UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/32**

Paper 3 Multiple Choice **May/June 2012**

1 hour

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

* 8 4 6 8 0 3 0 9 4 2 *

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 X, Y & Z are in partnership sharing the profits and losses equally. The balances on their capital accounts are $40 000, $35 000 and $32 000 respectively.

Z retires and as part of his settlement takes a car at an agreed value of $4000. The car has a book value of $4600. Goodwill is valued at $15 000.

How much cash will Z receive when he leaves the partnership?

A $32 400 **B** $32 800 **C** $33 000 **D** $37 000

2 When goodwill is **not** adjusted in the books which of the following statements are correct?

1 A new partner does not have to introduce an amount as capital.

2 Non-current assets are undervalued.

3 Partners do not receive credit for their efforts in building up the business.

4 Retiring partners will receive a lower amount of money when leaving the business.

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

3 A company's year end is 30 April. It purchases a factory in May 2009 at a cost of $200 000. The factory will be depreciated over 20 years. A full year's depreciation is charged in the year of purchase.

In May 2012 the factory is re-valued at $300 000.

How much should be included in the revaluation reserve account?

A $100 000 **B** $120 000 **C** $130 000 **D** $140 000

4 The table shows an extract from the financial statements of a limited company.

	$
ordinary share capital (500 000 × $1 shares)	500 000
share premium account	150 000
revaluation reserve	200 000
retained earnings	250 000

What is the maximum dividend per share that can be paid?

A $0.50 **B** $0.80 **C** $0.90 **D** $1.20

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5 An extract from a company's statement of financial position is shown below.

	$
ordinary shares at $0.50	500 000
share premium account	100 000
retained earnings	300 000
	900 000

The day after this statement was prepared the company made a 1 for 4 rights issue at a price that was at 20 % below the current market price of $1 per share.

What was the balance on the share premium account after the rights issue?

A $100 000 **B** $137 500 **C** $175 000 **D** $200 000

6 A company makes a 1 for 2 bonus issue.

What effect will this have?

A improve cash flow

B increase shareholders' funds

C reduce an ordinary shareholder's percentage holding

D reduce the value of an ordinary share

7 A limited company purchases a partnership. It issues to the partners 10 % debentures and pays them cash in full settlement of the purchase price.

Which of the following statements is correct?

A The company's gearing is reduced.

B The company intended to expand its business.

C The company's reserves are reduced.

D The partners now own some of the equity in the company.

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8 A company buys a business by issuing shares in full payment. The shares have a par value of $1.00 each and an agreed market value of $2.50 each. The assets and liabilities of the business together with the agreed values are as follows.

	net book value $	agreed valuation $
plant and machinery	15 000	22 000
motor vehicles	17 500	13 250
inventory	24 000	21 500
trade receivables	2 500	2 250
trade payables	8 000	9 000

How many shares will be issued to satisfy the purchase of the business?

A 20 000 **B** 20 100 **C** 20 400 **D** 51 000

9 How may a company improve its profit by window dressing?

A applying an impairment test to goodwill

B making a provision for obsolete stock

C increasing the bad debts provision

D reducing the rates of depreciation

10 Which item will increase a company's earnings per share?

A a correction of an under-valuation of closing inventory

B an increase of redeemable debentures

C an issue of bonus shares

D a surplus arising on the revaluation of assets

11 A company provided the following financial information for the year.

	$000
profit from operations	570
depreciation charge for the year	250
increase in working capital for the year	60
purchase of non-current assets during the year	125
repayment of a debenture during the year	30

What was the increase in cash and cash equivalents for the year?

A $225 000 **B** $355 000 **C** $475 000 **D** $605 000

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12 A company is preparing its statement of cash flows. During the year, it sells a non-current asset for $1500. This results in a loss on disposal of $1000.

What is the effect of this on the statement of cash flows?

	cash from operating activities	cash from investing activities
A	decreases by $1000	decreases by $1500
B	no effect	increases by $1500
C	increases by $1000	no effect
D	increases by $1000	increases by $1500

13 A company has three non-current assets in use. At the end of its financial year, details of their valuations are as shown.

asset	carrying amount $	fair value less costs to sell $	value in use $
1	20 000	25 000	28 000
2	30 000	26 000	24 000
3	25 000	32 000	20 000

How much should the total non-current assets be shown in the statement of financial position?

A $64 000 **B** $66 000 **C** $71 000 **D** $75 000

14 Which item must be included in the director's report of a limited company?

A basis of depreciation of non-current assets

B details of dividends

C losses on disposal of non-current assets

D respective responsibilities of the directors

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15 The following information is taken from the financial statements of a limited company.

	$000
retained earnings at the start of the year	50
profit attributable to equity holders	30
dividends paid during the year	15
dividends proposed payable in the next financial year	10
surplus on revaluation of land during the year	20

What are the retained earnings at the end of the year?

A $55 000 **B** $65 000 **C** $80 000 **D** $100 000

16 Which two actions would **both** increase a company's working capital cycle?

1 increase trade payables; reduce trade receivables
2 increase trade receivables; reduce trade payables
3 reduce inventory; increase trade payables
4 reduce trade payables; increase inventory

A 1 and 2 **B** 1 and 3 **C** 2 and 4 **D** 3 and 4

17 The following information is taken from the Income statement of a limited company.

	$	$
revenue		650 000
less cost of sales		
opening inventory	19 000	
purchases	508 000	
	527 000	
closing inventory	25 000	502 000
gross profit		148 000

Inventory turnover 16 days

Trade receivables at the end of the year $48 082

Trade payables at the end of the year $44 537

What is the working capital cycle?

A 11 days **B** 21 days **C** 43 days **D** 75 days

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18 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 statement of financial position?

	ordinary shares	reserves	bank
A	decrease	no effect	increase
B	increase	decrease	decrease
C	increase	decrease	no effect
D	increase	increase	decrease

19 A company discovers the following information in respect of its carriage costs.

units carried	total cost
2 000	$ 6 000
5 000	$13 500

It has been advised by the carrier that when more than 5000 units are carried the cost will increase the fixed charge by a further $2000.

What will be the cost to carry 6000 units?

A $15 500 **B** $16 200 **C** $18 000 **D** $20 000

20 A manufacturing company adds 10 % to the factory cost of goods produced to determine the price at which goods are transferred from factory to warehouse.

The table shows information taken from the company's income statement at the end of the financial year.

	$
opening inventory of finished goods	137 500
closing inventory of finished goods	159 500

How much should be debited in the income statement for the year for the provision for unrealised profit on stock?

A $2000 **B** $2200 **C** $14 500 **D** $20 000

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21 A company manufactures three products. The following information is obtained in respect of next month's budgeted production.

	product X	product Y	product Z
contribution per unit	$7	$6	$8
contribution per kilo	$3	$4	$6
kilos of material required for production	400	600	1000

Due to problems with suppliers, the company has been advised that only 1800 kilos of material will be available for production next month.

What is the maximum contribution the company can earn?

A $9000 **B** $9600 **C** $13 000 **D** $13 200

22 A process has an input of 6000 kilos at a cost of $118 200. Normal wastage is 10 % of input and this is sold for $6 per kilo. There are no abnormal gains or losses.

What is the cost per kilo of output from the process, to the nearest cent?

A $19.10 **B** $19.70 **C** $21.22 **D** $21.89

23 The following relates to the production and costs of a manufacturer.

production for the period	2400 units
closing stock	400 units
direct material costs	$12 000
direct labour costs	$6 000
factory fixed expenses	$4 080

Closing stock is valued at marginal cost.

What is the marginal cost per unit of the finished goods?

A $7.50 **B** $9.00 **C** $9.20 **D** $11.04

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24 The details of a planned college course are shown below.

	$
course fee per student	100
variable course cost per student	20
total fixed costs of the course	480

The budgeted number of students is 10. However, if a lower fee is charged 20 students would take the course.

What is the maximum reduction in the course fee of $100, to earn the same total profit from either 10 or 20 students?

A $16 **B** $24 **C** $40 **D** $50

25 A company uses flexible budgetary control. The following information relates to budgeted and actual data for the month.

budgeted units	1000	1200	
actual units			1100

costs	1000 units $	1200 units $	actual units $
direct material	2000	2400	2200
direct labour	500	600	600
fixed overheads	800	800	800
total cost	3300	3800	3700

What is the difference between the actual total cost and the flexed total budgeted cost?

A $0 **B** $150 **C** $400 **D** $500

26 A production department used 7000 direct labour hours in a period, at a standard cost of $10 per hour. This resulted in a favourable labour efficiency variance of $40 000.

What was the standard time taken for production?

A 3000 hours

B 4000 hours

C 7000 hours

D 11 000 hours

27 Budgeted and actual sales of a product are given.

	budget	actual
sales in units	2 000	1 800
selling price per unit	$15	?
sales revenue	$30 000	$28 800

What is the sales price variance?

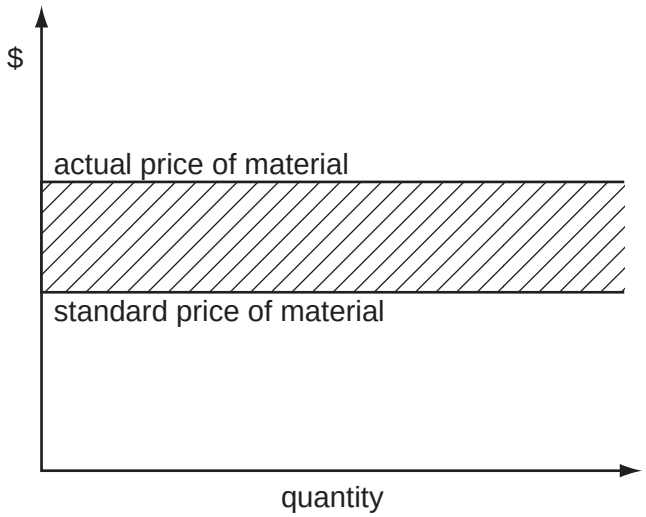
A $1200 adverse

B $1200 favourable

C $1800 adverse

D $1800 favourable

28 The graph shows the cost and usage of a material.



What does the shaded area represent?

A adverse price variance

B adverse usage variance

C favourable price variance

D favourable usage variance

29 Which will cause a capital investment project to be more acceptable to a business?

1 a decrease in the discount rate applied to the project

2 a decrease in the operating costs of the project

3 an increase in the discount rate applied to the project

4 an increase in the total depreciation charged to the project

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

30 A business is operating under conditions of capital rationing and is considering investing in the following projects.

project	investment $	NPV $
X	500 000	80 000
Y	400 000	72 000
Z	450 000	67 500

In order to maximise the overall value of the business how should these three projects be ranked?

A XYZ **B** XZY **C** YXZ **D** ZYX

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