UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/33**

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)

9295143993

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.

This document consists of **13** printed pages and **3** blank pages.

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1 A trade receivable's balance of $720 has been set-off against the purchase ledger. It has been entered on the wrong side of the purchase ledger control account.

The purchase ledger control account had a closing balance of $92 460 before correcting the error.

What is the correct balance on the purchase ledger control account?

A $91 020 **B** $91 740 **C** $93 180 **D** $93 900

2 A company manufactures tractors. Each tractor is sold for $12 000, inclusive of a 50% mark-up on cost.

At the year end, costs relevant to the company's inventory were:

	$
components, at cost	15 000
storage costs	5 000
ten tractors	120 000

Which valuation for inventory should be included in the company's statement of financial position?

A $95 000 **B** $100 000 **C** $135 000 **D** $140 000

3 A manufacturing company's income statement shows a profit from operations of $9000. The following errors are then discovered.

1 Opening inventory of finished goods has been valued at transfer price of $12 000.

2 Closing inventory of finished goods has been valued at transfer price of $6000.

3 Goods at transfer price have been entered in the income statement at their transfer value of $120 000. No adjustment has been made in respect of factory profit.

4 The company transfers goods from the factory to finished goods at cost plus 20%.

What is the correct profit from operations?

A $28 000 **B** $29 000 **C** $30 000 **D** $31 000

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4 The financial statements of a public limited company includes the following information.

	$000
retained earnings at the start of the year	43
profit from operations	14
ordinary dividends paid during the year	5
dividends on redeemable preference shares paid during the year	2
proposed final dividend on ordinary shares	8

What is the figure for retained earnings at the end of the year?

A $42 000 **B** $50 000 **C** $52 000 **D** $57 000

5 How can a company increase its liquidity?

A by making a bonus issue

B by making a rights issue

C by transfers from the general reserve

D by transfers from the share premium account

6 The statement of financial position of a company is as follows.

	$
non-current assets	85 000
bank	14 000
other net current assets	24 000
8% debentures	(4 000)
	119 000
ordinary share capital	100 000
share premium	2 000
retained earnings	17 000
	119 000

The 8% debentures are redeemed at a premium of 20%.

What is the total equity balance after the redemption?

A $114 200 **B** $115 000 **C** $118 200 **D** $119 000

7 $100 000 is available for investment.

The table shows details of three businesses available for purchase.

business	purchase price $	estimated future profits $
1	50 000	8 500
2	70 000	10 500
3	90 000	12 600

Funds not used in the purchase of a business are invested at an interest rate of 13% per annum.

Which course of action will give the highest annual return?

A investing $100 000

B purchasing business 1

C purchasing business 2

D purchasing business 3

8 A company purchases the non-current assets, inventory and trade receivables of another business. It pays more than the book value for these items. The purchase price is paid partly by a debenture. The balance is paid by the issue of ordinary shares of $1 each at a premium of $0.20.

Which row shows the effect of these transactions in the financial statements of the purchaser?

	non-current assets	working capital	equity
A	decrease	decrease	decrease
B	increase	decrease	increase
C	increase	increase	increase
D	increase	no effect	decrease

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9 A company agrees to purchase the assets and liabilities of another business.

The book value of the net assets acquired was:

	$
non-current assets	140 000
current assets	50 000
current liabilities	15 000

It is agreed that the fair value of the non-current assets is $155 000 and goodwill is valued at $20 000.

The purchase price of the business is to be settled as follows.

	$
cash	40 000
5% debenture	20 000

The balance of the purchase price is to be settled by the issue of $1 ordinary shares at a premium of 25%.

By how much will the company's share premium account increase as a result of the purchase?

A $23 000 **B** $30 000 **C** $37 500 **D** $42 000

10 Which is an example of an adjusting event?

A change in interest rates

B the insolvency of a major customer

C the issue of loan stock

D the purchase of a new vehicle

11 Which item will **not** be shown in the statement of changes in equity?

A debenture interest paid

B ordinary share dividends paid

C profit for the year

D revaluation surplus

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12 A company has purchased a computer with associated costs, as follows.

	$
additional memory	750
carriage inwards	250
computer hardware	5000
maintenance contract	1200
residual value	1000

Which amount should be capitalised in the statement of financial position?

A $5000 **B** $6000 **C** $7200 **D** $8200

13 The table shows extracts from a company's income statement for 2011 and 2012.

	2011 $	2012 $
sales	50 000	100 000
cost of sales	15 000	34 000

What might explain the change in the gross profit margin?

A a cut in unit selling price

B an increase in unit sales

C the loss of a major customer

D use of cheaper suppliers

14 The financial statements of a company show the following.

	$m
non-current assets	210
non-current liabilities	15
ordinary share capital	100
preference share capital	25
reserves	45

What is the gearing ratio?

A 10.52% **B** 21.62% **C** 27.58% **D** 28.57%

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

	$
profit attributable to equity holders	2 000 000
ordinary share dividend paid	200 000
non-redeemable preference share dividend paid	100 000
10% non-redeemable preference share capital	1 000 000
ordinary shares of $1 each	5 000 000

What are the earnings per share for the year to the nearest cent?

A $0.28 **B** $0.32 **C** $0.34 **D** $0.38

16 The information relates to a company.

	$
share premium account	240 000
10% debentures	100 000
retained earnings	180 000

The company redeems the debentures at a premium of 10%.

Which values will the statement of financial position show after this transaction?

	retained earnings $	share premium account $
A	70 000	240 000
B	80 000	230 000
C	170 000	240 000
D	180 000	230 000

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17 The following are extracts from the statement of financial position of a company.

	$
bank	8 500
issued ordinary shares of $1 each	50 000
share premium	20 000

The company makes a bonus issue of one share for every five held.

How will this affect the following accounts?

	ordinary share capital	share premium	bank
A	increase	decrease	no effect
B	increase	increase	increase
C	increase	no effect	increase
D	no effect	decrease	no effect

18 The non-current assets of a company include a machine which has the following values.

	$
carrying amount	55 000
fair value	60 000
costs of sale	6 000
value in use	42 000

Which value will be shown in the statement of financial position?

A $42 000 **B** $54 000 **C** $55 000 **D** $60 000

19 The data relates to two different levels of output in a department.

machine hours	16 000	20 000
overheads	$214 000	$230 000

What is the amount of fixed overheads?

A $16 000 **B** $64 000 **C** $150 000 **D** $198 000

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20 A company currently manufactures and sells 2000 units of a product. The following are the selling price and costs of the product.

	$
selling price per unit	20
variable costs per unit	12
fixed costs	8000

The company has received a request for a special order for 200 units. The customer will pay $15 per unit. To manufacture the order the company will have to hire a machine at a cost of $1500.

What is the profit the company will earn if it accepts the order?

A $7100 **B** $8000 **C** $8600 **D** $9500

21 A company has no work in progress at the start of the month.

During the month, 4000 completed units were produced. At the end of the month, there was work in progress of 400 units.

The following information is available.

	total cost $	percentage completion of work in progress
materials and labour	8640	80%
overheads	6360	60%

What is the total value of work in progress at the end of the month?

A $1000 **B** $1073 **C** $1363 **D** $1500

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22 A business has an opening bank balance of $10 000 and makes the following forecasts for the next three months.

	per month $
credit sales	2000
cash sales	5000
expenses	1000
depreciation of non-current assets	1000

Credit customers pay in the month following the sale. Expenses are paid one month in arrears.

Which row shows the forecast net profit for the three months and the closing bank balance at the end of month 3?

	forecast net profit $	closing bank balance $
A	15 000	24 000
B	15 000	27 000
C	18 000	17 000
D	18 000	27 000

23 A company adjusts its budget to take account of changes in costs as a result of changes in the level of activity.

Which type of budget is the company using?

A fixed budget

B flexed budget

C incremental budget

D zero based budget

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24 A business is preparing its budget. The following information is available for month 1.

budgeted sales	10 800 units
opening inventory	2 000 units
budgeted closing inventory	1 080 units
normal loss in the production process	5%

What is the budgeted production for month 1?

A 9880 units **B** 10 374 units **C** 10 400 units **D** 11 720 units

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

	$
direct materials price variance	800 adverse
direct materials usage variance	700 favourable
direct labour rate variance	650 favourable
direct labour efficiency variance	750 adverse

If the actual cost of sales was $12 220, what is the standard cost of sales?

A $12 020 **B** $12 120 **C** $12 320 **D** $12 420

26 Which formula would be used to calculate the labour efficiency variance?

A (actual hours less standard hours) × standard rate

B (actual rate less standard rate) × actual hours

C (standard hours less actual hours) × standard rate

D (standard rate less actual rate) × actual hours

27 A company uses standard costing. During an operating period there has been a favourable material usage variance of $20 000.

What is a valid reason for this variance?

A the actual cost of material purchased decreased

B the actual cost of material purchased increased

C the company used less material per unit than budgeted

D the company used more material per unit than budgeted

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28 The figures for the budgeted and actual sales per unit are as follows.

	budget	actual
selling price	$38	$40
units sold	9500	9000

Which row shows the sales price and sales volume variances?

	sales price variance $	sales volume variance $
A	18 000 adverse	19 000 adverse
B	18 000 adverse	19 000 favourable
C	18 000 favourable	19 000 adverse
D	18 000 favourable	19 000 favourable

29 Which statements about investment appraisal are correct?

1 The internal rate of return is the discount rate that gives a positive net present value of a project.

2 The accounting rate of return takes interest rates into account.

	1	2
A	false	false
B	false	true
C	true	false
D	true	true

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30 Discounted cash flow has been used to evaluate an investment project over a three year life. The project will produce annual net cash inflows of $2 m.

$500 000 of the initial investment can be recovered at the end of the third year.

Discount factors at 10% are as follows.

year	discount factor
1	0.91
2	0.83
3	0.75
Total	2.49

What is the present value of project cash inflows correct to two decimal places?

A $4.98 m **B** $5.36 m **C** $5.48 m **D** $6.38 m

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