

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

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

October/November 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 A company manufactures a single product as shown.

selling price	\$20 per unit
variable costs	\$15 per unit

Its budgeted fixed costs are \$200 000.

How many units must the company sell to make a net profit of \$50 000?

- A** 10 000 units    **B** 30 000 units    **C** 40 000 units    **D** 50 000 units
- 2 The table gives data about rental income for the year ended 31 March 2003.

	\$
rents owing 31 March 2002	1 400
rents received in advance 31 March 2002	1 300
cash received	13 700
rents written off	560
rents owing at 31 March 2003	1 750
rents paid in advance at 31 March 2003	1 600

Which figure for rental income will appear in the Profit and Loss Account for the year ended 31 March 2003?

- A** \$14 010    **B** \$14 210    **C** \$14 310    **D** \$14 510
- 3 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
- 4 On 1 October 2001 a company purchased machinery for \$26 000. It was decided to depreciate the asset using the reducing balance method at a rate of 20 % per annum.

On 30 September 2003 the asset was sold for \$12 000.

What is the profit or loss on disposal?

- A** \$3600 loss    **B** \$3600 profit    **C** \$4640 loss    **D** \$4640 profit

- 5 The table shows information relating to the fixed assets of a business.

	\$
net book value at the beginning of year	28 000
net book value at end of year	25 000
depreciation charge for the year	4 000
disposals at net book value	9 000

What is the figure for fixed asset additions?

- A** \$2000      **B** \$6000      **C** \$10 000      **D** \$16 000
- 6 Freehold land and buildings are shown in the accounts at a cost price of \$200 000 and accumulated depreciation of \$40 000.

The property is to be revalued in the books at \$340 000.

What is the double entry to record this transaction?

	account	DR \$	CR \$
<b>A</b>	Freehold Land and Buildings Profit and Loss	140 000	140 000
<b>B</b>	Freehold Land and Buildings Accumulated Depreciation Profit and Loss	140 000 40 000	180 000
<b>C</b>	Freehold Land and Buildings Revaluation Reserve	140 000	140 000
<b>D</b>	Freehold Land and Buildings Accumulated Depreciation Revaluation Reserve	140 000 40 000	180 000

- 7 A business values obsolete stock at net realisable value.

Which accounting principle has been applied?

- A** consistency  
**B** going concern  
**C** materiality  
**D** prudence

- 8 A business has chosen to use the straight line method of providing 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.

- 9 A pocket calculator costs \$9.50 and has a useful life of 5 years. The bookkeeper has decided to treat the purchase of the calculator as revenue expenditure.

Which accounting concept has been applied?

- A accruals
- B materiality
- C prudence
- D substance over form

- 10 A business omitted discounts allowed of \$700 from its trial balance. During the year a machine had been sold for cash of \$500 but the only accounting entry made was a debit in the Bank account.

What is the balance on the Suspense account?

- A \$200 debit
- B \$1200 debit
- C \$200 credit
- D \$1200 credit

- 11 A business has a draft net profit of \$84 000. It is discovered that the closing stock was overvalued by \$4000 and that discounts received of \$1500 were treated as an expense.

What is the corrected net profit?

- A \$81 500
- B \$83 000
- C \$89 500
- D \$91 000

- 12 A bank reconciliation statement shows a credit balance of \$400 in the Cash Book and a balance in hand of \$100 in the bank statements.

The bank reconciliation statement includes unpresented cheques of \$700 in addition to cheques banked and not yet credited in the bank statements.

What is the total of cheques banked and not yet credited?

- A \$200
- B \$400
- C \$1000
- D \$1200

13 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 per till rolls	10 500

How much cash has been lost?

- A** \$200                      **B** \$250                      **C** \$300                      **D** \$350

14 Which of the following is a realised gain?

- A** a surplus on revaluation of trade investments to current market value  
**B** a surplus arising from a professional revaluation of the company office block  
**C** a surplus arising on the sale of patents  
**D** Goodwill arising on the purchase of another business

15 Which of the following will increase profit?

- A** increasing depreciation rates  
**B** increasing distributable reserves  
**C** increasing the provision for doubtful debts  
**D** increasing the value of closing work-in-progress

16 A company uses the Weighted Average Cost (AVCO) method of stock valuation. During January the following transactions took place.

January		Total \$
1	opening stock 100 units @ \$2.00 per unit	200
12	received 150 units @ \$2.10 per unit	315
15	issued 100 units	-
27	received 50 units @ \$2.20 per unit	110

What is the value of stock at 31 January?

- A** \$419                      **B** \$420                      **C** \$425                      **D** \$440

17 Information about a business is given.

	\$
production overheads	23 000
opening stock of raw materials	3 000
purchases of raw materials	35 000
closing stock of raw materials	2 000
production wages	33 000
production supervisor's salary	2 000

What is the prime cost?

- A** \$69 000      **B** \$71 000      **C** \$92 000      **D** \$94 000

18 A manufacturing company calculates factory profit at 20 % of cost of production. The following information is available.

	Balance Sheet as at 31 December 2001 \$	Manufacturing account for the year ended 31 December 2002 \$	Trading Account for the year ended 31 December 2002 \$
stock of finished goods	40 000	-	-
cost of goods produced	-	240 000	-
closing stock of finished goods	-	-	54 000

How much will be credited in the Profit and Loss Account for the year ended 31 December 2002 as factory profit?

- A** \$39 000      **B** \$40 000      **C** \$47 000      **D** \$48 000

19 An extract from a company's Balance Sheet is given.

	\$
Ordinary share capital	50 000
General reserve	10 000
Profit and Loss Account	4 000
10 % debentures	20 000

What are the ordinary shareholders' funds?

- A** \$50 000      **B** \$54 000      **C** \$64 000      **D** \$80 000

20 A company has an authorised capital of \$1 000 000.

Which statement must be true?

- A The company must issue \$1 000 000 in shares.
- B The company must not issue more than 1 000 000 shares.
- C The shares issued must not exceed \$1 000 000.
- D The shares and debentures must not exceed \$1 000 000.

21 Which adjustment will result in an increase in a company's stated profit?

- A amortisation of Goodwill
- B application of reserves for the issue of bonus shares
- C capitalisation of development costs
- D upward revaluation of fixed assets

22 The following information is taken from a Balance Sheet.

	\$
stocks	4950
debtors	7400
cash at bank and in hand	2500
bank overdraft	1000
other short-term creditors	4500

What is the quick (acid test) ratio?

- A 1.8 : 1      B 2.2 : 1      C 2.7 : 1      D 3.5 : 1

23 The following items appear on a Balance Sheet.

	\$
stock	10 000
provision for doubtful debts	2 000
cash and bank	4 000
creditors	10 000

The current ratio is 2 : 1.

How much are the debtors?

- A \$4000      B \$6000      C \$8000      D \$10 000

24 Which of the following actions would improve the liquidity (acid test) ratio of a business in the short term?

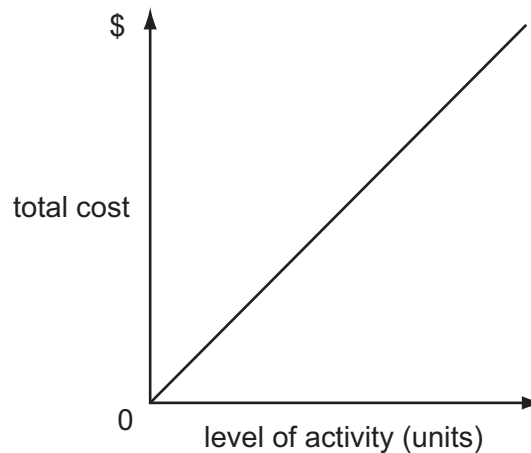
1	debtors paying their debts
2	delaying paying creditors
3	selling a number of surplus fixed assets
4	selling stock

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

25 Which of the following is always included in prime cost?

- A** carriage outwards  
**B** depreciation of machinery  
**C** opening work-in-progress  
**D** royalties on production

26 The graph shows the way in which a cost increases according to the level of activity of the business.

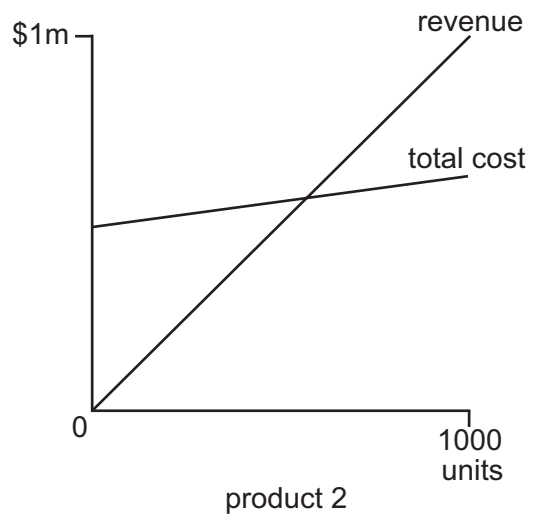
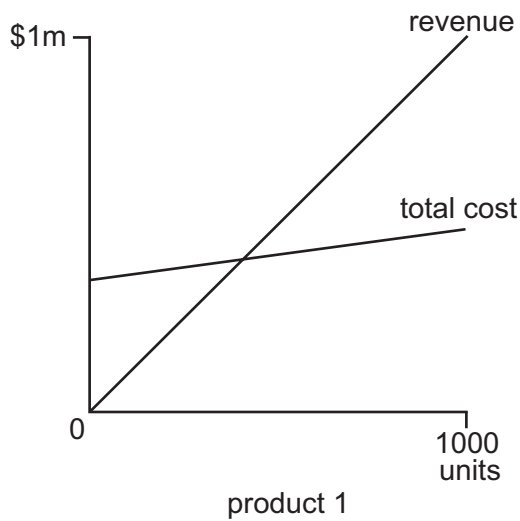


Which cost follows this pattern?

- A** administrative salaries  
**B** commission on sales  
**C** depreciation of factory  
**D** office rent



- 27 What do the break-even charts show regarding the profitability of and risk attaching to products 1 and 2?



	profitability	risk
<b>A</b>	1 is greater	1 is greater
<b>B</b>	1 is greater	1 is less
<b>C</b>	2 is greater	2 is greater
<b>D</b>	2 is greater	2 is less

- 28 The following data is relevant to a business.

budgeted labour hours	10 000
budgeted overheads	\$150 000
actual labour hours	9 500
actual overheads	\$160 000

What is the amount of overhead under-absorbed?

- A** \$7500      **B** \$8000      **C** \$10 000      **D** \$17 500

- 29 A company has a product which sells for \$1 per unit. The variable costs are \$0.60 per unit, and production of 200 000 units is planned.

Fixed costs are \$0.20 per unit at the budgeted production level.

What is the break-even level?

- A** 40 000 units      **B** 66 667 units      **C** 100 000 units      **D** 160 000 units

- 30** Which item should be treated as capital expenditure?
- A** the addition of a back-up system on an existing computer at a cost of \$900
  - B** costs incurred in repairing a car when the costs cannot be recovered from the insurance company
  - C** rent paid on a factory, whilst the company negotiated the purchase of that same factory
  - D** the replacement of a wooden fence with a new fence

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