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)

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.

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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

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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

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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	150 000
	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	107 500
capital account – Alan	45 200
capital account – Brian	38 800
capital account – Colin	23 500
	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

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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	(1200)
	1600
ordinary share capital	500
preference share capital	300
retained earnings	800
	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. 5000 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	19 000

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 \$38 715.

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	4 980
			net present value	440

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

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