UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/32**

Paper 3 Multiple Choice **May/June 2013**

1 hour

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

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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.
DO NOT WRITE IN ANY BARCODES.

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 following extracts are taken from the financial statements of a company.

	year 1 $	year 2 $
profit from operations before depreciation	1 140 000	1 220 000
depreciation for the year	80 000	110 000
inventory	55 000	68 000
trade receivables	43 000	35 000
trade payables	59 000	47 000

What is the net cash flow from operating activities for year 2?

A $1 203 000 **B** $1 213 000 **C** $1 237 000 **D** $1 313 000

2 A club has 120 members who should each pay a subscription of $25 for the year.

At the end of the year, 10 members have not yet paid their subscriptions and 5 members have paid in advance for next year.

Which amount should be included in the financial statements?

	income and expenditure account	current assets	current liabilities
A	2750	125	250
B	2750	250	125
C	3000	200	250
D	3000	250	125

3 A company makes a bonus issue of shares.

What will increase?

A the cash and cash equivalents

B the retained earnings of the company

C the total number of issued shares

D the total number of shareholders

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4 The following items were extracted from a company's statement of financial position.

	$
5% debentures	15 000
retained earnings	60 000
ordinary shares of $1 each	75 000

What is the company's total equity?

A $75 000 **B** $90 000 **C** $120 000 **D** $135 000

5 A business is considering using a debt factoring service.

What is the benefit to the business of this action?

A There will be an improvement in cash flow.

B There will be an increase in sales volume.

C There will be an increase in trade receivables.

D There will be an increase in working capital.

6 Y Ltd purchases the business of J by issuing $1 shares at a premium of $0.20. Y Ltd agrees to take over J's assets and liabilities at the date of the acquisition as follows.

	$
non-current assets	150 000
current assets	75 000
trade payables	5 000
bank loan	20 000

Goodwill is valued at $10 000.

How many shares will J receive from Y Ltd?

A 175 000 **B** 187 500 **C** 200 000 **D** 210 000

7 A company purchases a business for less than the value of the net assets acquired.

Which entry should be made in the books of the purchasing company to account for the difference in value?

A credit capital reserve

B credit retained earnings

C debit goodwill

D debit share premium

8 A Ltd purchased all the assets and liabilities of B by issuing 10 000 shares of $1 each at par.

The statements of financial position of A Ltd and B immediately before the purchase show the following.

	A Ltd $	B $
assets	28 000	4000
liabilities	10 000	1000
	18 000	3000

What were the net assets of A Ltd after the purchase?

A $21 000 **B** $25 000 **C** $28 000 **D** $31 000

9 The financial statements of limited companies must disclose changes in the methods of providing for depreciation of non-current assets.

Why is this important to the users of corporate reports?

A It allows the market value of assets to be shown.

B It enables comparison with previous years.

C It helps to assess company liquidity.

D It helps to assess future dividends.

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10 A company purchased a machine with a cost price of $40 000. The company was allowed a 5% trade discount on the purchase price.

In addition, the following costs were incurred.

	$
delivery	1000
installing and testing	3000
annual maintenance contract	4500

What was the cost of the machine recognised as a non-current asset?

A $38 000 **B** $39 000 **C** $42 000 **D** $46 500

11 A company has issued 8% debentures redeemable by 31 December 2013.

Under which heading should they appear in the statement of financial position at 31 December 2012?

A current liabilities

B equity

C non-current liabilities

D reserves

12 A company has the following balances in its statement of financial position.

	start of year $	end of year $
share capital	120 000	140 000
revaluation reserve	100 000	110 000
retained earnings	60 000	100 000

During the year, the company paid dividends of $40 000.

What was the profit attributable to equity holders for the year?

A $30 000 **B** $40 000 **C** $70 000 **D** $80 000

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13 Which row correctly shows the effect of a company increasing the value of its freehold property?

	non-current asset turnover	gearing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

14 The following information is available for a business.

	$	$
sales		182 410
opening inventory	54 100	
purchases	92 660	
	146 760	
closing inventory	(50 180)	
cost of sales		96 580
gross profit		85 830

Cash purchases were $2140. The rest were made on credit.

Trade payables at the end of the year amounted to $13 890.

What was the trade payables turnover?

A 52.5 days **B** 53.7 days **C** 54.7 days **D** 56.0 days

15 Information from a company's financial records reveals the following information.

profit from operations	$100 000
interest cover	10 times
dividend per share	$0.10
ordinary shares of $1 each	200 000

What are the company's earnings per share?

A $0.35 **B** $0.40 **C** $0.45 **D** $0.50

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16 What 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 additional cash

D to raise the market value of shares

17 A company makes a bonus issue of one ordinary share for every three held.

The shareholders' funds immediately before the issue are as follows.

	$
ordinary share capital	600 000
retained earnings	200 000
share premium account	240 000

The costs of the bonus issue are $20 000.

What are the shareholders' funds after the bonus issue?

A $1 020 000 **B** $1 040 000 **C** $1 220 000 **D** $1 240 000

18 The directors of a company carry out the following actions.

1 make an issue of ordinary shares of 50 000 ordinary shares of $1 each at par

2 make a bonus issue of 40 000 shares of $1 each at par

3 redeem a debenture of $60 000 at par

Which row shows the effect of this?

	share capital	gearing	working capital
A	decrease	decrease	decrease
B	increase	decrease	decrease
C	increase	increase	increase
D	increase	no effect	increase

19 A company, with financial year end 31 December 2012, has prepared its final accounts.

Before the accounts are approved, the company are notified that a credit customer with an outstanding debt of $175 000 has been declared bankrupt on 6 January 2013.

Which International Accounting Standard should be applied by the company for this situation?

A IAS 1 **B** IAS 7 **C** IAS 8 **D** IAS 10

20 The data is given for four products.

product	number of units to be made	selling price per unit $	variable cost per unit $	total fixed cost of product $
1	1000	5.00	3.50	700
2	2000	6.00	4.80	1500
3	1000	7.00	5.00	1400
4	3000	4.00	2.50	3800

The fixed cost of each product will be incurred only if the product is made.

There is sufficient capacity in the factory to make only three of the product lines.

Which choice of products will give the greatest profit?

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

21 A business currently manufactures a single product. It has been advised that there will be a shortage of direct material for the next month. Fixed costs will also increase next month.

Which row shows the impact of these changes in the next month?

	contribution to sales ratio	total contribution	total profit
A	decrease	decrease	decrease
B	increase	decrease	decrease
C	no effect	decrease	decrease
D	no effect	no effect	increase

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22 A manufacturer provides the following information.

	$
sales price per unit	15
variable price per unit	9
fixed costs per month	1000

	January units	February units
opening inventory	–	
production	600	800
sales	570	770

Inventory is valued at marginal cost.

What is the value of closing inventories at the end of February?

A $270 **B** $360 **C** $540 **D** $900

23 A company's sales revenue is split as follows.

25% cash sales

75% credit sales payable in the month after the sale

Total budgeted sales are as follows.

month	budgeted sales $
January	30 000
February	32 000
March	40 000

What will be the cash receipts in March?

A $10 000 **B** $24 000 **C** $34 000 **D** $40 000

24 What is the starting point for the preparation of an annual budget?

A identifying the limiting factor

B planning cash flow for the year

C preparing the production budget

D preparing the sales budget

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25 A company has anticipated sales in units as follows.

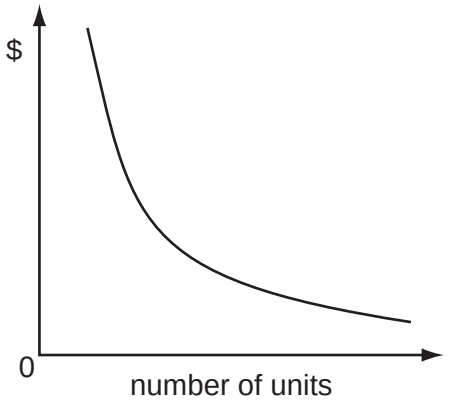
month	units
January	28 000
February	24 000
March	22 000
April	32 000
May	26 000

It is the company's policy to maintain a finished goods inventory at the end of each month equal to 40% of next month's anticipated sales.

What is the production in units for March?

A 12 800 **B** 18 000 **C** 22 000 **D** 26 000

26 What is shown by the graph?



A fixed costs per unit

B selling price per unit

C total semi-variable costs

D variable costs per unit

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27 The standard material cost of a unit is

direct material: 10 kilos at $1 per kilo.

During a period the following variances arose.

	$
materials price variance	9000 (adverse)
materials usage variance	3000 (favourable)

45 000 kilos of material were purchased to make 4800 units. Budgeted production for the period was 5000 units.

What was the actual material cost?

A $42 000 **B** $54 000 **C** $57 000 **D** $59 000

28 To calculate the direct labour efficiency variance, which data is **not** required?

A actual direct labour rate

B actual hours worked

C standard direct labour rate

D standard hours of actual production

29 Which statement regarding the use of the payback method is correct?

A Cash flows after the payback point has been reached are ignored.

B Cash flows during the entire life of a project are considered.

C Profits over the life of the project are considered.

D The project with the highest return on capital employed is selected.

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30 A company is considering an investment of $50 000 which will yield the following annual net cash flows over the three-year life span.

The company's cost of capital is 10%.

year	cash flow $	present value at 10%
1	20 000	18 180
2	30 000	24 780
3	35 000	26 285

What is the net present value (NPV) of the project?

A $15 755 **B** $19 245 **C** $35 000 **D** $69 245

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