

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

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

May/June 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 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
- 2 The accounting year end of a business is 31 October.

On 1 April the business rents out part of its warehouse for an annual rent of \$6000 receivable in equal instalments on 1 April, 1 July, 1 October and 1 January.

At 31 October what would the final accounts show?

|          | Profit and Loss Account<br>\$ |      | Balance Sheet<br>\$ |      |
|----------|-------------------------------|------|---------------------|------|
| <b>A</b> | rental income                 | 3500 | current asset       | 1000 |
| <b>B</b> | rental income                 | 3500 | current liability   | 1000 |
| <b>C</b> | rental income                 | 4500 | current liability   | 1000 |
| <b>D</b> | rental income                 | 6000 | current asset       | 1500 |

- 3 The following information is taken from the stationery account of a business.

|  | \$   |
|--|------|
| stock of stationery at beginning of the year | 600  |
| cash paid for stationery during the year     | 7000 |
| invoice not yet received for stationery      | 480  |
| stock of stationery at end of year           | 800  |

How much should be debited to the Profit and Loss Account for stationery?

- A** \$6680      **B** \$6800      **C** \$7280      **D** \$8080

4 On 30 September 2005 a manufacturer's current assets totalled \$28 000. The next day only two transactions took place.

1 Stock bought for cash.

The list price of \$2000 was subject to a trade discount of 20 % and a cash discount of 5 %.

Payment was made immediately.

2 A bad debt of \$400 was written off.

What was the total of current assets on 2 October 2005?

**A** \$27 680      **B** \$28 080      **C** \$29 520      **D** \$29 600

5 A business uses the straight line method to provide for depreciation of equipment.

Why should it continue to use this method in subsequent years?

**A** accounting principles never allow accounting methods to be changed

**B** other methods of depreciation are unsuitable for depreciating equipment

**C** to ensure that profits are stated on a consistent basis over time

**D** to ensure that the Balance Sheet always shows the market value for equipment

6 Stock has been damaged.

The stock cost \$1200.

It would have sold for \$1800 when perfect.

It can be sold for \$1700 if repairs are undertaken at a cost of \$600.

To replace the stock would cost \$1000.

At what value should the damaged stock be shown in the final accounts?

**A** \$1000      **B** \$1100      **C** \$1200      **D** \$1800

7 Which accounting policies illustrate the matching principle?

1 charging depreciation on fixed assets

2 revaluing fixed assets on a regular basis

3 using the reducing balance method of depreciation

**A** 1, 2 and 3

**B** 1 and 2 only

**C** 1 and 3 only

**D** 2 and 3 only

- 8 The following information is extracted from the records of a business.

|   | \$     |
|---|--------|
| At 31 December 2004:                    |        |
| Rent paid in advance                    | 4 000  |
| During the year ended 31 December 2005: |        |
| Rent paid                               | 41 000 |
| At 31 December 2005:                    |        |
| Rent paid in advance                    | 7 000  |

How much will be debited for rent in the Profit and Loss Account for the year ended 31 December 2005?

- A** \$34 000      **B** \$38 000      **C** \$41 000      **D** \$44 000
- 9 What would **not** appear in a Sales Ledger Control account?
- A** cash received from customers  
**B** discounts allowed  
**C** discounts received  
**D** returns inwards
- 10 A sole trader has calculated a draft net profit of \$56 750.  
 He then discovers the following mistakes: Discounts Received of \$580 and Discounts Allowed of \$665 have been recorded on the wrong sides of the Discounts Received and Allowed accounts.  
 What is the corrected draft net profit?
- A** \$56 580      **B** \$56 665      **C** \$56 835      **D** \$56 920
- 11 The closing balance on a Purchases Ledger Control account is \$163 762. The purchase day book (journal) has been undercast by \$1000.  
 What should be the correct closing balance on the Purchases Ledger Control account?
- A** \$162 762      **B** \$163 762      **C** \$164 762      **D** \$165 762

- 12 A draft Balance Sheet shows a bank balance of \$1400. The following information is now available.

|   | \$  |
|---|-----|
| cheques issued but not yet cleared by the bank            | 150 |
| bank charges not in the cash book                         | 45  |
| lodgements in the cash book but not on the bank statement | 220 |

What is the figure shown on the Bank Statement?

- A** \$1285      **B** \$1355      **C** \$1425      **D** \$1515
- 13 How should goodwill be treated in the accounts of a limited company?
- A** Goodwill should always be written off immediately.  
**B** Non-purchased goodwill is shown in the balance sheet.  
**C** Purchased goodwill remains on the balance sheet as a permanent item.  
**D** Purchased goodwill is shown in the balance sheet and written off over its useful life.
- 14 Stocks should be valued at the lower of cost and net realisable value.

The table shows data about four products.

| product          | W<br>\$ | X<br>\$ | Y<br>\$ | Z<br>\$ |
|------------------|---------|---------|---------|---------|
| cost             | 18      | 19      | 17      | 23      |
| realisable value | 15      | 28      | 17      | 26      |
| selling expenses |         | 3       | 2       | 3       |

At how much should the total stocks be valued?

- A** \$72      **B** \$77      **C** \$78      **D** \$86
- 15 A partnership maintains both capital and current accounts for its partners.

What is the correct accounting entry for recording interest on capital for partner X?

|          | account to be debited         | account to be credited        |
|----------|-------------------------------|-------------------------------|
| <b>A</b> | Profit and Loss Appropriation | X's Capital                   |
| <b>B</b> | Profit and Loss Appropriation | X's Current                   |
| <b>C</b> | X's Capital                   | Profit and Loss Appropriation |
| <b>D</b> | X's Current                   | Profit and Loss Appropriation |

16 At the end of a financial year the following information is available.

|               | \$      |
|---------------|---------|
| sales         | 200 000 |
| opening stock | 15 000  |
| closing stock | 18 000  |

If the business makes a standard mark-up of 25%, what were the purchases?

- A** \$147 000      **B** \$153 000      **C** \$157 000      **D** \$163 000

17 A trader does not keep double-entry records.

At the beginning of a period, suppliers are owed \$43 600.

Payments of \$197 320 were made in the period.

Suppliers are owed \$35 390 at the end of the period.

What are the total purchases for the period?

- A** \$118 330      **B** \$189 110      **C** \$205 530      **D** \$276 310

18 Dele and lyabo are partners in a business and share profits in the ratio of 3:1.

Their net profit is \$80 000.

The following information is available:

|                      | Dele<br>\$ | lyabo<br>\$ |
|----------------------|------------|-------------|
| interest on capitals | 3 000      | 2 500       |
| interest on drawings | 500        | 1 000       |

How will the residual net profit be shared?

|          | Dele<br>\$ | lyabo<br>\$ |
|----------|------------|-------------|
| <b>A</b> | 57 000     | 19 000      |
| <b>B</b> | 58 875     | 21 125      |
| <b>C</b> | 59 500     | 20 500      |
| <b>D</b> | 60 500     | 19 500      |

- 19 What will increase the working capital and net assets and reserves of a company?
- A** a bonus issue of shares  
**B** a debenture issue  
**C** an issue of shares at a premium  
**D** an issue of shares at nominal value

- 20 At 1 January 2005 the capital structure of S Limited was as follows.

|  | \$      |
|--|---------|
| issued share capital 100 000 ordinary shares of \$1 each | 100 000 |
| share premium account                                    | 30 000  |

On 1 April 2005 the company made an issue of 20 000 shares for \$36 000.

On 1 June 2005 a bonus issue of one share for every six in issue was made. The share premium account was used for the purpose.

What is the balance on the share premium account at 31 December 2005?

- A** \$26 000      **B** \$34 000      **C** \$46 000      **D** \$56 000
- 21 A newly formed company issues
- 1 000 000 ordinary shares of \$1 at \$2.50 each  
 \$300 000 5% debentures.
- Operating profit for the year was \$465 000.
- The directors recommend an 8% ordinary dividend for the year.
- What is the retained profit for the year?
- A** \$250 000      **B** \$370 000      **C** \$385 000      **D** \$400 000
- 22 A company has issued 80 000 shares of \$0.50 each. These are quoted on the stock exchange at \$1.60 each. The company makes a rights issue on a 1 for 4 basis at a price of \$1.20 each.
- What is the balance on the Share Capital account after the rights issue?
- A** \$50 000      **B** \$100 000      **C** \$120 000      **D** \$160 000

23 The table shows an extract from a company's final accounts:

|               | \$     |
|---------------|--------|
| purchases     | 28 000 |
| cost of sales | 24 000 |
| creditors     | 4 200  |
| accruals      | 1 100  |

What is the creditors' collection period for the year?

- A** 55 days      **B** 64 days      **C** 69 days      **D** 81 days

24 A company has the following gross profit and net profit ratios for two years.

|                | Year 1 | Year 2 |
|----------------|--------|--------|
| gross profit % | 26 %   | 29 %   |
| net profit %   | 13 %   | 10 %   |

The company's turnover has remained unchanged for both years.

What is a correct interpretation of these ratios?

|          | cost of sales |           | overheads |           |
|----------|---------------|-----------|-----------|-----------|
|          | increased     | decreased | increased | decreased |
| <b>A</b> | ✓             | x         | ✓         | x         |
| <b>B</b> | ✓             | x         | x         | ✓         |
| <b>C</b> | x             | ✓         | x         | ✓         |
| <b>D</b> | x             | ✓         | ✓         | x         |

25 A firm has \$10 000 in the bank and buys stocks for \$6000 paying by cheque.

What will be the effect on its current ratio and quick (acid test) ratio?

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



26 The following information is given for a business.

|                    | \$             | \$             |
|--------------------|----------------|----------------|
| Sales              |                | 650 000        |
| Less cost of sales |                |                |
| Stock 1 January    | 19 000         |                |
| Purchases          | <u>508 000</u> |                |
|                    | 527 000        |                |
| Stock 31 December  | <u>25 000</u>  | <u>502 000</u> |
| Gross Profit       |                | 148 000        |

Stock turnover 16 days

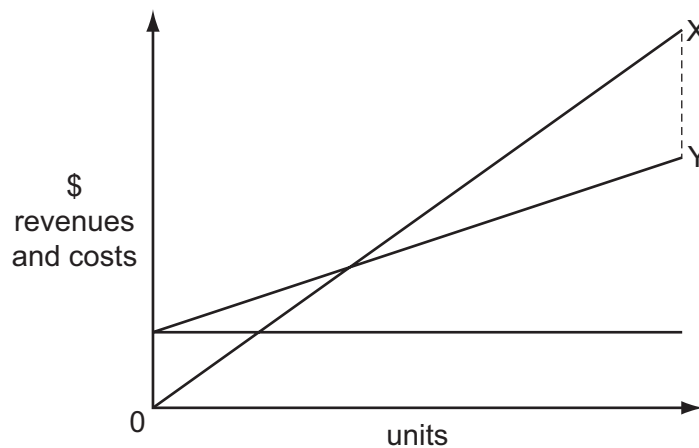
Debtors 31 December \$48 082

Creditors 31 December \$44 537

What is the working capital cycle?

- A** 11 days      **B** 21 days      **C** 43 days      **D** 75 days

27 What does the line between points X and Y on the break-even chart represent?



- A** total costs  
**B** total gross profit  
**C** total net profit  
**D** total variable costs

28 The following figures are given for a factory's overheads and machine hours worked.

|          | machine hours | total overhead costs | overhead absorption rate |
|----------|---------------|----------------------|--------------------------|
| budgeted | 122 000       | \$268 400            | \$2.20                   |
| actual   | 116 000       | \$261 000            | \$2.25                   |

What was the under- or over-absorption of overhead for the quarter?

- A \$5800 under-absorbed
- B \$5800 over-absorbed
- C \$7400 under-absorbed
- D \$7400 over-absorbed

29 A company manufactures a single product with a selling price of \$75 per unit. The table shows the costs, based on sales and production volume of 8000 units.

|                                  | \$000 |
|----------------------------------|-------|
| prime costs                      | 158   |
| variable manufacturing overheads | 74    |
| fixed manufacturing overheads    | 80    |
| variable selling overheads       | 20    |
| fixed administration overheads   | 100   |

If absorption costing is applied, what is the gross profit on each unit sold?

- A \$21.00
- B \$36.00
- C \$43.50
- D \$46.00

30 A company has two departments X and Y. Management provides the following information.

|            | department X         | department Y         | total                |
|------------|----------------------|----------------------|----------------------|
| power used | 7 500 kwh            | 17 500 kwh           | 25 000 kwh           |
| area       | 30 000 square metres | 20 000 square metres | 50 000 square metres |

The power bill for the year is \$20 000 and the rent is \$100 000.

What is the total amount for rent and heating to be attributed to department X?

- A \$54 000
- B \$62 000
- C \$66 000
- D \$72 000

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