



**ACCOUNTING**

**9706/33**

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)



**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 **13** printed pages and **3** blank pages.





- 1 A trade receivable's balance of \$720 has been set-off against the purchase ledger. It has been entered on the wrong side of the purchase ledger control account.

The purchase ledger control account had a closing balance of \$92 460 before correcting the error.

What is the correct balance on the purchase ledger control account?

- A** \$91 020      **B** \$91 740      **C** \$93 180      **D** \$93 900

- 2 A company manufactures tractors. Each tractor is sold for \$12 000, inclusive of a 50% mark-up on cost.

At the year end, costs relevant to the company's inventory were:

|                     | \$      |
|---------------------|---------|
| components, at cost | 15 000  |
| storage costs       | 5 000   |
| ten tractors        | 120 000 |

Which valuation for inventory should be included in the company's statement of financial position?

- A** \$95 000      **B** \$100 000      **C** \$135 000      **D** \$140 000

- 3 A manufacturing company's income statement shows a profit from operations of \$9000. The following errors are then discovered.

- 1 Opening inventory of finished goods has been valued at transfer price of \$12 000.
- 2 Closing inventory of finished goods has been valued at transfer price of \$6000.
- 3 Goods at transfer price have been entered in the income statement at their transfer value of \$120 000. No adjustment has been made in respect of factory profit.
- 4 The company transfers goods from the factory to finished goods at cost plus 20%.

What is the correct profit from operations?

- A** \$28 000      **B** \$29 000      **C** \$30 000      **D** \$31 000



4 The financial statements of a public limited company includes the following information.

|  | \$000 |
|--|-------|
| retained earnings at the start of the year                     | 43    |
| profit from operations   | 14    |
| ordinary dividends paid during the year                        | 5     |
| dividends on redeemable preference shares paid during the year | 2     |
| proposed final dividend on ordinary shares                     | 8     |

What is the figure for retained earnings at the end of the year?

- A \$42 000      B \$50 000      C \$52 000      D \$57 000

5 How can a company increase its liquidity?

- A by making a bonus issue  
B by making a rights issue  
C by transfers from the general reserve  
D by transfers from the share premium account

6 The statement of financial position of a company is as follows.

|                          | \$             |
|--------------------------|----------------|
| non-current assets       | 85 000         |
| bank                     | 14 000         |
| other net current assets | 24 000         |
| 8% debentures            | <u>(4 000)</u> |
|                          | <u>119 000</u> |
| ordinary share capital   | 100 000        |
| share premium            | 2 000          |
| retained earnings        | <u>17 000</u>  |
|                          | <u>119 000</u> |

The 8% debentures are redeemed at a premium of 20%.

What is the total equity balance after the redemption?

- A \$114 200      B \$115 000      C \$118 200      D \$119 000



7 \$100 000 is available for investment.

The table shows details of three businesses available for purchase.

| business | purchase price<br>\$ | estimated<br>future profits<br>\$ |
|----------|----------------------|-----------------------------------|
| 1        | 50 000               | 8 500                             |
| 2        | 70 000               | 10 500                            |
| 3        | 90 000               | 12 600                            |

Funds not used in the purchase of a business are invested at an interest rate of 13% per annum.

Which course of action will give the highest annual return?

- A investing \$100 000
- B purchasing business 1
- C purchasing business 2
- D purchasing business 3

8 A company purchases the non-current assets, inventory and trade receivables of another business. It pays more than the book value for these items. The purchase price is paid partly by a debenture. The balance is paid by the issue of ordinary shares of \$1 each at a premium of \$0.20.

Which row shows the effect of these transactions in the financial statements of the purchaser?

|   | non-current assets | working capital | equity   |
|---|--------------------|-----------------|----------|
| A | decrease           | decrease        | decrease |
| B | increase           | decrease        | increase |
| C | increase           | increase        | increase |
| D | increase           | no effect       | decrease |



- 9 A company agrees to purchase the assets and liabilities of another business.

The book value of the net assets acquired was:

|                     | \$      |
|---------------------|---------|
| non-current assets  | 140 000 |
| current assets      | 50 000  |
| current liabilities | 15 000  |

It is agreed that the fair value of the non-current assets is \$155 000 and goodwill is valued at \$20 000.

The purchase price of the business is to be settled as follows.

|              | \$     |
|--------------|--------|
| cash         | 40 000 |
| 5% debenture | 20 000 |

The balance of the purchase price is to be settled by the issue of \$1 ordinary shares at a premium of 25%.

By how much will the company's share premium account increase as a result of the purchase?

- A \$23 000      B \$30 000      C \$37 500      D \$42 000

- 10 Which is an example of an adjusting event?

- A change in interest rates
- B the insolvency of a major customer
- C the issue of loan stock
- D the purchase of a new vehicle

- 11 Which item will **not** be shown in the statement of changes in equity?

- A debenture interest paid
- B ordinary share dividends paid
- C profit for the year
- D revaluation surplus



12 A company has purchased a computer with associated costs, as follows.

|                      | \$   |
|----------------------|------|
| additional memory    | 750  |
| carriage inwards     | 250  |
| computer hardware    | 5000 |
| maintenance contract | 1200 |
| residual value       | 1000 |

Which amount should be capitalised in the statement of financial position?

- A** \$5000      **B** \$6000      **C** \$7200      **D** \$8200

13 The table shows extracts from a company's income statement for 2011 and 2012.

|               | 2011<br>\$ | 2012<br>\$ |
|---------------|------------|------------|
| sales         | 50 000     | 100 000    |
| cost of sales | 15 000     | 34 000     |

What might explain the change in the gross profit margin?

- A** a cut in unit selling price  
**B** an increase in unit sales  
**C** the loss of a major customer  
**D** use of cheaper suppliers

14 The financial statements of a company show the following.

|                          | \$m |
|--------------------------|-----|
| non-current assets       | 210 |
| non-current liabilities  | 15  |
| ordinary share capital   | 100 |
| preference share capital | 25  |
| reserves                 | 45  |

What is the gearing ratio?

- A** 10.52%      **B** 21.62%      **C** 27.58%      **D** 28.57%



15 The following information is taken from the financial statements of a company.

|   | \$        |
|---|-----------|
| profit attributable to equity holders         | 2 000 000 |
| ordinary share dividend paid                  | 200 000   |
| non-redeemable preference share dividend paid | 100 000   |
| 10% non-redeemable preference share capital   | 1 000 000 |
| ordinary shares of \$1 each                   | 5 000 000 |

What are the earnings per share for the year to the nearest cent?

- A \$0.28      B \$0.32      C \$0.34      D \$0.38

16 The information relates to a company.

|                       | \$      |
|-----------------------|---------|
| share premium account | 240 000 |
| 10% debentures        | 100 000 |
| retained earnings     | 180 000 |

The company redeems the debentures at a premium of 10%.

Which values will the statement of financial position show after this transaction?

|   | retained earnings<br>\$ | share premium account<br>\$ |
|---|-------------------------|-----------------------------|
| A | 70 000                  | 240 000                     |
| B | 80 000                  | 230 000                     |
| C | 170 000                 | 240 000                     |
| D | 180 000                 | 230 000                     |



17 The following are extracts from the statement of financial position of a company.

|                                    | \$     |
|------------------------------------|--------|
| bank                               | 8 500  |
| issued ordinary shares of \$1 each | 50 000 |
| share premium                      | 20 000 |

The company makes a bonus issue of one share for every five held.

How will this affect the following accounts?

|          | ordinary share capital | share premium | bank      |
|----------|------------------------|---------------|-----------|
| <b>A</b> | increase               | decrease      | no effect |
| <b>B</b> | increase               | increase      | increase  |
| <b>C</b> | increase               | no effect     | increase  |
| <b>D</b> | no effect              | decrease      | no effect |

18 The non-current assets of a company include a machine which has the following values.

|                 | \$     |
|-----------------|--------|
| carrying amount | 55 000 |
| fair value      | 60 000 |
| costs of sale   | 6 000  |
| value in use    | 42 000 |

Which value will be shown in the statement of financial position?

- A** \$42 000      **B** \$54 000      **C** \$55 000      **D** \$60 000

19 The data relates to two different levels of output in a department.

|               |           |           |
|---------------|-----------|-----------|
| machine hours | 16 000    | 20 000    |
| overheads     | \$214 000 | \$230 000 |

What is the amount of fixed overheads?

- A** \$16 000      **B** \$64 000      **C** \$150 000      **D** \$198 000





- 20 A company currently manufactures and sells 2000 units of a product. The following are the selling price and costs of the product.

|                         | \$   |
|-------------------------|------|
| selling price per unit  | 20   |
| variable costs per unit | 12   |
| fixed costs             | 8000 |

The company has received a request for a special order for 200 units. The customer will pay \$15 per unit. To manufacture the order the company will have to hire a machine at a cost of \$1500.

What is the profit the company will earn if it accepts the order?

- A \$7100      B \$8000      C \$8600      D \$9500
- 21 A company has no work in progress at the start of the month.

During the month, 4000 completed units were produced. At the end of the month, there was work in progress of 400 units.

The following information is available.

|                      | total cost<br>\$ | percentage completion<br>of work in progress |
|----------------------|------------------|--|
| materials and labour | 8640             | 80%  |
| overheads            | 6360             | 60%  |

What is the total value of work in progress at the end of the month?

- A \$1000      B \$1073      C \$1363      D \$1500



- 22 A business has an opening bank balance of \$10 000 and makes the following forecasts for the next three months.

|                                    | per month<br>\$ |
|------------------------------------|-----------------|
| credit sales                       | 2000            |
| cash sales                         | 5000            |
| expenses                           | 1000            |
| depreciation of non-current assets | 1000            |

Credit customers pay in the month following the sale. Expenses are paid one month in arrears.

Which row shows the forecast net profit for the three months and the closing bank balance at the end of month 3?

|          | forecast<br>net profit<br>\$ | closing<br>bank balance<br>\$ |
|----------|------------------------------|-------------------------------|
| <b>A</b> | 15 000                       | 24 000                        |
| <b>B</b> | 15 000                       | 27 000                        |
| <b>C</b> | 18 000                       | 17 000                        |
| <b>D</b> | 18 000                       | 27 000                        |

- 23 A company adjusts its budget to take account of changes in costs as a result of changes in the level of activity.

Which type of budget is the company using?

- A** fixed budget
- B** flexed budget
- C** incremental budget
- D** zero based budget



24 A business is preparing its budget. The following information is available for month 1.

|                                       |              |
|---------------------------------------|--------------|
| budgeted sales                        | 10 800 units |
| opening inventory                     | 2 000 units  |
| budgeted closing inventory            | 1 080 units  |
| normal loss in the production process | 5%           |

What is the budgeted production for month 1?

- A** 9880 units      **B** 10374 units      **C** 10400 units      **D** 11720 units

25 The cost of sales for a business comprises direct materials and direct labour. At the end of a trading period the following variances are calculated.

|                                   | \$             |
|-----------------------------------|----------------|
| direct materials price variance   | 800 adverse    |
| direct materials usage variance   | 700 favourable |
| direct labour rate variance       | 650 favourable |
| direct labour efficiency variance | 750 adverse    |

If the actual cost of sales was \$12 220, what is the standard cost of sales?

- A** \$12 020      **B** \$12 120      **C** \$12 320      **D** \$12 420

26 Which formula would be used to calculate the labour efficiency variance?

- A** (actual hours less standard hours) × standard rate  
**B** (actual rate less standard rate) × actual hours  
**C** (standard hours less actual hours) × standard rate  
**D** (standard rate less actual rate) × actual hours

27 A company uses standard costing. During an operating period there has been a favourable material usage variance of \$20 000.

What is a valid reason for this variance?

- A** the actual cost of material purchased decreased  
**B** the actual cost of material purchased increased  
**C** the company used less material per unit than budgeted  
**D** the company used more material per unit than budgeted



28 The figures for the budgeted and actual sales per unit are as follows.

|               | budget | actual |
|---------------|--------|--------|
| selling price | \$38   | \$40   |
| units sold    | 9500   | 9000   |

Which row shows the sales price and sales volume variances?

|          | sales price variance<br>\$ | sales volume variance<br>\$ |
|----------|----------------------------|-----------------------------|
| <b>A</b> | 18 000 adverse             | 19 000 adverse              |
| <b>B</b> | 18 000 adverse             | 19 000 favourable           |
| <b>C</b> | 18 000 favourable          | 19 000 adverse              |
| <b>D</b> | 18 000 favourable          | 19 000 favourable           |

29 Which statements about investment appraisal are correct?

- 1 The internal rate of return is the discount rate that gives a positive net present value of a project.
- 2 The accounting rate of return takes interest rates into account.

|          | 1     | 2     |
|----------|-------|-------|
| <b>A</b> | false | false |
| <b>B</b> | false | true  |
| <b>C</b> | true  | false |
| <b>D</b> | true  | true  |



30 Discounted cash flow has been used to evaluate an investment project over a three year life. The project will produce annual net cash inflows of \$2 m.

\$500 000 of the initial investment can be recovered at the end of the third year.

Discount factors at 10% are as follows.

| year  | discount factor |
|-------|-----------------|
| 1     | 0.91            |
| 2     | 0.83            |
| 3     | 0.75            |
| Total | 2.49            |

What is the present value of project cash inflows correct to two decimal places?

- A** \$4.98 m      **B** \$5.36 m      **C** \$5.48 m      **D** \$6.38 m







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