
ACCOUNTING

9706/01

Paper 1 Multiple Choice

For Examination from 2016

SPECIMEN PAPER

1 hour

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

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on the Answer Sheet in the spaces provided unless this has been done for you.

Write in soft pencil.

Do not use staples, paper clips, glue or correction fluid.

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**.

You may use a calculator.

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.

This document consists of **10** printed pages.

- 1 A business has a good reputation. The owner wishes to include goodwill in the financial statements. An accountant advises against it.

Which accounting principle is the accountant applying?

- A business entity
- B going concern
- C matching
- D prudence

- 2 A trader made four transactions.

- 1 paid for repairs to manufacturing equipment
- 2 purchased an item to be used by the business for more than 12 months
- 3 took goods for resale for his own use
- 4 transferred his own vehicle to the business

Which items are capital expenditure?

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

- 3 A non-current asset costs \$250 000 and has a useful economic life of 25 years. The estimated residual value is \$10 000.

Depreciation is provided on a straight line basis.

After 10 years the asset is sold for \$120 000. Disposal costs of \$20 000 are incurred.

What is the loss on disposal?

- A \$30 000 B \$34 000 C \$50 000 D \$54 000

- 4 A vehicle was part exchanged for a new vehicle.

Which entries record the part exchange?

	account debited	account credited
A	cash	motor vehicles
B	disposal	motor vehicles
C	motor vehicles	cash
D	motor vehicles	disposal

- 5 Alfredo received his bank statement which showed a balance of \$937 overdrawn. This did not agree with his cash book.

On investigation he noted the following.

Bank charges of \$76 had not been entered in the cash book.

There was an un-presented cheque paid to suppliers of \$214.

Alfredo had recorded \$35 cash paid into his bank account, but this was not showing on the statement.

At which value was the bank overdraft shown in the statement of financial position?

- A** \$758 **B** \$937 **C** \$1116 **D** \$1192

- 6 On 1 January 2012 a business had prepaid rent of \$50. During 2012, it made three rent payments of \$250 each. On 31 December 2012, the business owed \$200 rent for 2012.

The business owner only charged the rent payments made during 2012 in the income statement.

What is the effect on profit for the year?

- A** \$200 overstated
B \$200 understated
C \$250 overstated
D \$250 understated

- 7 Which statement is correct?

- A** All reserves are created by a transfer from retained earnings.
B Revaluation reserves appear in the non-current assets section of the statement of financial position.
C Some reserves are treated as current liabilities at the financial year end.
D Total reserves form part of shareholders' equity.

- 8 An item can be converted easily into cash.

In which section of the statement of financial position would this item appear?

- A** capital
B current assets
C current liabilities
D non-current assets

- 9 The purchases ledger control account has a closing balance of \$15 300. Discounts received of \$600 have been entered on the wrong side of the control account.

What is the corrected balance?

- A** \$14 100 **B** \$14 700 **C** \$15 900 **D** \$16 500
- 10 Which item appears in a company's income statement?
- A** dividends
B inventory
C trade payables
D transfer to reserves
- 11 In which account should a partner's drawings appear in the partnership's end-of-year financial statements?
- A** appropriation account
B income statement
C partner's capital account
D partner's current account
- 12 X and Y are in partnership. Their income statement and appropriation account shows the following.

	\$
depreciation of non-current assets	5 000
interest on loan from Y	600
interest on capital	2 400
interest charged on drawings	900
partners' salaries	5 000
remaining profit	12 000

What is the profit for the year before any appropriations?

- A** \$18 500 **B** \$19 100 **C** \$20 300 **D** \$25 900

- 13 X and Y are in partnership with combined capital and current account balances of \$125 000.

Z is admitted as a partner, introducing capital of \$40 000. At that time, the assets of the partnership are revalued upwards by \$50 000 and goodwill was valued at \$18 000. Goodwill was not to remain in the books of account.

What was the total capital employed of the partnership immediately after the admission of Z?

- A \$183 000 B \$197 000 C \$215 000 D \$233 000

- 14 A business sells goods at a uniform gross profit margin of 30%. The following information is available.

	\$
revenue	62 000
opening inventory	10 000
purchases	45 000

What is the value of closing inventory?

- A \$10 000 B \$11 600 C \$16 500 D \$18 600

- 15 X, Y and Z are in partnership and they have the following assets and liabilities.

	\$
property	400 000
fixtures and fittings	350 000
closing inventory	25 000
trade receivables	45 000
bank overdraft	22 000

The partnership was dissolved on the following terms.

X took the property and half the fixtures and fittings at a valuation of \$560 000.

The remaining fixtures and fittings and the entire inventory were sold for \$140 000.

The trade receivables paid in full with the exception of one debt of \$4700.

The total cost of dissolution was \$2500.

What was the loss on dissolution of the partnership?

- A \$57 700 B \$60 200 C \$77 500 D \$82 200

16 A company made a rights issue of shares.

Where is this recorded?

- A Income statement and Statement of financial position
- B Income statement only
- C Statement of changes in equity and Statement of financial position
- D Statement of financial position only

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

	\$
share capital ordinary shares of \$10 each	100 000
general reserve	60 000
retained earnings	210 000

The following transactions then take place.

- 1 The company pays a dividend of \$70 000.
- 2 The company makes a bonus issue of 5000 ordinary shares.
- 3 The company issues a debenture of \$120 000.

What will be the total of share capital and reserves after these transactions are completed?

- A \$250 000 B \$300 000 C \$350 000 D \$420 000

18 Which items will be shown in the statement of changes in equity?

- 1 dividends proposed
- 2 interest paid on debentures
- 3 issues of share capital
- 4 transfers to reserves

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

19 A company made a bonus issue of ordinary shares.

How was this recorded in its books of account?

	account debited	account credited
A	bank	share capital
B	retained earnings	share capital
C	share capital	bank
D	share capital	retained earnings

20 Which ratio measures a business's average credit period?

- A** current ratio
- B** inventory turnover
- C** liquid (acid test) ratio
- D** trade receivables turnover

21 A company has the following year end information.

	\$000
credit purchases	320
credit sales	800
total purchases	440
total sales	900
trade payables	40
trade receivables	160

How long does the company take to pay its trade suppliers (rounded to the nearest day)?

- A** 34 days **B** 46 days **C** 65 days **D** 73 days

22 A company wishes to improve its current ratio and its liquid (acid test) ratio.

How can this be done?

- A** increasing discounts to trade receivables
- B** increasing the provision for doubtful debts
- C** purchasing additional inventory on credit
- D** selling non-current assets

23 A company commences business on 1 April. It buys the following units of inventory.

date	quantity	unit cost
1 April	200	\$250
1 September	400	\$200
1 December	200	\$300

During the year, it sells 500 units at \$550 each.

What is the gross profit for the year using the FIFO method of inventory valuation?

- A** \$85 000 **B** \$155 000 **C** \$156 250 **D** \$165 000

24 A company is reviewing its costs.

It discovers the following in respect of its factory supervision expenses.

output in units	cost per unit/\$
8 000	8.00
10 000	6.40

Which type of cost is this an example of?

- A** fixed cost
B semi-variable cost
C stepped fixed cost
D variable cost

25 Which statement is correct?

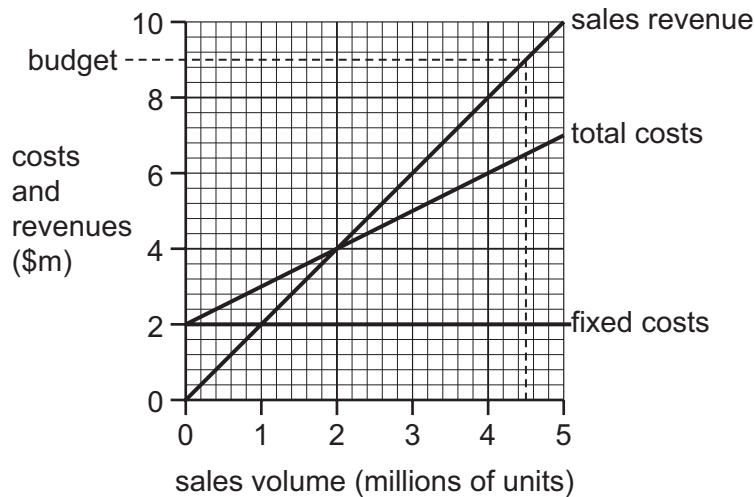
- A** Fixed costs per unit decrease as production increases.
B Total fixed costs decrease as production increases.
C Total variable costs decrease as production increases.
D Variable costs per unit decrease as production increases.

26 Which statements about absorption costing are correct?

- 1 It apportions overheads between production and service departments.
- 2 It enables a company to know its break-even level of production.
- 3 It leads to higher inventory valuations than marginal costing.
- 4 It is used by management for make or buy decisions.

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

27 An accountant prepared the following break-even chart.



The budgeted sales volume is 4.5 million units.

Which profit can be anticipated at this level?

- A** \$2.5 million **B** \$4.5 million **C** \$7 million **D** \$9 million

28 Which statement best describes job costing?

- A** a costing method that calculates the cost of meeting a specific customer order
B a costing method that calculates the cost of producing a number of identical units for a customer
C a costing method that enables overheads to be absorbed into the cost of the product
D a costing method that separates fixed costs from variable costs

29 The following data applies to a business.

budgeted labour hours	10 000
actual labour hours	9 500
budgeted overheads	\$150 000
actual overheads	\$160 000

What is the amount of overhead over or under absorbed?

- A** \$10 000 over
B \$10 000 under
C \$17 500 over
D \$17 500 under

30 Which objectives are achieved by the introduction of a budgetary control system?

- 1 co-ordinating of the business's activities
- 2 encouraging communications between departments
- 3 ensuring wage rises do not occur

A 1 and 2 only

B 1 and 3 only

C 1, 2 and 3

D 2 and 3 only

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