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

ACCOUNTING **9706/01**

Paper 1 Multiple Choice **May/June 2008**

1 hour

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

* 1 4 2 1 6 9 7 7 2 2 *

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 **11** printed pages and **1** blank page.

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1 When is it necessary to distinguish between revenue and capital expenditure?

A when preparing cash budgets

B when preparing investment appraisal calculations

C when preparing profit and loss accounts

D when preparing purchase ledger control accounts

2 Rent is paid by a business monthly in advance on the first day of each month. The payments during this financial year have been as follows:

– up to and including 1 June	$500 per month
– from 1 July thereafter	$600 per month

Which amount(s) will appear in the accounts for the year ended 31 October?

	profit and loss expense	balance sheet
A	$6400	$600 prepayment
B	$6400	$600 accrual
C	$6400	-
D	$7000	-

3 The table gives information relating to the fixed assets of a business.

	$
net book value at the end of the year	25 000
net book value at the beginning of the year	16 000
depreciation charge for the year	5 000
additions at cost during the year	22 000

What is the net book value of disposals during the year?

A $8000 **B** $11 000 **C** $18 000 **D** $22 000

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4 A trial balance at 30 June, before making end of year adjustments, showed:

	debit $	credit $
trade debtors	35 600	-
provision for doubtful debts	-	1 160

At 30 June, it was decided to write off a bad debt of $1600 and to make a provision for doubtful debts equal to 2 % of trade debtors.

What was the total expense in the profit and loss account for bad and doubtful debts for the year ended 30 June?

A $680 **B** $1120 **C** $2080 **D** $2280

5 A company has two fixed assets. Details are given in the table.

asset	date bought	cost $	depreciation method		residual value
X	1 Jan, Year 1	10 000	straight line	life 5 years	$2000
Y	1 Jan, Year 1	20 000	reducing balance	rate 20 %	nil

What is the depreciation charge for the year ended 31 December, Year 2?

A $4800 **B** $5200 **C** $5600 **D** $6000

6 Which transaction applies the matching concept?

A a machine acquired on long-term rental is included in fixed assets

B computer equipment is depreciated over two years

C a building is revalued following a fall in property prices

D a waste-paper basket is treated as revenue expenditure

7 The following debit balance appears on a trial balance after preparing the manufacturing account for the year.

loose tools $18 000

What is this item?

A a creditor for loose tools

B the annual charge for loose tools

C a prepayment for loose tools

D stock of loose tools

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8 At the year-end a cash book shows a credit balance of $4800.

The bank statement included bank charges of $25 which had not been included in the cash book.

Cheque payments entered in the cash book before the year end to the value of $250 had not yet cleared the bank.

How would the bank balance be shown in the balance sheet?

		$
A	current asset	4775
B	current liability	4825
C	current asset	5025
D	current liability	5075

9 A company makes purchases from X Ltd and also sells goods to X Ltd. At the year-end the company owes X Ltd $500 and X Ltd owes the company $750.

What are the correct entries to contra (offset) these amounts?

	purchases ledger control account debit $	sales ledger control account credit $
A	250	250
B	500	500
C	750	500
D	750	750

10 The following information is taken from the books of a business at 30 April.

	$
total of sales ledger balances	84 000
balance on sales ledger control account	83 100

What could have caused the difference between the sales ledger balances and the sales ledger control account balance?

A an invoice for $900 not entered in the sales journal

B an invoice in the sales journal for $2100 entered in the sales ledger account as $1200

C the sales journal total for March overstated by $900

D the sales journal total for April, $9800, entered in the sales ledger control account as $8900

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11 When valuing stocks of finished goods on an absorption cost basis, which costs should be included?

A production

B production and administration

C production, marketing and distribution

D production, marketing, administration and distribution

12 The information relates to the subscriptions of a club.

	in advance $	in arrears $
at the start of the year	50	75
at the end of the year	150	120

Cash received during the year was $3750.

What was the subscription income for the year?

A $3695 **B** $3750 **C** $3755 **D** $3805

13 A manufacturing company has the following information for the year ended 31 December.

	$
purchase of raw materials	58 000
wages of machine operators	97 000
depreciation on factory plant	15 000
opening stock raw materials	10 000
closing stock raw materials	8 000
wages of factory supervisor	18 000
factory light and heating costs	22 000

What is the prime cost for the year?

A $153 000 **B** $157 000 **C** $175 000 **D** $212 000

14 How should stocks be valued in published accounts?

A cost

B net realisable value

C replacement cost

D the lower of cost and net realisable value

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15 Which item would **not** be found in the accounts of clubs and societies?

A accumulated fund

B income and expenditure

C drawings

D surpluses and deficits

16 What appears as a credit entry in the appropriation account of a partnership?

A goodwill

B interest on capital

C net trading profit

D partnership salaries

17 The wages of staff employed in manufacturing goods have been debited in the profit and loss account.

What is the effect of this error?

	gross profit	net profit
A	overstated	no effect
B	overstated	overstated
C	understated	no effect
D	understated	understated

18 The table shows extracts from the trial balance of a business at 31 December 2007.

	$
ordinary share capital	20 000
share premium	40 000
long term loan (repayable 2017)	30 000
bank overdraft	60 000
4 % preference share capital	50 000
7 % debentures 2012	70 000

What is the total of 'creditors: amounts falling due after more than one year' in the balance sheet?

A $100 000 **B** $150 000 **C** $160 000 **D** $210 000

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19 A company's capital is

	$
ordinary shares of $1.00 each	200 000
share premium account	80 000
revenue reserves	160 000

Changes now to be made (in the order given)

- A one for one bonus issue
- A rights issue of 100 000 ordinary shares of $1.00 each at $1.40 per share

The company wishes to maximise the amounts available to pay dividends.

What will be the ordinary capital and reserves of the company?

	ordinary share capital $	share premium $	revenue reserves $
A	500 000	40 000	40 000
B	500 000	80 000	nil
C	540 000	nil	40 000
D	540 000	40 000	40 000

20 A company's sales are made evenly over a year (360 days). 10 % of the sales are for cash. The debtor balance is $26 700 and the debtor collection period is 30 days.

What are the total sales (cash and credit) for the year?

A $320 400 **B** $356 000 **C** $801 000 **D** $890 000

21 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	increase	decrease
B	increase	increase
C	unchanged	decrease
D	unchanged	increase

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22 Which of the following correctly shows the effect of a company increasing the value of its freehold property?

	asset use ratio	gearing
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

23 What might cause working capital to fall?

A an amount owing by a customer has turned out to be a bad debt

B an old delivery van has been given in full exchange for a new computer

C a payment of cash has been made to a trade creditor

D new stock has been purchased on credit

24 The following information has been taken from a recent balance sheet of a business.

	$000
fixed assets	150
capital	170
current liabilities	5

What is the current ratio?

A 3 : 1 **B** 4 : 1 **C** 5 : 1 **D** 6 : 1

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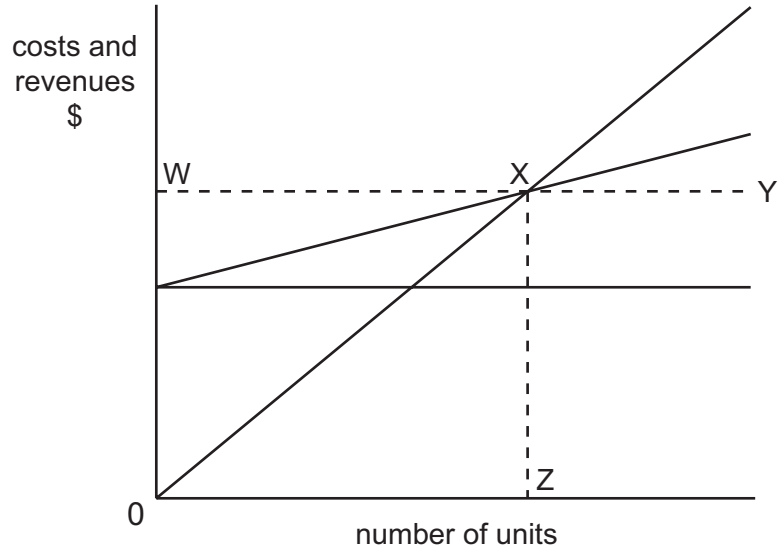
25 The diagram shows a break-even chart.



Which line represents the margin of safety?

A WX **B** WY **C** XY **D** XZ

26 Assuming all other factors remain unchanged, the break-even point of a business can be lowered by increasing its

A budgeted sales

B fixed costs

C marginal costs

D selling prices

27 A company uses a predetermined direct labour rate of $5.40 per hour to absorb production overhead. Each unit of product manufactured requires four direct labour hours.

The following information is available for a period.

actual production overhead	$518 400
under-absorbed production overhead	$32 400

What was the actual output of the product in the period?

A 22 500 units **B** 24 000 units **C** 25 500 units **D** 30 000 units

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28 The information relates to the production of 50 000 units of a product.

per unit	$
selling price	25
variable costs	15
contribution	10

The fixed costs are $300 000. The margin of safety is 20 000 units.

The unit selling price is increased by 10 %.

What is the percentage increase in the margin of safety?

A 13.6 % **B** 20 % **C** 24.2 % **D** 30 %

29 A company manufactures and sells a single product.

At an output of 1000 units per month the budget shows

	$
selling price	120 000
variable cost	40 000
fixed cost	50 000
profit	30 000

Fixed costs are due to increase by $10 000 per month and the selling price will be increased to maintain the profit at $30 000.

What is the effect on the break-even point to the nearest unit?

A decrease by 42 units

B increase by 42 units

C decrease by 125 units

D no change

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30 A company sells two products, X and Y.

	X	Y
sales (units)	1000	2000
	$	$
selling price per unit	22	12
contribution per unit	12	4

Which would increase the company's profit by $10 000?

A a 30 % increase in the sales of X

B a 50 % increase in the sales of both products

C an increase in the selling price of X by $1 and Y by $6

D a reduction in the variable costs of both products by $5

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