**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Joint Examination for the Higher School Certificate and General Certificate of Education Advanced Level**

# ACCOUNTING 9706/3

PAPER 3 Multiple Choice (Extension)

**OCTOBER/NOVEMBER SESSION 2002**

1 hour

Additional materials:
- Multiple Choice answer sheet
- Soft clean eraser
- Soft pencil (type B or HB is recommended)

**TIME** 1 hour

## INSTRUCTIONS TO CANDIDATES

**Do not open this booklet until you are told to do so.**

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **thirty** questions in 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 very carefully the instructions on the answer sheet.**

## INFORMATION FOR CANDIDATES

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 question paper consists of 11 printed pages and 1 blank page.**

SP (AT) S30769/1

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

1 What type of capital must **all** limited companies have?

**A** convertible loan stock

**B** debentures

**C** ordinary shares

**D** preference shares

2 Why might a company repay part of its share capital?

**A** Its cash reserves exceed its requirements for the foreseeable future.

**B** Its shareholders need the cash.

**C** Its shares are valued below their nominal value on the open market.

**D** It wishes to decrease its gearing.

3 A company has decided to redeem its preference shares at a premium of \$0.25. The preference shares were originally issued at \$1.15 each.

Prior to the redemption the company's Balance Sheet showed the following.

| | \$000 |
|---|---|
| Ordinary shares of \$1.00 | 1 000 |
| 8% redeemable preference shares of \$1.00 | 600 |
| Share premium | 100 |
| Retained profit | 750 |
| | 2 450 |

How will the reserves appear in the Balance Sheet after the preference shares have been redeemed?

| | Capital Redemption Reserve \$000 | Share premium \$000 | Retained profit \$000 |
|---|---|---|---|
| **A** | 600 | 100 | nil |
| **B** | 600 | 10 | 90 |
| **C** | 750 | nil | 100 |
| **D** | 750 | 10 | 150 |

4 A company purchases a business with net assets of $110 000. In addition, the Goodwill of the business is valued at $10 000.

The purchase price of the business is settled by the issue of 80 000 $1 ordinary shares in the company.

What will be the entry in the company's Share Premium account?

**A** debit $40 000 **B** credit $40 000 **C** debit $30 000 **D** credit $30 000

5 When the business of X was purchased by Y plc, negative Goodwill of $100 000 arose. The following table shows an extract of X's Balance Sheet at the purchase date.

| | $ |
|---|---|
| net assets | 500 000 |
| long term debt | 100 000 |
| Profit and Loss debit balance | 50 000 |
| share capital | 450 000 |

What was the purchase price of X?

**A** $300 000 **B** $500 000 **C** $600 000 **D** $700 000

6 Y Ltd purchases the business of J Brown by issuing $1 shares at a premium of $0.20. Y Ltd agrees to take over J Brown's assets and liabilities at the date of the acquisition as follows.

| | $ |
|---|---|
| fixed assets | 150 000 |
| current assets | 75 000 |
| creditors | 5 000 |
| bank loan | 20 000 |

Goodwill is valued at $10 000.

How many shares will J Brown receive from Y Ltd?

**A** 158 000 **B** 175 000 **C** 200 000 **D** 210 000

7 Which item is **not** required in the Report of Directors of a limited company?

**A** details of export sales

**B** future developments for the business

**C** the names of the directors

**D** the proposed dividend details

8 Which of the following is **not** required to be disclosed in published company accounts?

**A** accounting policies

**B** auditors' fees

**C** directors' remuneration

**D** rent paid for premises

9 Accounting Standards require a statement of total recognised gains and losses to be reported.

Which item, arising during the year, will be included in the statement?

**A** dividend payable

**B** Goodwill written off to reserves

**C** premium on shares issued

**D** prior year adjustment

10 A company's convertible loan stock will be converted to ordinary shares on 1 January 2005.

The company that has issued the convertible loan stock should show it in its Balance Sheet at 31 December 2002 as

**A** authorised capital.

**B** creditors: amounts falling due after more than one year.

**C** creditors: amounts falling due within one year.

**D** issued share capital.

11 A company has an authorised share capital of 1.5 m ordinary shares at $1.00 each. One million shares have been issued and have a market value of $4.50 per share. The directors are proposing a dividend of $0.10 per share for the year.

The table shows the year-end results.

| | $ |
|---|---|
| profits before tax | 180 000 |
| taxation | 40 000 |
| profits after tax | 140 000 |

What is the dividend cover?

**A** 0.9 times **B** 1.2 times **C** 1.4 times **D** 1.8 times

**12** The following data is available for XYZ plc.

| | |
|---|---|
| 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%

**13** A company's published Profit and Loss Account gives the following information.

| | $ million |
|---|---|
| operating profit | 4000 |
| interest expense | 200 |
| taxation | 1150 |
| preference dividends | 300 |
| ordinary dividends | 1200 |

What is the profit figure to be used in the calculation of earnings per ordinary share?

**A** \$1150 million **B** \$2350 million **C** \$2650 million **D** \$3800 million

**14** A company makes annual profits of \$10 million before interest payable of \$2 million and ordinary dividends of \$5 million.

It has in issue 20 million shares of \$0.20 each, currently valued on the Stock Exchange at \$5.00 each.

What is the company's Price/Earnings (P/E) ratio?

**A** 10 **B** 12.5 **C** 20 **D** 33.3

**15** Which transaction or event is likely to reduce gearing?

**A** acquiring an asset on hire purchase

**B** capitalising development expenditure

**C** downward revaluation of a fixed asset

**D** immediate write-off of Goodwill



**[Turn over**

**16** A company has authorised capital of 500 000 \$0.25 ordinary shares. It has issued 400 000 \$0.25 ordinary shares, at a price of \$0.60 a share. The market price of the shares is now \$0.75 each.

The directors now wish to make a dividend payment which would give the shareholders a dividend yield of 5%.

How much cash would the company need to distribute as dividend?

**A** \$5000 **B** \$6250 **C** \$12 000 **D** \$15 000

**17** A company manufactures and sells widgets. The directors want to increase profitability and are considering buying in the widgets instead of manufacturing them.

The company should buy the widgets from an outside supplier if the price is

**A** less than the marginal cost of production.

**B** more than the marginal cost of production but less than the marginal cost of sales.

**C** more than the marginal cost of sales but less than the total cost.

**D** more than the total cost but less than the selling price.

**18** The table shows the capital structure of a company.

| | \$ |
|---|---|
| 100 000 ordinary shares of \$1 each | 100 000 |
| 10% debentures | 50 000 |
| reserves | 100 000 |

It increases the debentures by \$50 000 and makes a bonus issue of one share for every two held. It then makes a rights issue of a further 100 000 shares at \$1.00 each.

How will these transactions affect the Balance Sheet?

| | gearing | reserves | bank |
|---|---|---|---|
| **A** | decrease | decrease | decrease |
| **B** | increase | decrease | decrease |
| **C** | increase | decrease | increase |
| **D** | decrease | increase | increase |

**19** A company manufactures three products for which the following details (per unit) are available.

| | product X | product Y | product Z |
|---|---|---|---|
| sales value | $12.00 | $12.00 | $22.50 |
| direct material cost | $5.00 | $4.00 | $8.00 |
| labour cost | $4.00 | $6.00 | $4.50 |
| labour hours | 2 | 0.8 | 3 |

If labour hours are restricted in supply, which order of priority should the company adopt when planning its production?

| | order of priority | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| **A** | Y | X | Z |
| **B** | Y | Z | X |
| **C** | Z | X | Y |
| **D** | Z | Y | X |

**20** A company has a policy of holding stock equal to next month's expected sales plus 10%.

The table shows the budgeted sales for the next three months.

| month | units |
|---|---|
| Aug | 300 |
| Sept | 270 |
| Oct | 360 |

What must be the company's production in September, in order to achieve its objectives?

**A** 267 **B** 333 **C** 369 **D** 396

**21** The table shows the budget for a business.

| | fixed budget |
|---|---|
| sales and production | 20 000 units |
| sales | $400 000 |
| variable costs | $280 000 |
| fixed costs | $50 000 |

Actual production and sales were 15 000 units.

What was the actual profit?

**A** $30 000 **B** $40 000 **C** $52 000 **D** $90 000

**22** A company's debtors total $27 000. There is a collection period of 30 days.

The budget for the coming year provides for an increased turnover of 50% with the relevant collection period being increased to 60 days.

What will the year-end debtors be?

**A** $13 500 **B** $27 000 **C** $40 500 **D** $81 000

**23** A company has a stock of 10 000 units of finished goods. It budgets to produce 110 000 units which, after sales, will increase its stock to 20 000 units.

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

| | resources required per unit | resources available |
|---|---|---|
| material (kilos) | 3.0 | 315 000 |
| direct labour hours | 2.5 | 300 000 |
| machine hours | 0.5 | 110 000 |

Market research shows that the demand for the product will be for 90 000 units.

What is the principal limiting factor in this case?

**A** direct labour **B** machine hours **C** material **D** sales

**24** The table shows an annual budget for a company.

production units 10 000

| | $ |
|---|---|
| direct material | 10 000 |
| direct labour | 8 000 |
| variable overheads | |
| (at 100% of prime cost) | 18 000 |
| fixed costs | 4 000 |
| | 40 000 |

As the actual production is only 9000 units, the company flexes the budget.

What is the revised total budgeted cost?

**A** $36 000 **B** $36 400 **C** $37 200 **D** $38 200

**25** The standard time for a job is set at 50 hours. The standard direct labour rate is $8.00 per hour.

The job was completed in 65 hours at a direct labour cost of $455.

What is the direct labour rate variance?

**A** $55 adverse **B** $55 favourable **C** $65 adverse **D** $65 favourable

**26** The table shows cost data for a product.

| | $ |
|---|---|
| materials | 22 |
| direct labour (4 standard hours    $4.00) | 16 |

The total standard overheads are $250 000 and standard direct labour hours are 100 000. Overheads are absorbed on the basis of direct labour hours.

What will the standard selling price be, if the company seeks to earn a standard profit of 25% on factory cost?

**A** $47.50 **B** $48.00 **C** $50.62 **D** $60.00

**27** The table shows the standard cost data relating to a product passing through two production departments.

| | department X | department Y |
|---|---|---|
| standard time in department | 2 hours | 3 hours |
| standard department labour hours | 100 000 | – |
| standard machine hours | – | 100 000 |
| standard overheads | $200 000 | $400 000 |

The standard prime cost is $20. Overheads are absorbed on the basis of direct labour hours and machine hours as appropriate.

What is the standard factory cost of the product?

**A** $26 **B** $32 **C** $34 **D** $36

**28** The net present value (NPV) method of investment appraisal requires

**A** a distinction being made between capital and revenue expenditure and income.

**B** the realistic depreciation of the capital expenditure involved.

**C** a knowledge of the amounts and timings of the expected net proceeds of proposed investments.

**D** the calculation of the payback periods of proposed investments.

**29** A project has the following net present values.

| discount factor | 30% | 50% |
|---|---|---|
| NPV | $52 000 | –$16 000 |

What is the approximate Internal Rate of Return for the project?

**A** 35% **B** 38% **C** 40% **D** 45%

30 A company considers buying a new machine costing $60 000. The machine will have a life of four years. It will then have a scrap value of $10 000.

The company has a straight line depreciation policy. The table shows the forecast net receipts arising from the purchase of the machine.

| Year | $ |
|---|---|
| 1 | 20 000 |
| 2 | 20 000 |
| 3 | 20 000 |
| 4 | 45 000 |

How long will it take the company to ‘pay back’ its investment?

**A** 1 year, 197 days

**B** 1 year, 309 days

**C** 2 years, 182 days

**D** 3 years

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