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

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **May/June 2012**

1 hour

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

2888003125

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 **9** printed pages and **3** blank pages.

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1 Which asset is often revalued in a business's accounts?

A buildings

B inventory

C IT equipment

D trade receivables

2 Which statement is correct?

A Carriage inwards is a credit.

B Carriage outwards is a debit.

C Purchase returns is a debit.

D Sales returns is a credit.

3 The principle of prudence in the preparation of financial statements is practised through the application of which action?

A create additional reserves

B exclude unpaid credit sales

C overstate the liabilities

D provide for anticipated losses

4 What is evidence that a company's financial statements are true and fair?

A The directors have signed off the financial statements.

B The profit has been agreed with the tax authorities.

C They are filed on time.

D They follow generally accepted accounting principles.

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5 The following items appear in the books of a builder.

	$
rent of own home	3 000
rent of builder's yard	2 500
housekeeping expenses	2 000
overalls	100
loose tools	300
equipment	3 000
lorries	1 500
rates on business premises	650
rent of business premises	3 500
assistant's wages	3 000

What is the total business expenditure?

A $11 250 **B** $14 550 **C** $16 550 **D** $19 550

6 The table shows details relating to a company's banking transactions at 31 December.

	$
balance at bank as 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 statement of financial position at 31 December?

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

7 A company's accounts showed a gross profit for the year of $32 500. After the draft financial statements were prepared it was found that the opening inventory had been overstated by $2400 and the closing inventory had been understated by $3400.

What is the corrected gross profit for the year?

A $26 700 **B** $31 500 **C** $33 500 **D** $38 300

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8 A manufacturing company has the following information for the year ended 31 December.

	$
purchase of raw materials	58 000
wages of machine operators	97 000
depreciation on factory plant	15 000
opening inventory of raw materials	10 000
closing inventory of raw materials	8 000
wages of factory supervisor	18 000
factory light and heating costs	22 000

What is the prime cost for the year?

A $153 000 **B** $157 000 **C** $175 000 **D** $212 000

9 The table shows information about four partners in a partnership.

Which partner has the greatest net reward from interest on capital and interest on drawings?

	fixed capital $	annual drawings $
A	20 000	30 000
B	20 000	50 000
C	60 000	30 000
D	60 000	50 000

10 In which account should a partner's drawings appear in the partnership's end-of-year financial statements?

A appropriation account

B income statement

C partner's capital account

D partner's current account

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11 The table shows the assets and liabilities of a club.

	$
non-current assets	10 000
cash at bank	6 400
electricity owing	600
rent prepaid	900
subscriptions:	
in arrears	5 700
in advance	3 800

How much is the accumulated fund?

A $14 200 **B** $14 800 **C** $18 000 **D** $18 600

12 A company purchases a product that costs $120. The company expects to make a gross profit margin of one-third.

What is the company's mark-up?

A $40 **B** $60 **C** $160 **D** $180

13 The inventory records of a business show the following information for product X.

		units	cost per unit $
1 January	opening balance	100	3
3 January	receipts into inventory	50	4
8 January	inventory issued	120	–

What is the value of the inventory issued on 8 January using the first in first out (FIFO) method?

A $360 **B** $380 **C** $410 **D** $420

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14 A company has an issued share capital of 200 000 6% cumulative preference shares of $1 each fully paid and 800 000 ordinary shares of $1 each fully paid.

Assuming that the company earns no profit in the year, which statement is correct?

A Both preference and ordinary shares are paid a dividend in the year.

B The unpaid dividends for both preference and ordinary shares are carried forward to a future year.

C The unpaid preference dividend is carried forward to a future year.

D The preference shares are paid a total dividend of $12 000 in the year.

15 A company raises finance by issuing debentures.

What is the effect on net current assets and short term profits?

	net current assets	profits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

16 A business finds that it is unable to pay its trade payables because of a poor cash flow.

What should it do to improve its cash flow?

A factor its trade receivables

B increase its trade receivables

C increase its inventory

D repay its overdraft

17 Which accounting ratio is used to assess working capital management?

A gross profit ratio

B net profit ratio

C rate of inventory turnover

D return on capital employed

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18 The following are extracts from a company's financial statements.

	$
profit for the year before finance charges	100 000
issued share capital	200 000
reserves	80 000
non-current liabilities	260 000

What is the company's return on capital employed?

A 18.5% **B** 21.7% **C** 35.7% **D** 50.0%

19 Owusu Limited has a constant level of annual sales and a constant gross margin. Each year the inventory increases.

What effect does this have on inventory holding and inventory turnover?

	inventory holding (in days)	inventory turnover (times)
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

20 Which item accounts for the difference between the current and liquid ratios?

A cash and cash equivalents

B inventory

C trade payables

D trade receivables

21 Arun wishes to invest in a business with a skilled workforce which will make a profit in each of the next five years.

Which aspect of financial statements helps Arun to decide where to invest?

A Financial statements deal with past performance.

B Historic cost is based on objective figures.

C Non-monetary values are excluded.

D Provisions can be based on estimates.

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22 Which statement best describes a sunk cost?

A a cost which is irrelevant for the future

B a cost which must be matched against the revenue

C a cost which remains the same at all levels of production

D a cost which varies with the level of production

23 A business has the following costs.

raw materials $3 per unit

direct labour $2 per unit

stepped costs of $5000 for every 10 000 units

What is the cost of producing 15 000 units?

A $75 000 **B** $82 500 **C** $85 000 **D** $105 000

24 Which statement best describes fixed costs?

A costs that are constant in total over a range of output.

B costs that are the same in total over any output level.

C costs that are constant per unit as output increases.

D costs that are the same as stepped costs.

25 Ehsen Nadeen manufactures one product, the miji. Each miji has a selling price of $10 and variable costs of $8 and annual fixed costs total $12 000. Ehsen wishes to make a profit of $14 000 a year.

How many mijis should Ehsen make each year?

A 2600 **B** 6000 **C** 7000 **D** 13 000

26 Which costing method is most suitable for fixing a selling price and which for deciding whether to make or buy in a product?

	fixing of selling price	decision to make or buy in a product
A	absorption costing	absorption costing
B	absorption costing	marginal costing
C	marginal costing	absorption costing
D	marginal costing	marginal costing

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27 A business provides the following data.

output level	1	2
direct labour hours	8 500	9 250
total overheads	$123 250	$124 563

The variable overhead cost is $1.75 per direct labour hour.

What is the fixed overheads cost when 8500 labour hours are used?

A $1313 **B** $14 875 **C** $108 375 **D** $123 250

28 The following information is forecast for May.

	units
opening inventory	25 200
closing inventory	28 200
	$
marginal cost profit	100 800
absorption cost profit	120 300

What is the overhead absorption rate?

A $3.57 **B** $4.27 **C** $4.77 **D** $6.50

29 The manufacture of which product is best suited to job costing?

A aeroplanes

B medicines

C newspapers

D paint

30 What is the purpose of a job cost sheet?

A to enable the business to recover its overheads

B to ensure the customer knows the split between materials and labour

C to inform the customer of the profit margin

D to let the business find the price for a quotation

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