



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

---

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

**October/November 2008**

**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 Which item should be treated as capital expenditure?

- A** cost of carriage on the purchase of a fixed asset
- B** cost of replacement of part of a fixed asset
- C** depreciation of a fixed asset
- D** repairs to a fixed asset

2 A loan due for repayment in 20 months' time has been included as a current liability.

What will be the effect when this is corrected?

- A** increase net assets
- B** increase net current assets
- C** no effect on net current assets
- D** reduce net current assets

3 An item of machinery cost \$60 000. The machinery was later sold for \$8000 and the loss on disposal was \$3000.

What was the accumulated depreciation on the machinery on disposal?

- A** \$46 000      **B** \$49 000      **C** \$52 000      **D** \$55 000

4 Interest receivable account shows interest of \$17 500 received during the year. Interest of \$1600 is due at the year-end.

How will this be shown in the final accounts?

	profit and loss account	\$	balance sheet	\$
<b>A</b>	credit	17 500	sundry debtors	1600
<b>B</b>	credit	19 100	sundry debtors	1600
<b>C</b>	debit	17 500	sundry creditors	1600
<b>D</b>	debit	19 100	sundry creditors	1600

- 5 The table shows how a property appears in the balance sheet.

	\$
land and buildings	100 000
accumulated depreciation	(40 000)
net book value	<u>60 000</u>

The land and buildings are revalued to \$150 000.

What is the journal entry to record the revaluation?

		Dr \$	Cr \$
<b>A</b>	land and buildings profit and loss account	50 000	50 000
<b>B</b>	land and buildings accumulated depreciation revaluation reserve	50 000 40 000	90 000
<b>C</b>	land and buildings revaluation reserve	50 000	50 000
<b>D</b>	land and buildings revaluation reserve	90 000	90 000

- 6 Why do businesses charge depreciation on their fixed assets?
- A** to ensure that sufficient cash is available to replace the assets
  - B** to show the realisable value of the assets in the balance sheet
  - C** to show when the assets must be replaced
  - D** to spread the cost of the assets over their estimated useful lives
- 7 When a businessman introduces capital into his business, the transaction is debited in the cash book and credited to his capital account.

Of which accounting principle is this an example?

- A** entity
- B** going concern
- C** matching
- D** prudence

- 8** A creditor for \$720 transferred from the purchases ledger has been entered on the wrong side of the sales ledger control account.

The sales ledger control account has a closing balance of \$92 460, before correcting the transfer. A provision for doubtful debts of £1000 is to be made.

What is the correct balance on the sales ledger control account?

- A** \$90 020
- B** \$91 020
- C** \$91 740
- D** \$92 180

- 9** Closing stock has been undervalued.

What is the effect on the financial statements?

	net current assets	net profit
<b>A</b>	no effect	understated
<b>B</b>	overstated	overstated
<b>C</b>	understated	no effect
<b>D</b>	understated	understated

- 10** A trader's cash book shows a debit balance of \$12 460 at 30 April. Bank charges of \$4500 have not been entered in the cash book.

A cheque for \$14 470 received from a debtor and a cheque for \$1740 paid to a creditor appear in the cash book but not on the bank statement.

What is the balance shown on the bank statement at 30 April?

- A** \$4770 credit
- B** \$4770 debit
- C** \$20 690 credit
- D** \$20 690 debit

- 11** How can net profit be calculated?

- A** Closing Capital + Drawings – Additional Capital – Opening Capital
- B** Closing Capital – Drawings + Additional Capital – Opening Capital
- C** Opening Capital + Drawings – Additional Capital – Closing Capital
- D** Opening Capital – Drawings – Additional Capital – Closing Capital

- 12** A company's capital expenditure of \$200 000 has been debited in error to the purchases account.

Depreciation is provided at the rate of 15 % per annum on the cost of all fixed assets held at each year end.

How will this affect the net profit?

- A** \$170 000 understated
- B** \$200 000 overstated
- C** \$200 000 understated
- D** \$230 000 overstated

- 13** A business sells some of its stock for \$80 on credit to a customer. The stock originally cost \$50.

Which statement reflects the effect of this transaction on the balance sheet?

	current assets	owner's capital
<b>A</b>	decrease by \$30	decreases by \$30
<b>B</b>	decrease by \$30	increases by \$30
<b>C</b>	increase by \$30	decreases by \$30
<b>D</b>	increase by \$30	increases by \$30

- 14** Which transaction 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** The stock records of a business show the following information for product X.

		amount in units	cost per unit \$
1 January	opening balance	100	3
3 January	receipts into stock	50	4
8 January	stock issued	120	-

What is the value of the stock issued on 8 January using the First In First Out (FIFO) method?

- A** \$360
- B** \$380
- C** \$410
- D** \$420

- 16** A business uses the weighted average cost (AVCO) method of stock valuation. During March the following transactions took place.

		\$
1 March	opening stock 200 units at \$6.00 per unit	1200
14 March	received 300 units at \$6.50 per unit	1950
20 March	issued 250 units to production at \$7.00 per unit	1750
28 March	received 100 units at \$6.70 per unit	670

What is the value of stock at 31 March?

- A** \$2195      **B** \$2245      **C** \$2295      **D** \$2450
- 17** A business has the following assets and liabilities.

	\$
short-term investment	6 000
loan interest owing	1 500
loan repayable within one year	12 000
deposits from customers for orders	4 500
creditors	27 000
debtors	39 000
pre-payments	3 500

What is the amount of net current assets?

- A** \$3500      **B** \$4500      **C** \$8000      **D** \$15 500
- 18** Information about the final accounts of a partnership is given.

	\$
net profit before interest	160 000
interest on bank loan	14 000
interest credited to capital accounts	15 000
drawings	70 000
partnership salaries	24 000

What is the remaining balance of profits to be appropriated amongst the partners?

- A** \$66 000      **B** \$107 000      **C** \$121 000      **D** \$137 000

- 19 What is the effect on a company's balance sheet of issuing bonus shares?
- A the bank balance will be increased
  - B the long term liabilities will be increased
  - C the reserves will be reduced
  - D the share capital will be reduced
- 20 A company, with an existing issued share capital of 200 000 ordinary shares of \$0.50 each, made a one for four bonus issue. This was later followed by a one for two rights issue at \$1.20 per share.

What will be the balance on the share capital account after these transactions?

- A \$125 000      B \$187 500      C \$270 000      D \$375 000
- 21 Which ratio indicates how efficiently a company controls its overheads?
- A current assets / current liabilities
  - B gross profit / sales
  - C net profit / sales
  - D sales / capital employed
- 22 The following information has been taken from a recent balance sheet.

fixed assets	\$30 000
working capital ratio	5 : 1
capital	\$34 000
current liabilities	\$1000

What is the amount of the current assets?

- A \$1000      B \$5000      C \$6000      D \$20 000

**23** The following data is available at the end of a financial year.

opening stock	\$500 000
purchases	\$2 250 000
closing stock	\$750 000
gross profit margin	50 %
debtors collection period	60 days

Sales are all on credit and accrue evenly over a 360-day accounting period.

What is the value of debtors at the year-end?

- A** \$333 333      **B** \$375 000      **C** \$500 000      **D** \$666 667

**24** The profit margins of a company over two years showed:

	31 March year 1	31 March year 2
gross profit margin	37.2 %	39.1 %
net profit margin	12.2 %	11.8 %

What combination of factors could have caused these changes?

- A** a change in the combination of goods sold leading to lower selling costs  
**B** a loss of trade discounts on purchases but an increase in cash discounts taken from suppliers  
**C** an advertising campaign to promote higher sales leading to higher selling prices  
**D** an increase in both production and selling costs

**25** The data in the table relates to a small business.

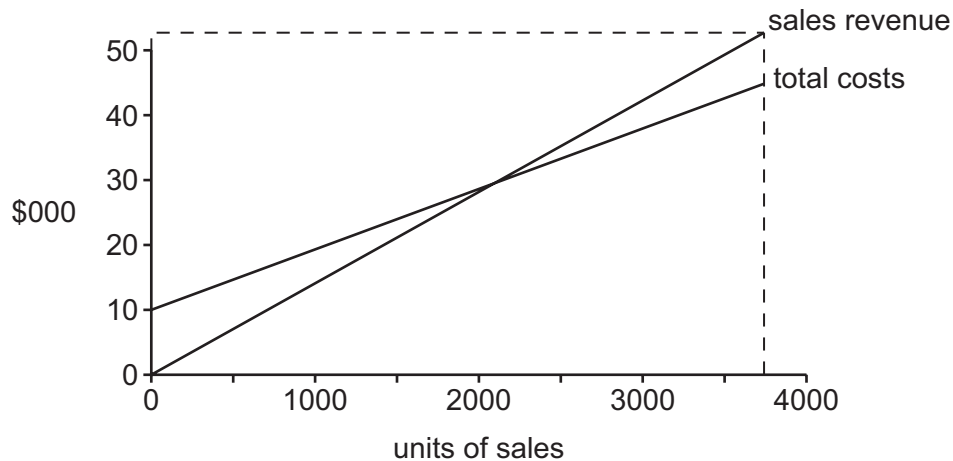
	\$
sales	6000
variable costs	4500
fixed costs	<u>900</u>
net profit	<u>600</u>

What is the contribution to sales ratio?

- A** 10 %      **B** 25 %      **C** 33.33 %      **D** 75 %



26 The graph shows a break-even chart.



What are the fixed costs?

- A** \$0                      **B** \$10 000                      **C** \$20 000                      **D** \$30 000

27 What is a benefit of using absorption costing?

- A** It allows a business to calculate the break-even point for production.  
**B** It allows a business to calculate the total cost of goods produced.  
**C** It allows a business to calculate the profit to be made on a product.  
**D** It allows decision-making on utilising spare capacity by increasing production.

28 A business provides the following data for the year.

budgeted output (units)	10 000
actual output (units)	8 000
	\$
budgeted fixed production costs	1 200 000
budgeted variable production costs	800 000
budgeted fixed selling overhead	600 000

What is the absorption cost per unit used for stocktaking?

- A** \$200                      **B** \$250                      **C** \$260                      **D** \$325

**29** The following data applies to a business.

budgeted labour hours	10 000
actual labour hours	9 500
budgeted overheads	\$150 000
actual overheads	\$160 000

What is the amount of overhead under-absorbed?

- A** \$7500      **B** \$8000      **C** \$10 000      **D** \$17 500

**30** A company manufactures one product. Variable costs are \$600 000. Fixed costs are \$300 000.

If it bought the product from another supplier, it could use existing machinery to make a total contribution of \$400 000. Fixed costs would not change.

What is the maximum price it should pay to obtain the product from another supplier?

- A** \$600 000      **B** \$700 000      **C** \$900 000      **D** \$1 000 000

**BLANK PAGE**

**BLANK PAGE**

---

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.