Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/32**

Paper 1 Multiple Choice **May/June 2015**

1 hour

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

0377556254

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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.

This document consists of **11** printed pages and **1** blank page.

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1 A company makes a transfer from profits to general reserve.

How will this be shown in the statement of cash flow?

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

2 A business purchased materials to repair its non-current assets. These were incorrectly treated as purchases for resale in the draft financial statements.

What is the effect of correcting the error?

	gross profit	profit for the year
A	decrease	increase
B	increase	decrease
C	increase	no effect
D	no effect	no effect

3 A company provides the following information.

	$000
profit for the year	82
loan received	20
depreciation	24
decrease in inventory	35
increase in trade receivables	40

What is the cash generated from operations?

A $101 000 **B** $111 000 **C** $121 000 **D** $131 000

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4 The following details are available for a company.

	book value $000	market value $000
non-current assets	180	202
current assets	42	35
current liabilities	30	30

The business is being sold. Goodwill is valued at $50 000.

Which price should be paid for the net assets of the company?

A $207 000 **B** $214 000 **C** $257 000 **D** $264 000

5 X and Y have dissolved a partnership business. The profit sharing ratio was 3 : 2 respectively.

Non-current assets with a net book value of $162 750 realised $130 200.

Net current assets with a value of $40 685 realised $52 890.

Which adjustment to the capital account of Y results from the profit or loss on dissolution?

A $8138 credit

B $8138 debit

C $17 902 credit

D $17 902 debit

6 The total of the purchases ledger balances of a business was $10 694. The balance on the purchases ledger control account was $11 443.

The following errors were discovered.

1 A contra payment of $39 had not been entered in the purchase ledger control account.

2 Discounts received were $560 and discounts allowed were $480. The incorrect discount figure was entered in the purchase ledger control account.

3 A credit note for $180 was entered on a supplier's personal account as $810.

What is the correct balance for the purchases ledger control account?

A $10 575 **B** $11 324 **C** $11 562 **D** $12 073

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7 For which purpose can a share premium account be used?

A to make a rights issue

B to pay an ordinary dividend

C to repay debentures

D to write off preliminary expenses

8 A company's capital employed totalled $8 million at the start of a year and $15 million at the end of the year.

During the period, a $1 million long-term loan was received and new share capital of $2 million was issued.

What were the retained earnings for the year?

A $4 million **B** $5 million **C** $6 million **D** $7 million

9 A company had issued 150 000 ordinary shares of $1 each. It made a bonus issue of one share for every three already held.

It followed that with a rights issue of one share for every two already held at $1.20 per share. The rights issue was fully taken up.

What was the increase in the share capital account as a result of the bonus and rights issues?

A $75 000 **B** $90 000 **C** $150 000 **D** $180 000

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10 A limited company provides the following information.

	$000
non-current assets	1000
goodwill	40
net current assets	400
	1440
1 600 000 ordinary shares of $1 each	1600
retained earnings	(160)
equity	1440

The following capital reduction scheme is agreed by the shareholders.

1 Goodwill is to be written off.

2 The non-current assets are to be written down by $80 000.

3 The debit balance on the retained earnings account is to be eliminated.

4 The net current assets are to be reduced by $32 000.

What is the nominal value of one new ordinary share?

A $0.805 **B** $0.905 **C** $0.925 **D** $0.975

11 A trader has the following assets and liabilities.

	$
goodwill	10 000
non-current assets at net book value	20 000
current assets	15 000
trade payables	5 000
bank overdraft	2 000

He accepts an offer from a company to take over all his assets and liabilities, excluding the bank overdraft.

He receives ordinary shares of $1.00 each at a premium of $0.25.

How many shares will the trader receive?

A 24 000 **B** 30 400 **C** 32 000 **D** 40 000

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12 The directors propose a final dividend of $10 000.

Where does this appear in the financial statements?

A income statement

B notes to financial statements

C statement of cash flows

D statement of changes in equity

13 Which adjustment is **not** disclosed in a statement of changes in equity for a limited company?

A dividends paid for the year

B repayment of loan

C revaluation of non-current assets

D share capital issued at a premium

14 A company has the following balances in its accounts at 1 January 2014.

	$000
share capital	150
share premium	60
general reserves	40
retained earnings	17
	267

The following took place.

1 Dividends of $16 000 were paid during the year.

2 Profit for the year was $50 000.

3 The directors transferred $30 000 to general reserves.

4 The directors proposed a final dividend of $18 000.

What was the total equity at 31 December 2014?

A $271 000 **B** $283 000 **C** $301 000 **D** $331 000

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15 A potential investor looks at financial statements.

Why does he calculate the income gearing ratio?

A to find out what proportion of total capital is made up of fixed cost capital

B to know the maximum dividend the company will be able to pay

C to learn how confident investors are that the earnings will be maintained in the future

D to see how easily the company can pay its interest and still make profit

16 What will increase a company's gearing ratio?

A bonus issue of shares

B debenture issue

C ordinary share capital issue

D redemption of debentures

17 A company's statement of financial position showed the following.

	$
ordinary shares ($0.50 each)	200 000
10% preference shares ($1 each)	100 000
retained earnings	500 000
10% long-term loan	200 000

The profit from operations was $1 000 000.

What was the earnings per share?

A $1.250 **B** $2.000 **C** $2.425 **D** $2.500

18 What will appear in the statement of changes in equity?

A decrease in net current assets

B increase in non-current assets

C issue of debentures

D issue of shares

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19 A company has the following working capital information.

inventory turnover	42 days
trade receivables turnover	48 days
trade payables turnover	44 days

What is the company's working capital cycle?

A 38 days **B** 46 days **C** 50 days **D** 134 days

20 What is the correct treatment of a contingent liability which is less than 50% likely to happen?

A not recognised in the financial statements and not disclosed in the notes

B not recognised in the financial statements but disclosed in the notes

C recognised in the financial statements and disclosed in the notes

D recognised in the financial statements but not disclosed in the notes

21 The following information relates to an asset of a company.

	$
carrying value	114 000
value in use	105 000
fair value	115 000

If the asset is sold, selling costs of $3000 will be incurred.

What is the impairment loss?

A $1000 **B** $2000 **C** $9000 **D** $12 000

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22 A limited company has a financial year end of 31 December 2014. The following information is available.

On 2 January 2015, a fire in the warehouse destroyed half of total inventory.

On 5 January 2015, a major share issue took place.

The financial statements for the year ended 31 December 2014 were approved on 31 March 2015.

How are these events treated?

	fire	share issue
A	adjusting	adjusting
B	adjusting	non-adjusting
C	non-adjusting	adjusting
D	non-adjusting	non-adjusting

23 A company manufactures a single product. Each unit requires 1 kilo of material at $8 per kilo.

The following information is available for the process in June.

direct material	$4000
direct labour at $10 per hour	$4200
normal loss	50 units

How many units were completed?

A 370 **B** 420 **C** 450 **D** 500

24 Factory overheads are absorbed using a machine hour rate.

What will cause an over absorption of factory overhead?

A Actual factory overhead expenditure is higher than the budgeted factory overhead expenditure.

B Actual units produced are less than the budgeted units produced.

C Actual units produced are more than the budgeted units produced.

D The budgeted machine hours are more than the actual machine hours.

25 A company plans to sell 200 000 units of a product next year.

Opening inventory will be 26 000 units and closing inventory will be equivalent to 9% of units sold.

How many units need to be produced next year?

A 174 000 units

B 192 000 units

C 208 000 units

D 218 000 units

26 A business operates a standard costing system.

It has calculated a favourable labour rate variance for the period of $10 000.

The following information is also available.

standard labour rate per hour	$5
actual labour rate per hour	$4
standard labour hours	25 000

What is the actual number of labour hours worked?

A 10 000 **B** 15 000 **C** 20 000 **D** 25 000

27 A company provides the following information.

	actual	standard
direct labour rate per hour	$8.00	$7.50
hours worked	15	18

What was the labour efficiency variance?

A $22.50 adverse

B $22.50 favourable

C $24.00 adverse

D $24.00 favourable

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28 The following data is available for product X.

Standard cost per unit is 40 metres at $10 per metre.

Actual cost for 150 units is 7500 metres at $12 per metre.

What is the material usage variance?

A $15 000 adverse

B $15 000 favourable

C $18 000 adverse

D $18 000 favourable

29 Which calculation is used in investment appraisal when capital rationing exists?

A net present value divided by the capital cost of the project

B net present value divided by the net cash flow of the project

C net present value divided by the rate of interest on the capital

D net present value divided by the years of the project

30 What does the Internal Rate of Return (IRR) show?

A the return actually earned by a project

B the return a project always earns

C the return a project is expected to earn

D the return a project will earn

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