UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/31**

Paper 3 Multiple Choice **October/November 2013**

1 hour

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

* 3 4 2 8 4 3 4 1 5 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.
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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[Turn over

1 The financial year of a manufacturer ends on 31 December. Finished goods are valued at factory cost plus 20%.

The following information is available.

	1 January	31 December
inventory of finished goods at cost plus 20%	$2400	$3000

How much should be deducted from the closing inventory of finished goods for unrealised profit?

A $100 **B** $400 **C** $500 **D** $600

2 Which item would be included in a company's income statement?

A depreciation

B goodwill

C provision for doubtful debts

D trade receivables

3 X, Y and Z are in partnership and they have the following assets and liabilities.

	$
property	400 000
fixtures and fittings	350 000
closing inventory	25 000
trade receivables	45 000
bank overdraft	22 000

The partnership was dissolved on the following terms.

X took the property and half the fixtures and fittings at a valuation of $560 000.

The remaining fixtures and fittings and the entire inventory were sold for $140 000.

The trade receivables paid in full with the exception of one debt of $4700.

The total cost of dissolution was $2500.

What was the loss on dissolution of the partnership?

A $57 700 **B** $60 200 **C** $77 500 **D** $82 200

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4 What type of capital must **all** limited companies have?

A convertible loan stock

B debentures

C ordinary shares

D preference shares

5 The following information is included in a company's financial statement.

	$
ordinary share capital (at $1 each)	120 000
redeemable preference shares	40 000
retained earnings	65 000
share premium	8 000
balance at bank	65 000

The following transactions took place.

1 There was an issue of 25 000 ordinary shares at par.

2 The preference shares were redeemed at a premium of 5%.

What was the bank balance after the transactions took place?

A $23 000 **B** $48 000 **C** $50 000 **D** $63 000

6 A private limited company is considering purchasing some of its own shares.

1 The shares must have been issued as redeemable.

2 After the purchase, the company must have other shares in issue.

3 After the purchase, the company must have at least one shareholder.

4 The purchase cannot be financed by a new issue of shares.

Which statements are correct?

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

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7 When a business is purchased, the price paid is sometimes less than the fair value of the net assets acquired.

What is the difference known as?

A a revaluation reserve

B a share premium account

C negative purchased goodwill

D positive purchased goodwill

8 X and Y agree to merge their businesses and show the following balances on their books.

	X $	Y $
non-current assets	20 000	35 000
current assets	7 000	10 000
current liabilities	3 000	5 000
goodwill	5 000	6 000
non-current liability	nil	8 000

They wish to commence business with a total capital of $66 000 shared in the ratio 1 : 2.

Which bank adjustment will each have to carry out to complete this arrangement?

	X	Y
A	pays in $7000	withdraws $6000
B	withdraws $2000	pays in $12 000
C	withdraws $7000	pays in $6000
D	withdraws $13 000	withdraws $4000

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9 A company's statement of financial position at 1 January included the following.

	$ million
ordinary share capital	500
retained earnings	200

The company results for the year to 31 December included the following.

	$ million
profit before taxation	50
taxation	15
dividends proposed	10
revaluation surplus on land	12

What are the retained earnings at 31 December?

A $225 million **B** $235 million **C** $237 million **D** $247 million

10 Which items will be shown in the statement of changes in equity?

1 dividends proposed

2 interest paid on debentures

3 issues of share capital

4 transfers to reserves

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

11 At the year end a company had total net assets of $230 000.

The financial statements have not yet been approved by the directors and the following matters have come to light.

There is an unpaid legal charge of $10 000 which will have to be paid if the case is lost.

The inventory at the year end was valued at $45 000 but it is now discovered that, due to damage, it should have been $38 000.

What will be the value of the net assets after any necessary adjustments have been made?

A $175 000 **B** $185 000 **C** $213 000 **D** $223 000

12 What is the correct treatment of non-purchased goodwill?

A Do not recognise it as an asset.

B Include it in the statement of financial position as an asset at valuation.

C Include it in the statement of financial position as an asset, to be amortised.

D Write it off through impairment provision.

13 A limited company has the following capital at 31 December.

	$000
ordinary shares of $1 each fully paid	5000
7.5% preference shares of $1 each fully paid	200

The market price of the company's ordinary shares at 31 December is $1.45.

Other financial information is as follows.

	$000	$000
profit after tax		470
preference dividend	15	
ordinary dividend	52	67
retained profit for the year		403

What is the price earnings (P / E) ratio at 31 December?

A 15.4 **B** 15.9 **C** 16.6 **D** 18.0

14 The following information relates to a company.

	per share $
dividends paid during the year	3
dividends proposed at the year end	1
market price	50
nominal price	100

What is the company's dividend yield?

A 3.0% **B** 4.0% **C** 6.0% **D** 8.0%

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15 Which transaction will increase a company's working capital?

A The bank overdraft is increased.

B There is a bonus share issue.

C There is a rights issue.

D There is a transfer to the general reserves.

16 Which action will increase company profits in the short term?

A accepting deposits for customers' orders

B decreasing rates of depreciation

C increasing the value of opening inventory

D writing down the value of closing inventory

17 A company values its work in progress and finished goods in the way set out by IAS2. The following information is available for the year.

1 4000 items manufactured and sold in the year

2 400 fully completed items of inventory at the end of the year

3 200 items half complete in respect of direct materials and direct labour at the end of the year

Costs incurred during the year were as follows.

	$
direct material	67 500
direct labour	22 500
production overheads	11 250
non-production overheads	45 000

How much per unit should the closing inventory be valued?

A $15 **B** $20 **C** $22.50 **D** $32.50

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18 A company issues a debenture.

Which row shows the impact of this on the company's financial statements?

	gearing	return on capital employed	working capital
A	decrease	decrease	no effect
B	increase	decrease	increase
C	increase	no effect	increase
D	no effect	decrease	decrease

19 The equity section of the statement of financial position of a company at 1 May 2013 is as follows.

	$
ordinary shares of $0.50 each fully paid	220 000
share premium	110 250
retained earnings	44 000
	374 250

On 31 May 2013, the directors made a bonus issue of ordinary shares on the basis of six new shares for every eleven existing shares held.

What is the number of bonus shares issued?

A 60 000 **B** 120 000 **C** 240 000 **D** 806 667

20 A company has fixed costs of $5000. Sales for 600 units have been made. The budgeted unit details are as follows.

	$
selling price	26
variable costs	19
fixed costs	2
profit	5

At what minimum price should an order for 200 additional units be accepted in order to break even?

A $19 **B** $23 **C** $24 **D** $26

21 A company is considering opening a new division of the business.

Which cost will **not** be relevant to the decision?

A a consultancy fee of $1000 that has been paid to a market research company for advising on the proposed new division

B fixed overheads of $2000 per month on an office building that will be sold immediately if the company opens the new division

C running costs of $5000 per month for equipment in the new division

D the salary of $30 000 per annum for a manager appointed to run the new division

22 A product passes through two processes. Information for process 2 is given.

	$
production transferred from process 1 (2000 units)	40 000
added material	2 400
labour	16 000
overheads (based on 50% of labour)	8 000

At the end of the period, 400 units were complete as to 100% of materials and 50% labour.

What was the total value of the closing inventory of work-in-progress?

A $2080 **B** $2880 **C** $10 080 **D** $10 880

23 Which objectives are achieved by the introduction of a budgetary control system?

1 co-ordinating of the businesses activities

2 encouraging communications between departments

3 ensuring wage rises do not occur

4 setting standard costs for the period

A 1, 2 and 3 only

B 1, 2 and 4 only

C 1, 3 and 4 only

D 1, 2, 3 and 4

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24 A unit of a product uses 3 kilos of raw material. The year's production budget is shown:

budgeted sales	12 000 units
increase in raw materials inventory	2 000 kilos
decrease in finished goods inventory	1 000 units

What are the budgeted purchases of raw materials for the year?

A 35 000 kilos **B** 36 000 kilos **C** 38 000 kilos **D** 39 000 kilos

25 Which statement about budgeting is correct?

A A budget should always be produced based on last year's actual results.

B Evaluation of performance should take actual operating conditions into account.

C The budget should always be set at an ideal level of performance.

D The budget should not be changed once agreed.

26 Which factor could account for an adverse labour rate variance and a favourable material usage variance occurring at the same time?

A Cheaper labour was used and less material utilised.

B The company purchased cheaper material and the workforce has been awarded a pay increase.

C The company purchased cheaper material and the workforce has taken more time.

D Workers are more highly skilled than expected and have used less material.

27 A company uses 3000 direct labour hours, at a standard cost of $10 per hour.

This resulted in a favourable labour efficiency variance of $20 000.

How many standard hours were produced?

A 1000 hours **B** 2000 hours **C** 3000 hours **D** 5000 hours

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28 A company produces a single product and details of the production and budget are as follows.

actual output	10 000 units
standard material cost 2 kilos × $4	$80 000
actual usage of material	18 000 kilos
total material variance	$6200 favourable

What are the direct material price and direct material usage variances?

	material price variance	material usage variance
A	$1800 adverse	$8000 favourable
B	$1800 favourable	$8000 favourable
C	$8000 adverse	$1800 favourable
D	$8000 favourable	$1800 adverse

29 A business uses a range of investment appraisal techniques for individual projects.

Which statement is correct?

A Projects with a negative net present value should not be rejected.

B The internal rate of return for an acceptable project is always zero.

C Use of the payback method always considers the time value of money.

D Use of the payback method can lead to projects with negative net present values being selected.

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30 The following information relates to a capital investment, costing $900 000.

year	cash flow $	discounted cash flow at 6% $	discounted cash flow at 8% $
0	(900)	(900)	(900)
1	400	377	370
2	600	534	514
	100	11	(16)

The company has a cost of capital of 8%.

Which statements about the project are correct?

1 The project has an internal rate of return greater than the cost of the capital.

2 The project has an internal rate of return less than the cost of capital.

3 An increase in the cost of capital will make the project viable.

4 A decrease in the cost of capital will make the project viable.

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

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