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CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ACCOUNTING 9706/1

PAPER 1 Multiple Choice

MAY/JUNE SESSION 2002

1 hour

Additional materials:
Multiple Choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

TIME 1 hour

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

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

There are **thirty** questions in 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 very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

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 question paper consists of 10 printed pages and 2 blank pages.

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1 What is the accounting equation for capital employed?

A current assets – current liabilities

B fixed assets + current assets – current liabilities

C fixed assets + current assets + current liabilities

D net assets – current liabilities

2 When preparing a sole trader's annual accounts, no adjustments were made for closing amounts prepaid.

What is the effect of these omissions?

A	net profit overstated	creditors understated
B	net profit understated	creditors understated
C	current assets overstated	owner's capital overstated
D	current assets understated	owner's capital understated

3 Which item is revenue expenditure?

A cost of painting new office premises during construction

B cost of repairs to factory plant and machinery

C legal fees for the purchase of new factory premises

D wages of a company's own workmen for building an office extension

4 In the cash book of a company the bank account showed a credit balance of $5000. There were unpresented cheques amounting to $1500. The bank statement showed bank charges of $700 not in the cash book.

What is the balance on the bank statement?

A $3300 debit **B** $4200 debit **C** $4200 credit **D** $5800 credit

5 A business increases its provision for doubtful debts by $1600.

What will be the effect of this adjustment on the final accounts?

	net profit		net debtors	
A	decrease by	$1600	decrease by	$1600
B	decrease by	$1600	increase by	$1600
C	increase by	$1600	decrease by	$1600
D	increase by	$1600	increase by	$1600

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6 What will always be classified in a Balance Sheet as a current liability?

A debentures

B preference shares

C prepaid expense

D proposed dividend

7 There is great uncertainty about the continuance of a business. This has caused the proprietor to make a large reduction in the valuation of the year-end stock.

Which accounting concept does this illustrate?

A going concern

B matching

C materiality

D substance over form

8 The table shows information from the books of a business at 30 April 2002.

invoiced	$
Credit sales invoiced during financial year	79 000
Goods sent to customers on 28 April 2002 and invoiced 4 May 2002	6 100
Goods sent to customers during April 2002 on sale or return basis but not sold by 30 April 2002	8 300

What is the amount to be credited to the Trading Account as sales for the year ended 30 April 2002?

A $76 800 **B** $85 100 **C** $85 300 **D** $93 400

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9 The balance on a Sales Ledger Control account is $40 000.

The following items are then discovered:

	$
Total of sales day book understated	500
Discounts allowed not entered in Sales Ledger Control account	1 200
Bad debts written off not recorded in Sales Ledger Control account	400
Provision for bad debts	2 500

What is the total of the balances in the sales ledger?

A $37 900 **B** $38 600 **C** $38 900 **D** $41 100

10 The trial balance of a business does not agree. The difference has been entered in a Suspense account.

The error was caused by a cheque for $400 from Omar being debited to Omar's account.

What is the journal entry to correct this?

	debit	credit	with
A	Bank account	Suspense account	$400
B	Suspense account	Omar's account	$400
C	Suspense account	Omar's account	$800
D	Suspense account	Bank account	$800

11 On 6 January 2002 a firm lost all its stock in a fire. Stock had a Balance Sheet valuation of $650 000 on 31 December 2001.

In the period 1–5 January 2002 purchases were $75 000 and sales were $96 000.

The average gross profit the firm makes is 25% of selling price.

What was the value of the stock on 5 January?

A $629 000 **B** $647 000 **C** $653 000 **D** $671 000

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12 Which asset does **not** need to be depreciated?

A land

B an oil well

C a quarry

D a revalued property

13 Under which heading should negative Goodwill be included in a company's Balance Sheet?

A capital reserves

B intangible fixed assets

C revenue reserves

D share capital

14 Which of the following transactions would appear in **both** the Receipts and Payments account and the Income and Expenditure account of a cricket club?

A the club bank balance

B the depreciation of the club pavilion

C the purchase of a motorised lawn mower

D the rent of the cricket ground

15 A company made the following payments:

		$
1 June 2001	Final dividend for the year ended 31 March 2001	40 000
1 December 2001	Interim dividend for the year ended 31 March 2002	15 000
1 June 2002	Final dividend for the year ended 31 March 2002	50 000

What are the entries for dividends in the Profit and Loss Appropriation Account for the year ended 31 March 2002 and the Balance Sheet at that date?

	Profit and Loss Appropriation Account $	Balance Sheet $
A	55 000	50 000
B	55 000	65 000
C	65 000	50 000
D	65 000	65 000

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16 How should the revaluation of a fixed asset be treated in a cash flow statement?

A It should be included in the cash flow from financing activities.

B It should be included in the cash flow from investing activities.

C It should be included in the cash flow from operations.

D It should **not** be included in the cash flow statement.

17 For which purpose can a Share Premium account legally be used?

A to make a rights issue

B to pay an ordinary dividend

C to repay debentures

D to write off preliminary expenses

18 A company's Balance Sheet as at 31 December 2001 included:

	$
ordinary shares of $0.50 each, fully paid	320 000
cash at bank	100 000

The following then took place:

February 2002	A one-for-two rights issue of ordinary shares of $0.50 each at $1.10. The issue was fully subscribed.
April 2002	A bonus issue of one for four ordinary shares of $0.50 each.

Assume no other transactions took place between 31 December 2001 and 30 April 2002.
What were the balances of the Ordinary Share Capital and Bank accounts on 30 April 2002?

	Ordinary Share Capital $	Bank $
A	600 000	452 000
B	600 000	572 000
C	840 000	452 000
D	840 000	620 000

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19 A business purchases stock on credit.

Which of the following is now true?

	current ratio	acid test
A	decreases	decreases
B	increases	increases
C	unchanged	decreases
D	unchanged	increases

20 A business has a gross profit to sales ratio of 40%, and a net profit to sales ratio of 10%.

If the sales volume increases by 8% which of the following will generally be true?

	gross profit to sales ratio	net profit to sales ratio
A	increases	decreases
B	increases	increases
C	unchanged	decreases
D	unchanged	increases

21 The current ratio of a company increases from 1.4 to 1.9.

Which of the following could explain this movement?

A an issue of more share capital for cash

B the giving of more generous credit terms to customers

C the granting of cash discounts to customers

D the purchase of some short-term investments

22 A company's stock turnover ratio is calculated using the cost of goods sold and the average of opening and closing stocks.

In each of the last two financial years, closing stock was valued at $5000 more than the corresponding opening stock.

In both years, the stock turnover was ten times and in the earlier year the cost of goods sold was $125 000.

What was the cost of goods sold in the second year?

A $200 000 **B** $175 000 **C** $150 000 **D** $125 000

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23 A business has the following current assets and current liabilities:

	$
debtors	6000
bank overdraft	1500
cash in hand	50
creditors	5050

The only other item in the working capital is stock.

The current ratio is 2:1. What is the value of the stock?

A $2550 **B** $4050 **C** $5550 **D** $7050

24 A video cassette has a selling price of $10.

	$
direct materials	1.20
direct labour	0.80
factory overhead (fixed)	1.40
royalty payment	1.00
administration overhead (fixed)	0.60

What is the contribution per video cassette?

A $5.00 **B** $6.00 **C** $7.00 **D** $8.00

25 A company manufactures a variety of products, each of which requires different materials and grades of labour.

There is little use of machinery in the manufacture of each product.

On which basis should the Overhead Absorption Rate (OAR) be calculated?

A direct labour cost

B direct material cost

C direct labour hours

D machine hours

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26 Which of the following may result in an under-absorption of fixed overhead?

A absorption based on actual expenditure and actual activity

B activity above budget

C activity below budget

D expenditure below budget

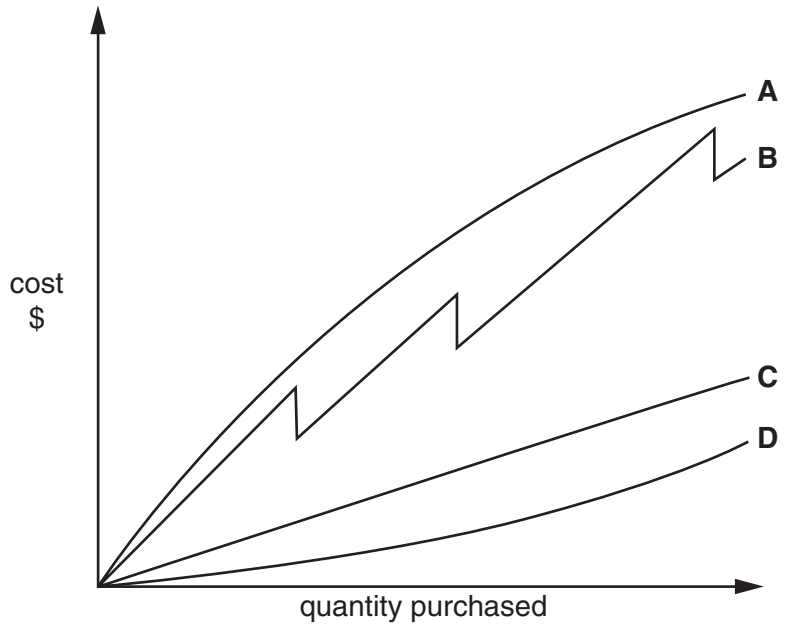
27 A company manufactures a single product with a selling price of $30 per unit. Based on production and sales of 4000 units, costs are:

	$ 000
direct costs	48
variable production overhead	10
fixed production overhead	20
variable selling overhead	5
fixed administration overhead	17
total costs	100

What is the gross profit per unit of the product?

A $5.00 **B** $10.50 **C** $15.50 **D** $18.00

28 Which line, **A**, **B**, **C** or **D**, in the graph below best represents the behaviour of the total cost of an item affected by bulk purchase discounts?

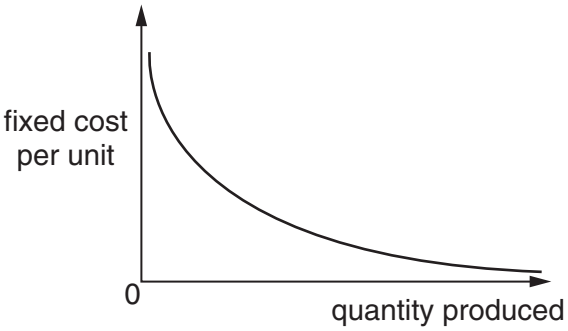


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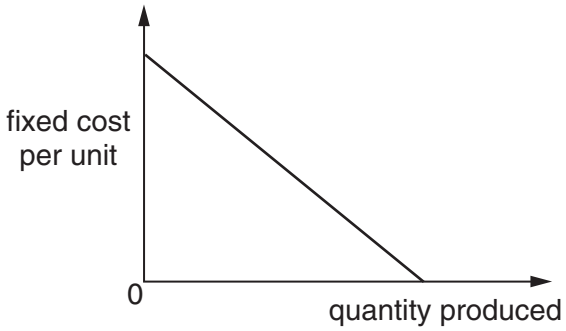
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29 Which graph shows the fixed cost per unit produced in a manufacturing process?

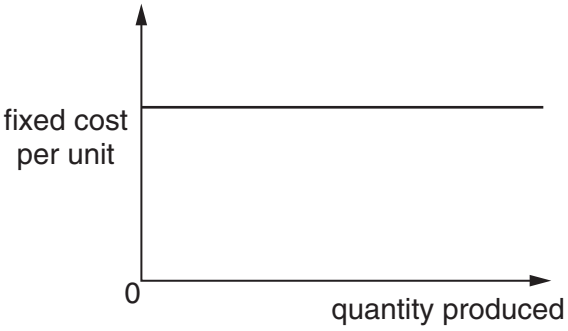
A



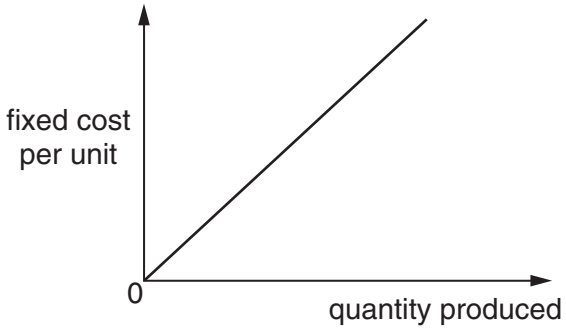
B



C



D



30 A department undertakes a one-off process manufacturing calculators. At the end of the month, the production is 1000 units, of which 200 units are complete and 800 units are 25% complete.

production costs	$
direct costs	60 000
indirect costs	30 000
departmental overheads	10 000

Sales of waste realise $4000.

What is the cost per unit?

A $215 **B** $240 **C** $250 **D** $480

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