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

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **May/June 2011**

1 hour

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

* 2 0 4 5 6 9 8 5 4 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.

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.

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1 A business paid $10 000 for waste disposal in the year.

The opening prepayment was $1500 and the closing accrual was $2000.

What was the charge for waste disposal for the year?

A $6500 **B** $9500 **C** $10 500 **D** $13 500

2 The non-current assets of a business are shown.

	end of year $	start of year $
cost	360 000	300 000
accumulated depreciation	120 000	75 000
net book value	240 000	225 000

During the year, non-current assets costing $110 000 were bought and non-current assets with a net book value of $20 000 were sold.

What was the depreciation charge for the year?

A $35 000 **B** $45 000 **C** $50 000 **D** $75 000

3 Which transaction would increase the current assets of a business?

A paying invoices $950, after receiving $50 cash discount

B purchasing a machine on credit for $1200

C purchasing inventory for $1100 cash and selling it on credit for $1500

D selling inventory with an original cost of $800 at below cost price

4 The following summarised information has been taken from the balance sheet of a partnership.

	$
non-current assets	42 000
capital accounts	36 000
current accounts (debit)	5 000
current liabilities	7 000
non-current liabilities	15 000

What is the amount of current assets?

A $6000 **B** $11 000 **C** $17 000 **D** $21 000

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5 Accountants prefer the commercial reality of a transaction to a strictly legal approach.

Which accounting principle is being applied?

A consistency

B materiality

C prudence

D substance over form

6 There is great uncertainty about the continuance of a business. This has caused the proprietor to make a large reduction in the valuation of the year-end inventory.

Which accounting principle does this illustrate?

A going concern

B matching

C materiality

D substance over form

7 The cash book of a business shows a credit balance of $12 500 at 30 June. Bank charges of $2000 have not yet been entered in the cash book.

A cheque for $20 000 received from a debtor, and a cheque for $3000 paid to a creditor have been entered in the cash book, but have not yet been shown on the bank statement.

What is the balance shown on the bank statement at 30 June?

A $2500 credit

B $2500 debit

C $31 500 credit

D $31 500 debit

8 Closing inventory has been overvalued.

What is the effect on the financial statements?

	net current assets	profit from operations
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

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9 What is the main use of a computerised age analysis of debtors?

A aid debt collection procedures

B match sales invoices against orders

C reconcile sales ledger balances

D show credit notes issued

10 A manufacturing company has the following balances at its year end.

	$
closing inventory of raw materials	24 500
direct manufacturing wages	162 800
purchases of raw materials	85 200
supervisors' wages	44 000
opening inventory of raw materials	27 800

What is the prime cost for the year?

A $244 700 **B** $248 000 **C** $251 300 **D** $295 300

11 A partnership provides the following financial information for the year ended 30 June 2011.

	$000
profit from operations	240
bank interest payable	21
interest credited to current accounts	15
drawings	100
partnership salaries	95

What is the residual balance of profits to be appropriated between the partners?

A $9000 **B** $104 000 **C** $109 000 **D** $204 000

12 A new business was established with opening capital of $20 000.

At the end of the first year, assets less liabilities were $26 000. The owner withdrew $7000 as drawings during the year and this resulted in a bank overdraft of $5000 at the end of the year.

What was the profit during the first year?

A $8000 **B** $12 000 **C** $13 000 **D** $18 000

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13 At the year end a company discovers that some inventory is damaged.

This inventory originally cost $2000 and to replace it would now cost $1900.

It would normally sell for $2400 but can now only be sold for $2200 if repairs costing $400 are undertaken.

At what value should the damaged inventory be shown in the financial statements?

A $1800 **B** $1900 **C** $2000 **D** $2200

14 A club charges each of its 100 members an annual subscription of $12.

At the end of a year four members had not paid their annual subscription.

What will be the entries in the financial statements for subscriptions?

	income and expenditure account $	balance sheet	
A	1152	current asset	$48
B	1152	current liability	$48
C	1200	current asset	$48
D	1200	current liability	$48

15 How should goodwill be treated by a limited company?

A Goodwill should always be written off immediately.

B Non-purchased goodwill is shown in the balance sheet.

C Purchased goodwill is shown in the balance sheet and written off over its useful life.

D Purchased goodwill remains on the balance sheet as a permanent item.

16 A company issues for cash 50 000 shares of $5 each at a premium of $15 each and $300 000 4 % debentures.

By what amount will the net assets of the company increase?

A $250 000 **B** $550 000 **C** $1 000 000 **D** $1 300 000

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17 An extract from Bumble Ltd's balance sheet shows the following.

	$000
ordinary shares of $0.25 each	500
share premium	100
retained earnings	300

The company makes a rights issue of 1 share for each 4 held at a price of $0.30 per share. All shares are taken up.

What will the new balance sheet show?

	A	**B**	**C**	**D**
	$000	$000	$000	$000
ordinary shares of $0.25 each	625	500	625	625
rights issue	–	125	–	–
share premium	100	125	125	100
retained earnings	300	275	300	325

18 The following data is available at the end of a financial year.

opening inventory	$60 000
purchases	$420 000
closing inventory	$80 000
mark up	25 %
trade receivables turnover	50 days

Sales are all on credit and accrue evenly over the year.

What is the amount of trade receivables at the end of the year (to the nearest $500)?

A $55 000 **B** $57 500 **C** $68 500 **D** $72 000

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19 The annual accounts of a business include the following.

	$
revenue	160 000
opening inventory	10 000
closing inventory	14 000

Inventory turnover is 10 times.

What is the gross profit?

A $20 000 **B** $40 000 **C** $60 000 **D** $120 000

20 A company's profit from operations was $128 000.

Interest payable was $8000.

The following amounts were included in the company's balance sheet.

	$
non-current assets	485 000
net current assets	27 000
non current liabilities	80 000

How much is the return on the total capital employed?

A 20.3 % **B** 21.6 % **C** 23.4 % **D** 25.0 %

21 A business has $10 000 in the bank and buys inventory for $6000 paying by cheque.

What is the effect of this on its current ratio and quick (acid test) ratio?

	current ratio	quick (acid test) ratio
A	decreases	increases
B	decreases	no effect
C	no effect	decreases
D	no effect	no effect

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22 A company's sales are made evenly over a year (360 days). 10 % of the sales are for cash, debtors total $26 700 and the trade receivables turnover period is 30 days.

What are the total sales (cash and credit) for the year?

A $320 400 **B** $356 000 **C** $801 000 **D** $890 000

23 A business sells goods at a mark up of 33.3 %.

Information for a year is given.

	$
revenue	600 000
opening inventory	53 000
closing inventory	68 000

What are the total purchases for the year?

A $415 000 **B** $435 000 **C** $450 000 **D** $465 000

24 Which cost will decrease as production is increased?

A fixed costs per unit

B total fixed costs

C total variable costs

D variable cost per unit

25 A business sells its product for $50 a unit and has variable costs of $30 per unit. Its fixed costs for this year were $200 000. Next year, fixed costs are expected to be $260 000.

How many more units will have to be sold next year to make the same profit as this year?

A 3000 **B** 5200 **C** 10 000 **D** 13 000

26 A business has sales of $250 000, fixed costs of $50 000 and a contribution / sales ratio of 30 %.

What is the profit?

A $25 000 **B** $60 000 **C** $75 000 **D** $200 000

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27 A business provides the following information for a month.

actual direct labour hours worked	8000
actual overhead expenditure	$88 000
budgeted direct labour hours	7500
budgeted overhead expenditure	$90 000

What is the amount of the overhead over / under recovery?

A $2000 over-recovered

B $2000 under-recovered

C $8000 over-recovered

D $8000 under-recovered

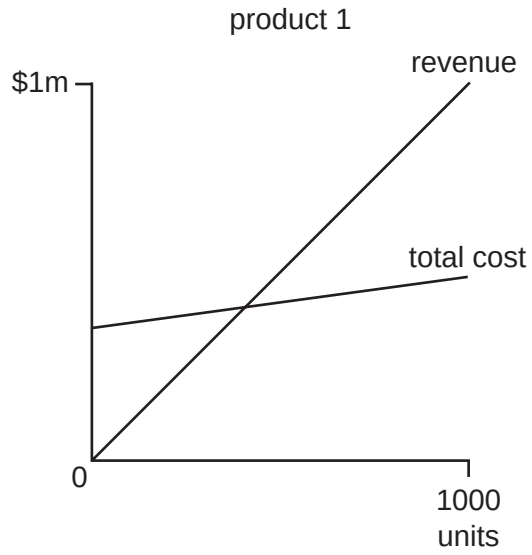
28 The following information is provided by a company for a month.

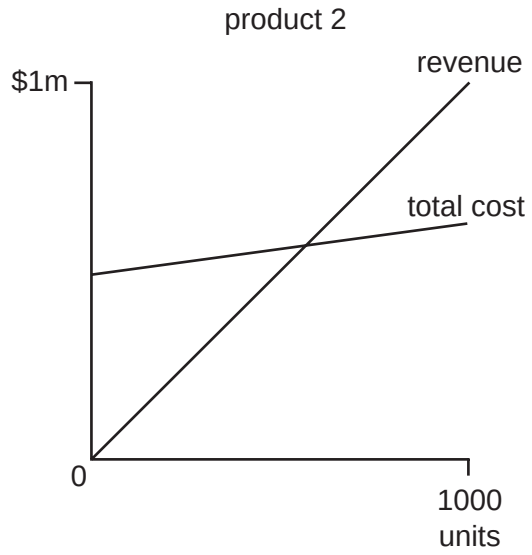
actual direct labour hours worked	4500
budgeted direct labour hours	5000
budgeted overhead expenditure	$80 000
overheads under-recovered	$12 000

What is the amount of the actual overhead expenditure?

A $60 000 **B** $68 000 **C** $72 000 **D** $84 000

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

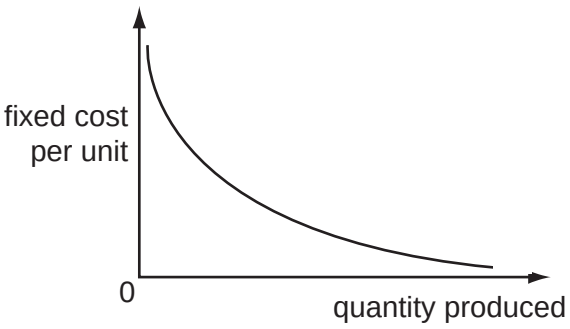




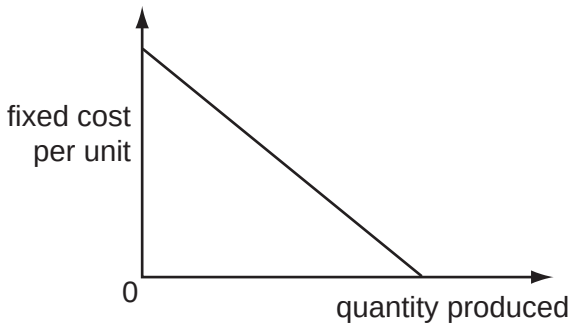
	profitability	risk
A	1 is greater	1 is greater
B	1 is greater	1 is less
C	2 is greater	2 is greater
D	2 is greater	2 is less

30 Which graph shows the fixed cost per unit produced in a manufacturing process?

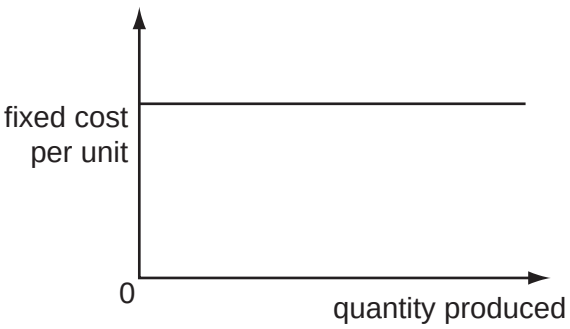
A



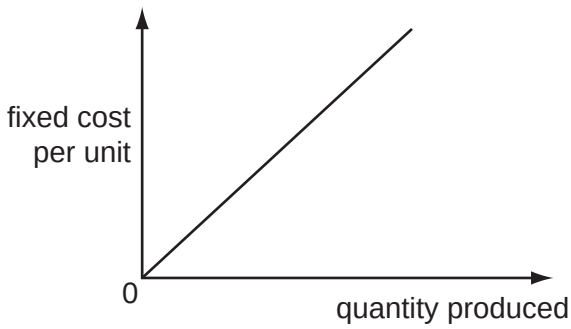
B



C



D



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