

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

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

May/June 2003

**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 The following information relates to a business for a period.

	\$
selling price per unit	100
variable costs per unit	60
total fixed costs	90 000
net profit	15 000

How many units were sold in the period?

- A** 1500                      **B** 1750                      **C** 2250                      **D** 2625
- 2 A customer paid a deposit in advance for goods to be supplied at a later date.

How should this be recorded in the seller's books?

	debit	credit
<b>A</b>	cash	customer
<b>B</b>	cash	sales
<b>C</b>	customer	prepayment
<b>D</b>	customer	sales

- 3 A trial balance at 30 April 2003, before making end of year adjustments, showed:

	debit \$	credit \$
Trade debtors	17 800	-
Provision for doubtful debts	-	580

At 30 April 2003 it was decided to write off a bad debt of \$800 and to make a provision for doubtful debts of 2 % of trade debtors. During the year an amount of \$200 was received from a customer relating to a debt that was written off in the year ended 30 April 2002.

What was the total bad and doubtful debts expense for the year ended 30 April 2003?

- A** \$360                      **B** \$560                      **C** \$940                      **D** \$1140

- 4 The table shows information relating to a company's fixed assets.

	\$
cost at 1 January 2002	10 500
accumulated depreciation at 1 January 2002	4 900
purchases for the year ended 31 December 2002	2 500
disposals for the year ended 31 December 2002	700

Depreciation is 25% per annum on the reducing balance basis.

What is the depreciation charge for the year?

- A** \$1850      **B** \$2025      **C** \$2200      **D** \$3250

- 5 A business that purchases a shop incurs the following costs.

	\$
purchase price of the shop	680 000
legal fees incurred in the purchase of the shop	7 200
cost of initial stock	12 500
cost of installing air conditioning	47 300

Which amount will be capitalised as the cost of the shop?

- A** \$680 000      **B** \$687 200      **C** \$734 500      **D** \$747 000

- 6 Which of the following is the definition of a business as a going concern?

- A** The assets owned by the business exceed its liabilities.  
**B** The business has accumulated revenue reserves.  
**C** The business is currently liquid and able to pay its creditors.  
**D** The business will continue in operational existence for the foreseeable future.

- 7 A sole trader pays private expenses from the business bank account and records them as drawings.

Which accounting principle is applied?

- A** business entity  
**B** going concern  
**C** matching  
**D** prudence

- 8 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
- 9 At 31 March 2003, a customer's bank statement shows that his bank account is overdrawn by \$10 136.

Further information is as follows.

	\$
cheques drawn, not presented	4998
cheques paid in, not credited	5896
bank interest charged, not in Cash Book	181

What is the correct bank balance to be shown in the customer's Balance Sheet at 31 March 2003?

- A** \$9057 overdrawn
- B** \$9238 overdrawn
- C** \$10 853 overdrawn
- D** \$11 034 overdrawn
- 10 The balance on the Sales Ledger Control account amounting to \$43 000 has been entered in the trial balance as \$34 000. The difference on the trial balance has been entered in a Suspense account.

Which journal entry is required to correct the error?

	account to be debited		account to be credited	
<b>A</b>	Sales Ledger Control account	\$9000	Suspense account	\$9000
<b>B</b>	-		Suspense account	\$9000
<b>C</b>	Suspense account	\$9000	-	
<b>D</b>	Suspense account	\$9000	Sales Ledger Control account	\$9000

- 11 A company uses the straight line method of depreciation for all its fixed assets. On 1 January, the company bought machinery on hire purchase. The cash price was \$115 000 and the interest for the year is \$19 550. The estimated useful life of the machinery is five years with no residual value.

What is the charge for depreciation for the year ended 31 December?

- A** \$19 090      **B** \$23 000      **C** \$26 910      **D** \$42 550

- 12 A business sells some of its stock for \$80 on credit to a customer. The stock originally cost \$50.

Which statement actually reflects the effect of this transaction on the Balance Sheet?

	current assets	owner's capital
<b>A</b>	decrease by \$30	decreases by \$30
<b>B</b>	decrease by \$30	increases by \$30
<b>C</b>	increase by \$30	increases by \$30
<b>D</b>	increase by \$30	decreases by \$30

- 13 The following items appear in the accounts of a manufacturing business.

1	purchase of raw materials
2	purchase of finished goods
3	carriage inwards
4	carriage outwards

Which items will be included in the Manufacturing account?

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

- 14 X and Y are in partnership sharing the profits equally. No Goodwill account is maintained in the accounts. Z joins the partnership and pays \$30 000 cash for his share of the Goodwill.

Profits are to be shared equally between X, Y and Z.

Which of the following correctly shows the increases in the accounts on the admission of Z into the partnership?

	cash \$	capital accounts		
		X \$	Y \$	Z \$
<b>A</b>	30 000	10 000	10 000	10 000
<b>B</b>	30 000	-	-	30 000
<b>C</b>	30 000	15 000	15 000	-
<b>D</b>	30 000	-	-	-

- 15 A business was started on 1 January. The purchases and sales of stock for January were:

date	Purchases	Sales
4 January	3 @ \$200	-
13 January	-	2 @ \$400
26 January	3 @ \$250	-
28 January	-	2 @ \$400

The business used the first in first out (FIFO) method of stock valuation.

What was the gross profit for January?

- A** \$650      **B** \$700      **C** \$750      **D** \$1150
- 16 A company has an authorised share capital of 2 million \$0.25 ordinary shares of which 1.6 million are in issue. It is proposed to pay a dividend totalling \$40 000.

Which correctly describes the amount of dividend?

- A** an ordinary dividend of 8 %  
**B** an ordinary dividend of 10 %  
**C** an ordinary dividend of \$0.08 per share  
**D** an ordinary dividend of \$0.10 per share

17 The treasurer of a tennis club has provided the following information for a year.

number of members	75
annual subscription	\$ 95
subscriptions received	7305
overheads: tennis balls - purchased	850
- opening stock	110
- closing stock	95
other overheads	4700

What will the club's Income and Expenditure account show?

- A** \$1560 surplus   **B** \$1670 surplus   **C** \$1740 surplus   **D** \$1850 surplus

18 A company is financed by:

10 000 \$1 ordinary shares
\$5000 10% loan

Net profit before interest and taxation is \$2500.

Tax payable is \$400.

What is the maximum dividend per share payable from this year's profits?

- A** \$0.16      **B** \$0.20      **C** \$0.21      **D** \$0.25

19 When a shareholder sells some shares for less than he paid for them, what will happen to the share capital of the company?

- A** It will fall by the nominal value of the shares sold.  
**B** It will fall by the sales proceeds of the shares sold.  
**C** It will increase by the amount received from the sale of the shares.  
**D** It will remain the same as before.

**20** A business sells stock to a credit customer at a selling price greater than cost.

What effect will this transaction have on the current and quick (acid test) ratios?

- A** Both ratios will be unchanged.
- B** Both ratios will increase.
- C** The current ratio will increase while the quick ratio will not change.
- D** The current ratio will not change while the quick ratio will increase.

**21** The following items are included in the Balance Sheet of a business.

	\$000
Stock	64
Debtors	126
Creditors	87
Bank (debit balance)	21
Bank loan (repayable in 2 years)	50

What is the quick (acid test) ratio?

- A** 1.1 : 1
- B** 1.2 : 1
- C** 1.7 : 1
- D** 2.4 : 1

**22** The following information is available for a business.

	\$
opening stock	29 000
credit purchases	186 000
closing stock	8 000
creditors at year end	24 000

What is the creditors' payment period?

- A** 40 days
- B** 43 days
- C** 48 days
- D** 54 days

**23** The opening stock of a business is \$10 000 and the cost of goods sold is \$200 000.

Using the average figure of opening and closing stock, what value of closing stock is needed to give a stock turnover of 10?

- A** \$10 000
- B** \$20 000
- C** \$30 000
- D** \$40 000



**24** A company wishes to improve its current ratio and its acid test ratio.

How can this be done?

- A** increasing discounts to debtors
- B** increasing the provision for doubtful debts
- C** purchasing additional stock on credit
- D** selling fixed assets

**25** 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

**26** The table shows costs at three activity levels.

activity levels	65 units	90 units	100 units
	\$	\$	\$
fixed cost	?	?	?
variable cost	?	?	?
total cost	15 600	19 600	21 200

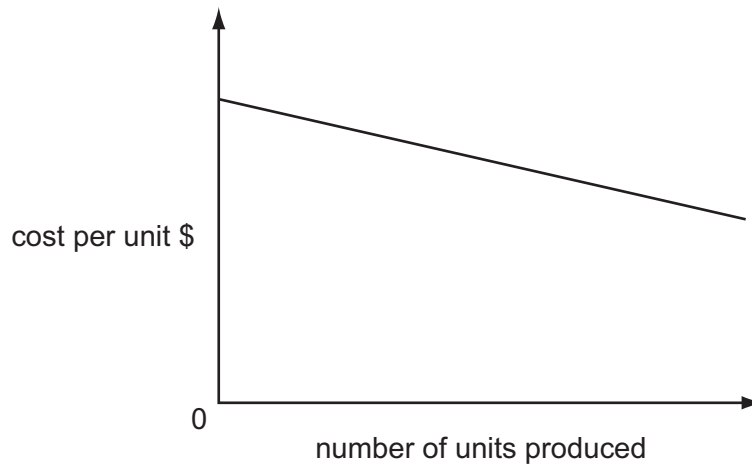
What is the fixed cost?

- A** \$1600
- B** \$4000
- C** \$5200
- D** \$5600

**27** What will result in under-absorption of fixed production overhead?

- A** absorption based on actual expenditure and actual activity
- B** actual expenditure below budget expenditure
- C** actual activity above budget activity
- D** actual activity below budget and expenditure as budgeted

28 What does the diagram show?



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

29 The information relates to a product.

	\$
break even sales revenue	15 000
unit sales price	10
fixed costs	6 000

What are the variable unit costs?

- A \$2.00
- B \$2.50
- C \$4.00
- D \$6.00

30 The table shows opening and closing balances for the Rent Receivable account.

	start of year \$	end of year \$
rent received in advance	4200	1600
rent due in arrears	2000	2400

During the year, \$111 000 rental income was received.

What is the total rent receivable for the year?

- A \$110 600
- B \$111 000
- C \$112 800
- D \$114 000

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