



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

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**ACCOUNTING**

**9706/03**

Paper 3 Multiple Choice

**May/June 2009**

**1 hour**

Additional Materials:      Multiple Choice Answer Key  
   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.

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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This document consists of **10** printed pages and **2** blank pages.



- 1 When partners change, what is the main reason for taking goodwill into account?
- A** to benefit the existing partners  
**B** to ensure fairness between the existing and incoming partners  
**C** to record the value of goodwill  
**D** to safeguard the rights of incoming partners
- 2 X and Y are in partnership sharing profits equally. They each have capital accounts with credit balances of \$40 000.

They admit Z into the partnership and profits are still shared equally and goodwill is valued at \$48 000. No goodwill account is to appear in the books.

Z introduces \$30 000 cash.

At the same date X takes a business car valued at \$10 000, for personal use.

What are the balances on the capital accounts after the above transactions have taken place?

|          | X \$000 | Y \$000 | Z \$000 |
|----------|---------|---------|---------|
| <b>A</b> | 24      | 24      | (16)    |
| <b>B</b> | 38      | 48      | 14      |
| <b>C</b> | 48      | 48      | 14      |
| <b>D</b> | 64      | 64      | 30      |

- 3 What may a capital redemption reserve fund (CRRF) be used for?
- A** a bonus issue of shares  
**B** a bonus issue and writing off company formation expenses  
**C** providing a premium on the redemption of shares  
**D** writing off a debenture discount
- 4 A company has in issue 200 000 redeemable preference shares of \$1 each. These were issued many years ago at a premium of 8%.

It now proposes to redeem all the preference shares at a premium of 10%, partly financed by a cash issue of 50 000 new ordinary shares of \$2 each, at a price of \$3.50.

How much will the transfer to the capital redemption reserve fund (CRRF) be?

- A** \$25 000      **B** \$45 000      **C** \$100 000      **D** \$150 000

- 5 A company had previously issued \$600 000 convertible loan stock. As interest rates have declined since the issue, it now proposes to convert this stock into ordinary shares but must ensure that the value of the shares (after conversion) is market related.

The following is an extract of the company balance sheet at the date of the proposed conversion.

|                                   | \$ 000   |
|-----------------------------------|----------|
| ordinary share capital (\$1 each) | 1 500    |
| profit and loss account           | (210) dr |
| liabilities (excluding loan)      | 810      |
| assets                            | 2 700    |

What is the value of each ordinary share after conversion, on a net assets basis, assuming that every \$1 of loan stock receives a \$1 ordinary share?

- A** \$0.80      **B** \$0.90      **C** \$1.00      **D** \$1.26

- 6 The table shows an extract from the balance sheet of a business.

|                                   | \$ 000     |
|-----------------------------------|------------|
| intangible fixed asset : goodwill | 20         |
| tangible fixed assets             | 162        |
| net current assets                | <u>58</u>  |
|                                   | <u>240</u> |

A company offers to buy the tangible fixed and net current assets for an agreed price of \$200 000. It brings the assets into its books at the original book values.

What will appear in the company's balance sheet after the acquisition?

- A** Capital Reserve \$20 000  
**B** Capital Reserve \$40 000  
**C** Goodwill \$20 000  
**D** Goodwill \$40 000

- 7 The table shows the fair value of assets and liabilities for a business.

|              | \$ 000 |
|--------------|--------|
| creditors    | 40     |
| debtors      | 15     |
| fixed assets | 45     |
| stocks       | 15     |

The existing book value of goodwill is \$15 000. The net assets are bought for \$55 000.

Which goodwill figure will be shown in the purchaser's balance sheet?

- A** \$nil                      **B** \$5000                      **C** \$15 000                      **D** \$20 000

- 8 Plant and machinery is included as part of a company's fixed assets.

It decides to revalue its plant and machinery and finds that some is worth more and some worth less than the values on the balance sheet.

As a result of the decision, which statement is true?

- A** It only needs to revalue plant and machinery which has lost value.  
**B** It only needs to revalue plant and machinery which has gained value.  
**C** It must revalue all plant and machinery.  
**D** It must revalue all its fixed assets in the balance sheet.

- 9 A company has issued a debenture loan carrying interest at the rate of 8 % payable every 31 December.

Each 31 December \$20 000 of the debenture is redeemed.

At 1 January 2008 the total debenture loan outstanding was \$100 000.

At 31 December 2008 which amounts should be disclosed in the company's balance sheet?

|          | accrued interest<br>\$ | current liabilities<br>\$ | long term loan<br>\$ |
|----------|------------------------|---------------------------|----------------------|
| <b>A</b> | nil                    | 20 000                    | 60 000               |
| <b>B</b> | nil                    | 20 000                    | 80 000               |
| <b>C</b> | 6 400                  | nil                       | 80 000               |
| <b>D</b> | 8 000                  | 20 000                    | 80 000               |

- 10 X purchased the business of Y whose net tangible assets totalled \$400 000. Negative goodwill amounted to \$20 000.

The purchase price was settled by the issue of 200 000 ordinary shares of \$1.00 each.

What will be the entry in the business's share premium account?

- A credit \$180 000
  - B debit \$180 000
  - C credit \$200 000
  - D debit \$200 000
- 11 Which profit figure is used in the calculation of earnings per share?
- A accumulated profits
  - B net profit after interest
  - C net profit after interest and ordinary dividends
  - D operating profit
- 12 The table shows information provided by a company.

|                                 | \$ 000 |
|---------------------------------|--------|
| sales for the year              | 500    |
| purchases for the year, at cost | 450    |
| closing stock, at selling price | 50     |

There was no opening stock.

What was the gross profit for the year?

- A \$80 000
  - B \$90 000
  - C \$90 909
  - D \$110 000
- 13 When is revenue recognised?
- A when goods are delivered and title has passed
  - B when goods for sale are purchased less cash discount
  - C when goods sold on credit are paid for
  - D when the cost of goods sold has been determined

- 14** A company issues a debenture of \$1 000 000.  
It will be repayable in full in 5 years' time.  
Interest for years 1 and 2 will be at the rate of 10 % per annum, and for years 3, 4 and 5 it will be 12 % per annum.

What will be the charge for interest shown in its profit and loss account each year?

- A** \$100 000 in each year  
**B** \$100 000 in years 1 and 2, and \$120 000 in years 3, 4 and 5  
**C** \$112 000 in each year  
**D** \$120 000 in each year
- 15** The table shows information from the balance sheets of two companies, X and Y.

|                         | X<br>\$000 | Y<br>\$000 |
|-------------------------|------------|------------|
| ordinary shares         | 800        | 900        |
| 10 % debentures         | 600        | 150        |
| profit and loss account | 300        | 650        |

Which providers of finance would experience the greatest degree of risk in times of falling profits?

- A** debenture holders of company X  
**B** debenture holders of company Y  
**C** ordinary shareholders of company X  
**D** ordinary shareholders of company Y
- 16** What is treated as part of the cost of production in process costing?
- A** abnormal gain  
**B** abnormal loss  
**C** exceptional loss on sale of scrap  
**D** normal loss
- 17** A business started and finished work on 10 000 units in a month. It also had 20 000 units at the end of the month that are 20 % complete.

How many finished units is the production equal to?

- A** 10 000      **B** 14 000      **C** 26 000      **D** 30 000

18 The following information relates to the budgeted and actual sales of a product.

|                       | budget   | actual   |
|-----------------------|----------|----------|
| sales volume in units | 20 000   | 18 000   |
| contribution per unit | \$2      | \$3      |
| fixed costs           | \$20 000 | \$20 000 |

What change in the break-even point has been caused by actual being different from budget?

- A  $33\frac{1}{3}\%$  favourable
- B  $33\frac{1}{3}\%$  adverse
- C  $66\frac{2}{3}\%$  favourable
- D  $66\frac{2}{3}\%$  adverse

19 When should a manufacturing company purchase its products from an outside supplier?

When the purchase price is less than

- A the selling price but more than the total cost.
- B the marginal cost of production.
- C the marginal cost of sales but more than the marginal cost of production.
- D the total cost but more than the marginal cost of sales.

20 A company has creditors of \$80 000 and the payment period is 30 days.

The company's budget for the coming year provides for an increase in creditors of 50 % and the payment period taken will increase to 60 days.

What will be the budgeted creditors' total at the end of next year?

- A \$120 000
- B \$160 000
- C \$240 000
- D \$320 000

21 What is the main benefit to an organisation of setting fixed budgets?

- A There is no need to communicate the objectives of the organisation to employees.
- B They are tools to promote good employee motivation, if set at an achievable level of activity.
- C They enable management to take effective action based on variances from the original budgeted level of activity.
- D They may be imposed on employees which might demotivate them.

22 What is the purpose of preparing flexible budgets?

- A to calculate the budgeted net cash flow
- B to communicate details of budgetary policy
- C to identify the principal budgetary factor
- D to remove the effects of changes in volume

23 The following budgeted information is supplied.

|                                       |            |
|---------------------------------------|------------|
| selling price per unit                | \$120      |
| total costs per unit                  | \$80       |
| variable costs are 30% of total costs |            |
| budgeted sales for the period         | 1000 units |

What are the total budgeted fixed overheads for the period?

- A \$24 000      B \$36 000      C \$40 000      D \$56 000

24 The following data relates to the production of a product.

|                                     |       |
|-------------------------------------|-------|
| standard kilos of material per unit | 10 kg |
| standard cost per kilo              | \$11  |

During the month 680 units were produced requiring the following.

|                               |          |
|-------------------------------|----------|
| actual total cost of material | \$67 626 |
| actual quantity of material   | 6120 kg  |

What was the material price variance?

- A \$306 adverse
- B \$306 favourable
- C \$7174 adverse
- D \$7174 favourable

- 25 The table shows the standard cost data relating to a product passing through two production cost centres.

|                             | cost centre X | cost centre Y |
|-----------------------------|---------------|---------------|
| standard time in department | 3 hours       | 5 hours       |
| standard machine hours      | 200 000       | –             |
| standard labour hours       | –             | 300 000       |
| standard overheads          | \$1 000 000   | \$1 200 000   |

The standard prime cost is \$30. Production overheads are absorbed on the basis of machine hours or labour hours as appropriate.

What is the standard factory cost of the product?

- A \$39                      B \$49                      C \$55                      D \$65
- 26 Last period a company worked 35 000 labour hours at a standard cost of \$13 per hour. The labour efficiency variance was \$65 000 adverse.

How many standard hours were produced?

- A 5000                      B 30 000                      C 35 000                      D 40 000
- 27 A product contains 1 kg of material. The material cost \$8 per kg in the past and will cost \$10 per kg in the future. To produce one unit a worker begins with 1.5 kg of material. Scrap is sold for \$2 per kg.

What is the new amount to be shown for materials on the standard cost card?

- A \$11                      B \$13                      C \$14                      D \$15
- 28 A company is considering investing in a new machine involving a capital outlay of \$50 000. This will save \$30 000 per annum in operating costs over the next three years. The machine has no scrap value.

Using the following discount factors, what is the net present value of the proposed investment?

| year | discount factor |
|------|-----------------|
| 0    | 1.000           |
| 1    | 0.909           |
| 2    | 0.826           |
| 3    | 0.751           |

- A \$(25 410)                      B \$24 580                      C \$31 810                      D \$40 000

- 29 Which statement is true about the net present value (NPV) method of investment appraisal?
- A** A distinction is made between capital and revenue expenditure and income.
- B** Depreciation of capital expenditure is taken into account.
- C** The amount and timing of the expected net proceeds from the proposed investment are taken into account.
- D** The payback period of the proposed investment is calculated.
- 30 A company is restricted to \$10m which is available for capital investment. Five acceptable non-mutually exclusive projects have been identified.

| project | investment costs<br>\$ m | present value<br>\$ m | net present value<br>\$ m |
|---------|--------------------------|-----------------------|---------------------------|
| V       | 3.0                      | 4.2                   | 1.2                       |
| W       | 5.0                      | 6.0                   | 1.0                       |
| X       | 2.0                      | 2.6                   | 0.6                       |
| Y       | 5.0                      | 7.5                   | 2.5                       |
| Z       | 2.0                      | 3.2                   | 1.2                       |

Which combination of projects should be accepted?

- A** V, W and X    **B** W and Y    **C** V, W and Z    **D** V, Y and Z



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