Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING **9706/31**

Paper 3 Multiple Choice **October/November 2014**

1 hour

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

5865258438

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.

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1 A company has the following balances at the year end.

	$
opening inventory	58 760
closing inventory	65 970
purchases	270 980
revenue	495 630

Some items included in the closing inventory, valued at $5670, are damaged. After repairs costing $850 they can only be sold for $4650.

What was the gross profit for the year?

A $226 190 **B** $229 990 **C** $230 840 **D** $231 860

2 A company provides the following information about its plant and machinery.

	$
cost at start of year	880 000
disposals at cost	63 000
annual depreciation charge	34 000
sales proceeds	62 000
profit on disposal	8 000
cost at end of year	820 000

How much is the net cash flow arising from investing activities?

A $25 000 **B** $33 000 **C** $59 000 **D** $67 000

3 The share capital of X Limited was as follows.

	$
ordinary shares of $1 each	5 000 000
10% preference shares of $1 each	2 000 000

An 8% ordinary dividend was proposed at 31 December 2012. This was paid in May 2013.

A 5% ordinary dividend was proposed at 31 December 2013.

Preference share dividends were paid half yearly in arrears at 31 May and 30 November 2013.

Which figure for dividends paid would appear in the statement of cash flow for the year ended 31 December 2013?

A $350 000 **B** $450 000 **C** $500 000 **D** $600 000

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4 A business is redeeming its debentures of $120 000 at a premium of 10%.

Which account will be debited with the premium?

A capital redemption reserve

B revaluation reserve

C share capital

D share premium

5 A company's share capital was as follows.

	$
preference shares of $1.00 each	20 000
ordinary shares of $1.00 each	500 000
	520 000

It proposes:

1 to reduce its $1.00 preference shares by $0.60 and

2 to reduce its $1.00 ordinary shares to $0.10 each.

How much will the issued share capital be after the reduction?

A $58 000 **B** $62 000 **C** $458 000 **D** $462 000

6 A company has redeemed ordinary shares at par without issuing any new shares.

What is the effect on the statement of financial position?

	ordinary share capital	capital redemption reserve	retained earnings
A	decrease	decrease	no change
B	decrease	increase	decrease
C	no change	increase	decrease
D	no change	no change	increase

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7 A company has issued 80 000 shares of $0.50 each. The market value of the share is $1.60.

The company makes a rights issue on a 1 for 4 basis at a price of $1.20.

What is the balance on the share capital account after the rights issue?

A $50 000 **B** $100 000 **C** $120 000 **D** $160 000

8 A business is sold to a limited company. The net assets acquired have a total book value of $90 000 and are valued at $100 000.

Goodwill is valued at $30 000.

The purchase price is settled by an issue of $1.00 ordinary shares, valued at $1.25 each.

How many shares are issued?

A 80 000 **B** 96 000 **C** 104 000 **D** 130 000

9 X and Y are merging their businesses to form a partnership. Their individual statements of financial position show the following.

	X		Y	
	book value $	market value $	book value $	market value $
assets	20 000	24 000	15 000	12 000
liabilities	(4 000)	(4 000)	(3 500)	(3 500)

When they merge, X will retain the company car for private use at a market value of $2500. Y will pay off the business overdraft of $1600 privately.

Which values will be shown in the books of the new partnership?

	assets $	liabilities $
A	32 500	5900
B	33 500	5900
C	35 000	7500
D	36 000	7500

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10 A partner receives 8% interest on a partnership loan of $100 000.

A company takes over all the assets and liabilities of the partnership. The consideration of $1 000 000 is partly satisfied by the issue of 10% debentures in place of the partnership loan. The total interest payable is to remain the same.

The balance will be settled by the issue of 800 000 $1.00 ordinary shares to the partners.

What will appear in the company's opening statement of financial position?

	10% debentures $	ordinary shares $	reserves $
A	80 000	800 000	120 000
B	80 000	920 000	–
C	100 000	800 000	100 000
D	100 000	900 000	–

11 A company's statement of financial position shows the following information.

	$
ordinary shares of $10 each	120 000
7% non-redeemable preference shares of $1 each	80 000
share premium account	50 000
general reserve	70 000
retained earnings	210 000
	530 000

What is the book value of one ordinary share?

A $27.50 **B** $37.50 **C** $44.20 **D** $53.00

12 Which item would be found in the notes to a company's financial statements?

A details of accounting policies used

B directors' report

C income statement

D statement of cash flows

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13 A company has the following costs for an item of inventory.

	$
purchase costs	12 000
carriage in	2 000
conversion costs	18 000
storage costs	8 000

What is the value of the item?

A $12 000 **B** $14 000 **C** $32 000 **D** $40 000

14 A company has total equity on 1 January 2013 of $500 000.

The following information relates to the year ended 31 December 2013.

1 The company made a profit for the year of $250 000 attributable to equity holders.

2 During the year the company issued share capital of $100 000.

3 The company paid a dividend of $50 000.

4 The company proposed a final dividend of $70 000 payable in March 2014.

5 There was a surplus on the revaluation of land of $80 000.

What was the total equity at 31 December 2013?

A $630 000 **B** $730 000 **C** $810 000 **D** $880 000

15 Which category is **not** used in IAS7?

A financing activities

B investing activities

C operating activities

D trading activities

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16 The financial statements of a business showed net current assets at the year end as $1 390 000. Events which occurred after the date of the statement of financial position but before approval of the financial statements by the directors were as follows.

1 Inventories held at year end cost $70 000 were sold for $50 000.

2 Inventories held at year end cost $30 000 were destroyed in a fire.

3 A trade receivable with an outstanding debt of $75 000 at the year end, became insolvent.

What is the net current assets figure after adjustment according to IAS10?

A $1 215 000 **B** $1 245 000 **C** $1 265 000 **D** $1 295 000

17 At the start of the year a company had retained earnings of $200 000. The following financial information is available at the end of the year.

	$
profit for the year attributable to equity holders	100 000
finance costs for the year	10 000
tax charged on profits	20 000
dividends paid during the year	70 000
transfer to general reserve	15 000

What is the balance of retained earnings at the end of the year?

A $205 000 **B** $215 000 **C** $220 000 **D** $230 000

18 A company has ordinary share capital of $5 million in shares of $0.50 and has the following results.

	$ 000
operating profit before depreciation	12 000
depreciation	1 500
interest payable	2 000
preference dividends paid	500

What is the company's earnings per share for the period?

A $0.80 **B** $0.85 **C** $1.00 **D** $1.70

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19 An inventory turnover period was 91 days in 2012 and 110 days in 2013.

Which statement explains the change?

A Improved inventory control systems which reduced average inventory.

B Sales volume increased causing average inventory to fall.

C The company took longer to pay its suppliers.

D The company took advantage of lower prices to increase inventory.

20 An extract from the statement of financial position of a company showed the following.

	$ 000
issued ordinary share capital	1 000
share premium	500
retained earnings	3 000
8% debentures	1 500
preference share capital	800

What is the gearing ratio?

A 22.06% **B** 33.82% **C** 45.45% **D** 69.70%

21 X Limited supplied goods to a customer for $15 000. As the goods were faulty the customer has applied to the court for damages estimated at $14 000, in addition to the cost of the goods. There is a 70% chance that X Limited will lose the case.

What will be the amount of the contingent liability entered as a note in the financial statements?

A $14 000 **B** $15 000 **C** $20 300 **D** $29 000

22 A business is experiencing changes in costs although selling price per unit and sales volume are remaining constant.

Which statements are correct?

1 If fixed costs rise, profit decreases and the break-even point rises.

2 If fixed costs fall, profit increases and the break-even point falls.

3 If variable costs rise, profit increases and the break-even point falls.

4 If variable costs fall, profit increases and the break-even point falls.

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

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23 Extracts from the costing records of a manufacturer for a week's production were as follows.

	direct materials	direct labour
cost	$10 600	$5000
units		
fully completed	900	900
part completed	200	200
percentage completed	80%	50%

What is the value of work in progress?

A $2100 **B** $2440 **C** $2836 **D** $3467

24 A company's trade receivables total is $40 000 and the collection period is 40 days.

The company's budget for the coming year provides for an increased turnover of 40%, whilst the collection period will be increased to 50 days.

What will be the budgeted trade receivables total at the end of next year?

A $32 000 **B** $44 800 **C** $56 000 **D** $70 000

25 The following information is available.

budgeted sales	$800 000
budgeted purchases	$620 000
opening inventory	$30 000
budgeted mark-up	one-third

What is the cost of the budgeted closing inventory?

A $10 000 **B** $20 000 **C** $30 000 **D** $50 000

26 The following budgeted information is given.

budgeted production (units)	1000
selling price per unit	$30
total costs per unit	$20

Direct costs are 80% of total costs.

What are the budgeted overheads?

A $4000 **B** $14 000 **C** $16 000 **D** $20 000

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27 The following table shows details of direct labour costs.

budget	actual
48 250 hours at $6.50 per hour	50 000 hours at $7.00 per hour

What is the direct labour rate variance?

A $24 125 adverse

B $24 125 favourable

C $25 000 adverse

D $25 000 favourable

28 A company makes a product with a standard material cost of $15, as follows.

		$
material P	3 kilos at $2 per kilo	6.00
material Z	6 kilos at $1.50 per kilo	9.00
		15.00

The manufacture of 1200 units required the following.

			$
material P	3500 kilos	cost	7 560
material Z	7500 kilos	cost	10 500

What is the material price variance?

A $144 adverse

B $144 favourable

C $190 adverse

D $190 favourable

29 Which statement is correct?

A ARR is calculated on profitability and includes depreciation.

B IRR is calculated on profitability but does not include depreciation.

C NPV is calculated on cash flow and includes depreciation.

D Payback is calculated on profitability and ignores depreciation.

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30 A company is considering investing in a project costing $200 000.

Initial estimates show the project will earn a total net profit of $100 000 over a five year period.

Following further investigation additional depreciation of $20 000 must be charged and other costs will reduce by $10 000.

What is the accounting rate of return?

A 9% **B** 18% **C** 22% **D** 26%

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