



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

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**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

**For Examination from 2010**

SPECIMEN PAPER

**1 hour**

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

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**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.

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This document consists of **11** printed pages and **1** blank page.



1 Which of the following is a revenue reserve?

- A capital redemption reserve
- B general reserve
- C revaluation reserve
- D share premium account

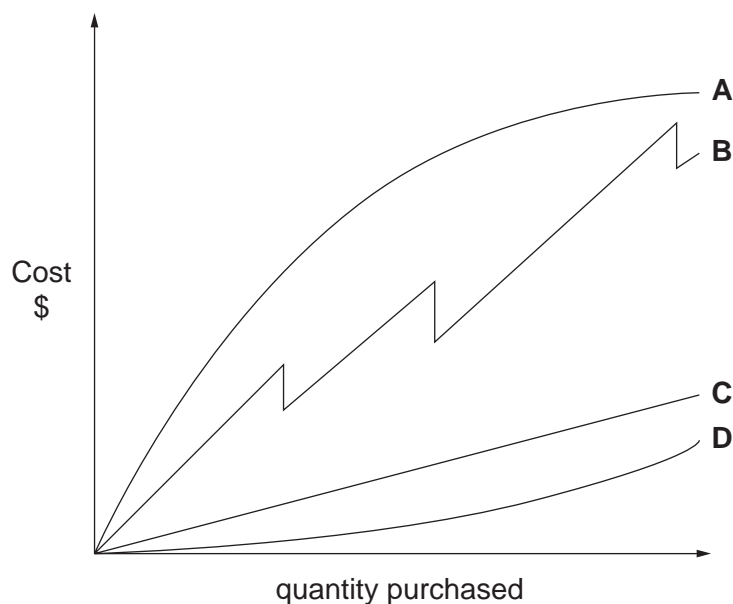
2 The sales included in the trial balance of a company total \$880 000.

This is made up as follows:

	\$
Cash sales	215 000
Credit sales	536 000
Goods sent on sale or return basis awaiting acceptance by the consignee	45 000
Goods sent on sale or return for which customers have accepted invoices	<u>84 000</u>
Total	<u>880 000</u>

Which amount will be shown in the income statement as revenue?

- A \$751 000      B \$796 000      C \$835 000      D \$880 000
- 3 Which line, A, B, C or D, in the graph below best represents the behaviour of the total cost of an item affected by bulk purchase discounts?



4 The following information is taken from the balance sheet of a business in 2008 and 2009.

	2008	2009
	\$	\$
Non-current assets, at cost	280 000	370 000
Less: Accumulated depreciation	1150 000	35 000
Net book value	130 000	235 000
		\$
During 2009 Expenditures on new non-current assets was	260 000	
Loss on sale of old non-current assets was	50 000	
Depreciation provided for the year was	75 000	

What were the sales proceeds received from the disposal of the old non-current assets?

- A \$30 000
- B \$40 000
- C \$120 000
- D \$130 000

5 An extract from a company's trial balance at 31 March 2009 is as follows:

	Debit	Credit
	\$	\$
Trade receivables	67 521	5 210
Bank account		7 000
Cash	4 500	

There are no other current assets.

Which total for current assets should be disclosed in the company's financial statements at 31 March 2009?

- A \$59 811
- B \$62 311
- C \$66 811
- D \$72 021

6 Which asset would **not** normally be depreciated?

- A property
- B land
- C patents
- D plant and machinery

- 7 A company decides to change from the straight-line method of depreciation to the reducing balance method.

Which accounting concept does the proposal disregard?

- A consistency
  - B going concern
  - C historic cost
  - D materiality
- 8 A machine acquired on hire purchase legally belongs to the seller until the final hire purchase instalment has been paid. However, it is treated for accounting purposes as a non-current asset in the books of the hire purchaser.

Which accounting concept is this an example of?

- A matching
  - B materiality
  - C prudence
  - D substance over form
- 9 The final accounts of John Gates contain two errors. The closing trade inventories have been overvalued by \$6,000, and uninsured theft of goods costing \$9,000 has not been taken into account.

What effect will the **correction** of these errors have on John Gates's profits?

	Gross profit	Profit for the year (Net profit)
<b>A</b>	reduced by \$6 000	increased by \$3 000
<b>B</b>	reduced by \$3 000	reduced by \$3 000
<b>C</b>	increased by \$3 000	reduced by \$6 000
<b>D</b>	increased by \$6 000	increased by \$6 000

- 10 A trial balance does not balance, so a suspense account is opened.

One error involves the rent payable account, when \$234 paid in advance from the previous year has been brought forward at the start of the year on the wrong side of the account and incorrectly as \$324.

Which journal entry will correct the error?

	account to be debited \$		account to be credited \$	
<b>A</b>	rent payable	90	suspense	90
<b>B</b>	rent payable	234	suspense	234
<b>C</b>	suspense	324	rent payable	324
<b>D</b>	rent payable	558	suspense	558

- 11 Which is the characteristic of the LIFO basis of inventory valuation?

- A** It determines the exact profit in historic cost terms in respect of completed jobs.
- B** It gives balance sheet values reflecting up-to-date costs.
- C** It matches revenues with up-to-date costs.
- D** It evens out the effect of seasonal cost fluctuations.

- 12 Which item should be treated as capital expenditure?

- A** the cost of a printer for an existing computer system
- B** repair costs to a car which are not covered by insurance
- C** rent paid on a factory, whilst the company negotiated the purchase of the factory
- D** the replacement of a wooden fence with a new fence

- 13 In the case of a club, the accumulated funds show

- A** the increase in cash over the year
- B** the surplus of income over expenditure for the year
- C** the total of assets less current and non-current liabilities
- D** the total subscription received during the year

- 14** When a company's departmental accounts are prepared, on which basis is the rent of premises usually apportioned to the departments?
- A** departmental salaries
  - B** departmental sales
  - C** floor area occupied
  - D** number of personnel in each department
- 15** Goodwill is
- A** a current asset
  - B** a fictitious asset
  - C** an intangible asset
  - D** a tangible asset
- 16** Which of the following would prevent a trial balance from balancing?
- A** a credit note from a supplier entered in the sales journal
  - B** a discount allowed posted to the discounts received account
  - C** an invoice entered twice in the sales journal
  - D** a refund to a customer wrongly posted to discounts allowed account
- 17** A company operates in a country where the price level is rising.  
The use of FIFO rather than LIFO inventory valuation will
- A** raise reported profits
  - B** lower reported profits
  - C** lower the value of net assets shown in the Balance Sheet
  - D** leave the value of reported profits unchanged

18 A company has listed its year-end inventories:

inventory	purchase price \$000	production costs incurred \$000	selling costs (not yet incurred) \$000	sales value \$000
Metal	60	10	11	65
Plastic	25	5	6	40
Wood	<u>50</u>	<u>12</u>	<u>15</u>	<u>60</u>
	<u>135</u>	<u>27</u>	<u>32</u>	<u>165</u>

At what valuation should the company include its inventory in the balance sheet?

- A \$129 000
- B \$143 000
- C \$162 000
- D \$194 000

19 The table shows figures relating to a company's banking transactions at 31 December.

	\$
Balance at bank per bank statement	22 650
Uncleared lodgements	3 110
Unpresented cheques	6 290
Bank credit recorded twice by bank in error	650

Which balance for cash at bank should appear in the balance sheet at 31 December?

- A \$18 820
- B \$20 120
- C \$25 180
- D \$26 480

20 The following information is given by a company.

	\$
Opening trade receivables	10 000
Credit sales	50 000
Increase in provision for doubtful debts	500
Amounts received from trade receivables	45 000
Discounts allowed	350
Dishonoured cheque	100
Sales returns	400

What would be the closing trade receivables?

- A \$14 350
  - B \$14 650
  - C \$14 850
  - D \$15 150
- 21 When a company is short of liquid funds, liquidity may be improved by
- A a rights issue of shares
  - B capitalizing interest paid
  - C issuing bonus shares
  - D not providing for depreciation
- 22 Which of the following statements is **not** true?
- A a share must have a face value
  - B authorised share capital is higher or the same as issued share capital
  - C shares can be issued at a premium
  - D there are only two classes of share capital



23 A company has authorised capital of 500,000 \$0.25 ordinary shares.

By 31 December 2009 it had issued 400,000 \$0.25 ordinary shares at \$0.60 per share.

The market price of the shares on 31 December 2009 is \$0.75 each.

What figure is carried in the balance sheet on 31 December 2009 in respect of the issued share capital?

- A \$100 000
- B \$125 000
- C \$240 000
- D \$300 000

24 The following items appeared in a balance sheet at year end.

	\$
Non-current assets	100 000
Inventories	50 000
Trade receivables	40 000
Cash and cash equivalents	20 000
Trade payables	10 000

What is the quick (acid test) ratio?

- A 21:1
- B 11:1
- C 6:1
- D 2:1

25 Given that:

	\$
Opening inventory was	6 000
The closing inventory was	10 000
The rate of mark-up was 20% on sales during the period of	120 000

What was the rate of inventory turnover?

- A 10 times
- B 12 times
- C 12½ times
- D 15 times

- 26 A company has a current (working capital) ratio of 2:1 and a quick (acid test) ratio of 0.5:1.

What is the effect on the two ratios, if the company uses cash to buy inventory?

	current ratio	quick ratio
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	no change	decrease
<b>D</b>	no change	increase

- 27 A company sells two products **X** and **Y**. The summarized results for the last financial year included the following:

	<b>X</b> \$	<b>Y</b> \$
Revenue	50 000	100 000
Less: Cost of sales	<u>30 000</u>	<u>67 500</u>
Gross profit	<u>20 000</u>	<u>32 500</u>

The company wants to improve its gross profit to sales ratio.

Which is the best way to achieve this?

- A** a reduction in inventory level
  - B** an increase in sales of product **X**
  - C** a 10% increase in sales of **X** and **Y**
  - D** a reduction in the amount of variable overheads shown in the income statement
- 28 A company manufactures and sells widgets. The directors want to increase profitability and are considering buying in the widgets instead of manufacturing them.

The company should buy the widgets from an outside supplier if the price is

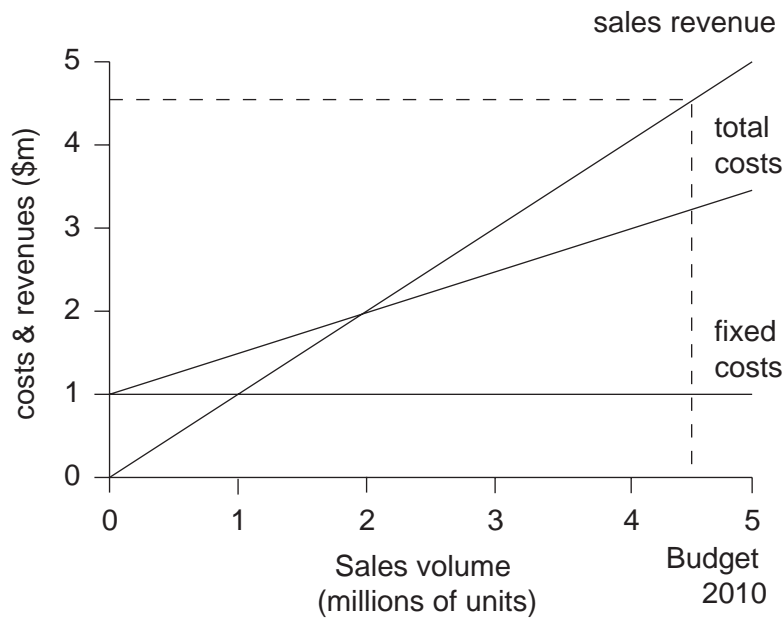
- A** less than the marginal cost of production
- B** more than the marginal cost of production but less than the marginal cost of sales
- C** more than the marginal cost of sales but less than the total cost
- D** more than the total cost but less than the selling price

29 A business with fixed costs of \$12 000 makes a profit of \$3 000 on revenue of \$60 000.

What is the break-even point expressed in terms of sales revenue?

- A \$45 000
- B \$48 000
- C \$57 000
- D \$63 000

30 An accountant prepared the following break-even chart for 2010:



The budgeted revenue (sales) volume is 4.5 million units.

What might the profit be anticipated at this level?

- A \$1.25 million
- B \$2.25 million
- C \$3.50 million
- D \$4.50 million

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