

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING

9706/03

Paper 3 Multiple Choice

May/June 2004

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 Which statement regarding the content of headings on a cash flow statement is correct?
- A** Current asset investments are included under 'management of liquid resources'.
- B** 'Financing' includes interest payments to lenders.
- C** Ordinary share dividends paid are included under 'returns on investment and servicing finance'.
- D** Proceeds from the sale of fixed assets are included under 'financing'.
- 2 The following are extracts from the financial statements of a company for the two years ended 30 June 2001 and 2002.

| | 2002 | 2001 |
|------------------------|-------------|-------------|
| | \$ | \$ |
| operating profit | 47 200 | 42 460 |
| (after depreciation of | 9 600 | 8 900) |
| net current assets | | |
| stock | 32 990 | 30 000 |
| debtors | 16 200 | 14 000 |
| creditors and accruals | 10 340 | 10 000 |

What is the operating cash flow for the year ended 30 June 2002?

- A** \$42 350 **B** \$43 050 **C** \$51 950 **D** \$61 650

- 3 The following information has been extracted from the final accounts of Company A for the last two years.

| Profit and Loss Account (extract) | year 2 \$ | year 1 \$ |
|--------------------------------------|--------------|--------------|
| operating profit for year | 175 000 | 168 000 |
| taxation | (55 000) | (52 000) |
| profit after tax | 120 000 | 116 000 |

| Balance Sheet (extract) | year 2 \$ | year 1 \$ |
|-------------------------|--------------|--------------|
| creditors – taxation | 57 000 | 50 000 |

What will be the amount appearing on the cash flow statement for year 2 with respect to taxation paid?

- A \$48 000 B \$50 000 C \$52 000 D \$55 000
- 4 J Limited's balance sheet at 30 June is as follows:

| | \$ |
|--------------------------|---------------|
| net assets | <u>10 000</u> |
| ordinary share capital | 4 500 |
| preference share capital | 2 000 |
| share premium account | 500 |
| Profit and Loss Account | 3 000 |
| | <u>10 000</u> |

The share premium account arose on the issue of the ordinary shares.

The preference shares are now redeemed at a premium of 20%.

What will be the balance on the Capital Redemption Reserve after this transaction?

- A nil B \$1900 C \$2000 D \$2400
- 5 What right does convertible loan stock give the investor?
- A to acquire ordinary shares in the company at a given price in addition to the loan stock
- B to obtain higher rates of interest on future convertible loan stock
- C to convert the loan into ordinary shares issued at a discount
- D to convert the loan into ordinary shares at a given future date and at a specified price

6 A Balance Sheet extract shows:

| | \$ |
|----------------------------|----------|
| \$1 ordinary shares | 1 000 |
| 10% convertible loan stock | 400 |
| Profit and Loss Account | 140 (dr) |
| assets | 1 800 |
| liabilities | 540 |

All the loan stock is to be converted to ordinary shares in the proportion of \$1 loan stock to 1 new ordinary share.

After the conversion, what will be the net asset value per share?

- A** \$0.80 **B** \$0.90 **C** \$1.00 **D** \$1.29

7 The Balance Sheet of a sole trader 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.

How much do the net assets of the purchasing company increase?

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

8 What is required to be shown in a company's published Profit and Loss Account?

| | administrative expenses | particulars of directors' emoluments |
|----------|-------------------------|--------------------------------------|
| A | shown | shown |
| B | shown | not shown |
| C | not shown | shown |
| D | not shown | not shown |

- 9 A company's Balance Sheet at 31 December 2001 included the following

| Long term liabilities | \$ |
|-----------------------------------|---------|
| loan (repayable on 30 April 2003) | 50 000 |
| 10 % debentures (2001-2004) | 100 000 |

The company intends to redeem half the debentures on 31 December 2003 and the remainder on 1 July 2004.

How should these liabilities be shown in the Balance Sheet at 31 December 2002?

| | current liabilities | | long term liabilities | |
|----------|---------------------|-----------|-----------------------|----------|
| A | debentures | \$50 000 | loan | \$50 000 |
| | | | debentures | \$50 000 |
| B | debentures | \$100 000 | loan | \$50 000 |
| C | loan | \$50 000 | debentures | \$50 000 |
| | debentures | \$50 000 | | |
| D | | | loan | \$50 000 |
| | | | debentures | \$50 000 |

- 10 Which item is **not** required by the Companies Act 1985 to be disclosed in a company's published accounts?
- A auditors' remuneration
 - B depreciation
 - C directors' remuneration
 - D legal expenses
- 11 What is included in the Directors' Report?
- A directors' emoluments
 - B principal activities of the company
 - C trade debtors
 - D turnover

- 12 H Limited suffered a substantial uninsured loss of \$60 000 when stock was stolen from its premises.

How will the loss be disclosed in the company's published accounts?

- A adjustment to reserves
 B exceptional item
 C extraordinary item
 D prior year adjustment
- 13 What can cause interest cover to fall?
- A conversion of debentures into shares
 B fall in interest rates
 C fall in operating profits
 D preference share issue

- 14 The Profit and Loss Account of a limited company is shown.

| | \$ |
|----------------------------------|------------|
| operating profit before interest | 800 |
| interest payable | (200) |
| | <u>600</u> |
| preference dividend payable | (200) |
| | <u>400</u> |
| ordinary dividend payable | (200) |
| retained profits | <u>200</u> |

The company has issued 100 000 ordinary shares of \$1 each. Their current market price is \$12.

What is the company's price earnings ratio?

- A 1.5 B 2 C 3 D 6
- 15 A company has an issued share capital of 8 million shares at \$0.50 par value each. It pays a dividend of \$1.6 million. The dividend yield is currently 12.5%. What is the current market price of each share?
- A \$0.50 B \$0.80 C \$1.60 D \$3.20

16 A company converts some debentures into shares on 1 January 2002.

What is the impact on the following ratios in the 2002 financial statements?

| | gearing | interest cover |
|----------|----------|----------------|
| A | decrease | decrease |
| B | decrease | increase |
| C | increase | decrease |
| D | increase | increase |

17 What does this formula show?

$$\frac{\text{profit available for distribution to ordinary shareholders}}{\text{ordinary dividend payable}}$$

- A** dividend cover
- B** dividend yield
- C** earnings per share
- D** price earnings ratio

18 Which transaction will cause an increase in share holders' capital?

- A** disposal of a fixed asset for more than its book value
- B** increasing the provision for bad debts
- C** receipt of a loan
- D** receipt of payment from debtor in cash

19 A company redeems its preference shares and makes a bonus issue of one ordinary share for every four held.

How will these transactions affect the balance sheet?

| | ordinary shares | reserves | bank |
|----------|-----------------|-----------|-----------|
| A | decrease | no effect | increase |
| B | increase | decrease | decrease |
| C | increase | decrease | no effect |
| D | increase | increase | decrease |

- 20 Which is a reason for a company issuing bonus shares to its existing shareholders?
- A to capitalise reserves
 - B to increase profits available for dividend
 - C to raise the market value of shares
 - D to raise additional cash
- 21 Which of the following are **not** capital instruments?
- A debentures
 - B share options
 - C shares
 - D title deeds to freehold property
- 22 On the company's accounting date, the accountant writes cheques to pay creditors and records them in the books immediately. The cheques are then deliberately retained by the accountant for two weeks.
- What effect does this have on the Balance Sheet?
- A the accounts show a higher figure for cash
 - B the accounts show a lower figure for creditors
 - C to improve the company's cash flow
 - D to improve the company's gearing

23 The data relates to the production of three products.

| product | X | Y | Z |
|-------------------------|-----|------|------|
| | \$ | \$ | \$ |
| contribution per unit | 160 | 175 | 190 |
| fixed overhead per unit | 125 | 130 | 160 |
| labour hours per unit | 1 | 1.25 | 0.75 |

The company is experiencing a shortage of labour.

In which order should the products be ranked to maximise profit?

| | 1 | 2 | 3 |
|----------|---|---|---|
| A | X | Y | Z |
| B | Y | X | Z |
| C | Z | X | Y |
| D | Z | Y | X |

24 The following figures relate to the budgeted figures for a product.

| | \$ | \$ |
|------------------|---------|----------------|
| sales | | 1 100 000 |
| direct materials | 150 000 | |
| direct labour | 300 000 | |
| fixed overheads | 400 000 | 850 000 |
| profit | | <u>250 000</u> |

The volume of sales for the product increased by 20%.

What would be the increase in profit?

- A** 20% **B** 52% **C** 76% **D** 88%

25 The information relates to the production of 50 000 units of a product.

| | |
|----------------|-----------|
| per unit | \$ |
| selling price | 25 |
| variable costs | 15 |
| contribution | <u>10</u> |

The fixed costs are \$300 000. The unit selling price is increased by 10%.

What is the increase in the margin of safety?

- A** 13.6% **B** 20% **C** 24.2% **D** 30%

26 A company is about to quote a price for making a special order which requires 1000 kg of material X and 1500 kg of material Y.

The following information is available about these resources.

| type of material | original cost per kg \$ | current purchase price per kg \$ | net realisable value per kg \$ |
|------------------|-------------------------|----------------------------------|--------------------------------|
| X | 3 | 4 | 2 |
| Y | 5 | 7 | 6 |

The stock of material X can not be used by the company for any other product. Material Y is used frequently for other products.

Which cost of materials should be included in the quotation for the manufacture of this special order?

- A** \$10 500 **B** \$11 000 **C** \$12 500 **D** \$14 500

27 Which is normally the most appropriate sequence of events in the preparation of budgets?

- A** cash budget, budgeted Balance Sheet, production budget
B cash budget, production budget, budgeted Balance Sheet
C production budget, cash budget, budgeted Balance Sheet
D production budget, budgeted Balance Sheet, cash budget

28 What is a flexible budget?

- A a budget based on expected level of production
- B a budget based on past performance but updated to take account of present conditions
- C a budget that reflects changes in activity levels
- D a budget that links fixed overheads to production

29 Which cost is described by the following?

'Costs which should be achieved under efficient conditions, but allowing for normal wastage'.

- A basic standard
- B currently attainable standard
- C flexible standard
- D ideal standard

30 The following information relates to a possible capital investment, costing \$900 000.

| year | cash flow \$ | discounted cash flow at 6 % \$ | discounted cash flow at 8 % \$ |
|------|-----------------|--------------------------------------|--------------------------------------|
| 0 | (900) | (900) | (900) |
| 1 | 400 | 377 | 370 |
| 2 | 600 | 534 | 514 |
| | <u>100</u> | <u>11</u> | <u>(16)</u> |

The company has a cost of capital of 8 %.

Which statement about the project is correct?

- A It has an internal rate of return greater than the cost of capital.
- B It has an internal rate of return less than the cost of capital.
- C It will be viable if discounted at 9 %.
- D It will be viable if the capital cost is increased to \$1 m.

