as an adjustment not involving the movement of cash
- B as a source of cash
- C as a use of cash
- D not appear at all

11 Which business should have the highest fixed asset turnover?

- A a car manufacturer
- B a hotel
- C an oil company
- D a retail department store

12 The issued share capital of PQR Ltd. is:

500 000 6% preference shares of \$1.00 each fully paid;
3 000 000 ordinary shares of \$0.50 each fully paid.

The company also has a long-term liability consisting of \$200 000 of $7\frac{1}{2}$ % debentures 2005 which were issued some years ago.

The company's operating profit is \$285 000.

An appropriate dividend cover for the ordinary shares is 2 times.

What will be the dividend per ordinary share?

- A \$0.04 B \$0.0425 C \$0.0450 D \$0.0475

13 Which of the following will increase gearing?

- A conversion of loan stock into shares
- B transfer of a general reserve to the Profit and Loss Account
- C upward revaluation of freehold premises
- D writing off Goodwill

- 14 Which is **not** a source of long-term finance?
- A bank overdraft
 - B debentures
 - C ordinary shares
 - D preference shares
- 15 A company wishes to raise finance without increasing gearing.
Which option will it use?
- A a bonus issue of ordinary shares
 - B an issue of debentures
 - C an issue of preference shares
 - D a rights issue of ordinary shares
- 16 Which of the following may be used to smooth distributable profits from one year to another?
- A asset revaluation reserve
 - B capital redemption reserve
 - C general reserve
 - D provisions for depreciation

- 17 A company makes three products for which the following details are given.

	product P \$	product Q \$	product R \$
selling price per unit	20	24	36
direct material per unit	9	12	15
direct labour per unit	5	3	9

The same material is used by all three products and it costs \$3.00 per kilo.

There is a shortage of material.

In which order of priority should the products be made in order to achieve maximum profit from the available material?

	first	next	last
A	P	Q	R
B	Q	R	P
C	R	P	Q
D	R	Q	P

- 18 For what purpose might management undertake sensitivity analysis?

- A** to calculate employees' bonuses
- B** to determine levels of depreciation
- C** to determine the effect of dividends on profit
- D** to determine the selling price of a product

- 19 A company manufactures one product. It has variable costs of \$600 000 and fixed costs of \$300 000.

If it bought all its production from another supplier, it could use its existing machinery to make a total contribution of \$400 000. Fixed costs would not change.

What is the maximum price it should pay to obtain all its production from another supplier?

- A** \$600 000 **B** \$700 000 **C** \$900 000 **D** \$1 000 000

20 A company makes a product for which the following information is given.

	per unit \$
selling price	100
direct materials	40
direct labour	30

Total fixed costs are \$40 000.

Planned production is 1000 units.

Which action should the company take to break-even?

	decrease cost of	increase cost of
A	direct labour 30 %	-
B	direct materials 25 %	-
C	-	direct labour 30 %
D	-	direct materials 25 %

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 \$
A	1550	-
B	-	1550
C	5225	-
D	-	5225

22 Which of the following should be considered by a manufacturer before deciding to buy-in its products instead of manufacturing them?

- A** administration expenses
- B** alternative use of resources formerly used for production
- C** contribution to sales ratio
- D** marketing expenditure

23 Which of the following is an advantage of using a budgetary control system?

- A** calculation of bad debt provisions
- B** calculation of depreciation
- C** making 'make or buy' decisions
- D** monitoring management performance

24 A company's debtors total \$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 will the year-end debtors be?

- A** \$81 000 **B** \$54 000 **C** \$40 500 **D** \$36 000

25 A company has a standard selling price of \$12 per unit and budgeted sales of 80 000 units. It has actual sales of 82 000 units with a total sales value of \$955 300.

What is the sales price variance?

- A** \$4700 adverse
- B** \$24 000 adverse
- C** \$24 000 favourable
- D** \$28 700 adverse

26 The table shows details of direct labour costs.

budget	actual
48 250 hours at \$6.50 per hour	50 000 hours at \$7.00 per hour

What is the direct labour rate variance?

- A \$24 125 adverse
- B \$24 125 favourable
- C \$25 000 adverse
- D \$25 000 favourable

27 The following material costs relate to the manufacture of 100 units of a product.

	kilos	cost per unit \$	total cost \$
standard	1500	5.50	-
actual	1650	-	9570

What is the raw material price variance?

- A \$495 adverse
- B \$495 favourable
- C \$1320 adverse
- D \$1320 favourable

28 What is the net present value of an investment equal to when the internal rate of return is calculated?

- A the aggregate anticipated future cash income at compound interest
- B the initial expenditure on the investment
- C the value of the investment's depreciation
- D zero

29 What is an advantage of using pay back method of capital investment appraisal?

- A calculates higher purchase instalments
- B calculates profitability
- C determines the efficiency of a process
- D evaluates risk

- 30** A company converts \$2 000 000 debenture stock into \$0.50 ordinary shares. The conversion rate is 40 ordinary shares per \$100 debenture stock.

What amount is credited to the Share Premium account?

- A** \$800 000 **B** \$1 000 000 **C** \$1 200 000 **D** \$1 600 000

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