UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/33**

Paper 1 Multiple Choice **October/November 2010**

1 hour

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

0752029569

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.

UNIVERSITY *of* CAMBRIDGE
International Examinations

1 Why is goodwill adjusted in the accounts when a new partner is admitted?

A a more accurate value of non-current (fixed) assets is shown in the balance sheet

B original partners can be credited for their efforts in building up the partnership business

C partners can take higher drawings as a result of their share of the goodwill

D the new partner knows how much they have to introduce as capital

2 A company prepares internal accounts as follows.

	year 1 $	year 2 $
profits	30 000	40 000
cost of goods sold	240 000	320 000

It then discovers that at the end of year 1 the value of stock was overstated by $2000.

What are the correct profit and cost of goods sold figures?

	year 1		year 2	
	profits $	cost of goods sold $	profits $	cost of goods sold $
A	28 000	238 000	42 000	322 000
B	28 000	242 000	40 000	320 000
C	28 000	242 000	42 000	318 000
D	32 000	238 000	38 000	318 000

3 X, Y and Z are in partnership sharing profits and losses equally. The data shown is extracted from their books.

	$
Net assets at end of year	600 000
Capital account balances at start of year	320 000
Current account balances at start of year (credit)	100 000
Partnership salary – Y	30 000
Total drawings during year	60 000

What was X's share of net profit for the year?

A $40 000 **B** $60 000 **C** $70 000 **D** $80 000

4 A company has been wound up and the only assets that remain have realised $45 000.

A summary of the company's capital structure shows the following.

	$
ordinary shares	20 000
preference shares	40 000
loan stock	30 000

How will the $45 000 be distributed?

	ordinary shares $	preference shares $	loan stock $
A	10 000	20 000	15 000
B	–	15 000	30 000
C	20 000	25 000	–
D	–	40 000	5 000

5 A plc company redeemed 50 000 ordinary shares of $5 each at par.

The redemption was in part financed by a new issue of 80 000 preference shares of $1 each, issued at a premium of $1 per share.

By what amount will distributable reserves be reduced?

A $90 000 **B** $160 000 **C** $170 000 **D** $250 000

6 The table shows the assets and liabilities of a business.

	$000
trade payables (creditors)	50
trade receivables (debtors)	15
fixtures and fittings	70
goodwill	15
inventory (stock)	20

How much did the purchaser pay for the business if the new balance sheet after the purchase shows a goodwill figure of $20 000?

A $55 000 **B** $70 000 **C** $75 000 **D** $145 000

7 A company purchases a business that it estimates has maintainable future earnings of $100 000 per annum.

The net assets purchased have a book value of $225 000, but are valued by the purchaser at a fair value of $300 000.

The company negotiated a purchase price, which met its return on investment of 20%.

What was the amount paid for goodwill?

A $75 000 **B** $200 000 **C** $275 000 **D** $500 000

8 A limited company is acquiring the business of a sole trader by:

the issue of 50 000 $0.50 shares at a premium of $0.20 each

the issue of $20 000 debentures at a discount of 10%

a cash payment

If the fair value of the acquired business is $80 000, how much will the cash payment be?

A $10 000 **B** $25 000 **C** $27 000 **D** $35 000

9 A company has the following costs for an item of inventory (stock).

	$
purchase costs	12 000
carriage in	2 000
conversion costs	18 000
storage costs	8 000

What should the inventory (stock) be valued at?

A $12 000 **B** $14 000 **C** $32 000 **D** $40 000

10 A company has the following account balances at the end of its financial year.

	$
cash in hand	1 200
cash at bank	16 000
bank overdraft	8 000
deposit, available at 2 months' notice	7 000
deposit, available at 6 months' notice	5 000

What is the figure for cash and cash equivalents to appear in the cash flow statement?

A $9200 **B** $16 200 **C** $17 200 **D** $21 200

11 X Plc incurred the following costs as a result of purchasing a new machine.

	$
purchase price	7 000
installation cost	5 000
testing the machine before use	1 000
manufacturer's list price	10 000
advertising the new products to be made by the machine	4 000

What is the maximum initial cost of the machine that would be recognised as an asset of the company?

A $13 000 **B** $16 000 **C** $17 000 **D** $20 000

12 A business has a trade receivables (debtors) turnover period of 40 days and annual sales of $479 970.

What is the year end trade receivables (debtors) figure?

A $11 999 **B** $15 780 **C** $39 997 **D** $52 599

13 Which ratio measures the return on an investment in shares which continue to be held?

A dividend cover

B dividend yield

C earnings per share

D interest cover

14 A company's authorised share capital is 1 million ordinary shares of $1 each. 800 000 shares have been issued and have a market value of $2.50 each.

Year end results show the following.

	$
profits before interest and taxation	100 000
profits after interest and taxation	80 000
profits after interest, taxation and ordinary dividends	50 000

What is the price-earnings ratio?

A 10 **B** 20 **C** 25 **D** 40

15 The trade receivables (debtors) collection period of a business has reduced from 90 to 55 days.

Which reason could account for this?

A a large bad debt written off

B a large credit sale made just before the year end

C a major customer in financial difficulty

D poor credit control

16 The capital structure of a company is given.

	$
400 000 ordinary shares of $0.50	200 000
reserves	90 000
9 % debentures 2010 – 2012	50 000

The company issues $30 000 10 % debenture stock 2015 – 2017 at par and makes a rights issue of 1 ordinary share for every four held at $0.60.

It also raises an unsecured loan of $50 000.

How will these transactions affect the balance sheet?

	gearing	reserves
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

17 The equity section of a company's balance sheet is as follows.

	$
ordinary shares of $0.50 each	200 000
preference shares of $1 each	100 000
share premium	50 000
retained earnings	120 000

The following items have not yet been adjusted.

1 purchase returns of $10 000 have been credited to the sales returns account

2 a long term loan of $40 000 has not been recorded

3 a rights issue during the year of 200 000 ordinary shares at a premium of $0.10 each

What will the total of equity be after the above adjustments have been made?

A $590 000 **B** $600 000 **C** $630 000 **D** $640 000

18 Which may result in an over-absorption of overheads?

A absorption based on actual expenditure and actual activity

B activity below budget

C expenditure below budget

D expenditure in excess of budget

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

	department		
	X	Y	Z
	$	$	$
sales	200 000	280 000	320 000
less: variable costs	130 000	190 000	100 000
headquarters fixed costs – apportioned	80 000	90 000	130 000
	210 000	280 000	230 000
net profit (loss)	(10 000)	0	90 000

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 and Y.

B Close department X only.

C Close department Y only.

D Keep all departments open.

20 The table shows the budgeted resources required for production and sales, and the available resources.

Market research shows sales demand for 120 000 units.

	resources required per unit	resources available
material (kilos)	4.0	460 000 kilos
direct labour hours	3.0	400 000 hours
machine hours	0.5	70 000 hours

What is the principal limiting factor in this case?

A direct labour hours

B machine hours

C material

D sales

21 The table shows the costs involved in the production of 1000 units.

	$
direct materials	4 000
direct labour	6 000
variable overheads	2 000
fixed overheads	8 000

If production increases by 25 %, what will be the effect on the total cost per unit?

A decrease of $1.60 per unit

B decrease of $5.00 per unit

C increase of $1.60 per unit

D increase of $5.00 per unit

22 When should a system of 'Flexible Budgeting' be used?

A to allow accurate comparison when budgeted and actual activity levels differ

B to budget for changes in costs arising from price increases

C to enable a company to change its budgetary control period

D to prepare budgets when selling prices are continuously changing

23 A company has the following production budget.

opening inventory (stock)	600 units
budgeted sales	10 000 units
closing inventory (stock)	800 units
selling price per unit	$25
material cost per unit	$13

What will be the production cost budget for material usage for the year?

A $120 000 **B** $127 400 **C** $130 000 **D** $132 600

24 A standard costing system uses routine exception reporting of variances.

What does this mean?

A Variances are investigated between certain limits.

B Variances are investigated if managers require it.

C Variances are only reported if unfavourable.

D Variances are reported if above or below agreed limits.

25 The standard direct materials cost per unit is as follows.

100 kg of material at $5 per kg

Last week 2000 units of the product were manufactured using 230 000 kg of material at a total cost of $1 035 000.

What was the material price variance?

A $100 000 adverse

B $100 000 favourable

C $115 000 adverse

D $115 000 favourable

26 A company manufactures a product.

The following standard information per 100 units is available.

materials	content	price / gm
component 1	25 gm	$0.05
component 2	30 gm	$0.03

direct labour	content	rate / hr
department A	1 hr	$4.60
department B	1.5 hrs	$5.00

Production overheads are $1.50 for each direct labour hour.

What is the standard unit cost of production?

A $0.16 **B** $0.18 **C** $0.19 **D** $0.20

27 The direct labour costs for a product are as follows.

standard	40 000 hours at $6.00 per hour
actual	36 000 hours at $6.30 per hour

What is the labour rate variance and the labour efficiency variance?

	labour rate variance	labour efficiency variance
A	$10 800 adverse	$24 000 favourable
B	$10 800 favourable	$24 000 adverse
C	$24 000 adverse	$10 800 favourable
D	$24 000 favourable	$10 800 adverse

28 Which statement about the use of payback as a method of capital investment appraisal is correct?

A Payback allows cash to be used to generate profit in the most effective way.

B Payback can only be used to compare two projects when they have the same capital cost.

C Payback determines how long it takes before a profit is made.

D Payback determines how long it takes before the cash invested is returned.

29 A company has evaluated the net present value of a project based on two separate discount rates, as follows.

net present value	$	
at 11 %	14 219	positive
at 16 %	5 368	negative

What is the internal rate of return of the project?

A 11.73 % **B** 12.61 % **C** 14.63 % **D** 15.73 %

30 A company has operating profit of $326 000 after taking into account the following information.

	$
depreciation	24 000
goodwill impairment	11 000
increase in inventory (stock)	18 000

What is the net cash flow from operating activities?

A $321 000 **B** $343 000 **C** $357 000 **D** $361 000

BLANK PAGE