



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

ACCOUNTING

9706/11

Paper 1 Multiple Choice

October/November 2013

1 hour

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

* 5 2 8 8 7 5 0 2 8 9 *

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.

DO NOT WRITE IN ANY BARCODES.

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 A non-current asset costs \$250 000 and has a useful economic life of 25 years. The estimated residual value is \$10 000.

Depreciation is provided on a straight line basis.

After 10 years the asset is sold for \$120 000. Disposal costs of \$20 000 are incurred.

What is the loss on disposal?

- A** \$30 000 **B** \$34 000 **C** \$50 000 **D** \$54 000

- 2 Goods that had previously been purchased on credit have been returned to the supplier.

How should this be recorded in the purchaser's books of account?

| | account to be debited | account to be credited |
|----------|-----------------------|------------------------|
| A | bank | purchases returns |
| B | trade payable | bank |
| C | creditor | purchases returns |
| D | purchases returns | trade payable |

- 3 On 1 January 2012 a business had prepaid rent of \$50. During 2012, it made three rent payments of \$250 each. On 31 December 2012, the business owed \$200 rent for 2012.

The business owner only charged the rent payments made during 2012 in the income statement.

What is the effect on profit for the year?

- A** \$200 overstated
B \$200 understated
C \$250 overstated
D \$250 understated

- 4 A computer used for demonstration to customers was treated as capital expenditure.

The following year a customer purchased the computer in the ordinary course of business.

Which entries are needed to adjust the cost of sales?

| | account to be debited | account to be credited |
|----------|-----------------------|------------------------|
| A | inventory | computers |
| B | purchases | computers |
| C | sales | inventory |
| D | selling expenses | sales |

- 5 The table shows information about a business.

| | \$ |
|--|--------|
| provision for doubtful debts at 1 January 2012 | 700 |
| trade receivables at 31 December 2012 (after writing off a bad debt of \$30) | 15 000 |
| charge to income statement for bad and doubtful debts for year ended 31 December 2012 (including the bad debt written off) | 200 |

What is the total percentage provision that has been made for doubtful debts at 31 December 2012?

- A 3.5% B 4.7% C 5.8% D 6.0%
- 6 The following information is extracted from the statement of financial position of a business.

| | \$ |
|----------------------------|--------|
| bank loan (repayable 2019) | 16 200 |
| bank loan interest owing | 1 880 |
| bank overdraft | 11 600 |
| capital | 20 710 |
| drawings | 19 100 |
| inventory | 14 610 |
| prepayments | 1 420 |
| trade payables | 14 110 |
| trade receivables | 9 050 |

What is the value of the net current liabilities?

- A \$1590 B \$2510 C \$18710 D \$20320
- 7 A business sells computers. When they value their inventory they exclude the value of the inventory that is over one year old, as they may be obsolete.

Which accounting principle does this demonstrate?

- A going concern
 B historical cost
 C prudence
 D realisation

- 8 When preparing a bank reconciliation statement, the following information is available.

| | \$ |
|--|--------------|
| bank balance shown by the cash book | 20 000 debit |
| unpresented cheques | 2 500 |
| uncleared bankings | 1 400 |
| standing order shown on the bank statement (not in the cash book) | 300 |

What is the balance on the bank statement?

- A** \$18 600 **B** \$19 200 **C** \$20 800 **D** \$21 400
- 9 The following financial information has been extracted from the books of account.

| | \$ |
|--|---------|
| bad debts written off | 7 000 |
| cash from credit customers | 925 000 |
| credit sales | 900 000 |
| opening trade receivables | 300 000 |
| discounts allowed | 10 000 |
| discounts received | 25 000 |
| increase in provision for doubtful debts | 9 000 |
| returns inwards | 8 000 |
| returns outwards | 5 000 |

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

- A** \$235 000 **B** \$241 000 **C** \$250 000 **D** \$253 000
- 10 Discount received of \$280 has been incorrectly posted to the credit of the discount allowed account.

Which entry must be made to the discount received account to correct the error?

- A** credit \$280 **B** credit \$560 **C** debit \$280 **D** debit \$560

11 A trader provides the following financial information for the year.

| | \$ |
|---------------------------------|---------|
| direct costs | 210 000 |
| indirect costs | 55 000 |
| increase in work in progress | 7 000 |
| raw materials taken for own use | 2 000 |

Which figures should appear in the manufacturing account?

| | prime cost \$ | overheads \$ | transfer to trading account of income statement \$ |
|----------|------------------|-----------------|--|
| A | 208 000 | 55 000 | 256 000 |
| B | 208 000 | 55 000 | 270 000 |
| C | 210 000 | 53 000 | 256 000 |
| D | 210 000 | 53 000 | 270 000 |

12 Which item appears in a company's income statement?

- A** dividends
- B** inventory
- C** trade payables
- D** transfer to reserves

13 The table shows the following balances for a business.

| | start of year \$ | end of year \$ |
|----------------|------------------------|----------------------|
| inventory | 6 000 | 9 000 |
| trade payables | 8 000 | 10 000 |

Total payments to trade payables were \$20 000.

What is the cost of sales for the year?

- A** \$15 000
- B** \$19 000
- C** \$21 000
- D** \$25 000

- 14 X and Y are in partnership sharing residual profits and losses in the ratio 7 : 3.

Their fixed capital accounts have balances of X \$40 000; Y \$60 000. Interest is allowed on these at the rate of 10% per year.

X is paid a salary of \$40 000 per year. Profit for the year was \$200 000.

What was the division of profits between the partners?

| | X \$ | Y \$ |
|----------|---------|---------|
| A | 137 000 | 63 000 |
| B | 140 000 | 60 000 |
| C | 149 000 | 51 000 |
| D | 152 000 | 48 000 |

- 15 X, Y and Z are in partnership, sharing profits, X 40%, Y 20% and Z 40%. Existing goodwill is shown in the ledger as \$10 000.

The partners agree that the goodwill is now worth \$40 000 and they agree to share future profits equally. They also agree that, in future, goodwill is not to appear in the ledger.

Which journal entry will record this change?

| | | debit \$ | credit \$ |
|----------|-------------------------|----------------------------|--------------|
| A | X Y Z goodwill | 1 334 7 333 1 333 | 10 000 |
| B | X Y Z goodwill | 10 000 10 000 10 000 | 30 000 |
| C | X Y Z goodwill | 12 000 6 000 12 000 | 30 000 |
| D | X Y Z goodwill | 13 334 13 333 13 333 | 40 000 |

16 A trader provides the following information.

| | \$ |
|-------------------|--------|
| opening inventory | 6 000 |
| closing inventory | 4 000 |
| purchases | 15 000 |

He uses a uniform gross profit margin of 20%.

What was the sales figure for the trading period?

- A** \$16 250 **B** \$18 750 **C** \$20 400 **D** \$21 250

17 A club supplies refreshments for its members at a uniform gross profit margin of 30%. The following information is available.

| | \$ |
|-------------------|--------|
| receipts | 62 000 |
| opening inventory | 10 000 |
| purchases | 45 000 |

What is the value of closing inventory?

- A** \$10 000 **B** \$11 600 **C** \$16 500 **D** \$18 600

18 Y sells goods to X on credit. Details of X's account are as follows.

| | \$ |
|----------------------------|------|
| trade discount | 250 |
| closing balance | 750 |
| opening balance | 1500 |
| payment received | 2000 |
| contra to purchases ledger | 2500 |

What was the value of sales?

- A** \$3500 **B** \$3750 **C** \$4000 **D** \$5250

- 19 The following information has been taken from the books of accounts of a limited company for the year ended 31 December 2012.

| | \$ |
|--|--------|
| bank loan interest for the year | 1 650 |
| bank overdraft interest for the year | 2 150 |
| ordinary dividends paid during the year | 900 |
| 8% debenture taken out on 1 October 2012 | 30 000 |

What are the total finance costs in the income statement for the year ended 31 December 2012?

- A** \$4400 **B** \$4700 **C** \$5300 **D** \$6200
- 20 A company has 1 000 000 ordinary shares of \$1 issued at \$2.50. It also has a 5% debenture of \$300 000.

Profit from operations for the year was \$465 000.

The directors paid an 8% ordinary dividend during the year.

What is the retained profit for the year?

- A** \$250 000 **B** \$370 000 **C** \$385 000 **D** \$400 000
- 21 The following information was extracted from the books of a trader.

| | \$ |
|------------------------|---------|
| revenue for the year | 126 000 |
| purchases for the year | 87 000 |
| opening inventory | 9 000 |
| closing inventory | 12 000 |

What is the rate of inventory turnover?

- A** 4 times **B** 6 times **C** 8 times **D** 12 times
- 22 A company wishes to improve its current ratio and its liquid (acid test) ratio.

How can this be done?

- A** increasing discounts to trade receivables
B increasing the provision for doubtful debts
C purchasing additional inventory on credit
D selling non-current assets

23 Which of the following measures a business' average credit period?

- A current ratio
- B inventory turnover
- C liquid (acid test) ratio
- D trade receivables turnover

24 Which expense would be classified as a variable cost of a furniture manufacturer?

- A factory manager's salary
- B plant depreciation
- C royalties
- D vehicle insurance

25 A company has the following annual costs.

| | \$ |
|--|---------|
| purchases of raw materials during the year | 53 000 |
| wages and salaries: production staff | 110 000 |
| administration staff | 56 000 |
| production overheads | 16 000 |
| administration expenses excluding wages | 42 000 |
| selling and distribution overheads | 34 000 |

What is the total indirect cost for the year?

- A \$132 000 B \$148 000 C \$163 000 D \$258 000

26 Which statement is correct?

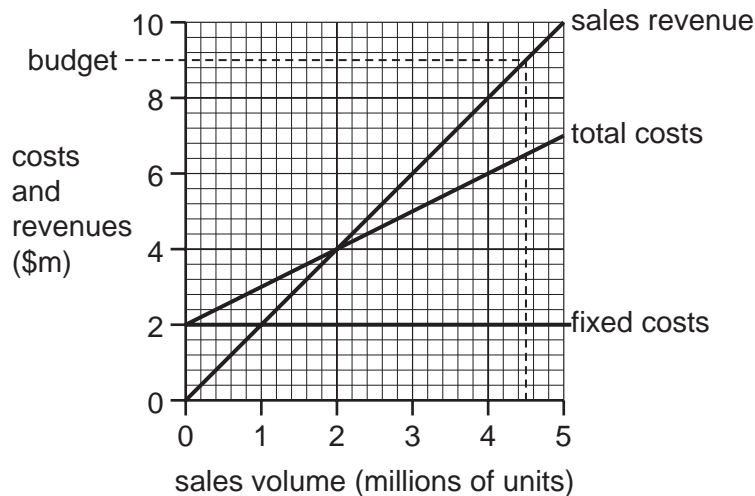
- A Fixed costs per unit decrease as production increases.
- B Total fixed costs decrease as production increases.
- C Total variable costs decrease as production increases.
- D Variable costs per unit decrease as production increases.

27 Which statements about absorption costing are correct?

- 1 It apportions overheads between production and service departments.
- 2 It enables a company to know its break-even level of production.
- 3 It leads to higher inventory valuations than marginal costing.
- 4 It is used by management for make or buy decisions.

A 1, 2 and 3 **B** 1 and 3 only **C** 2 and 4 only **D** 3 and 4 only

28 An accountant prepared the following break-even chart.



The budgeted sales volume is 4.5 million units.

Which profit can be anticipated at this level?

A \$2.5 million **B** \$4.5 million **C** \$7 million **D** \$9 million

29 Which statement best describes job costing?

- A** a costing method that calculates the cost of meeting a specific customer order
- B** a costing method that calculates the cost of producing a number of identical units for a customer
- C** a costing method that enables overheads to be absorbed into the cost of the product
- D** a costing method that separates fixed costs from variable costs

30 Which item would appear in a cash budget?

- A** bad debts
- B** cash discounts
- C** depreciation
- D** loan repayments

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