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

**ACCOUNTING** **9706/12**

Paper 1 Multiple Choice **October/November 2009**

**1 hour**

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

* 2 2 5 8 2 0 2 8 2 0 *

**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.


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**1** The accounting year end of a business is 31 October.

On 1 April the business rents out part of its warehouse for an annual rent of $6000. Payments were received in equal instalments on 1 April, 1 July, 1 October and 1 January.

At 31 October what would the final accounts show?

| | profit and loss account $ | | balance sheet $ | |
|---|---|---|---|---|
| **A** | rental income | 3500 | current asset | 1000 |
| **B** | rental income | 3500 | current liability | 1000 |
| **C** | rental income | 4500 | current liability | 1000 |
| **D** | rental income | 6000 | current asset | 1500 |

**2** A business paid $15 000 for electricity in the year. The opening prepayment was $1000 and the closing accrual was $2000.

What was the charge for electricity for the year?

**A** $15 000 **B** $16 000 **C** $17 000 **D** $18 000

**3** A business makes a provision for doubtful debts equal to 5% of its debtors.

At 31 March 2008 the provision for doubtful debts was $850.

At 31 March 2009 the debtors after the provision for doubtful debts were $17 100.

How much is the increase in the provision for doubtful debts for the year ended 31 March 2009?

**A** $45 **B** $50 **C** $850 **D** $900

**4** A business is separate from its owner. This results in only business transactions being recorded in the accounts.

Which accounting principle applies?

**A** business entity

**B** materiality

**C** money measurement

**D** prudence

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**5** At 31 March the balance sheet of a company included the following.

| | $ |
|---|---|
| trade debtors | 23 000 |
| provision for doubtful debts | 1 200 |

During April credit sales were $64 000 and cash sales were $256 000. Credit customers paid $56 840 net of a 2 % cash discount.

What will be the trade debtors at 30 April?

**A** $27 800 **B** $28 960 **C** $29 000 **D** $30 160

**6** Stock has been damaged.

The stock cost $1200.

It would normally have sold for $1800.

It can be sold for $1700 if repairs are undertaken at a cost of $600.

To replace the stock would cost $1000.

At what value should the damaged stock be shown in the final accounts?

**A** $1000 **B** $1100 **C** $1200 **D** $1800

**7** A business has discovered several errors in its sales ledger. All the accounts in the other ledgers have been entered correctly.

Which error will **not** affect the agreement of the trial balance?

**A** A sale to Clark of $2000 was debited to Clarkson's account.

**B** A sale to Garcia of $100 was entered in Garcia's account as $1000.

**C** A sale to Wong of $4700 was omitted from Wong's account.

**D** A sales return of $1200 was debited to Khan's account.

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**8** A trial balance fails to agree and the bookkeeper finds the following errors.

1 A bank overdraft of $100 was shown as a debit in the trial balance.

2 A telephone bill for $400 was debited to the insurance account.

3 A cash purchase of $160 was entered in the purchases account as $150; the purchase was entered correctly in the cash account.

The bookkeeper opens a suspense account in order to correct the errors.

What is the opening entry in the suspense account?

**A** credit $190

**B** credit $210

**C** debit $60

**D** debit $550

**9** A new business was established with opening capital of $15 000. At the end of the year net assets were $20 000. During the year the proprietor's drawings were $3000 and this resulted in an overdraft at the end of the year of $4000.

What was the profit during the year?

**A** $2000 **B** $4000 **C** $5000 **D** $8000

**10** The financial year of a manufacturer ends on 31 December. Finished goods are valued at factory cost plus 20 %.

The following information is available.

| | 1 January<br>$ | 31 December<br>$ |
|---|---|---|
| stock of finished goods at cost plus 20 % | 2400 | 3000 |

How much should be deducted from the stock of finished goods in the balance sheet at 31 December for unrealised profit?

**A** $100 **B** $400 **C** $500 **D** $600

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**11** The stock records of a business show the following information for product X during January.

| | | amount in units | cost per unit $ |
|---|---|---|---|
| 1 Jan | opening balance | 200 | 5 |
| 15 Jan | receipts into stock | 150 | 6 |
| 30 Jan | stock issued to production | 250 | - |

What is the value of stock held at 31 January using the Last In First Out (LIFO) method?

**A** $500 **B** $600 **C** $1300 **D** $1400

**12** The summarised balance sheets for a business for two years are as follows.

| | year 1 | year 2 |
|---|---|---|
| | $ | $ |
| fixed assets | 9 000 | 12 000 |
| current assets | 6 000 | 8 000 |
| less current liabilities | (5 000) | (6 000) |
| net assets | 10 000 | 14 000 |

The drawings in year 1 were $5000 and in year 2 $3000.

What is the net profit for year 2?

**A** $1000 **B** $4000 **C** $5000 **D** $7000

**13** X and Y are in partnership. Their profit and loss appropriation account shows the following.

| | X $ | Y $ | total $ |
|---|---|---|---|
| interest on capital | 1 600 | 1 800 | 3 400 |
| interest charged on drawings | 500 | 400 | 900 |
| partners' salaries | 2 000 | 3 000 | 5 000 |
| share of profit | 8 000 | 12 000 | 20 000 |

What is the net profit before appropriations?

**A** $17 500 **B** $22 500 **C** $27 500 **D** $29 300

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**[Turn over**

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**14** An extract from the accounts of a manufacturing company shows the following.

| | $ |
|---|---|
| depreciation of factory machinery | 16 700 |
| direct factory labour | 476 200 |
| factory cleaning costs | 18 300 |
| factory heat, light and power | 22 600 |
| factory supervisor's salary | 18 200 |
| indirect factory labour | 52 470 |
| purchases of raw materials | 184 300 |
| stock of raw materials | |
| - opening stock | 21 500 |
| - closing stock | 17 900 |

What is the prime cost of production?

**A** $660 500 **B** $664 100 **C** $680 800 **D** $716 570

**15** An extract from a company's balance sheet is given.

| | $000 |
|---|---|
| issued ordinary share capital | 250 |
| issued preference shares | 180 |
| profit and loss account | 320 |
| share premium account | 125 |
| 8 % debentures | 100 |

What are the ordinary shareholders' funds?

**A** $695 000 **B** $775 000 **C** $875 000 **D** $975 000

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**16** An extract from a company's balance sheet shows the following.

| | $000 |
|---|---|
| issued ordinary shares of $0.25 each | 600 |
| share premium account | 150 |
| retained profits | 300 |

The company makes a rights issue of one new ordinary share for each three held, at a price of $0.30 per share. All shares were taken up.

What does the new balance sheet show?

| | issued ordinary share capital $000 | share premium $000 |
|---|---|---|
| **A** | 600 | 120 |
| **B** | 800 | 150 |
| **C** | 800 | 190 |
| **D** | 800 | 600 |

**17** A company's Balance Sheet at 31 December 2008 includes:

| | $ |
|---|---|
| Ordinary shares of $1.00 | 12 000 |
| Profit and Loss Account | 4000 |

In January 2009, the company made a bonus issue of one share for every four held.

In June 2009, the company made a rights issue at $1.60 of one share for every two held.

By how much did these transactions increase the company's bank balance?

**A** $9600 **B** $12 000 **C** $12 800 **D** $19 200

**18** Which transaction would increase the current assets of a business?

**A** paying creditors $750 cash

**B** purchasing a fixed asset on credit for $5000

**C** purchasing stock on credit for $1000 and selling immediately for $2000 cash

**D** selling stock of $1000 at cost price on credit

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**19** What will result in a reduction of working capital?

**A** decreasing the rate of stock turnover

**B** reducing the debtor collection period by offering discounts

**C** reducing the time taken to pay suppliers

**D** selling some surplus fixed assets

**20** A bank manager has reviewed the financial statements of a business. He notes that the liquidity ratio has fallen but that the sales for the year have remained constant.

What explains this fall in the liquidity ratio?

**A** a decrease in stocks of finished goods

**B** a decrease in the overdraft

**C** an increase in cash

**D** an increase in trade creditors

**21** The following information relates to the final accounts of a business.

| | $000 |
|---|---|
| opening stock | 2 470 |
| closing stock | 2 156 |
| cost of sales for year | 12 500 |
| sales for year | 21 660 |

What was the stock turnover in days?

**A** 68 **B** 72 **C** 126 **D** 144

**22** A company has a share price that gives a dividend yield of 4 %. Earnings per share are $0.32 and half the earnings are paid out as dividends.

What is the share price?

**A** $2.00 **B** $4.00 **C** $6.00 **D** $8.00

**23** When are the reported profits under marginal costing and absorption costing principles the same amount?

**A** when sales revenue exceeds cost of sales

**B** when units produced equals sales in units

**C** when units produced exceeds sales in units

**D** when unit sales exceeds production in units

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**24** Which cost will fall as production is reduced?

**A** fixed costs per unit

**B** total fixed costs

**C** total variable costs

**D** variable costs per unit

**25** A particular cost is classified as 'semi-variable'.

What effect will a 20 % reduction in activity have on the unit cost?

**A** decrease by 20 %

**B** decrease by less than 20 %

**C** increase by 20 %

**D** increase by less than 20 %

**26** A business uses job costing to calculate the cost of vehicle repair jobs.

Overheads are allocated on an absorption costing basis.

What is the effect of this method of allocation?

**A** overheads will include both fixed and variable overhead costs

**B** overheads will include direct costs only

**C** overheads will include fixed overhead costs only

**D** overheads will include variable overhead costs only

**27** A company has a product which sells for $1 per unit. The variable costs are $0.60 per unit, and production of 200 000 units is planned.

Fixed costs are $0.20 per unit at the budgeted production level.

What is the break-even level?

**A** 40 000 units **B** 66 667 units **C** 100 000 units **D** 160 000 units

**28** How is total contribution calculated?

**A** actual sales revenue less break-even sales revenue

**B** sales revenue less fixed costs

**C** sales revenue less total costs

**D** sales revenue less variable costs

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**29** In January, a business had opening stocks of 25 200 units and closing stocks of 28 200 units.

The profit calculated on marginal costing principles was $100 800 and that calculated on absorption costing principles was $120 300.

What was the fixed overhead absorption rate per unit?

**A** $4.00 **B** $4.27 **C** $6.17 **D** $6.50

**30** The table shows balances at the end of a year.

| | $ |
|---|---|
| expenses prepaid | 6 000 |
| expenses accrued | 4 000 |
| bank overdraft | 11 500 |
| trade creditors | 13 400 |
| trade debtors | 10 500 |
| loan (2015) | 20 000 |

What is the total of current liabilities?

**A** $16 500 **B** $17 400 **C** $28 900 **D** $48 900

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