



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

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**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

**October/November 2007**

**1 hour**

Additional Materials:      Multiple Choice Answer Sheet  
   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 **11** printed pages and **1** blank page.



- 1 A club's income and expenditure account for 2006 showed rent and rates as \$4000.

On 31 December rent owing was \$600 and rates paid in advance was \$800.

What was the amount shown in the receipts and payments account for rent and rates for the year ended 31 December 2006?

- A** \$3800      **B** \$4000      **C** \$4200      **D** \$5400

- 2 When preparing a sole trader's annual accounts, no adjustments were made for prepayments at the end of the year.

What is the effect of these omissions?

|          |                            |                             |
|----------|----------------------------|-----------------------------|
| <b>A</b> | net profit overstated      | creditors understated       |
| <b>B</b> | net profit understated     | creditors understated       |
| <b>C</b> | current assets overstated  | owner's capital overstated  |
| <b>D</b> | current assets understated | owner's capital understated |

- 3 A business prepares its accounts to 31 December. Insurance premiums paid were:

| date paid    |                                       | \$   |
|--------------|---------------------------------------|------|
| January 2006 | paid for 6 months to 31 December 2005 | 940  |
| July 2006    | paid for 6 months to 30 June 2006     | 1120 |
| January 2007 | paid for 6 months to 31 December 2006 | 1245 |
| March 2007   | paid for 6 months to 30 June 2007     | 1880 |

Which amount should be shown in the profit and loss account for the year ended 31 December 2006?

- A** \$1120      **B** \$2060      **C** \$2365      **D** \$3305

4 Fixed assets of a company were:

|                         | start of year 10<br>\$ | end of year 10<br>\$ |
|-------------------------|------------------------|----------------------|
| at cost                 | 460 000                | 505 000              |
| cumulative depreciation | 215 000                | 237 000              |
| net book value          | 245 000                | 268 000              |

During the year fixed assets costing \$92 000 were purchased and fixed assets with a net book value of \$16 000 were sold.

What was the depreciation charge for the year?

- A** \$22 000      **B** \$23 000      **C** \$53 000      **D** \$69 000

5 What is the purpose of providing for depreciation?

- A** To apply the matching principle.  
**B** To ascertain the true value of fixed assets.  
**C** To ensure that money is available for repair of fixed assets.  
**D** To provide cash in the business for replacement.

6 A pocket calculator costs \$9.50 and has a useful life of 5 years. The bookkeeper has decided to treat the purchase of the calculator as revenue expenditure.

Which accounting principle has been applied?

- A** accruals  
**B** materiality  
**C** prudence  
**D** substance over form

7 Which accounting treatments illustrate the use of the matching principle?

- 1 valuation of stock at net realisable value rather than cost
- 2 using the First In First Out method of valuation each year
- 3 charging depreciation on fixed assets

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

- 8 In the books of a trader, discounts received of \$1400 have been posted correctly in the suppliers' accounts but debited in the discounts allowed account.

What are the correcting entries?

|          | account to be debited                   | \$           | account to be credited                  | \$           |
|----------|---|--------------|---|--------------|
| <b>A</b> | suspense                                | 2800         | discounts allowed<br>discounts received | 1400<br>1400 |
| <b>B</b> | discounts allowed<br>discounts received | 1400<br>1400 | suspense                                | 2800         |
| <b>C</b> | discounts received                      | 1400         | discounts allowed                       | 1400         |
| <b>D</b> | discounts allowed                       | 1400         | discounts received                      | 1400         |

- 9 The bank statement of a business shows an overdraft of \$250 at the year end.

There are cheques written but not yet cleared by the bank amounting to \$140.

Lodgements not yet credited by the bank amount to \$220.

How would the balance in the cash book be shown in the balance sheet?

|          |                   | \$  |
|----------|-------------------|-----|
| <b>A</b> | current asset     | 170 |
| <b>B</b> | current asset     | 330 |
| <b>C</b> | current liability | 170 |
| <b>D</b> | current liability | 330 |

- 10 The trial balance totals are:

debit \$500 150                      credit \$500 000

Which error could have caused the difference?

- A** A credit purchase has only been recorded in a creditor's account.
- B** A credit sale has not been recorded.
- C** A cash sale has only been recorded in the sales account.
- D** A credit sale has only been recorded in a debtor's account.

- 11 Partnership capitals are \$60 000 for X and \$90 000 for Y. The partnership agreement provides for interest on capitals at 10 % per annum, but makes no other financial provisions.

Profits for the current year total \$75 000.

How will the total profits be divided between the partners?

|          | X<br>(\$) | Y<br>(\$) |
|----------|-----------|-----------|
| <b>A</b> | 30 000    | 45 000    |
| <b>B</b> | 36 000    | 39 000    |
| <b>C</b> | 37 500    | 37 500    |
| <b>D</b> | 39 000    | 36 000    |

- 12 A business sells goods at cost plus 25 %.

Information for a year is shown.

|               | \$      |
|---------------|---------|
| turnover      | 240 000 |
| opening stock | 42 000  |
| closing stock | 48 000  |

What is the total of purchases for the year?

- A** \$180 000      **B** \$186 000      **C** \$192 000      **D** \$198 000
- 13 The following information relates to the annual membership subscriptions of a cricket club for the year ended 31 December.

|                               | 1 January<br>\$ | 31 December<br>\$ |
|-------------------------------|-----------------|-------------------|
| subscriptions in arrears      | 7200            | 7800              |
| subscriptions paid in advance | 2800            | 4200              |

Cash received during the year for subscriptions totalled \$81 000.

Which amount should be shown in the income and expenditure account for membership subscriptions?

- A** \$80 200      **B** \$81 000      **C** \$81 600      **D** \$81 800

- 14** Items cost \$15 per unit. They are normally sold for \$22. A damaged unit can only be sold at the normal selling price after modifications costing \$14. The scrap value of the item is \$7 per unit.

How much should the damaged unit be valued at in the balance sheet?

- A** \$7                      **B** \$8                      **C** \$14                      **D** \$15

- 15** The following items appear in the accounts of a manufacturing business.

- 1 purchase of raw materials
- 2 purchase of finished goods
- 3 carriage inwards
- 4 carriage outwards

Which items will be included in the manufacturing account?

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

- 16** The directors of a company are completing the accounts for the year ended 30 April 2007. They discover that the stock at 1 May 2006 was over-valued by \$50 000.

What is the effect of correcting this error in the accounts?

|          | net profit for the year ended<br>30 April 2007 | reserves brought forward at<br>1 May 2006 |
|----------|--|---|
| <b>A</b> | decrease                                       | decrease                                  |
| <b>B</b> | decrease                                       | increase                                  |
| <b>C</b> | increase                                       | decrease                                  |
| <b>D</b> | increase                                       | increase                                  |

- 17** A company issues 500 000 ordinary shares of \$1 each for \$3 each and 250 000 6% debentures.

By what amount will net assets of the company increase as a result of these transactions?

- A** no increase      **B** \$750 000      **C** \$1 500 000      **D** \$1 750 000

18 A company's balance sheet shows:

|  | \$      |
|--|---------|
| share capital ordinary shares of \$10 each | 100 000 |
| general reserve                            | 60 000  |
| profit and loss account (credit)           | 210 000 |

The company pays a dividend of \$70 000, makes a bonus issue of 5000 ordinary shares and raises a debenture loan 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

19 Which actions would increase the liquidity (acid test or quick) ratio of a business in the short term?

- 1 debtors paying their debts
- 2 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

20 A company produces the following information concerning stock turnover (rate of stock turn).

|        |                    |                        |
|--------|--------------------|------------------------|
| year 1 | average stock      | \$60 000               |
|        | stock turnover     | 10 times               |
| year 2 | average stock      | double last year       |
|        | cost of goods sold | increased to \$960 000 |

What will be the stock turnover in year 2?

- A** 8 times      **B** 10 times      **C** 16 times      **D** 20 times

21 The table shows information for a business at the year end.

|                  | \$000 |
|------------------|-------|
| average stock    | 25    |
| credit sales     | 150   |
| credit purchases | 112   |
| total purchases  | 140   |
| trade creditors  | 28    |
| trade debtors    | 39    |

What is the payment period for creditors (to the nearest day)?

- A** 68 days      **B** 73 days      **C** 91 days      **D** 95 days

22 The accounts of a business show that it has increased its sales revenue by 50 % in one year whilst its cost of sales has increased by 60 % over the same period.

What is the explanation for the change in profit margin?

- A** an increase in marketing expenses  
**B** an increase in sales price  
**C** an increase in sales volume  
**D** an increase in supplier price

23 The table shows the capital structure of a company.

|                                      | \$000       |
|--------------------------------------|-------------|
| ordinary shares of \$1 each          | 100         |
| share premium account                | 200         |
| retained profits                     | <u>300</u>  |
|                                      | 600         |
| 15 % loan stock (issued 5 years ago) | <u>400</u>  |
|                                      | <u>1000</u> |

Operating profits average \$260 000 per annum.

What is the return on shareholders' funds?

- A** 26.0 %      **B** 33.3 %      **C** 43.3 %      **D** 66.7 %



- 24 A company has sales of \$192 000, fixed costs of \$40 000 and a contribution / sales ratio of one-third.

What are its profits?

- A \$24 000      B \$50 667      C \$64 000      D \$88 000

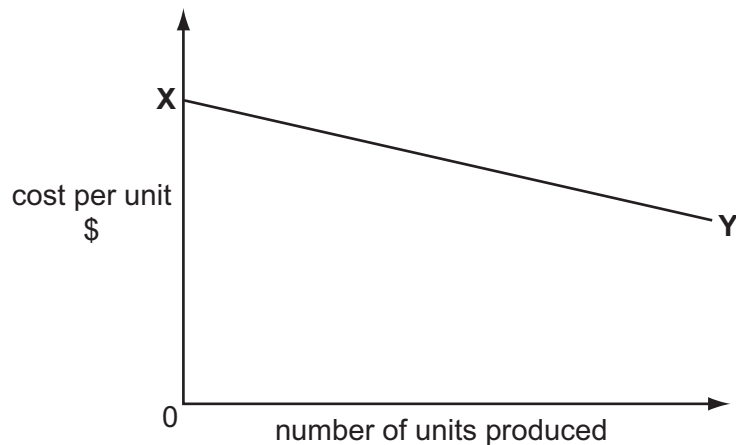
- 25 A firm sells its product for \$10 per unit and has variable costs of \$6 per unit. Its fixed costs for the year are:

|                   | \$     |
|-------------------|--------|
| factory rent      | 30 000 |
| other fixed costs | 70 000 |

What is the break-even point?

- A 10 000 units  
B 16 667 units  
C 17 500 units  
D 25 000 units

- 26 What does the line XY show?



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

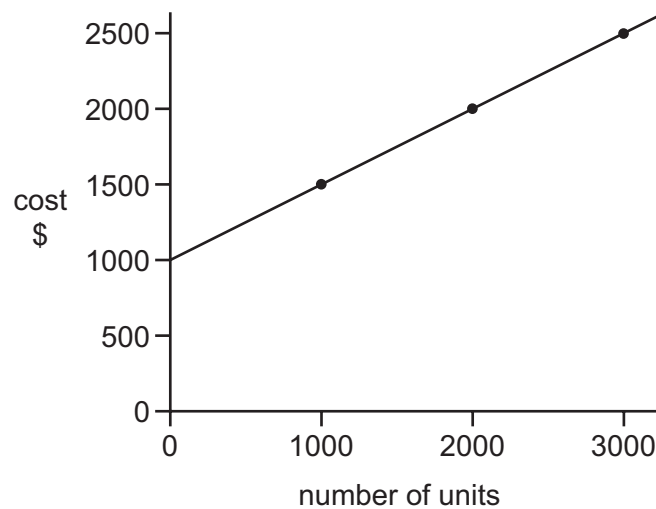
27 A business provides the following information:

|                                | \$     |
|--------------------------------|--------|
| total fixed costs              | 10 000 |
| unit selling price             | 1      |
| variable unit production costs | 0.75   |

What is the total sales revenue needed to break even?

- A** \$2500      **B** \$7500      **C** \$10 000      **D** \$40 000

28 The total cost of making product X is shown on the graph.



What is the variable cost per unit?

- A** \$0.50      **B** \$0.83      **C** \$1.00      **D** \$1.50

29 A company manufactures a product.

Information for the last two years is as follows:

|                           | year 1<br>\$ | year 2<br>\$ |
|---------------------------|--------------|--------------|
| variable unit costs       | 6.00         | 7.00         |
| fixed overheads per annum | 24 000       | 25 200       |
| unit sales price          | 10.00        | 10.00        |

In both years, production has been at break-even level.

What is the increase in production in year 2 compared with year 1?

|          | increase in production |
|----------|------------------------|
| <b>A</b> | 2400 units             |
| <b>B</b> | 3600 units             |
| <b>C</b> | 6000 units             |
| <b>D</b> | 8400 units             |

30 The table shows figures for a week's production.

|                              |              |
|------------------------------|--------------|
| expected production          | 10 000 units |
| expected production overhead | \$50 000     |
| actual production overhead   | \$60 000     |
| under-absorption of overhead | \$5 000      |

What is the actual amount of production in the week?

**A** 9000 units    **B** 9167 units    **C** 11 000 units    **D** 13 000 units

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