



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

ACCOUNTING

9706/12

Paper 1 Multiple Choice

May/June 2011

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 Accountants prefer the commercial reality of a transaction to a strictly legal approach.

Which accounting principle is being applied?

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

- 2 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 inventory.

Which accounting principle does this illustrate?

- A going concern
- B matching
- C materiality
- D substance over form

- 3 The cash book of a business shows a credit balance of \$12 500 at 30 June. Bank charges of \$2000 have not yet been entered in the cash book.

A cheque for \$20 000 received from a debtor, and a cheque for \$3000 paid to a creditor have been entered in the cash book, but have not yet been shown on the bank statement.

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

- A \$2500 credit
- B \$2500 debit
- C \$31 500 credit
- D \$31 500 debit

- 4 Closing inventory has been overvalued.

What is the effect on the financial statements?

| | net current assets | profit from operations |
|----------|--------------------|------------------------|
| A | overstated | overstated |
| B | overstated | understated |
| C | understated | overstated |
| D | understated | understated |

- 5 At the year end a company discovers that some inventory is damaged.

This inventory originally cost \$2000 and to replace it would now cost \$1900.

It would normally sell for \$2400 but can now only be sold for \$2200 if repairs costing \$400 are undertaken.

At what value should the damaged inventory be shown in the financial statements?

- A** \$1800 **B** \$1900 **C** \$2000 **D** \$2200

- 6 A club charges each of its 100 members an annual subscription of \$12.

At the end of a year four members had not paid their annual subscription.

What will be the entries in the financial statements for subscriptions?

| | income and expenditure account \$ | balance sheet |
|----------|---|------------------------|
| A | 1152 | current asset \$48 |
| B | 1152 | current liability \$48 |
| C | 1200 | current asset \$48 |
| D | 1200 | current liability \$48 |

- 7 How should goodwill be treated by a limited company?

- A** Goodwill should always be written off immediately.
B Non-purchased goodwill is shown in the balance sheet.
C Purchased goodwill is shown in the balance sheet and written off over its useful life.
D Purchased goodwill remains on the balance sheet as a permanent item.

- 8 A company issues for cash 50 000 shares of \$5 each at a premium of \$15 each and \$300 000 4% debentures.

By what amount will the net assets of the company increase?

- A** \$250 000 **B** \$550 000 **C** \$1 000 000 **D** \$1 300 000

- 9 An extract from Bumble Ltd's balance sheet shows the following.

| | \$000 |
|--------------------------------|-------|
| ordinary shares of \$0.25 each | 500 |
| share premium | 100 |
| retained earnings | 300 |

The company makes a rights issue of 1 share for each 4 held at a price of \$0.30 per share. All shares are taken up.

What will the new balance sheet show?

| | A | B | C | D |
|--------------------------------|-------|-------|-------|-------|
| | \$000 | \$000 | \$000 | \$000 |
| ordinary shares of \$0.25 each | 625 | 500 | 625 | 625 |
| rights issue | – | 125 | – | – |
| share premium | 100 | 125 | 125 | 100 |
| retained earnings | 300 | 275 | 300 | 325 |

- 10 A business paid \$10 000 for waste disposal in the year.

The opening prepayment was \$1500 and the closing accrual was \$2000.

What was the charge for waste disposal for the year?

- A** \$6500 **B** \$9500 **C** \$10 500 **D** \$13 500

- 11 The non-current assets of a business are shown.

| | end of year \$ | start of year \$ |
|--------------------------|-------------------|---------------------|
| cost | 360 000 | 300 000 |
| accumulated depreciation | <u>120 000</u> | <u>75 000</u> |
| net book value | 240 000 | 225 000 |

During the year, non-current assets costing \$110 000 were bought and non-current assets with a net book value of \$20 000 were sold.

What was the depreciation charge for the year?

- A** \$35 000 **B** \$45 000 **C** \$50 000 **D** \$75 000

12 Which transaction would increase the current assets of a business?

- A paying invoices \$950, after receiving \$50 cash discount
- B purchasing a machine on credit for \$1200
- C purchasing inventory for \$1100 cash and selling it on credit for \$1500
- D selling inventory with an original cost of \$800 at below cost price

13 The following summarised information has been taken from the balance sheet of a partnership.

| | \$ |
|--------------------------|--------|
| non-current assets | 42 000 |
| capital accounts | 36 000 |
| current accounts (debit) | 5 000 |
| current liabilities | 7 000 |
| non-current liabilities | 15 000 |

What is the amount of current assets?

- A \$6000 B \$11 000 C \$17 000 D \$21 000

14 What is the main use of a computerised age analysis of debtors?

- A aid debt collection procedures
- B match sales invoices against orders
- C reconcile sales ledger balances
- D show credit notes issued

15 A manufacturing company has the following balances at its year end.

| | \$ |
|------------------------------------|---------|
| closing inventory of raw materials | 24 500 |
| direct manufacturing wages | 162 800 |
| purchases of raw materials | 85 200 |
| supervisors' wages | 44 000 |
| opening inventory of raw materials | 27 800 |

What is the prime cost for the year?

- A \$244 700 B \$248 000 C \$251 300 D \$295 300

16 A partnership provides the following financial information for the year ended 30 June 2011.

| | \$000 |
|---------------------------------------|-------|
| profit from operations | 240 |
| bank interest payable | 21 |
| interest credited to current accounts | 15 |
| drawings | 100 |
| partnership salaries | 95 |

What is the residual balance of profits to be appropriated between the partners?

- A** \$9000 **B** \$104 000 **C** \$109 000 **D** \$204 000

17 A new business was established with opening capital of \$20 000.

At the end of the first year, assets less liabilities were \$26 000. The owner withdrew \$7000 as drawings during the year and this resulted in a bank overdraft of \$5000 at the end of the year.

What was the profit during the first year?

- A** \$8000 **B** \$12 000 **C** \$13 000 **D** \$18 000

18 The annual accounts of a business include the following.

| | \$ |
|-------------------|---------|
| revenue | 160 000 |
| opening inventory | 10 000 |
| closing inventory | 14 000 |

Inventory turnover is 10 times.

What is the gross profit?

- A** \$20 000 **B** \$40 000 **C** \$60 000 **D** \$120 000

19 A company's profit from operations was \$128 000.

Interest payable was \$8000.

The following amounts were included in the company's balance sheet.

| | \$ |
|-------------------------|---------|
| non-current assets | 485 000 |
| net current assets | 27 000 |
| non current liabilities | 80 000 |

How much is the return on the total capital employed?

- A** 20.3% **B** 21.6% **C** 23.4% **D** 25.0%

20 A business has \$10 000 in the bank and buys inventory for \$6000 paying by cheque.

What is the effect of this on its current ratio and quick (acid test) ratio?

| | current ratio | quick (acid test) ratio |
|----------|---------------|-------------------------|
| A | decreases | increases |
| B | decreases | no effect |
| C | no effect | decreases |
| D | no effect | no effect |

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

| | |
|----------------------------|-----------|
| opening inventory | \$60 000 |
| purchases | \$420 000 |
| closing inventory | \$80 000 |
| mark up | 25% |
| trade receivables turnover | 50 days |

Sales are all on credit and accrue evenly over the year.

What is the amount of trade receivables at the end of the year (to the nearest \$500)?

- A** \$55 000 **B** \$57 500 **C** \$68 500 **D** \$72 000

22 Which cost will decrease as production is increased?

- A fixed costs per unit
- B total fixed costs
- C total variable costs
- D variable cost per unit

23 A business sells its product for \$50 a unit and has variable costs of \$30 per unit. Its fixed costs for this year were \$200 000. Next year, fixed costs are expected to be \$260 000.

How many more units will have to be sold next year to make the same profit as this year?

- A 3000
- B 5200
- C 10 000
- D 13 000

24 A business has sales of \$250 000, fixed costs of \$50 000 and a contribution/sales ratio of 30%.

What is the profit?

- A \$25 000
- B \$60 000
- C \$75 000
- D \$200 000

25 A business provides the following information for a month.

| | |
|-----------------------------------|----------|
| actual direct labour hours worked | 8000 |
| actual overhead expenditure | \$88 000 |
| budgeted direct labour hours | 7500 |
| budgeted overhead expenditure | \$90 000 |

What is the amount of the overhead over/under recovery?

- A \$2000 over-recovered
- B \$2000 under-recovered
- C \$8000 over-recovered
- D \$8000 under-recovered

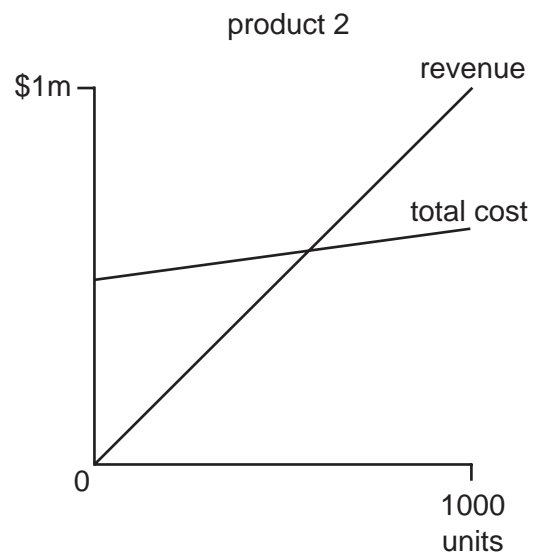
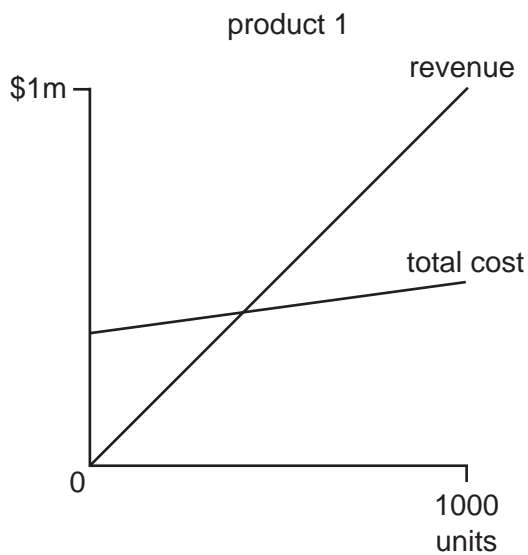
26 The following information is provided by a company for a month.

| | |
|-----------------------------------|----------|
| actual direct labour hours worked | 4500 |
| budgeted direct labour hours | 5000 |
| budgeted overhead expenditure | \$80 000 |
| overheads under-recovered | \$12 000 |

What is the amount of the actual overhead expenditure?

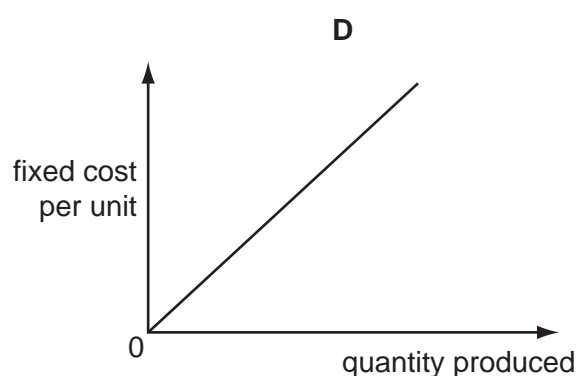
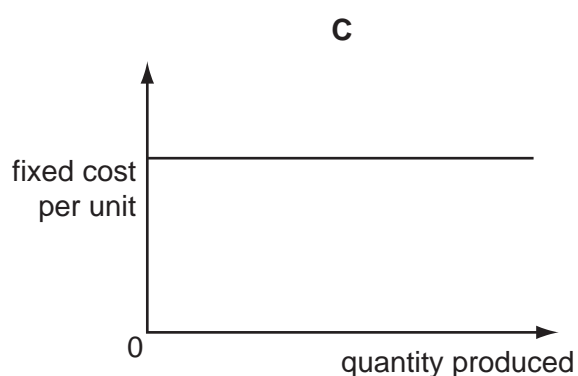
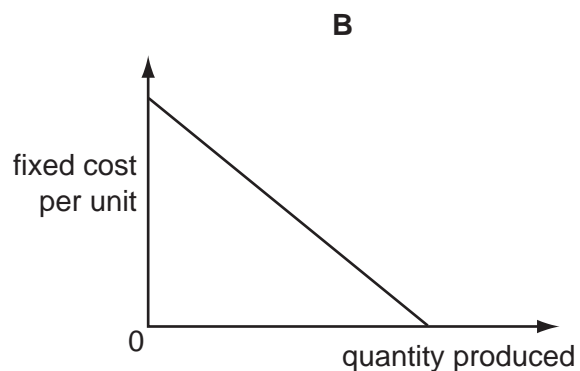
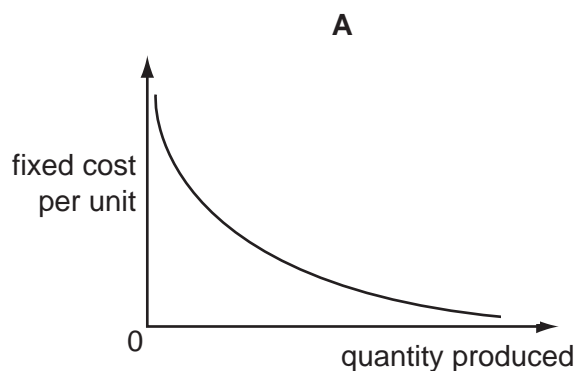
- A** \$60 000 **B** \$68 000 **C** \$72 000 **D** \$84 000

27 What do the break-even charts show regarding the profitability of and risk attaching to products 1 and 2?



| | profitability | risk |
|----------|---------------|--------------|
| A | 1 is greater | 1 is greater |
| B | 1 is greater | 1 is less |
| C | 2 is greater | 2 is greater |
| D | 2 is greater | 2 is less |

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



29 A company's sales are made evenly over a year (360 days). 10 % of the sales are for cash, debtors total \$26 700 and the trade receivables turnover 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

30 A business sells goods at a mark up of 33.3%.

Information for a year is given.

| | \$ |
|-------------------|---------|
| revenue | 600 000 |
| opening inventory | 53 000 |
| closing inventory | 68 000 |

What are the total purchases for the year?

- A** \$415 000 **B** \$435 000 **C** \$450 000 **D** \$465 000

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