**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.

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

**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 |

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

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 |

**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 considera $1 000 000 is partly satisfied by the issue of 10% debentures in place of the partnership loan. 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

**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

**16** The financial statements of a business showed net current assets at the year end as ... Events which occurred after the date of the statement of financial position but before a... 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

**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 | 1000 |
| share premium | 500 |
| retained earnings | 3000 |
| 8% debentures | 1500 |
| 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

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

| | 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

**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.

**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 peri

Following further investigation additional depreciation of $20 000 must be charged and othe 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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