

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Subsidiary Level  
and Advanced Level

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

October/November 2004

**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.

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 The accounts of a business show:

1	payments to suppliers
2	prepaid expenses
3	purchases
4	purchases returns

Which items will be debited to accounts in the purchases ledger?

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

2 X Ltd rents its building to Y Ltd.

At 31 December 2002, Y Ltd owed \$4500 for rent, but at 31 December 2003 had paid \$3200 in advance. During the year X Ltd had received \$17 100 in rental from Y Ltd.

What is the rental income to be shown in X Ltd's Profit and Loss Account for the year ended 31 December 2003?

- A** \$9400      **B** \$15 800      **C** \$18 400      **D** \$24 800

3 From which of the following do revenue reserves arise?

- A** the issue of new shares by a company  
**B** the revaluation of fixed assets  
**C** the share premium received on shares issued by the company  
**D** the trading activities of a company

4 A. Spender owns a road haulage business.

What would be classified as capital expenditure?

- A** purchase of number plates for new lorries  
**B** purchase of replacement fuel pump for lorries  
**C** purchase of replacement tyres for lorries  
**D** purchase of road tax licence

- 5 A company has the following balances.

	\$
trade debtors at 31 December 2003	125 400
provision for doubtful debts at 1 January 2003	1 800

During the year ended 31 December 2003 bad debts of \$20 500 were written off. The company provides for 5% of trade debtors at each year end.

What is the doubtful debts expense for the year ended 31 December 2003?

- A** \$3445      **B** \$4470      **C** \$5245      **D** \$6270
- 6 Of which concept is the writing off of a bad debt an example?
- A** going concern  
**B** matching  
**C** prudence  
**D** substance over form
- 7 A company purchases machinery on hire purchase over four years but does not own the machinery until the final payment has been made.

At the end of year 1 the company shows the machinery in its Balance Sheet as a fixed asset and also records the liability for the amount still owed.

Which accounting principle is being applied?

- A** consistency  
**B** materiality  
**C** prudence  
**D** substance over form
- 8 The table shows details relating to a company's banking transactions at 31 December.

	\$
balance at bank per bank statement	22 650
uncleared lodgements	3 110
unpresented cheques	6 290
bank credit recorded twice by bank in error	650

Which balance for cash at bank should appear in the Balance Sheet at 31 December?

- A** \$18 820      **B** \$20 120      **C** \$25 180      **D** \$26 480

- 9 A company's trial balance includes a Suspense account. It was found that the only errors were discounts received of \$240 and discounts allowed of \$312, which had both been entered on the incorrect sides of the respective ledger accounts.

What is the double entry required to clear the Suspense account balance?

	account	DR \$	CR \$
<b>A</b>	Discounts Allowed Discounts Received Suspense	312	240 72
<b>B</b>	Discounts Received Suspense Discounts Allowed	240 72	312
<b>C</b>	Discounts Allowed Discounts Received Suspense	624	480 144
<b>D</b>	Discounts Received Suspense Discounts Allowed	480 144	624

- 10 X, Y and Z are in partnership, sharing profits in the ratio 2 : 2 : 1. X is allowed an annual salary of \$10 000. Y has made a loan to the partnership on which the partnership pays interest of \$5000 each year. Profit for the year before appropriations is \$150 000.

What is Z's total appropriation of profit for the year?

- A** \$27 000      **B** \$28 000      **C** \$29 000      **D** \$30 000

- 11 In the absence of a partnership agreement the partners claim that they are:

1	entitled to interest on the capitals at the rate of 5 % per annum
2	entitled to interest on loans to the firm at 5 % per annum
3	entitled to interest on loans to the firm at 10 % per annum
4	not entitled to interest on capitals
5	not entitled to interest on loans to the firm

Which claims are correct?

- A** 1 and 2      **B** 2 and 4      **C** 3 and 4      **D** 4 and 5

- 12 Interest charged on a Partner's Drawings account should be
- A debited to the Profit and Loss Account.
  - B credited to the Profit and Loss Account.
  - C debited to the Appropriation Account.
  - D credited to the Appropriation Account.
- 13 In a period of rising prices, a company has valued its stock of goods using the Last In, First Out (LIFO) basis. The directors have decided that the stock should be valued using the First In, First Out (FIFO) basis.

What is the effect of the change in the valuation of the stock on the gross and net profits of the company?

	gross profit	net profit
<b>A</b>	decrease	no effect
<b>B</b>	decrease	decrease
<b>C</b>	increase	no effect
<b>D</b>	increase	increase

- 14 A company sells goods on sale or return at a mark up of 25%.

At the Balance Sheet date the following information is available.

goods in warehouse	\$300 000 (cost)
goods sent on sale or return	\$200 000 (at invoice price)

What will be the value of closing stock in the company accounts?

- A** \$300 000      **B** \$450 000      **C** \$460 000      **D** \$500 000
- 15 A and B are in partnership, sharing profits and losses equally. A's capital account is \$6000 and B's capital account is \$5000. Goodwill is valued at \$12 000, but is not shown in the accounts. They agree to admit Z as a new partner and to share profits and losses equally.

What is A's new capital account balance?

- A** \$4000      **B** \$8000      **C** \$10 000      **D** \$12 000

16 You are given the following information on 31 December 2003 by X, a sole trader.

	\$
total purchases for year	95 000
returns inwards	3 000
returns outwards	2 000
stock withdrawn by X for personal use	5 000

Unsold stock on 31 December 2003 was valued at \$1000 more than on 1 January 2003.

What is the cost of sales?

- A** \$86 000      **B** \$87 000      **C** \$89 000      **D** \$97 000

17 A company's Balance Sheet includes the following extract:

	\$
Authorised share capital	10 000 000
Issued share capital:	
2 million ordinary shares of \$1 each	2 000 000
Reserves:	
Share premium	2 000 000
General reserve	400 000
Profit and Loss	1 000 000

What is the maximum number of bonus shares that may legally be issued?

- A** 1 400 000      **B** 2 400 000      **C** 3 000 000      **D** 3 400 000

18 What will result in an increase in cash funds to a business?

- A** bonus issue of shares  
**B** increase in authorised share capital  
**C** revaluation of fixed assets  
**D** rights issue of shares

19 A company's Balance Sheet shows the following balances:

	\$
ordinary shares of \$1 each	100 000
share premium	10 000
Profit and Loss	48 000
bank balance	50 000

A 1 for 4 bonus issue takes place, leaving the reserves in the most useful form.

What are the new account balances?

	Share Premium \$	Profit and Loss balance \$	Bank \$
<b>A</b>		33 000	50 000
<b>B</b>		33 000	75 000
<b>C</b>	10 000	23 000	50 000
<b>D</b>	10 000	23 000	75 000

20 A business calculated that its quick (acid test) ratio is lower this year than last year.

What caused the reduction in the ratio?

- A** an increase in creditors
- B** an increase in stock
- C** an increase in debtors
- D** an increase in bank

21 The gross profit ratio of a business has increased.

Which statement is correct?

- A** purchases have been obtained at reduced cost
- B** sales have increased
- C** sales returns have decreased
- D** stocks have decreased

22 Which gives the return on capital employed?

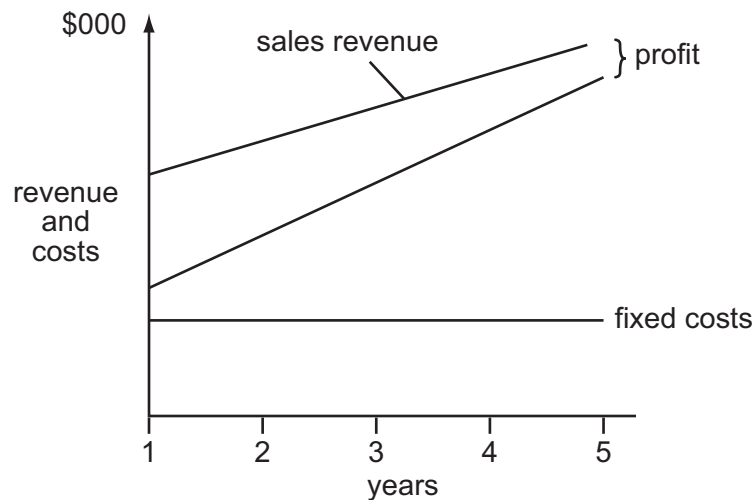
- A  $\frac{\text{net profit}}{\text{sales}} \times \frac{\text{capital employed}}{\text{sales}} \times 100$
- B  $\frac{\text{net profit}}{\text{sales}} \times \frac{\text{sales}}{\text{capital employed}} \times 100$
- C  $\frac{\text{sales}}{\text{net profit}} \times \frac{\text{capital employed}}{\text{sales}} \times 100$
- D  $\frac{\text{sales}}{\text{net profit}} \times \frac{\text{sales}}{\text{capital employed}} \times 100$

23 The debtor collection period of a business has increased from 55 to 90 days.

Which reason could **not** account for this?

- A a large bad debt written off
- B a large credit sale made just before the year end
- C a major customer in financial difficulty
- D poor credit control

24 What does the diagram show about costs?



- A fixed costs are increasing
- B total costs as a % of sales are decreasing
- C variable costs per unit are decreasing
- D variable costs per unit are increasing



25 The following information relates to a unit of production.

	\$
selling price	12
direct labour	3
direct materials	1
fixed overhead allocation	5

Variable costs are set to increase by 10%.

What is the new contribution per unit?

- A** \$2.10      **B** \$2.60      **C** \$7.60      **D** \$7.70

26 A business produces a single product.

	number of units
opening stock	5 000
production	15 000
closing stock	2 000

The variable production cost per unit is \$10 and the fixed production cost is \$60 000. The sales revenue is \$360 000.

Profit is \$108 000 based on full absorption costing.

What is the profit based on marginal costing?

- A** \$8000 higher  
**B** \$8000 lower  
**C** \$12 000 higher  
**D** \$12 000 lower

27 You are given the following information concerning a product.

	\$ per unit
selling price	10.00
variable labour costs	3.50
raw material costs	2.50
break-even point	2500 units

What is the total fixed cost?

- A** \$10 000      **B** \$15 000      **C** \$16 250      **D** \$18 750

28 What is a direct expense for a printing business?

- A** depreciation of printing machinery  
**B** paper used in the printing process  
**C** rent and rates of the factory premises  
**D** the capital cost of printing machinery

29 A business uses absorption costing.

Which cost is used to value finished stock?

- A** full cost  
**B** prime cost  
**C** variable cost of production  
**D** variable cost of sales

30 The following relate to a factory.

1	carriage inwards
2	depreciation of factory machinery
3	machine operators wages
4	insurance of machinery
5	royalties on production

Which items make up factory overhead?

- A** 1 and 2      **B** 2 and 3      **C** 2 and 4      **D** 4 and 5



