Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING **9706/32**

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)

5740139966

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 **10** printed pages and **2** blank pages.

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1 A manufacturing company transfers its products from factory to warehouse at cost of production plus 20%.

The following information is available.

	$
provision for unrealised profit brought forward at 1 October 2013	9 000
closing inventory of finished goods at 30 September 2014 at transfer price	48 000

Which entry is shown in the income statement for the year ended 30 September 2014 for the provision for unrealised profit?

A $600 credit

B $600 debit

C $1000 credit

D $1000 debit

2 Which statement is correct?

A Debenture holders always hold security on the assets of the company.

B Loan providers have voting rights if their interest is in arrears.

C Ordinary shareholders in a company are members with voting rights.

D Shareholders always receive a dividend if profits are made.

3 An inexperienced book-keeper has prepared the following **incorrect** revaluation account.

Revaluation account			
	$000		$000
increase in value of land	200	increase in value of buildings	20
decrease in value of plant and machinery	10	revaluation reserve	190
	210		210

Which entries will correct the errors?

	land at cost account $000	plant and machinery account $000	buildings account $000	revaluation reserve account $000
A	200 Cr	10 Dr	20 Cr	210 Dr
B	200 Dr	10 Cr	20 Dr	210 Cr
C	400 Cr	–	20 Cr	440 Dr
D	400 Dr	–	–	400 Cr

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4 A business provides the following information.

	month 1 $000	month 2 $000
inventory	80	110
trade receivables	43	32
cash and cash equivalents	179	106
trade payables	36	44

Profit before interest and depreciation for month 2 was $120 000.

Depreciation charges for month 2 were $21 000.

What was the net cash flow from operating activities in month 2?

A $88 000 **B** $109 000 **C** $131 000 **D** $288 000

5 When redeeming shares, why does a company create a capital redemption reserve?

A It has a legal requirement to do so every time shares are redeemed.

B It has redeemed the shares at a premium.

C It is created to protect the trade payables of the firm.

D It is created to balance the statement of financial position.

6 The following transactions occur.

Bonus shares of $100 000 at $1 each are issued from general reserves.

200 000 ordinary shares of $1 each are issued at par.

A debenture of $80 000 is redeemed.

What is the effect of these transactions?

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

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7 The statement of financial position of a business shows net assets of $500 000. A limited company buys this business for $800 000 by issuing new share capital. The fair value of the net assets acquired is $700 000.

By how much do the net assets of the purchasing company increase?

A $300 000 **B** $500 000 **C** $700 000 **D** $800 000

8 X Limited purchased the business of Y whose net tangible assets totalled $350 000. In addition, negative goodwill amounted to $50 000. The purchase price of the business was settled by the issue of 240 000 ordinary shares of $1.00 each.

What will be the entry in the business's share premium account?

A credit $50 000

B credit $60 000

C credit $160 000

D credit $240 000

9 Y Limited has net assets of $400 000. It expects to make a profit next year of $100 000. It is considering buying the business of Z, paying $80 000 for it in cash.

The purchase will increase the expected profit to $144 000.

What is the expected return on capital employed of Y Limited if it purchases the business of Z?

A 11% **B** 30% **C** 36% **D** 55%

10 Which item is **not** an example of a capital reserve on a statement of financial position?

A capital redemption reserve

B general reserve

C revaluation reserve

D share premium

11 Public limited companies are required to provide specific information in notes to the financial statements.

Which specific information is **not** required?

A auditors' remuneration

B budgeted cash flow

C directors' remuneration

D movements on non-current assets

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12 At the start of the year a company's total equity was as follows.

	$
ordinary share capital	2000
general reserve	200
retained earnings	420
	2620

1 During the year the company paid a dividend of $50.

2 During the year the company issued 900 shares of $0.60 each for cash.

3 The profit attributable to equity holders for the year was $300.

4 The company made a transfer of $70 to the general reserve.

What was the total equity at the end of the year?

A $2540 **B** $3340 **C** $3410 **D** $3460

13 Which item in the statement of cash flows gives an indication of the company's long-term capital investment policy?

A capital expenditure

B increase in borrowings

C level of dividends paid

D total cash generated from operating activities

14 X plc incurred the following costs as a result of purchasing a new machine.

	$
purchase price	7 000
installation cost	5 000
testing the machine before use	1 000
manufacturer's list price	10 000
advertising the new products to be made by the machine	4 000

What is the maximum initial cost of the machine that would be recognised as an asset of the company?

A $13 000 **B** $16 000 **C** $17 000 **D** $20 000

15 A limited company has the following financial information at 30 September 2013.

	$
debentures	30 000
ordinary share capital of $0.50 each	75 000
share premium	45 000

The company is considering issuing 150 000 shares at a premium of $0.10 per share.

What will be the impact of the proposed share issue on the gearing ratio?

A decrease by 7.5%

B decrease by 10.5%

C increase by 7.5%

D increase by 10.5%

16 A company's financial statements include the following.

	$	$
profit from operations		64 000
interest payable	15 500	
preference dividend	6 000	
ordinary dividend	24 000	45 500
retained earnings		18 500
retained earnings brought forward		27 000
retained earnings carried forward		45 500

What is the dividend cover for the ordinary shares?

A 1.77 times **B** 1.90 times **C** 2.02 times **D** 2.67 times

17 A company has shares with a nominal value of $1 each, which had been issued at $1.50 each.

An investor purchased some of these shares for $1.20 each. The current market price of the share is $2.00.

During the year the company pays a dividend of $0.15 per share.

What is the dividend yield?

A 7.5% **B** 10% **C** 12.5% **D** 15%

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18 The financial year of a company ended on 31 December 2013. The financial statements were authorised for issue in May 2014.

Which is an adjusting event?

A an announcement in February 2014 of a major re-structuring of the business

B an issue of 100 000 ordinary shares of $1 each at a premium of $0.20 in March 2014

C inventory purchased in November 2013 for $200 000 was sold for $180 000 in January 2014

D the purchase of new plant and machinery in January 2014

19 A product is manufactured using two processes (process 1 followed by process 2).

What is the full cost of the materials used in process 2?

A the cost of materials added in process 2

B the cost of materials used in process 1 and materials added in process 2

C the cost of materials, labour, and overhead transferred from process 1

D the cost of materials, labour and overhead transferred from process 1 plus the cost of materials added in process 2

20 A company has fixed costs of $300 000. It makes a single product with a marginal cost of production of $12 per unit. Its mark up is $3 per unit.

How many units does the company need to sell to break even?

A 20 000 **B** 25 000 **C** 33 334 **D** 100 000

21 A business is forecasting its profitability for a product at various levels of activity.

activity	1000 units $	3000 units $
total fixed and variable costs	11 800	25 400
profit	3 200	19 600
sales revenue	15 000	45 000

Neither fixed cost nor unit selling prices change with activity.

What would be the forecast profit if the activity was 2500 units?

A $8000 **B** $14 250 **C** $15 500 **D** $16 333

22 For the month of December, a manufacturer has the following information.

Opening inventory of finished goods is 8500 units.

Closing inventory of finished goods is 6750 units.

Fixed overhead absorption rate is $3 per unit.

Using marginal costing the profit is calculated as $62 100.

What is the profit using absorption costing?

A $41 850 **B** $56 850 **C** $67 350 **D** $82 350

23 The table shows the budgeted resources required for production and sales, and the available resources.

	resources required per unit	resources available
material (kilos)	4.0	460 000 kilos
direct labour hours	3.0	400 000 hours
machine hours	0.5	70 000 hours

Market research shows sales demand for 120 000 units.

What is the principal limiting factor in this case?

A direct labour hours

B machine hours

C material

D sales

24 Which statement is correct?

A Budgeting is useful as a short-term technique for planning, control, communication and motivation.

B For effective control, a budget must be imposed upon managers within a business.

C Successful budgeting demands identification of the critical budget factor.

D The budget is always prepared for a fixed future time period.

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25 A company has a policy of holding inventory equal to next month's expected sales plus 10%.

The table shows the budgeted sales for the next three months.

month	units
Aug	300
Sept	270
Oct	360

What should the company's production be in September?

A 267 **B** 333 **C** 369 **D** 396

26 A company had an adverse labour efficiency variance of $9000 in a period.

It produced 4500 standard hours, and has a standard cost of $6 per hour.

How many actual hours were worked in the period?

A 1500 **B** 3000 **C** 4500 **D** 6000

27 The following information relates to last month's production of a component.

	actual	budget
units produced	600	650
input of material (in kilos)	2700	2600
cost of material used	$83 700	$78 000

What is the material price variance?

A $2400 adverse

B $2400 favourable

C $2700 adverse

D $2700 favourable

28 The standard cost of materials for production amounts to $17 100. The materials price variance is $1800 favourable and the materials usage variance is $1000 adverse.

What is the actual material cost?

A $14 300 **B** $15 300 **C** $16 100 **D** $16 300

29 What is identified by the calculation of the internal rate of return for a project?

A the discount rate giving a zero net present value for the project

B the return on capital employed for the project

C whether a loss is made on the project

D whether a profit is made on the project

30 A company has $5 000 000 to invest and has identified the following five projects.

project number	capital required $	NPV of project $
1	5 000 000	1 400 000
2	4 000 000	1 200 000
3	3 000 000	1 000 000
4	2 000 000	800 000
5	1 000 000	500 000

Which projects should the company select?

A 1 **B** 2 and 5 **C** 3 and 4 **D** 3 and 5

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