Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **May/June 2014**

1 hour

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

5180729136

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, 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.
DO **NOT** WRITE IN ANY BARCODES.

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 Which items will be debited to accounts in the purchases ledger?

1 discount allowed

2 payments to suppliers

3 purchases

4 purchases returns

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

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. Payments were received in equal instalments on 1 April, 1 July, 1 October and 1 January.

At 31 October what would the financial statements show?

	income statement		statement of financial position	
		$		$
A	rental income	3500	current asset	1000
B	rental income	3500	current liability	1000
C	rental income	4500	current liability	1000
D	rental income	6000	current asset	1500

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 A new machine is purchased at a price of $75 000. In addition, delivery and installation cost is $2500.

The business depreciates all non-current assets at a rate of 20% per annum using the straight line method.

By how much would this transaction decrease the profit for the year?

A $14 500 **B** $15 000 **C** $15 500 **D** $17 500

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5 Which costs may be capitalised as land and buildings?

1 construction cost of an extension

2 insurance premium

3 legal fees on purchase

4 redecoration costs

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

6 A business had current assets and current liabilities as follows.

	$
inventories	1600
trade receivables	3200
trade payables	2700
rent receivable	800

A fire destroyed the inventories, but 75% of the loss is covered by an agreed insurance claim.

What are the net current assets after the fire?

A $900 **B** $1300 **C** $2500 **D** $2900

7 The accounting year end for a company is 31 October.

The table shows the company's telephone bill received on 2 December for the three months ended 30 November.

	$
telephone calls to 30 November	1041
rental of equipment for the period from 1 September to 30 November	156

Which accrual should the company make in the financial statements for the year ended 31 October?

A $503 **B** $798 **C** $1093 **D** $1197

8 A company's purchases ledger control account showed an opening balance of $24 640 credit.

The following information is available for the year.

	$
purchases journal (including invoice for $910 entered twice)	17 100
sales ledger control account contra	850
credit notes issued by suppliers	1 250
discounts received	420

The purchases ledger control account balance at the year end was $19 870 credit.

How much cash was paid to creditors during the year?

A $18 440 **B** $20 140 **C** $20 940 **D** $22 640

9 A suspense account was opened when a trial balance failed to balance. It was then discovered that returns of $200 had been correctly entered in the supplier's account but debited in the sales returns account. This was the only error.

What was the balance on the suspense account before this error was corrected?

A credit $200

B credit $400

C debit $200

D debit $400

10 Trade receivables at 31 December 2013 were $350 000. It is later found that $33 000 should be written off as bad debt. The provision for doubtful debts at the year end includes a specific provision of $2500 and a general provision of 4%.

What is the net amount of trade receivables at 31 December 2013?

A $300 500 **B** $301 820 **C** $301 920 **D** 303 000

11 A business has a draft profit for the year of $182 750.

The following adjustments have **not** yet been included in the financial statements.

1 a decrease of $2800 in the provision for doubtful debts

2 a prepayment of $3900 for rent receivable

What is the actual profit for the year?

A $176 050 **B** $181 650 **C** $183 850 **D** $189 450

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12 June purchased a new machine. She depreciated it at a rate of 40% a year on the reducing balance basis. After two years its net book value was $3600.

What was the purchase price?

A $8400 **B** $10 000 **C** $14 400 **D** $22 500

13 Which basis should be used to calculate the amount of advertising to be charged to a store with two departments?

A area of floor space

B cost of non-current assets

C number of sales staff

D value of sales revenue

14 The following information relates to the motor vehicles of a business.

	1 January 2013 $	31 December 2013 $
net book value	398 000	480 000

During 2013 the following occurred.

1 Additional motor vehicles costing $195 000 were purchased.

2 A motor vehicle (original cost $80 000) was sold for $24 000 at a profit of $2000.

What was the depreciation charge for 2013?

A $87 000 **B** $89 000 **C** $91 000 **D** $113 000

15 Fred and Perry are in business sharing profits and losses in the ratio 3 : 1.

Fred's capital account balance is $90 000 and Perry's is $60 000.

Bill is introduced as a new partner and invests $50 000 as capital.

Goodwill is valued at $20 000 and is not to be retained in the books of account.

The new profit sharing ratio will be 2 : 2 : 1.

What is the capital account balance of Fred after making the goodwill adjustments?

A $5700 **B** $83 000 **C** $97 000 **D** $105 000

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16 What is the treatment of life membership subscriptions?

A Credit the income and expenditure account in the year of receipt.

B Credit the life membership fund with the year's receipts and transfer a proportion each year to the income and expenditure account.

C Debit the income and expenditure account in the year of receipt.

D Debit the life membership fund with the year's receipts and transfer a proportion each year to the income and expenditure account.

17 What is **not** considered a source of finance?

A debentures

B share capital

C trade payables

D trade receivables

18 A company issues 500 000 ordinary shares of $1 each for $3 each and $250 000 6% debentures.

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

A no increase

B $750 000

C $1 500 000

D $1 750 000

19 An investor owns 10 000 5% preference shares in Howdo Limited.

One year Howdo Limited does not have enough profits to pay the preference dividend.

The investor expects the profits to improve and he thinks the directors will pay the missed dividend the following year.

Which type of preference shares does the investor own?

A cumulative

B non-cumulative

C participating

D redeemable

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20 The following financial information is available for a business. All purchases and sales are made on credit.

	$
raw materials purchased	121 980
revenue	209 980
trade payables	45 448
trade receivables	28 765

What is the average collection period?

A 50 days **B** 79 days **C** 86 days **D** 136 days

21 The following items appear on a statement of financial position.

	$
inventory	20 000
balance at bank	2 000
cash in hand	1 500
trade payables	11 000
provision for doubtful debts	500

The current ratio is 3 : 1.

How much do the trade receivables owe?

A $9500 **B** $10 000 **C** $12 000 **D** $12 500

22 A company's financial statements show the following.

	$
profit before interest	125 378
profit for the year	120 426
200 000 shares $1 each	200 000
retained earnings	191 982
debentures	150 000

What is the return on capital employed (ROCE)?

A 22.22% **B** 23.13% **C** 30.72% **D** 31.99%

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23 The gross profit ratio of a business has increased.

Which statement is correct?

A Inventories have decreased.

B Purchases have been obtained at reduced cost.

C Sales have increased.

D Sales returns have decreased.

24 Which cost is less than budgeted, when actual production is higher than budgeted?

A fixed cost per unit

B total fixed cost

C total variable cost

D variable cost per unit

25 The following information is available about a customer order.

	$
direct material cost	75.00
direct labour cost	42.00
cost per labour hour	7.00
fixed overhead absorption rate per direct labour hour	6.50

The order has a mark-up calculated at 20% of total cost.

What is the selling price?

A $117.00 **B** $140.40 **C** $156.00 **D** $187.20

26 What can be used to apportion production overheads to cost centres?

A cost of machinery

B direct labour hours

C indirect material cost

D sales department labour hours

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27 The following information relates to two production departments of a manufacturing business.

	assembly	polishing
prime cost ($000)	880	1100
indirect overheads ($000)	996	1363
machine hours (000)	100	150
labour hours (000)	75	220

What are the overhead absorption rates?

	assembly $	polishing $
A	9.96	6.20
B	13.28	9.09
C	18.76	11.20
D	25.01	16.42

28 A manufacturer has a total production cost of $50 000 to make 20 000 units. This increases to $60 000 if production is increased to 25 000 units.

What is the total cost of 35 000 units?

A $70 000 **B** $80 000 **C** $84 000 **D** $87 500

29 A company provides the following information about its product.

selling price	$100
variable cost per unit	$40
fixed costs	$21 600
break even point	360 units

If the business changes its production method, contribution will increase by 10% and fixed costs will increase by 5%.

What would be the effect on the break even point?

A decrease by 16 units

B decrease by 36 units

C increase by 6 units

D increase by 18 units

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30 A business is preparing its budget for July 2014.

Customers pay in the month following sales and suppliers are paid in the month following purchase.

The following information is available.

	June 2014 $	July 2014 $
credit sales	80 000	90 000
credit purchases	56 000	48 000
wages	18 000	18 000
drawings	1 000	500
depreciation	800	800

What is the budgeted bank balance at 31 July 2014 if the opening balance is expected to be $6000 debit?

A $10 700 **B** $11 500 **C** $28 700 **D** $29 500

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