Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING** **9706/31**

Paper 3 Multiple Choice **October/November 2015**

**1 hour**

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

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**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** Which item would appear in the financing section in a statement of cash flows?

**A** bonus issue of shares

**B** increase in inventory

**C** redemption of share capital

**D** sale of non-current assets

**2** The statement of cash flows for a company included the following.

| | $ |
|---|---|
| net increase in cash and cash equivalents | 155 000 |
| net cash inflow from operating activities | 300 000 |
| net cash outflow from investing activities | (350 000) |

In addition, the company raised $420 000 by issuing debentures. There were no other financing cash flows apart from dividends paid.

How much was the dividend payment?

**A** $215 000 **B** $265 000 **C** $315 000 **D** $525 000

**3** At 31 December 2013 an extract from a company's non-current asset schedule showed the following.

| | $ |
|---|---|
| cost at year end | 40 000 |
| opening depreciation | 2 000 |
| charge for the year | 4 000 |
| closing depreciation | 6 000 |
| net book value | 34 000 |

The company's depreciation policy is to charge a full year's depreciation on the cost of non-current assets at the end of each year.

During the year ended 31 December 2014 an old asset was sold. This had cost $1000 and had been fully depreciated.

At 31 December 2014 the cost of the non-current assets was $59 000.

What was the net book value of the non-current assets at 31 December 2014?

**A** $44 150 **B** $45 150 **C** $47 100 **D** $48 100

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**4** X and Y have been in partnership for some years sharing profits and losses equally. On 31 December 2014 their statement of financial position was as follows.

| | $ | $ |
|---|---|---|
| non-current assets | | 42 000 |
| current assets | | 17 000 |
| current liabilities - bank | 1000 | |
| - trade payables | 4000 | |
| | | (5 000) |
| | | 54 000 |
| capital and current accounts - X | | 31 000 |
| - Y | | 23 000 |
| | | 54 000 |

At the start of business on 1 January 2015 the partnership was dissolved. The assets were sold for $69 500 and trade payables were settled at $3500.

How much cash was paid out to the partners?

**A** $11 000 **B** $54 000 **C** $65 000 **D** $66 000

**5** A trial balance did not agree and a suspense account was opened. Draft financial statements were then prepared.

It was discovered that when the book-keeper had recorded an increase of $380 in a provision for unrealised profit he had mistakenly placed the debit entry on the credit side of the provision for doubtful debts account. The closing balance on the provision for doubtful debts account was correct.

Which correction is needed?

| | | debit $ | credit $ |
|---|---|---|---|
| **A** | income statement<br>provision for doubtful debts<br>suspense | 380<br>380 | <br><br>760 |
| **B** | income statement<br>suspense | 380 | <br>380 |
| **C** | income statement<br>suspense | 760 | <br>760 |
| **D** | income statement<br>suspense<br>provision for doubtful debts | 760 | <br>380<br>380 |

**6** When can a company issue redeemable shares?

**A** when all preference shares have been redeemed

**B** when no debentures are in issue

**C** when no shares have been issued at a premium

**D** when there are some non-redeemable shares in issue

**7** A company issues non-cumulative preference shares.

Which rights do the holders of these shares have?

**A** dividends will be paid before debenture interest

**B** dividends will be paid before those to ordinary shareholders

**C** arrears of dividends will be paid in future years

**D** voting rights at the annual general meeting

**8** The following information is available for a limited company.

| | |
|---|---|
| ordinary shares of $0.50 each | $100 000 |
| dividend yield | 10% |
| 4% preference shares of $1 each | $100 000 |
| 10% debentures | $50 000 |
| profit from operations | $80 000 |

The company paid the maximum dividend per share possible from its profit for the year.

What was the market price of one share?

**A** $3.55 **B** $3.75 **C** $4.00 **D** $7.10

**9** A company has ordinary share capital of $1 000 000 in shares of $0.40 each.

The company proposes to make a rights issue of new ordinary shares on the basis of one new ordinary share for each five existing ordinary shares held, at a price of $1.20 per share.

The company expects members holding 90% of the ordinary shares to take up the issue.

How much cash will the company receive?

**A** $216 000 **B** $240 000 **C** $540 000 **D** $600 000

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**10** A company's summarised statement of financial position is as follows.

| | $ | | $ |
|---|---|---|---|
| assets | 750 000 | equity | 600 000 |
| | | loans | 150 000 |

Company X agrees to buy all the assets of this company at net book value. The purchase consideration is the issue of a debenture of $200 000 plus 36 000 $5 ordinary shares for the balance.

How much will company X credit to its share premium account?

**A** $180 000 **B** $220 000 **C** $370 000 **D** $380 000

**11** Which item will appear in a company's statement of changes in equity?

**A** amortisation of intangible assets

**B** an impairment loss

**C** inventory written off

**D** revaluation surplus

**12** The equity of a company at 1 January 2014 is as follows.

| | $ |
|---|---|
| ordinary shares of $1 each | 400 000 |
| share premium | 180 000 |

The following events take place in 2014.

issue of 100 000 ordinary shares for $2.20 each

rights issue of 50 000 ordinary shares at $1.80 each, fully subscribed

issue of 30 000 bonus shares

payment of $165 000 ordinary dividend

What is the balance on the share premium account at 31 December 2014?

**A** $145 000 **B** $175 000 **C** $310 000 **D** $340 000

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**13** The following information is available at the end of the first year of trading for a limited company.

| | $000 |
|---|---|
| ordinary shares of $0.50 each | 200 |
| 5% preference shares of $1 each | 100 |
| 10% debentures | 40 |
| profit from operations | 80 |
| amount transferred to general reserve | 21 |

After making the transfer to the general reserve, the company paid the remaining profit as dividends to its ordinary shareholders.

What was the dividend per ordinary share?

**A** $0.125 **B** $0.196 **C** $0.250 **D** $0.400

**14** A limited company's financial statements for the year ended 30 June showed the following.

| | $ |
|---|---|
| ordinary share capital of $0.25 each | 160 000 |
| share premium account | 32 000 |

A final dividend is proposed at $0.06 per share.

What is the value of proposed dividends to be included in the Directors' Report?

**A** $2400 **B** $9600 **C** $38 400 **D** $40 320

**15** When calculating earnings per share, what is the meaning of 'earnings'?

**A** profit attributable to equity holders

**B** profit attributable to ordinary and preference shares

**C** profit attributable to ordinary shares, preference shares and debentures

**D** profit attributable to ordinary shares, preference shares, debentures and bank loan

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**16** The following information is available for a limited company.

| | $000 |
|---|---|
| profit from operations | 510 |
| profit for the year | 210 |
| dividend paid | 150 |
| transfer to general reserve | 80 |

What was the dividend cover?

**A** 0.87 times **B** 1.4 times **C** 4.27 times **D** 4.8 times

**17** The following information is available for a limited company.

| | |
|---|---|
| ordinary shares of $0.50 each | 200 000 |
| market price per share | $2.50 |
| dividend yield | 10% |
| 6% preference shares of $1 each | 100 000 |
| 10% debentures | $40 000 |

The company paid the maximum dividend possible from its profit for the year.

What was the profit from operations?

**A** $50 000 **B** $54 000 **C** $56 000 **D** $60 000

**18** A company prepares its financial statements for the year ended 31 December 2014 and they are approved by the board of directors on 31 May 2015.

Which event is non-adjusting?

**A** A non-current asset was sold on 16 December 2014 but the proceeds were not known until 28 January 2015.

**B** Inventories at 31 December 2014 with a cost price of $30 000 were found to have a net realisable value of $10 000 on 21 January 2015.

**C** On 18 January 2015, there was a fire causing the closure of 20% of the production capacity.

**D** On 28 February 2015, a customer included in the trade receivables at $20 000 at the year end became insolvent.

**19** A company has a profit for the financial year of $200 000.

After the date of the statement of financial position, the following occurred.

a favourable adjusting event of $50 000

a favourable non-adjusting event of $70 000

a final dividend declared of $20 000

What should the adjusted profit be under IAS10?

**A** $180 000 **B** $250 000 **C** $270 000 **D** $320 000

**20** Which item is **not** an attributable amount that can be included in the cost of a non-current asset purchased?

**A** cost of installation and assembly

**B** cost of preparing the site for the asset

**C** cost of testing the asset

**D** cost of training staff to use the asset

**21** A company makes and sells a single product. The following data relates to the current year's results.

| | |
|---|---|
| sales and production in units | 2000 |
| variable cost per unit | $150 |
| fixed cost per unit | $80 |
| contribution / sales ratio | 50% |
| profit for the year | $140 000 |

It is expected that the selling price next year will be $315 per unit and that total fixed costs will increase by 10%.

How many units will need to be sold next year in order to achieve the same profit as in the current year?

**A** 1819 **B** 1904 **C** 1916 **D** 2006

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**22** The following information relates to the production data for a process.

| details | kilos | $ | finished units in kilos | work in progress in kilos |
|---|---|---|---|---|
| direct material | 1000 | 3000 | 900 | 100 |
| direct labour | | 3800 | | |
| overheads | | 1900 | | |

The work in progress is fully complete in respect of direct materials and 50% complete in respect of direct labour and overheads.

What is the value of the finished goods inventory?

**A** $7830 **B** $8100 **C** $8130 **D** $8700

**23** Which items appear on the credit side of a process account?

1 direct labour cost

2 normal loss

3 output to next process

4 raw material cost

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

**24** Takka Limited needs three kilos of direct material to make one unit of product. The production budget, in units, for the next quarter, is as follows.

| | April | May | June |
|---|---|---|---|
| budgeted production (units) | 4000 | 5000 | 6000 |

Direct materials inventory at the end of each month is equal to 20% of next month's production requirement.

How much material will be purchased in May?

**A** 14 400 kilos **B** 15 000 kilos **C** 15 600 kilos **D** 18 600 kilos

**25** What might cause an adverse labour rate variance?

**A** better quality materials

**B** better skilled labour

**C** lower quality materials

**D** lower skilled labour

**26** What is **not** a possible explanation of an adverse labour efficiency variance?

**A** an increase in hourly rate

**B** an increase in idle time

**C** low motivation in labour force

**D** low productivity

**27** The labour efficiency variance for a period was $3800 adverse. 9000 labour hours were worked at a standard cost of $9.50. The actual cost per hour was $10.

How many standard hours were produced?

**A** 8600 **B** 8620 **C** 9380 **D** 9400

**28** Standard costs for the month were provided on the basis of 1000 units being produced, each using two metres of material at $8.00 a metre.

Actual production amounted to 900 units and $14 850 was spent buying material which cost $7.50 a metre.

What was the material usage variance?

**A** $150 favourable

**B** $160 favourable

**C** $1350 adverse

**D** $1440 adverse

**29** Which investment appraisal method has a calculation that involves depreciation?

**A** accounting rate of return

**B** internal rate of return

**C** net present value

**D** payback

**30** A company is considering investing in a project costing $300 000. Estimates show the project will earn a cash surplus of $120 000 over a five-year period. As a result of the investment depreciation will increase by $6000 per annum.

What is the accounting rate of return?

**A** 6% **B** 8% **C** 12% **D** 16%

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