

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/03**

Paper 3 Multiple Choice

May/June 2005

**1 hour**

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

**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.

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 **11** printed pages and **1** blank page.



- 1 A company reported a profit of \$15 000 for the year, after charging the following:

depreciation	\$2500
loss on sale of assets	\$1000

During the year there was a decrease in working capital of \$500.

What was the net cash flow generated from operations?

- A** \$12 000      **B** \$17 500      **C** \$18 000      **D** \$19 000

- 2 Cash flow statements show increases or decreases in cash.

What does cash include for this purpose?

- A** deposits at bank repayable on demand  
**B** deposits at bank repayable on demand or at 24 hours' notice  
**C** deposits at bank repayable on demand or at 48 hours' notice  
**D** deposits at bank repayable on demand or at 7 days' notice

- 3 In calculating the net cash flow from operating activities, which item would be included as an adjustment to net profit?

- A** accumulated depreciation  
**B** bad debts recovered  
**C** drawings  
**D** profit on sale of fixed assets

- 4 Under which heading should interest received be shown in a cash flow statement?

- A** capital expenditure and financial investment  
**B** financing  
**C** management of liquid resources  
**D** returns on investment and servicing of finance

- 5 A cashflow statement shows net cash outflow from 'Capital expenditure and financial investment'.

What has happened?

- A** payment of debenture interest  
**B** payment of dividend  
**C** purchase of machinery  
**D** purchase of stock

6 Fixed asset data for a company is as follows:

	\$000
net book value at 1 January 2004	2200
profit on sale of fixed assets	100
depreciation of fixed assets in 2004	500
proceeds from sale of fixed assets	800
net book value at 31 December 2004	2300

What was the cash outflow on fixed assets additions for 2005?

- A** \$600 000      **B** \$900 000      **C** \$1 300 000      **D** \$1 500 000

7 When is a capital redemption reserve created?

- A** when a fixed asset is revalued  
**B** when a redemption of shares is not covered by a new issue of shares  
**C** when debentures are redeemed without a new issue of shares  
**D** when the authorised share capital is increased

8 When may the premium paid on the redemption of redeemable preference shares be debited to Share Premium account?

- A** when the current market price exceeds the nominal value of the shares  
**B** when the shares are redeemed out of distributable profits  
**C** when they are redeemed out of the proceeds of a new issue  
**D** when they were issued at par

9 A company's balance sheet shows:

	\$000
ordinary shares of \$0.50	1200
redeemable preference shares of \$1.00 each	400
share premium account	300
retained profit	900
	2800

The preference shares were issued originally at par and are being redeemed at a premium of \$0.30.

What will be the effect of the redemption on the retained profit of the company?

- A \$220 000 decrease
- B \$300 000 decrease
- C \$400 000 decrease
- D \$520 000 decrease

10 A company issues 3000 new ordinary shares of \$1.00 at a premium of \$0.50 to finance the redemption of 3750 preference shares at a premium of \$0.20. The preference shares were originally issued at a premium of \$0.10.

What will be the increase in the share premium account?

- A \$750
- B \$1125
- C \$1500
- D \$1875

11 A business with net tangible assets of \$110 000 is purchased by a company for \$150 000.

The company completes the transaction by a cash payment of \$20 000 and an issue of its \$0.50 ordinary shares, fully paid, at \$1.30 each.

By how much will the balance on the company's Ordinary Share Capital account increase?

- A \$50 000
- B \$90 000
- C \$100 000
- D \$130 000

12 A business has the following assets and liabilities.

		\$
fixed assets		25 000
current assets	stock	13 000
	debtors	18 500
current liabilities		17 000

A company agrees to purchase the business by issuing \$0.50 shares at par for the agreed price. The agreement is that all assets and liabilities will be taken over at the above values, subject to the following adjustments:

allowance for stock loss \$1500

bad debts \$500

goodwill, valued at \$10 000

What is the number of shares to be issued to satisfy the purchase price?

- A** 47 500      **B** 49 500      **C** 95 000      **D** 99 000

13 Which accounting policy is **not** required to be disclosed in published company accounts?

- A** basis of calculation of provision for doubtful debts  
**B** basis of calculation of cost and net realisable value of stocks  
**C** depreciation methods used  
**D** treatment of Goodwill

14 In which document does the Companies Act of 1985 require disclosure of the following?

review of future developments

changes in fixed assets

principal activities

- A** chairman's statement  
**B** chief executive's review  
**C** directors' report  
**D** notes to the accounts

15 A company has the following figures at the financial year end:

	\$
5 % debentures repayable 2010	5 000
trade creditors	1 500
accruals	1 200
share capital	20 000
Profit and Loss Account balance	1 800
prepayments	1 000
bank overdraft	6 500

What is the figure which should appear in the Balance Sheet under the heading "Creditors due in less than one year"?

- A** 8000                      **B** 9000                      **C** 9200                      **D** 11 000

16 What does earnings per share (EPS) show?

- A** how many times earnings cover ordinary dividends  
**B** how many times earnings cover ordinary and preference dividends  
**C** how much profit for the year is attributable to each ordinary share  
**D** how much profit for the year is available to pay ordinary and preference dividends

17 What can be calculated from the Balance Sheet of a company?

- A** the dividend yield per ordinary share  
**B** the earnings per ordinary share  
**C** the market value of an ordinary share  
**D** the net asset value per ordinary share

18 The following data relates to a company.

issued ordinary shares	1 000 000
nominal value per share	\$1.00
market value per share	\$2.30
net profit after taxation	\$200 000
retained earnings % of net profit after tax	50

What is the net dividend yield?

- A** 4.35 %                      **B** 8.7 %                      **C** 10 %                      **D** 20 %

19 A company wishes to 'window dress' its Profit and Loss Account.

What would improve the reported profit figure?

- A reduction in depreciation charge
- B revaluation of fixed assets
- C rights issue of shares
- D write off Goodwill

20 What will increase a company's gearing ratio?

- A bonus issue of shares
- B debenture issue
- C ordinary share capital issue
- D redemption of debentures

21 A company calculates its gearing by comparing its net bank borrowings to ordinary shareholders funds.

Extracts from the financial statements are:

	\$ million
Share Capital (all ordinary \$0.50 shares)	120
Share Premium Account	100
Profit and Loss Account	160
Long Term Bank Loan	150
Bank overdraft	35
Cash at bank	15

What is the gearing ratio?

- A 44.7%      B 52.6%      C 60.7%      D 71.4%

22 The total monthly production cost of a process was \$78 200. Finished process output amounted to 8000 completed units. There were also 2000 units of work in progress 60 % complete. There were no opening stocks or normal waste.

What was the cost per equivalent unit?

- A \$7.82      B \$8.50      C \$8.89      D \$9.78

- 23 The manufacture of a product involves two processes. The costs for the processes for one month are given.

	process 1 \$	process 2 \$
materials used	4000	
additional materials		2000
other variable costs	5000	1000
fixed costs	3000	nil

There were no opening or closing stocks of materials or work in progress at the beginning or end of the month. All process 1 production was passed to process 2 in the month.

What is the cost of the materials used in process 2 during the month?

- A** \$2000      **B** \$6000      **C** \$12 000      **D** \$14 000
- 24 A company has fixed costs of \$5000. Sales for 600 units have been made. The budgeted unit details are:

	\$
selling price	26
variable costs	19
fixed costs	2
profit	<u>5</u>

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



25 The table shows the annual results of a company's three departments.

department	X	Y	Z
	\$	\$	\$
sales	<u>200 000</u>	<u>240 000</u>	<u>320 000</u>
less: variable costs	130 000	150 000	100 000
headquarters fixed costs - apportioned	<u>80 000</u>	<u>90 000</u>	<u>130 000</u>
	<u>210 000</u>	<u>240 000</u>	<u>230 000</u>
net profit (loss)	<u>(10 000)</u>	–	<u>90 000</u>

Headquarters fixed costs will not be reduced if any department is closed.

What should the company do, on the basis of these results?

- A close department X
- B close department Y
- C close departments X and Y
- D keep all departments open

26 The table shows extracts from a company's budgeting statements.

month	1	2
	\$	\$
cash sales	500	750
credit sales	1000	1500
cash purchases	250	500
credit purchases	400	800
depreciation	200	300

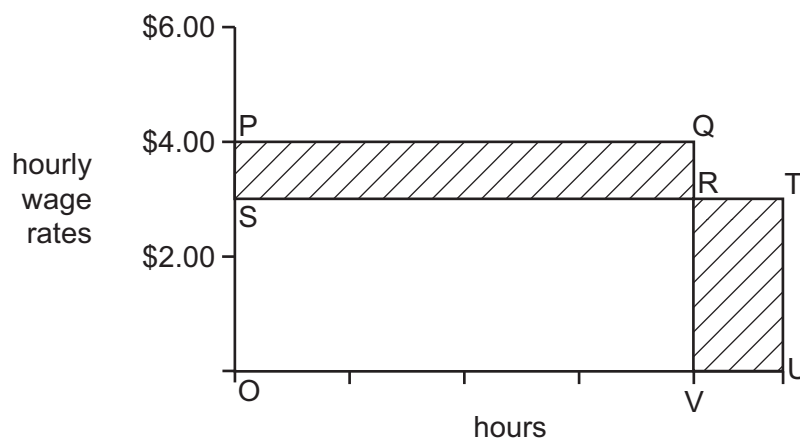
If all credit transactions are settled a month in arrears, what is the net cash flow for month 2?

- A \$550
- B \$650
- C \$850
- D \$950

27 What should be identified as a priority in the budgeting process?

- A the budgeted cash inflow
- B the budgeted net profit
- C the master budget outcome
- D the principal budget factor

28 In the following diagram, OSTU shows the standard cost and PQVO the actual cost.



What do the areas PQRS and RTUV represent?

	PQRS	RTUV
<b>A</b>	adverse wage rate	favourable labour efficiency
<b>B</b>	adverse labour efficiency	adverse wage rate
<b>C</b>	favourable labour efficiency	favourable wage rate
<b>D</b>	favourable wage rate	adverse labour efficiency

29 A business is considering a project.

	\$
initial cost of project	20 000
total net cash flows	35 000
present value of cash flows	23 465

Why would the business accept the project?

- A** the present value of cash flows is greater than the initial cost of the project
- B** the total net cash flows is greater than the initial cost of the project
- C** the total net cash flows is greater than the present value of cash flows
- D**  $\frac{\text{total net cash flows}}{\text{present value of cash flows}}$  is greater than 1

- 30 What would **not** be included in a net present value (NPV) capital investment appraisal?
- A any expenditure incurred after the pay back period
  - B depreciation of capital expenditure
  - C incremental revenue expenditure
  - D residual value of the capital cost

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