

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

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

October/November 2006

**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 What would be treated as part of the capital cost of the purchase of a building?
- 1 legal costs of the purchase
  - 2 redecoration of the building
  - 3 installation of air conditioning needed for the machinery in the building
- A** 1 only  
**B** 1 and 3 only  
**C** 2 and 3 only  
**D** 1, 2 and 3
- 2 In the books of Y how could a credit entry of \$500 in X's account have arisen?
- A** X bought goods from Y  
**B** X returned goods to Y  
**C** Y made a payment to X  
**D** Y returned goods to X
- 3 A company's net profit is \$20 000. Capital receipts of \$5000 have been treated as revenue receipts. Capital expenditure of \$4000 has been treated as revenue expenditure.
- What is the correct net profit figure?
- A** \$11 000      **B** \$19 000      **C** \$21 000      **D** \$29 000
- 4 At the beginning of the year a business has a provision for doubtful debts of \$2600. At the year end the provision is to be 5% of trade debtors.
- The balance on the debtors' control account at the year end is \$69 200, before writing off a bad debt of \$480.
- The business operates a separate bad debts account.
- What is the entry in the Profit and Loss Account for the provision for doubtful debts?
- A** \$836 debit      **B** \$860 debit      **C** \$836 credit      **D** \$860 credit
- 5 A company has issued non-cumulative preference shares and ordinary shares.
- Which statement is correct?
- A** If no preference dividend is paid, it is carried forward to a future year.  
**B** Preference shareholders always get a dividend.  
**C** Preference shareholders and ordinary shareholders always get a dividend.  
**D** Preference shareholders may get a dividend.

- 6 The following information relates to a company's fixed assets at 31 December:

	cost price \$	disposal value \$
motor vehicles	25 000	18 000
equipment	48 000	36 000
fixtures and fittings	12 000	5 000

The company has a serious cash shortage and will cease to trade within the next two months.

What is the total value for fixed assets in the company's Balance Sheet at 31 December?

- A** \$26 000      **B** \$59 000      **C** \$85 000      **D** \$144 000
- 7 What is the calculation for capital employed?
- A** current assets – current liabilities  
**B** fixed assets + current assets – current liabilities  
**C** fixed assets + current assets + current liabilities  
**D** net assets – current liabilities
- 8 A trader buys stock costing \$6000.  
 He is entitled to trade discount at 10% and cash discount of 5%.  
 On the same day he discovers that he can only sell the stock for \$5000.  
 Which amount should he record as the purchase price of the stock?
- A** \$5000      **B** \$5130      **C** \$5400      **D** \$6000
- 9 A trial balance fails to agree. The debits exceed the credits.  
 Which single error in the general (nominal) ledger would cause the difference?
- A** A contra between the debtors' and creditors' ledgers has been entered on the credit side of both control accounts.  
**B** A rental receipt has been entered twice in the rent receivable account.  
**C** The closing stock at the end of the previous period has not been entered in the stock account.  
**D** The opening electricity accrual has been brought forward on the wrong side of the ledger account.

- 10 A cheque for payment of wages of \$214 has been debited to the purchases account as \$241. A suspense account is created.

What are the correcting entries?

	account to be debited	\$	account to be credited	\$
<b>A</b>	purchases suspense	214 27	wages	241
<b>B</b>	wages	214	suspense	214
<b>C</b>	wages suspense	214 27	purchases	241
<b>D</b>	purchases	241	wages suspense	241 27

- 11 A bank statement shows a credit balance of \$8360. Comparison with the cash book reveals:

- Cheques totalling \$18 725, sent to suppliers, have not been presented.
- Cheques totalling \$16 223, received from customers, have not been credited by the bank.
- Bank charges of \$124 have not been entered in the cash book.

What is the correct cash book balance?

- A** \$5734 credit  
**B** \$5734 debit  
**C** \$5858 debit  
**D** \$10 986 credit
- 12 The balance on a sales ledger control account is \$40 000.

The following items are then discovered:

	\$
total of sales day book understated	500
discounts allowed not entered in sales ledger control account	1 200
bad debts written off not recorded in sales ledger control account	400
provision for doubtful debts	2 500

What is the total of the balances in the sales ledger?

- A** \$37 900      **B** \$38 600      **C** \$38 900      **D** \$41 100

- 13 What is the normal treatment of life membership subscriptions?
- A credit the income and expenditure account in the year of receipt
  - B credit the life membership fund with the year's receipts and transfer a proportion each year to the income and expenditure account
  - C debit the income and expenditure account in the year of receipt
  - D debit the life membership fund with the year's receipts and transfer a proportion each year to the income and expenditure account

- 14 A business owner suspects a loss of cash has occurred. He provides the data shown.

	\$
cash balance at the start of the month	150
cash balance at the end of the month	100
cash banked	10 200
cash sales for the month	10 500

How much cash has been lost?

- A \$200
  - B \$250
  - C \$300
  - D \$350
- 15 A club's treasurer has calculated that there is a deficit in the Income and Expenditure account. How is this described in the Income and Expenditure account?
- A an excess of expenditure over income
  - B an excess of income over expenditure
  - C an excess of payments over receipts
  - D an excess of receipts over payments
- 16 X has not kept proper records for his business.

Between 31 December 2004 and 31 December 2005 his net assets had increased by \$30 000.

On 1 January 2005, X brought into the business his private car which had cost \$12 000 but now has a re-sale value of \$8000.

Drawings for the year ended 31 December 2005 were \$16 000.

What was X's profit for the year ended 31 December 2005?

- A \$22 000
- B \$26 000
- C \$34 000
- D \$38 000

- 17 Hilary and Lee commenced in partnership on 1 January 2005. There was no partnership agreement concerning the division of interest on the loan or of profits.

	Hilary \$	Lee \$
capital contributions	5000	600
loan to partnership	–	1000

At the year end, 31 December 2005, net profit before the loan interest was \$8850.

What would be Hilary's share of the profit?

- A** \$4400      **B** \$4425      **C** \$4800      **D** \$4827
- 18 An extract from the accounts of a manufacturing company shows:

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

What is the prime cost of production?

- A** \$660 500      **B** \$664 100      **C** \$680 800      **D** \$716 570
- 19 A director-owned company needs additional funds.
- Which method of finance might lead to a reduction of the director's control of the business?
- A** bank loan  
**B** debenture  
**C** ordinary share issue  
**D** preference share issue

20 Which statement is correct?

- A A bonus issue of shares will increase the amount of cash available to the company.
- B A rights issue of shares is always made at the nominal value of the shares.
- C A rights issue of shares will increase the amount of cash available to the company.
- D If shares are issued at an amount that is more than the nominal value of the shares, the excess must be debited to the share premium account.

21 A company balance sheet shows the following:

	\$000
\$1 ordinary shares	500
retained earnings	400
10% debentures	<u>300</u>
	<u>1 200</u>
net assets	<u>1 200</u>

A fully subscribed 1 for 4 rights issue at \$2 per share is made and 50% of the debentures are repaid at par.

What are the net assets following these changes?

- A \$1 100 000    B \$1 175 000    C \$1 225 000    D \$1 300 000

22 The table shows extracts from a company's Balance Sheets at 31 December 2004 and at 31 December 2005.

	31 December 2004 \$m	31 December 2005 \$m
ordinary shares of \$1 each	100	130
share premium account	50	80

On 1 July 2005 there was a bonus issue of 1 ordinary share for every 10 held.

On 1 October 2005 there was a rights issue.

There were no other reserve balances.

How much cash was received from the issue of shares in the year ended 31 December 2005?

- A \$20 m    B \$30 m    C \$50 m    D \$60 m

- 23** A business has a current ratio of 1.75 : 1 and a quick (acid test) ratio of 1 : 1. The business sells stock on credit at its usual mark-up.

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

	current ratio	quick (acid test) ratio
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 24** During the year ended 31 March 2006 a business made sales of \$560 000 of which 25% were for cash. The trade debtors at 31 March 2005 were \$52 000 and at 31 March 2006 they were \$56 000.

What is the debtors' collection period based on average debtors?

- A** 34 days      **B** 35 days      **C** 47 days      **D** 49 days

- 25** The following data is available:

	this year \$	last year \$
credit sales	60 000	50 000
credit purchases	40 000	28 000
creditors (average)	10 000	16 000
debtors (average)	12 000	8 000

Which statement is correct?

- A** Debtors' and creditors' turnover ratios have improved.  
**B** Debtors' and creditors' turnover ratios have worsened.  
**C** Debtors are paying faster, but creditors are being paid more slowly.  
**D** Debtors are paying more slowly, but creditors are being paid faster.



- 26 A company's Profit and Loss Account showed a profit before interest of \$128 000.  
Interest paid was \$8000.

The table shows amounts included in the company's Balance Sheet.

	\$
fixed assets	485 000
net current assets	27 000
amounts falling due after one year: Debentures	80 000

How much is the return on the total capital employed?

- A** 20.3%      **B** 21.6%      **C** 23.4%      **D** 25.0%
- 27 What is a variable production cost for a manufacturer?
- A** depreciation of equipment  
**B** factory business rates  
**C** purchases of raw materials  
**D** storekeepers' wages
- 28 Existing fixed overheads are \$100 000, unit selling price is \$10 and unit variable costs are \$5.  
Fixed overheads are expected to increase by \$20 000.  
What is the new break-even sales volume?
- A** 10 000 units  
**B** 12 000 units  
**C** 20 000 units  
**D** 24 000 units

29 A business manufactures 175 units of a product a month.

The following total information is available for the month:

	\$
sales income	580
variable costs	230
fixed overheads	90

What is the break-even point in units?

- A** 45 units      **B** 49 units      **C** 61 units      **D** 88 units

30 A department makes radios. The production at the end of the month was 1000 units, of which 600 units were completed and 400 units were 50% complete.

production costs for the month	\$
materials	60 000
labour	30 000
departmental overheads	10 000

What is the cost per unit?

- A** \$100      **B** \$112      **C** \$125      **D** \$150



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