



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/32**

Paper 3 Multiple Choice

**October/November 2013**

**1 hour**

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

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**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.

**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 **10** printed pages and **2** blank pages.



1 What will **not** appear in a statement of cash flows?

- A changes in inventory levels
- B interest payable
- C issue of bonus shares
- D purchase of plant and machinery

2 A market trader has not kept any books of account.

Which formula should be used to establish his profit or loss for the year?

- A net assets at end of year – net assets at start of year – new capital + drawings
- B net assets at end of year – net assets at start of year + new capital – drawings
- C net assets at start of year – net assets at end of year – new capital + drawings
- D net assets at start of year – net assets at end of year + new capital – drawings

3 A company transfers manufactured items from factory to warehouse at cost plus 10%. This year the transfer value was \$93 500 and at the end of the year the closing inventory was 20% of the year's production.

How will the inventory of finished goods be shown?

	trading account \$	statement of financial position \$
<b>A</b>	17 000	17 000
<b>B</b>	18 700	16 830
<b>C</b>	18 700	17 000
<b>D</b>	18 700	18 700

4 Which list contains only items that appear in the equity section of the statement of financial position?

- A share capital, retained earnings and long-term loans
- B share capital, share premium and long-term loans
- C share premium, retained earnings and debentures
- D share premium, share capital and retained earnings

- 5 A company's statement of financial position shows the following.

	\$000
\$1 ordinary shares	500
retained earnings	400
10% debentures	<u>300</u>
	<u>1 200</u>
net assets	<u>1 200</u>

A fully subscribed 1 for 4 rights issue at \$2 per share is made and 50% of the debentures are repaid at par.

What are the net assets following these changes?

- A** \$1 100 000    **B** \$1 175 000    **C** \$1 225 000    **D** \$1 300 000
- 6 When must a capital redemption reserve be set up?
- A** ordinary shares are issued at a premium  
**B** ordinary shares are redeemed without a new issue of shares  
**C** preference shares are issued at a premium  
**D** preference shares are redeemed from the proceeds of a new issue of shares
- 7 A company purchases the business of a sole trader for \$5 000 000.

The value of the assets and liabilities are shown.

	assets \$	liabilities \$
at book value	5 000 000	3 000 000
at fair value	5 300 000	3 100 000

How much did the company pay for goodwill?

- A** \$2 700 000    **B** \$2 800 000    **C** \$3 000 000    **D** \$3 100 000
- 8 What is included in the directors' report?
- A** directors' salaries  
**B** principal activities of the company  
**C** trade receivables  
**D** turnover

9 A company is carrying out an impairment review of its plant and machinery. The following information is revealed.

- 1 Original cost of plant and machinery \$50 000. Accumulated depreciation \$15 000.
- 2 Undiscounted value of future cash flows from using the machinery \$60 000. Present value of future cash flows from using the machinery \$40 000.
- 3 Sales proceeds from disposing of the plant and machinery \$48 000. Cost of disposing of the plant and machinery \$10 000.

At what value should the plant and machinery be shown in the statement of financial position?

- A** \$35 000      **B** \$38 000      **C** \$40 000      **D** \$50 000

10 A company's directors have been advised that there is a 40% chance that they will lose a legal case over the sale of faulty goods to a customer.

How should the directors treat this in the financial statements?

- A** Ignore it by not including a contingency or explaining it with a note to the financial statements.
- B** Include an amount as a contingency in the accounts but do not include a note to the financial statements.
- C** Include an amount in the accounts as a contingency and explain this by a note to the financial statements.
- D** Include a note to the financial statements, but not include an amount as a contingency.

11 An ordinary share in a company has a nominal value of \$0.50. The latest financial statements show earnings per share of \$0.10 and a price-earnings ratio of 15.

What is the market value of an ordinary share?

- A** \$0.50      **B** \$1.50      **C** \$2.00      **D** \$2.50

12 The directors of a company want to reduce the company's gearing ratio. They can take the following actions.

- 1 make a rights issue of ordinary shares
- 2 make a bonus issue of five new shares for every six currently held
- 3 transfer \$90 000 to the general reserve
- 4 repay a debenture of \$600 000

Which combination of measures will reduce the company's gearing ratio?

- A** 1, 2 and 3      **B** 1 and 2 only      **C** 1, 3 and 4      **D** 1 and 4 only

13 A business experienced the following events during the year.

- 1 an increased level of bad debts written off
- 2 an increase in the bank overdraft
- 3 an increase in inventory levels
- 4 trade payables were paid more quickly

Which combination of events would cause cash flow from operating activities to fall?

- A** 1, 2, 3 and 4  
**B** 1, 3 and 4 only  
**C** 2, 3 and 4 only  
**D** 3 and 4 only

14 A company makes a rights issue of 10 000 ordinary shares of \$1 each at a premium of \$0.50. The issue is fully subscribed.

What is the effect of this transaction on the following ratios?

	gearing	return on capital employed
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

15 Which transaction will cause an increase in shareholders' capital?

- A** disposal of a non-current asset for more than its book value  
**B** increase the provision for doubtful debts  
**C** receipt of a loan  
**D** receipt of payment from a trade receivable in cash

16 The net assets of X Limited are shown below.

	\$ million
net assets at original cost	100
net book value	50
fair value	70

Y Limited pays \$100 million cash plus \$20 million in shares for all the net assets.

Y Limited applies a ten year economic life to goodwill.

What will the annual goodwill amortisation charge be?

- A** \$2 million      **B** \$3 million      **C** \$5 million      **D** \$7 million

17 How is inventory valued under IAS2?

- A** purchase cost  
**B** purchase cost + carriage in  
**C** purchase cost + carriage in + conversion costs  
**D** purchase cost + carriage in + conversion costs + storage costs

18 A company installing a new machine has the following costs.

	\$
purchase price	200 000
delivery charges	5 000
preparing the site	35 000
training the workers	4 500
assembly and testing	8 000
advertising the new product	10 000

What is the total cost of the asset under IAS16?

- A** \$240 000      **B** \$248 000      **C** \$252 500      **D** \$262 500

- 19** A company produces a product using a single process. In a period it put 600 kilos of material into a process at a cost of \$2.50 per kilo, and conversion costs were \$348.

The normal loss is 20% with no scrap value. The output was 470 kilos. There was no opening and no closing work-in-progress.

What is the price per kilo of the normal output?

- A** \$3.08            **B** \$3.23            **C** \$3.85            **D** \$3.93

- 20** The following information relates to the sales and production of a product.

	\$
selling price per unit	8
direct material and direct labour per unit	3
production overheads at 10 000 units	40 000
production overheads at 15 000 units	55 000
other factory fixed costs	8 000

What is the break even point in units?

- A** 3600            **B** 4000            **C** 9000            **D** 11 500

- 21** A cost centre uses an overhead absorption rate of \$5 per direct labour hour based on a budgeted level of 6000 direct labour hours per month.

Last month, actual direct labour hours worked were 3% more than budget and the actual overhead incurred was \$32 000.

What was the total over or under absorption of overheads for the month?

- A** \$1100 over absorbed  
**B** \$1100 under absorbed  
**C** \$2000 over absorbed  
**D** \$2000 under absorbed

22 The following information is provided by a business.

budgeted output for the month	1000 units
actual output for the month	1150 units
direct material cost per unit	\$15
total actual direct material costs for the month	\$18 400

What was the total direct material variance for the month?

- A \$1150 adverse
- B \$1150 favourable
- C \$3400 adverse
- D \$3400 favourable

23 A company has forecast the following sales for the first three months of next year.

month	units
1	2000
2	2100
3	2400

At the start of month 1 there were 300 units of inventory. The company requires that the closing inventory at the end of each month should be equal to one third of the sales for the following month.

How many units must be produced in month 2?

- A 2000 units
- B 2200 units
- C 2400 units
- D 2900 units

24 What is a flexed budget?

- A a budget based on expected level of production
- B a budget based on past performance but updated to take account of present conditions
- C a budget that reflects changes in activity levels
- D a budget that links fixed overheads to production

25 The production of an item in March has a budgeted total cost of \$43 200 for 2400 units.

The fixed costs make up 24% of the total cost and the balance is variable.

What is the expected expenditure for March if actual production is 2200 units?

- A \$30 096
- B \$39 600
- C \$40 464
- D \$43 200



26 The following material costs relate to the manufacture of 100 units of a product.

	kilos	cost per kilo \$	total cost \$
standard	1500	5.50	–
actual	1650	–	9570

What is the material price variance?

- A \$495 adverse
- B \$495 favourable
- C \$1320 adverse
- D \$1320 favourable

27 A company uses standard costing. During an operating period there has been an adverse materials usage variance of \$15 000.

What is a valid reason for the variance?

- A Material was purchased from an alternative supplier who charged higher prices.
- B Several new, untrained, employees started during the period leading to wastage of material.
- C The company installed more efficient manufacturing machinery.
- D The company over-estimated the quantity of material to be used.

28 What will give an adverse labour rate variance?

- A Actual production was more than budget.
- B Fewer labour hours were worked than budget.
- C Wage rates were higher than budget.
- D Wage rates were lower than budget.

29 A company is considering an investment costing \$20 000.

The budgeted costs and revenues of the investment are as follows.

	year 1 \$	year 2 \$	year 3 \$
sales income	17 000	20 000	22 000
variable costs	7 000	9 000	12 000

Fixed costs are \$3000 per year.

What is the payback for the project?

- A 1 year 55 days
- B 1 year 332 days
- C 2 years 122 days
- D 2 years 261 days

30 A business changes its depreciation policy.

Which investment appraisal measure will this change affect?

- A accounting rate of return
- B discounted payback
- C internal rate of return
- D payback



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