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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/32**

Paper 3 Multiple Choice **October/November 2009**

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

* 2 6 7 3 9 1 2 5 4 6 *

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.

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1 The table shows data for a company.

	Year 1	Year 2
	$ 000	$ 000
stock	160	220
debtors	85	63
bank	33	212
creditors	72	87

Operating profit before interest and depreciation was $240 000. Depreciation charges for the year amounted to $42 000.

What was the net cash flow from operating activities in Year 2?

A $179 000 **B** $217 000 **C** $259 000 **D** $263 000

2 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	120

The company has decided to redeem all its debenture stock at a premium of 5 %.

Which 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.

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3 A public company has the following summarised balance sheet.

	$
ordinary share capital ($5 shares)	750 000
share premium	150 000
profit and loss	100 000

The company decides to purchase 60 000 of its own shares for $400 000.

What is the position after this transaction?

	share capital $	profit and loss account $
A	350 000	100 000
B	450 000	nil
C	450 000	50 000
D	450 000	100 000

4 At the end of a financial year a company redeemed $50 000 of 8 % debentures at a premium of 4 %.

What was the **total** paid to debenture holders during that year?

A $52 000 **B** $54 000 **C** $56 000 **D** $56 160

5 X Ltd. buys business Y for $100 000. At the date of purchase the balance sheet of business Y shows the following.

	$ 000
fixed assets	30
current assets	90
current liabilities	65
capital account	55

What is the amount paid for goodwill?

A $45 000 **B** $55 000 **C** $70 000 **D** $75 000

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6 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

7 When the business of X was purchased by Y plc, negative goodwill of $100 000 arose. The following table shows an extract of X's balance sheet at the purchase date.

	$ 000
net current assets	500
long term debt	100
profit and loss debit balance	(50)
share capital	450

What was the purchase price of X?

A $300 000 **B** $500 000 **C** $600 000 **D** $700 000

8 A company shows the following figures in its balance sheet.

	$ 000
goodwill	35
equipment, at cost, less depreciation	70
bank overdraft	17
loan repayable over 5 years	100
(current liability portion $20 000)	
stocks for resale	95
trade creditors	54
6 month deposit account	125

What is the figure for capital and reserves?

A $29 000 **B** $84 000 **C** $99 000 **D** $154 000

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9 What is found in the Directors' Report of a limited company?

1 basis of depreciation of non-current assets
2 directors' names
3 details of dividends
4 statement of the principal activities of the company

A 1 only

B 1 and 2 only

C 1, 2 and 3 only

D 2, 3 and 4 only

10 A company has the following items in its accounts for the year ended 31 August 2009.

1 Research expenditure $30 000.

2 A completed development project, which cost $100 000.
Sales commenced on 1 September 2008.
The project has a commercial life of 5 years.

3 A development project in progress, eligible for capitalisation $50 000.

What is the correct accounting treatment for these items at 31 August 2009?

	profit and loss expense $	balance sheet asset $
A	0	180 000
B	30 000	150 000
C	50 000	130 000
D	100 000	80 000

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11 A company's financial statements include the following.

	$ 000	$ 000
operating profit		78
interest paid	16	
ordinary dividend paid	20	(36)
retained profit for the year		42
transfer to general reserve		(15)
retained profit at beginning of year		30
retained profit at end of year		57

What is the dividend cover for the ordinary shares?

A 2.1 times **B** 2.35 times **C** 2.85 times **D** 3.1 times

12 The following balances appear in the internal accounts of a company.

		$
trade debtors' ledger	debit balances	261 000
	credit balances	3 000
trade creditors' ledger	credit balances	156 000
	debit balances	2 000

How will the debtors and creditors be shown in the published accounts?

	debtors $	creditors $
A	258 000	154 000
B	261 000	156 000
C	263 000	159 000
D	264 000	158 000

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13 The issued share capital of a company is:

200 000 5 % preference shares of $1.00 each fully paid.
800 000 ordinary shares of $2.00 each fully paid.

The company's net profit is $160 000.

An appropriate level of dividend cover for the ordinary shares is 1.5 times.

What will be the dividend per ordinary share?

A $0.063 **B** $0.125 **C** $0.134 **D** $0.250

14 Which action would reduce a company's gearing level?

A issuing debentures

B making a bonus issue of shares

C making a rights issue of shares

D taking out an unsecured long term loan

15 Which characteristics would be present in a highly geared company?

A a large, but temporary, bank overdraft

B excessive levels of trade creditors in its balance sheet

C significant levels of dividend payments in a period

D significant levels of loan interest payments charged against its profits

16 The following list of expenditure relates to a newly purchased item of plant.

expenditure	$
plant purchase price	100 000
cost of testing and trial runs	500
installation costs	1500
annual maintenance contract	1000
depreciation charge	5000

What is the initial cost of the plant recognised as a fixed asset?

A $101 500 **B** $102 000 **C** $103 000 **D** $107 000

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

	product X $	product Y $	product Z $
selling price per unit	40	48	72
direct material per unit	18	24	30
direct labour per unit	10	6	18

The same labour is used by all three products and it costs $2.00 per hour.

There is a shortage of labour.

In which priority should the product be made in order to achieve maximum profit from the available labour?

	first ⟶		last
A	X	Y	Z
B	Y	Z	X
C	Y	X	Z
D	Z	X	Y

18 A company is evaluating its plans to close a unit within its business. If closed, the employees at the unit would be redeployed elsewhere in the business. The costs associated with the closure are as follows.

	$ 000
net book value of unit assets (no resale value)	35
estimated direct cost of closure of the unit	25
existing fixed overheads apportioned to unit	16
wages of unit employees	20

What is the relevant cost of closure of the unit?

A $25 000 **B** $41 000 **C** $60 000 **D** $96 000

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19 The table contains information provided by a company.

actual direct labour hours worked	8 000
actual overhead expenditure	$104 000
budgeted direct labour hours	8 500
budgeted overhead expenditure	$102 000

What is the amount of the overhead over / under recovery?

A $2000 under-recovered

B $2000 over-recovered

C $6500 under-recovered

D $8000 under-recovered

20 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 as follows.

	$
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

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21 What is the starting point in the preparation of a budget for a manufacturing organisation?

A a cash forecast

B amending last year's budget to take account of the effects of inflation

C forecasting employee numbers

D identifying the key budget factor

22 Which statement is true about the operation of an effective budgetary control system?

A It will only use past data which means that it is not forward looking.

B It will help a company plan and control the use of its financial and other resources.

C It will help a company prepare its annual statutory accounts.

D It will stop managers cooperating with each other.

23 The master budget of a company is being prepared. The following information is available.

budgeted sales	$400 000
opening stock	$40 000
budgeted closing stock	$70 000
estimated mark-up	25 %

What are the budgeted purchases?

A $320 000 **B** $330 000 **C** $350 000 **D** $380 000

24 What would be the reason for an adverse material usage variance?

A Direct labour wage rate has been above budget.

B Material has been used inefficiently in the factory.

C Production has been at a lower level than budgeted.

D Suppliers have been paid more for the material than planned.

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25 The prime cost for a business comprises direct materials and direct labour. At the end of a trading period the following variances are calculated.

	$
direct materials usage variance	800 adverse
direct materials price variance	600 favourable
direct labour efficiency variance	1000 favourable
direct labour rate variance	200 adverse

If the actual cost was $19 500, what is the standard prime cost?

A $18 900 **B** $19 700 **C** $20 100 **D** $22 100

26 The table shows information for production during the last three months.

	budget	actual
output in units (standard hours)	200 000	240 000
standard hours per unit	2.5	2.5

The budgeted overheads for a company for a three month period are $620 000.

What is the standard overhead cost per unit?

A $2.58 **B** $3.10 **C** $6.45 **D** $7.75

27 Budgeted and actual results are as shown.

	budgeted	actual
materials usage per unit	12 kg	13 kg
materials price per unit	$6	$8
labour hours per unit	4	3
labour rate per hour	$20	$19

What is the total variance per unit manufactured?

A $9 adverse

B $9 favourable

C $18 adverse

D $18 favourable

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28 Firm X is considering using various methods of investment appraisal.

Which method is not based on cash flows?

A accounting rate of return

B internal rate of return

C net present value

D payback

29 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 %

30 X, Y and Z are in partnership sharing profits 40 %; 40 %; and 20 %.

Y wishes to retire.

Capital account balances are X $120 000, Y $130 000 and Z $150 000.

Goodwill is recorded in the books as $50 000 but the partners agree it is worth $90 000.

How much will Y be entitled to withdraw?

A $136 000 **B** $146 000 **C** $150 000 **D** $168 000

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