



Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING**9706/31**

Paper 3 Multiple Choice

May/June 2014**1 hour**

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

* 3 0 0 6 2 8 2 5 3 7 *



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 **12** printed pages.

- 1 During the year ended 31 December, a company bought a new motor vehicle. The cost price was \$43 000. The company paid \$37 000 by cheque and also traded in an old vehicle for which it was allowed \$6000. The depreciated book value of the old vehicle was \$4200.

The company sold another vehicle for \$3750 cash. This vehicle had a net book value of \$4925.

What is the effect of these transactions on the cash flow of the company?

| | cash inflow \$ | cash outflow \$ |
|----------|-------------------|--------------------|
| A | 4 925 | 33 250 |
| B | 3 750 | 37 000 |
| C | 9 750 | 43 000 |
| D | 10 925 | 43 000 |

- 2 After the date of the statement of financial position, but before the financial statements were approved, certain events took place.

Which event will require a note to the accounts?

- A** discovery of fraud revealing that the financial statements are inaccurate
 - B** insolvency of a major debtor included in trade receivables at the statement of financial position date
 - C** loss in value of a non-current asset as a result of an impairment review
 - D** proposed final dividend declared by the directors
- 3 A statement of cash flows must be analysed between operating, investing and financing activities.

What is a financing activity?

- A** acquisition of non-current assets
- B** issue of shares
- C** sale of goods
- D** sale of non-current assets

- 4 In 2013 a manufacturing company added factory profit of 20% to its cost of production.

The following information is available.

| | 2012 \$ | 2013 \$ |
|---|------------|------------|
| provision for unrealised profit | 12 100 | ? |
| closing inventory of finished goods at transfer price | 63 000 | 75 000 |

What was the adjustment required to the provision for unrealised profit at the end of 2013?

- A \$400 credit
 B \$400 debit
 C \$2900 credit
 D \$2900 debit
- 5 The table shows an extract from the draft statement of financial position.

| non-current assets | cost \$ | accumulated depreciation \$ | net book value \$ |
|---------------------|------------|-----------------------------------|----------------------|
| freehold buildings | 700 000 | 200 000 | 500 000 |
| plant and machinery | 450 000 | 100 000 | 350 000 |

Freehold buildings are to be revalued to \$950 000. Plant and machinery is to be written down to \$250 000.

How much will be credited to the asset revaluation reserve?

- A \$50 000 B \$150 000 C \$250 000 D \$450 000

- 6 A company's statement of financial position showed the following on 31 December 2012.

| | \$ |
|-----------------------------|----------------|
| ordinary shares of \$1 each | 200 000 |
| share premium | 30 000 |
| retained earnings | <u>150 000</u> |
| | 380 000 |

During the year ended 31 December 2013 it made a profit of \$90 000. It also made the following share issues.

- 1 a rights issue of one share at \$1.40 for every four held
- 2 a bonus issue of one share for every ten held

What was the total of equity at 31 December 2013?

- A** \$520 000 **B** \$540 000 **C** \$565 000 **D** \$575 000

- 7 A company has both a share premium account and retained earnings.

It now redeems debentures paying a premium over their nominal value.

Which statement is correct?

- A** The debentures must have been issued at a discount.
B The debentures must have been issued at a premium.
C The premium can be debited to the share premium account.
D The premium may be debited in the income statement.

- 8 Alan, Brian and Colin are in partnership sharing profits and losses in the ratio 3:2:1. Colin is to retire from the partnership on 30 June 2014. From that date, Alan and Brian are to share profits and losses in the ratio 2:1. The summarised statement of financial position at 30 June 2014 before Colin's retirement is as follows.

| | \$ |
|-------------------------|----------------|
| net assets | <u>107 500</u> |
| capital account – Alan | 45 200 |
| capital account – Brian | 38 800 |
| capital account – Colin | <u>23 500</u> |
| | 107 500 |

Goodwill is to be valued at \$24 000 and is to remain in the books of account.

Non-current assets with a net book value of \$62 000 are to be revalued at \$53 000.

What is the new balance on Alan's capital account?

- A** \$26 000 **B** \$43 800 **C** \$52 700 **D** \$57 200
- 9 The statement of financial position of X showed the following.

| | \$ |
|--------------------|---------|
| non-current assets | 300 000 |
| current assets | 100 000 |

Y limited acquired X for a cash payment of \$600 000, valuing the non-current assets of X at \$400 000.

What was the effect of the acquisition of X on the statement of financial position of Y limited?

| | non-current assets | current assets |
|----------|--------------------|----------------|
| A | decrease | no change |
| B | increase | decrease |
| C | increase | increase |
| D | increase | no change |

10 The business of a sole trader is acquired by a limited company.

| | |
|------------------------------|-----------|
| net assets at valuation | \$167 000 |
| agreed purchase price | \$137 000 |
| cash paid in part settlement | \$50 000 |
| ordinary shares of \$1 each | 60 000 |

What is the premium per ordinary share?

- A** \$0.45 **B** \$0.95 **C** \$1.28 **D** \$1.78

11 Which item is normally included in the directors' report?

- A** debenture interest paid
B redemption of shares
C research and development activities
D taxation liability

12 A company has 100 000 ordinary shares of \$1 each. During the year the following takes place.

- 1 The company pays an interim dividend of \$0.10 per share.
- 2 The directors declare a final dividend of \$0.20 per share to be paid after the end of the financial year.

How are these reported in the financial statements?

| | income statement \$ | statement of cash flows \$ | statement of changes in equity \$ |
|----------|------------------------|-------------------------------|--------------------------------------|
| A | – | (10 000) | (10 000) |
| B | – | (30 000) | (30 000) |
| C | (10 000) | (10 000) | – |
| D | (30 000) | (30 000) | (30 000) |

13 What is an example of an accounting policy?

- A** adopting regular revaluations of non-current assets
B ensuring all items are treated in a similar manner from one year to the next
C preparing financial statements assuming the company is a going concern
D using straight-line depreciation for all non-current assets

- 14 The following information is available for a company preparing its statement of changes in equity for 2014.

| | \$ |
|------------------------------------|---------|
| retained earnings at start of year | 118 000 |
| retained earnings at end of year | 80 000 |
| transfers to general reserves | 20 000 |
| debenture interest paid | 10 000 |
| taxation | 70 000 |

How much is profit from operations?

- A** \$52 000 **B** \$62 000 **C** \$98 000 **D** \$108 000
- 15 Which shareholder ratio calculates the expected return on investment?
- A** dividend cover
B dividend yield
C earnings per share
D price earnings

- 16 The following information is available.

| | |
|-----------------------|------------|
| dividend yield | 4% |
| dividend for the year | \$10 000 |
| dividend cover | four times |

What is the price earnings ratio?

- A** 4 **B** 6.25 **C** 10 **D** 25
- 17 A company provides the following information.

| | \$ |
|-------------------------|-----------|
| profit from operations | 400 000 |
| profit before tax | 300 000 |
| equity | 1 200 000 |
| non-current liabilities | 800 000 |

What is the company's return on capital employed?

- A** 15% **B** 20% **C** 25% **D** 33.3%

18 The statement of financial position of a limited company showed the following.

| | \$000 |
|--------------------------|---------------|
| total assets | 3700 |
| current liabilities | (900) |
| non-current liabilities | <u>(1200)</u> |
| | <u>1600</u> |
| ordinary share capital | 500 |
| preference share capital | 300 |
| retained earnings | <u>800</u> |
| | 1600 |

What is the gearing ratio of the company?

- A** 42.9% **B** 53.6% **C** 64.9% **D** 75%

19 A company has 500 000 ordinary shares in issue and the following reserves.

| | \$ |
|---------------------|--------|
| share premium | 20 000 |
| revaluation reserve | 50 000 |
| general reserve | 80 000 |
| retained earnings | 40 000 |

What is the maximum dividend per share that could be paid?

- A** \$0.08 **B** \$0.24 **C** \$0.34 **D** \$0.38

20 The following information relates to a company's non-current assets.

| | carrying value \$ | fair value less costs to sell \$ | value in use \$ |
|------------------|----------------------|--|--------------------|
| machinery | 35 000 | 32 000 | 40 000 |
| motor vehicles | 20 200 | 8 000 | 16 000 |
| office equipment | 12 000 | 10 000 | 8 000 |

What is the total value of non-current assets to be included in the statement of financial position?

- A** \$48 000 **B** \$50 000 **C** \$61 000 **D** \$67 200

- 21** How is the closing balance of unrealised factory profit shown in the statement of financial position?
- A** as a deduction from the value of inventory of finished goods
 - B** as a deduction from the value of inventory of work in progress
 - C** as an addition to the value of inventory of finished goods
 - D** as an addition to the value of inventory of work in progress

- 22** During a period, 20 000 kilos of material costing \$30 000 was input into a process. Labour and overheads were \$36 000.

15 000 kilos were completed in the period. 5 000 kilos remained as work in progress.

The work in progress was complete as regards material costs but only 60% complete as regards labour and overheads.

What was the value of work in progress at the end of the period?

- A** \$11 500 **B** \$13 500 **C** \$16 500 **D** \$26 400
- 23** The following information relates to process 1 for a business.

| | \$ |
|--|------|
| direct material input to process (1000 kilos at \$4.80 per kilo) | 4800 |
| direct labour | 1600 |
| factory overhead | 1000 |

During production 200 units are scrapped. They are sold for \$1 each.

At the end of process 1, units are valued at \$8 each. There is no work in progress.

How many completed units are transferred to process 2?

- A** 100 **B** 600 **C** 900 **D** 925

24 A company provides the following information about its customers.

25% pay in cash.

50% pay one month after the sale, less a 10% settlement discount.

The remaining customers pay two months after the sale.

Budgeted sales are as follows.

| | \$ |
|----------|---------|
| January | 100 000 |
| February | 120 000 |
| March | 140 000 |
| April | 135 000 |

Which amount from sales does the company expect to receive in March?

- A** \$114 000 **B** \$120 000 **C** \$123 000 **D** \$130 000

25 A company currently uses a fixed budget. The details for the next trading period are as follows.

| | |
|-------------------------|---------------|
| output in units | 10 000 |
| | \$ |
| direct materials | 10 000 |
| direct labour | 4 000 |
| semi variable overheads | 3 000 |
| fixed overheads | 2 000 |
| total | <u>19 000</u> |

Semi variable overheads are 50% fixed.

What will be the total flexed budgeted cost for 12 000 units?

- A** \$19 300 **B** \$22 100 **C** \$22 400 **D** \$22 500

26 A business uses two materials, X and Y, in production.

- 1 standard cost of material used
- 2 adverse material price and usage variance of X
- 3 favourable material price and usage variance of Y
- 4 actual cost of material used

Which formula reconciles the standard material cost of material used to the actual cost of material used for a period?

- A** $1 - 2 - 3 = 4$
B $1 - 2 + 3 = 4$
C $1 + 2 - 3 = 4$
D $1 + 2 + 3 = 4$

27 A manufacturing company has a standard material specification for one unit of 7 kilos of material at \$9 per kilo. In a period 610 units were produced using 4350 kilos of material at a total cost of \$38715.

What is the material price variance for the period?

- A** \$427 adverse
B \$427 favourable
C \$435 adverse
D \$435 favourable

28 A factory uses 3500 direct labour hours in production, at a standard cost of \$10 per hour. This resulted in a favourable labour efficiency variance of \$20 000.

How many standard hours were produced?

- A** 1500 **B** 2000 **C** 3500 **D** 5500

29 The table shows the calculation of the net present value of a potential project.

| year | cash flow | \$ | discount factor at 10% | present value |
|------|--------------|----------|---------------------------|------------------|
| 0 | initial cost | (10 000) | 1.00 | (10 000) |
| 1 | receipt | 6 000 | 0.91 | 5 460 |
| 2 | receipt | 6 000 | 0.83 | <u>4 980</u> |
| | | | net present value | <u>440</u> |

Which cash inflow during year 1 will give a net present value of zero for the project?

- A** \$5516 **B** \$5560 **C** \$5900 **D** \$6440

30 A company has evaluated a capital project. The calculation shows an accounting rate of return of 10%. The capital cost of the project is \$400 000. The life of the project is five years.

What was the total cash flow generated by the project?

- A** \$40 000 **B** \$200 000 **C** \$500 000 **D** \$600 000