



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

**May/June 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 **10** printed pages and **2** blank pages.



1 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

2 A customer paid a deposit in advance for goods to be supplied at a later date.

How should this be recorded in the seller's books?

	debit	credit
<b>A</b>	cash	customer
<b>B</b>	cash	sales
<b>C</b>	customer	prepayment
<b>D</b>	customer	sales

3 On 1 October 2004 a company purchased machinery for \$26 000. It was decided to depreciate the asset using the reducing balance method at a rate of 20 % per annum.

On 30 September 2006 the asset was sold for \$12 000.

What is the profit or loss on disposal?

- A** \$3600 loss      **B** \$3600 profit      **C** \$4640 loss      **D** \$4640 profit

4 A trial balance shows:

	Dr \$	Cr \$
provision for doubtful debts		1200
debtors	28 000	

\$2100 of the debtors are irrecoverable and are to be written off. The owner of the business wishes to make the provision for doubtful debts equal to 5 % of his outstanding debtors.

What is the amount debited to the profit and loss account for the provision for doubtful debts?

- A** \$95      **B** \$1295      **C** \$1400      **D** \$2600

- 5 An item of stock originally cost \$5000, but has deteriorated badly and is written down to its estimated net realisable value of \$2000.

Which accounting principle has been applied?

- A consistency
- B materiality
- C prudence
- D substance over form

- 6 A company changes from the straight-line method of depreciation to the reducing balance method.

Which accounting principle has **not** been applied?

- A consistency
- B going concern
- C historic cost
- D materiality

- 7 The cost of a new machine has been debited to the repairs account. What error is this an example of?

- A commission
- B omission
- C principle
- D reversal of entries

- 8 The following information relates to a business:

	\$
opening debtors	280 000
cash received during the year	520 000
discounts allowed during the year	30 000
bad debts written off during the year	15 000
closing debtors	265 000

What were the sales during the year?

- A \$490 000      B \$535 000      C \$550 000      D \$580 000

- 9** The total of the balances in the purchases ledger does not agree with the balance on the purchases ledger control account. It is found that a credit balance of \$3100 on a supplier's account has been listed as a debit balance.

What is the effect of correcting the error on the total of the purchases ledger balances?

- A** \$3100 decrease  
**B** \$3100 increase  
**C** \$6200 decrease  
**D** \$6200 increase
- 10** Which error would affect the balancing of a trial balance?
- A** A purchase invoice for \$259 was entered in the purchases day book and the creditor's account as \$529.  
**B** A payment for rent of \$250 has been debited in the bank account. It has been entered correctly in the rent account.  
**C** A sales invoice for \$180 was lost, before it could be entered in the sales day book.  
**D** A sales return of \$500 was debited in the debtor's account and credited to the purchases returns account.
- 11** A trader, whose purchases are all on credit, does not keep double entry records.

The following information is available:

	\$
opening creditors	51 660
payments to suppliers during the year	212 760
closing creditors	56 340

The discount received for the year amounted to \$1000.

What were the purchases for the period?

- A** \$209 080      **B** \$214 940      **C** \$217 440      **D** \$218 440

- 12** A business has two items in stock which need to be repaired before sale.

	cost \$	selling price \$	repair costs \$
item 1	2 160	2 450	190
item 2	3 190	3 060	320

What is the total stock value of these items?

- A** \$4900      **B** \$5000      **C** \$5510      **D** \$5640
- 13** A business does not keep complete accounting records. The following information is known:

	\$
capital at start of year	52 000
capital at end of year	55 000
owner's drawings in year	13 000
capital introduced during the year	25 000

What is the net profit/loss for the year?

- A** net loss \$9 000  
**B** net profit \$9 000  
**C** net loss \$15 000  
**D** net profit \$15 000
- 14** The following information is available for the partnership of Atul and Mansoor at 31 December:

	\$
net profit before appropriations	60 000
salary of Atul	9 000
drawings:	
Atul	12 000
Mansoor	13 000
interest on capital:	
Atul	400
Mansoor	500

Residual profits are shared between Atul and Mansoor in the ratio 2 : 1.

What is Mansoor's share of total profit for the year?

- A** \$16 200      **B** \$17 000      **C** \$17 100      **D** \$17 200

- 15** At the beginning of the financial year stock was valued at \$15 000. During the year, sales of \$21 000 and purchases of \$18 000 were made. Unfortunately, all stock was stolen on the last day of the financial year.

Goods are marked up by 50 % to calculate selling price.

What is the cost of the stolen stock?

- A** \$7 500                      **B** \$11 000                      **C** \$19 000                      **D** \$22 500

- 16** A company transfers manufactured items from factory to warehouse at cost plus 10 %. This year the transfer value was \$93 500 and at the end of the year the closing stock was 20 % of the year's production.

How will the stock of finished goods be shown?

	Trading Account \$	Balance Sheet \$
<b>A</b>	17 000	17 000
<b>B</b>	18 700	16 830
<b>C</b>	18 700	17 000
<b>D</b>	18 700	18 700

- 17** A company receives payment for 20 % of its sales in the month of sale, 50 % in the following month and 30 % two months after the month of sale.

The table shows sales for four months.

	\$
January	180 000
February	240 000
March	270 000
April	220 000

How much were total cash receipts in April?

- A** \$220 000                      **B** \$228 000                      **C** \$249 000                      **D** \$251 000

- 18** A company makes a bonus issue of shares.

What is the effect on the net assets and the reserves in the balance sheet?

	net assets	reserves
<b>A</b>	increase	decrease
<b>B</b>	increase	unchanged
<b>C</b>	unchanged	decrease
<b>D</b>	unchanged	increase

- 19** The capital structure of a company is shown.

	\$
700 000 ordinary shares of \$0.25 each	175 000
8 % loan stocks	160 000

During the year the company made profits before interest of \$105 000. The directors wish to distribute as much of the profits as possible by way of dividend.

What is the dividend per share?

- A** \$0.1317      **B** \$0.15      **C** \$0.5268      **D** \$0.60

- 20** What does the ratio of current assets / current liabilities show?

- A** asset usage  
**B** liquidity  
**C** profitability  
**D** return on capital employed

- 21** A business turns over its stock 5 times a year. Average stock is \$54 000 and sales are made at a mark-up of one third.

How much are the sales?

- A** \$240 000  
**B** \$270 000  
**C** \$320 000  
**D** \$360 000

**22** A company has the following information in its balance sheet:

	\$000
taxation due	40
debtors	150
bank overdraft	90
stock	110
proposed dividend	70
creditors	80

What is the liquidity (acid test or quick) ratio?

- A** 0.54 : 1      **B** 0.88 : 1      **C** 0.93 : 1      **D** 1.85 : 1

**23** A business has cash sales of \$69 030 and credit sales of \$1 406 070 in a year (360 days). The debtors' collection period is 40 days.

What is the closing debtors' balance?

- A** \$35 152      **B** \$36 878      **C** \$156 230      **D** \$163 900

**24** A firm has calculated the following accounting ratios for the year ended 30 June:

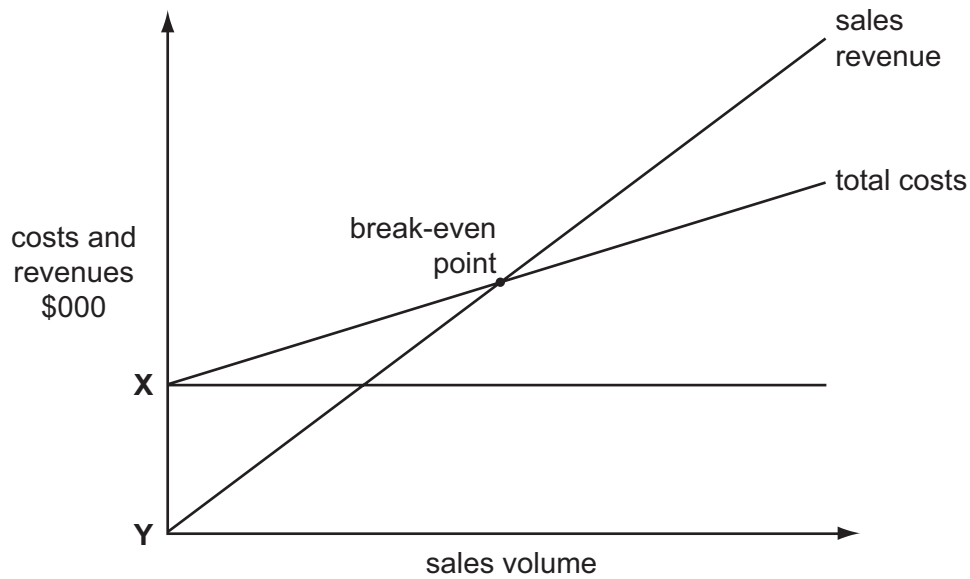
	year ended	
	30 June 2005	30 June 2006
gross profit on sales	30 %	33 %
net profit on sales	15 %	14 %

What could explain the changes in the percentages?

- A** A fall in interest payments was equal to an increase in administration costs.  
**B** An increase in raw material costs was covered by an increase in selling price.  
**C** An increase in the advertising budget has allowed the firm to increase the selling price.  
**D** An increase in the advertising budget has led to a rise in sales volume.



25 The break-even chart for a product is shown.



What does **XY** represent?

- A fixed costs
  - B gross profit
  - C net loss
  - D variable costs
- 26 What will cause under-absorption of fixed production overheads?
- A absorption of overheads is based on actual expenditure and actual activity
  - B actual expenditure of overheads is below budget expenditure
  - C actual activity is above budgeted activity
  - D actual activity is below budgeted activity and actual expenditure is as budgeted
- 27 The cost of producing 2000 units of a product is shown.

	\$
insurance	2 000
labour	30 000
materials	10 000
rent	6 000
telephone rental	4 000

What is the variable cost of one unit?

- A \$20
- B \$22
- C \$23
- D \$24

- 28** A company makes two products.

	product	
	X	Y
	\$	\$
selling price	10	12
variable costs per unit	4	8
maximum sales (units)	4 000	14 000

Fixed costs are \$48 000.

4000 units of X are sold.

How many units of Y must be sold to break even?

- A** 2000                      **B** 3000                      **C** 6000                      **D** 12 000
- 29** A hospital budgets for overheads totalling \$11 500 000 for a financial year. It expects to treat 25 000 patients in the year. Each patient stays an average of 10 days and the hospital absorbs overheads on a patient/day basis. Its direct costs for the year are budgeted at \$25 000 000.

What is its overhead absorption rate?

- A** \$46 per patient day  
**B** \$100 per patient day  
**C** \$146 per patient day  
**D** \$460 per patient day
- 30** A video cassette has a selling price of \$10.

cost per video cassette	\$
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

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