



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

ACCOUNTING

Paper 1 Multiple Choice

9706/01

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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 A vehicle cost \$30 000. The vehicle was later sold for \$9000 and the profit on disposal was \$1500.

What was the accumulated depreciation of the vehicle on disposal?

- A** \$7500 **B** \$9000 **C** \$21 000 **D** \$22 500

- 2 A transport business owned by a sole proprietor purchases a motor vehicle. This is charged to the Motor expenses account.

What are the effects of this on the end-of-year balance sheet?

- A** fixed assets understated current assets understated
B fixed assets overstated current assets overstated
C fixed assets overstated capital account overstated
D fixed assets understated capital account understated

- 3 A business buys a computer for \$2200 on 1 January 2007. The computer will be used for four years, after which time it will be sold for \$280. The business uses the straight-line method of depreciation.

What is the depreciation charge for the year ended 31 December 2008?

- A** \$480 **B** \$550 **C** \$960 **D** \$1100

- 4 The following information is taken from the stationery account of a business.

	\$
stock of stationery at beginning of the year	600
cash paid for stationery during the year	7000
amount owing for stationery at end of year	480
stock of stationery at end of year	800

How much should be debited to the profit and loss account for stationery?

- A** \$6680 **B** \$6800 **C** \$7280 **D** \$8080

- 5 Development costs are capitalised.

Which accounting principle is being applied?

- A** business entity
B historic cost
C matching
D materiality

- 6 The table shows information from a business at 30 November 2008.

	\$
Credit sales invoiced during financial year	80 000
Goods despatched to customers in November 2008 and invoiced in December 2008	5 000
Goods included in sales for November 2008 on a sale or return basis, but only sold in December 2008	
– at invoice price	10 000
– at cost price	8 000

Which amount will appear in the trading account as sales for the year ended 30 November 2008?

- A** \$75 000 **B** \$77 000 **C** \$83 000 **D** \$85 000
- 7 In preparing the profit and loss account, only realised profits and not anticipated profits must be brought into account. In addition, all possible losses must also be taken into account.

Which accounting principle does this describe?

- A** accruals
B consistency
C going concern
D prudence
- 8 Entries of \$700 in the discount received account had not been entered in the creditors' ledger. During the year a machine was sold for \$1000. There was only one entry made and it was a credit in the bank account.

What is the balance on the suspense account?

- A** \$1700 credit
B \$1700 debit
C \$2700 credit
D \$2700 debit

- 9 The correct balance on the purchases ledger control account is \$63 000 but has been entered in the trial balance as \$36 000. The difference on the trial balance has been entered in a suspense account.

Which journal entry corrects this error?

	account to be debited	\$	account to be credited	\$
A	purchases ledger control account	27 000	suspense account	27 000
B	-		suspense account	27 000
C	suspense account	27 000	-	
D	suspense account	27 000	purchases ledger control account	27 000

- 10 Who is most likely to use the creditors' ledger?

- A** cashier
- B** credit controller
- C** creditors
- D** purchases controller

- 11 A business sells some of its stock for \$500 on credit to a customer. The stock originally cost \$600.

What is the effect of this transaction on the balance sheet?

	current assets	owner's capital
A	decrease by \$100	decrease by \$100
B	decrease by \$100	increase by \$100
C	increase by \$100	decrease by \$100
D	increase by \$100	increase by \$100

- 12 A company's policy is to depreciate its equipment by 30 % annually using the reducing balance method.

A piece of equipment which was two years old was sold for \$6000 and the profit on sale was \$1590.

What was the cost price of the equipment?

- A** \$7590
- B** \$9000
- C** \$9600
- D** \$11 025

13 Which expense is included in prime cost of manufacturing?

- A depreciation of machinery
- B purchase of factory machinery
- C purchase of raw materials
- D supervisor's wages

14 A company manufactured 3000 widgets and transferred them out of its factory at cost plus 20%.

per widget	\$
selling price	25
direct materials	6
direct labour	5
fixed overheads	4

What is the factory cost of goods manufactured as it would appear in the trading account?

- A \$36 000 B \$39 600 C \$45 000 D \$54 000

15 X and Y are partners in a business.

X receives an annual salary of \$5000 from the partnership and the balance of profits and losses is shared between X and Y in the ratio of 3 : 2 respectively.

In the last financial year, the net profit was \$30 000.

How much was credited to each partner for the year?

	X	Y
	\$	\$
A	10 000	15 000
B	12 000	18 000
C	20 000	10 000
D	21 000	14 000

16 An extract from a company's trial balance is shown.

	debit \$	credit \$
debtors' control account – debit balances	225 000	
debtors' control account – credit balances		2 800
creditors' control account – debit balances	3 200	
creditors' control account – credit balances		261 000
investment in another company	12 000	

How much should be shown as trade debtors in the company's financial statements?

- A** \$222 200 **B** \$228 200 **C** \$237 400 **D** \$240 200

17 The following items appear in the subscriptions account of a club for a financial year.

	\$
subscriptions received owed from the previous year	3 000
subscriptions paid in advance for next year	1 000
subscriptions income transferred to the income and expenditure account	50 000
subscriptions outstanding at year end	2 000

How much cash was received from members in the year?

- A** \$46 000 **B** \$50 000 **C** \$52 000 **D** \$56 000

18 The directors of a company provide the following information.

	\$
bank overdraft	1 200
equipment	12 000
long term loan	8 000
petty cash	900
stocks	2 500
trade creditors	3 000
trade debtors	2 000

What is the amount of the net current assets?

- A** \$1200 **B** \$2400 **C** \$3600 **D** \$5200

19 A company profit and loss account includes:

	\$000
dividend	300
increase in stock	200
overheads	400
purchases	800

If the net profit percentage is 20%, what is the figure for sales?

- A** \$1 120 000 **B** \$1 250 000 **C** \$1 625 000 **D** \$1 750 000

20 A shareholder sells some ordinary shares for more than he paid for them.

What is the effect on the company balance sheet?

	ordinary share capital	share premium account
A	decrease	decrease
B	decrease	increase
C	no effect	decrease
D	no effect	no effect

21 At the beginning of the year a company has authorised share capital of 800 000 ordinary shares of \$0.25 each and an issued share capital of 400 000 ordinary shares of \$0.25. During the year the company makes a further issue of 200 000 ordinary shares at a price of \$0.60.

What is the balance on the share capital account at the end of the year?

- A** \$150 000 **B** \$220 000 **C** \$250 000 **D** \$350 000

22 Assets and liabilities of a business at its year end include the following information.

	\$
accruals	5 000
bank overdraft	6 800
cash	600
prepayments	4 500
proposed dividend	12 000
stock	51 800
trade creditors	20 100
trade debtors	24 200

What is the current ratio?

- A** 0.67:1 **B** 1.85:1 **C** 2.19:1 **D** 2.54:1

23 Which actions would improve the liquidity (acid test) ratio of a business in the short term?

- 1 debtors paying their debts
- 2 delaying paying creditors
- 3 selling a number of surplus fixed assets
- 4 selling stock

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

24 A business has a debtor turnover period of 40 days based on year end debtors. Annual sales are \$180 000 of which 13% are cash sales.

What is the year end debtors figure based on a year of 360 days?

- A** \$2600 **B** \$17 400 **C** \$20 000 **D** \$45 200

25 A company has an issued ordinary share capital of 240 000 ordinary shares of \$0.50 each.

The company pays a total ordinary share dividend of \$9600.

The current market price of an ordinary share is \$3.20.

What is the current dividend yield?

- A** 1.25% **B** 2% **C** 4% **D** 8%

- 26 Which name is given to the difference between a company's actual sales and break-even sales?
- A margin of safety
 - B marginal cost
 - C marginal C-V-P (cost-volume-profit) analysis
 - D marginal revenue

- 27 What best describes cost of direct materials plus direct labour costs?
- A absorption cost
 - B marginal cost
 - C prime cost
 - D total cost

- 28 A company has the information shown below.

	\$
actual sales for August	320 000
break-even sales for August	400 000
total fixed costs for August	150 000

What is the margin of safety for August?

- A \$80 000 negative
 - B \$80 000 positive
 - C \$170 000 negative
 - D \$250 000 positive
- 29 A business has fixed costs of \$100 000. It sells a single product for \$25 per unit, and its contribution to sales ratio is 40%.
- What is the break-even point in units?
- A 6667
 - B 10 000
 - C 40 000
 - D 250 000

30 The following figures are given for a factory's overheads and machine hours worked.

	machine hours	total overhead costs	overhead absorption rate
budgeted	122 000	\$268 400	\$2.20
actual	116 000	\$261 000	\$2.25

What was the under- or over-absorption of overhead for the quarter?

- A \$5800 over-absorbed
- B \$5800 under-absorbed
- C \$7400 over-absorbed
- D \$7400 under-absorbed

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