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

**ACCOUNTING** **9706/11**

Paper 1 Multiple Choice **October/November 2011**

**1 hour**

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

* 2 5 8 3 6 1 9 8 8 5 *

**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 **11** printed pages and **1** blank page.


© UCLES 2011

**1** A business purchases a machine for $3200. It is estimated that it will have a useful life of 5 years and a residual value of $700. Straight line depreciation is charged each year.

What is the net book value at the end of year 2?

**A** $1920 **B** $2200 **C** $2560 **D** $2700

**2** A bank statement showed an overdraft of $750.

A cheque issued in payment of rent for $570 had not been presented, and a cheque for $624 received was omitted from the statement.

The statement included a bank charge of $50 but it had not been entered in the cash book.

What amount should appear in the balance sheet?

**A** bank balance $646

**B** bank balance $1894

**C** bank overdraft $494

**D** bank overdraft $696

**3** A company pays rates annually in advance on 1 April each year. $4000 is paid by them on 1 April 2009 and $4800 on 1 April 2010. The company's accounting year end is 31 December.

What is the charge for rates in the 2010 income statement?

**A** $4000 **B** $4200 **C** $4600 **D** $4800

**4** At the end of its financial year a business had accounts receivable of $16 000 and had a bad debts provision of $640. The provision is to be maintained at 5 % of accounts receivable.

Which amount is shown in the income statement?

**A** $160 credit **B** $160 debit **C** $800 credit **D** $800 debit

**5** What might stop financial statements showing a true and fair view?

**A** changes in depreciation methods from year to year

**B** changes in dividend policy

**C** creation of an asset revaluation reserve

**D** inclusion of purchased goodwill in a balance sheet

© UCLES 2011

**6** A company has been depreciating its IT equipment over 5 years, but now finds that it is becoming obsolete in 3 years.

What does the consistency principle permit the company to do?

**A** change the depreciation policy to 3 years and highlight the effect of this in its financial statements

**B** change the depreciation policy to 3 years without indicating the effect on profits

**C** continue to depreciate over 5 years as per the existing policy

**D** continue to depreciate over 5 years but note that after 3 years the equipment will be obsolete

**7** Which error would cause an entry in the suspense account?

**A** A page total from the purchases journal was posted as $9780 rather than the correct figure of $9870.

**B** Carriage outwards is credited to the carriage outwards account but correctly accounted for in the cash book.

**C** Discounts allowed are debited to the discounts allowed account and credited to the purchases ledger control account.

**D** Repairs to a vehicle are debited to the vehicles account.

**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 |
| receivables ledger control 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** At 31 December 2010 a business provides the following information.

| | $ |
|---|---|
| balance per cash book (bank column) | 790 credit |
| balance per the bank statement | 800 debit |
| unpresented cheques | 30 |

The only other reconciling item between the cash book and the bank statement is bank charges recorded on the bank statement but not in the cash book.

How much are the bank charges?

**A** $10 **B** $20 **C** $30 **D** $40

**10** An analysis of a business's record of inventory for an item shows the following:

On 1 January the business had an inventory of 100 units at a cost of $10 each.

| | units purchased | units sold |
|---|---|---|
| February | | 50 units |
| March | 60 units at $11 each | |
| April | 70 units at $12 each | 100 units |
| May | | 30 units |

All sales are made at $13 per unit. The business values its inventory on a FIFO basis.

What is the value of the inventory at the end of May?

**A** $500 **B** $550 **C** $600 **D** $650

**11** X, Y and Z are in partnership, sharing profits in the ratio 2 : 2 : 1. X is allowed an annual salary of $10 000. Y has made a loan to the partnership on which the partnership pays interest of $5000 each year. Profit for the year before appropriations is $150 000.

What is Z's total appropriation of profit for the year?

**A** $27 000 **B** $28 000 **C** $29 000 **D** $30 000

© UCLES 2011

**12** There are 75 members of a tennis club, paying an annual subscription of $95 each.

The treasurer has provided the following information for the year.

| | $ |
|---|---|
| subscriptions received | 7 305 |
| overheads: tennis balls - purchased | 850 |
| - opening inventory | 110 |
| - closing inventory | 95 |
| other overheads | 4 700 |

How much surplus will the club's income and expenditure account for the year show?

**A** $1560 **B** $1670 **C** $1740 **D** $1850

**13** A businessman marks up his cost of sales by 50 %. At the end of his trading year the following data is available.

| | $ |
|---|---|
| opening inventory | 5 000 |
| closing inventory | 4 000 |
| ordinary goods purchased | 35 000 |

What is his sales figure for the year?

**A** $51 000 **B** $52 500 **C** $54 000 **D** $66 000

**14** The financial year of a manufacturer ends on 31 December. Finished goods are valued at factory cost plus 20 %.

The following information is available:

| | 1 January $ | 31 December $ |
|---|---|---|
| inventory of finished goods | 2400 | 3000 |

What is the amount to be deducted for the provision for unrealised profit in the income statement?

**A** $100 **B** $120 **C** $500 **D** $600

© UCLES 2011

**15** The following information relates to the non-current assets of a business formed three years ago.

| | $ |
|---|---|
| cost at start of year 1 | 10 000 |
| accumulated depreciation at end of year 3 | 6 000 |
| profit for year 3 | 18 000 |

Depreciation has been consistently charged using the straight line method.

What would the profit be in year 3 if the method of depreciation for that year is changed to the reducing balance method at a rate of 25 %?

**A** $16 500 **B** $17 500 **C** $18 500 **D** $19 000

**16** What could be used to fund a bonus issue of shares?

1 asset revaluation reserve

2 general reserve

3 retained earnings

4 share premium

**A** 1 and 2 only

**B** 1, 2 and 3 only

**C** 1, 2, 3 and 4

**D** 2 and 3 only

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

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

The investor is not too worried as he 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

© UCLES 2011

**18** A balance sheet shows the following information.

| | $ |
|---|---|
| 100 000 ordinary shares of $0.50 each | 50 000 |
| 50 000 5 % preference shares of $0.10 each | 5 000 |
| share premium | 10 000 |
| revaluation reserve | 20 000 |
| retained earnings | 35 000 |
| | 120 000 |

What is the balance sheet value of one ordinary share?

**A** $0.50 **B** $1.00 **C** $1.15 **D** $1.20

**19** A business has a gross profit ratio of 40 %, and a net profit ratio of 10 %.

The business has significant fixed costs.

If the sales volume increases by 8 %, which of the following will generally be correct?

| | gross profit ratio | net profit ratio |
|---|---|---|
| **A** | increase | decrease |
| **B** | increase | increase |
| **C** | unchanged | decrease |
| **D** | unchanged | increase |

**20** The following data is available for a business for the year ended 30 September 2010.

| | |
|---|---|
| opening inventory | $1 000 000 |
| purchases for the year | $2 500 000 |
| closing inventory | $1 500 000 |
| mark up | 50 % |
| trade receivables collection period | 60 days |

Sales are on credit and accrue evenly over a 360-day accounting period.

What is the value of trade receivables at 30 September 2010?

**A** $500 000 **B** $625 000 **C** $666 667 **D** $750 000

**21** A company is operating in a very competitive market.

Which ratios represent the reaction to the competition?

| | gross profit percentage | period of credit allowed to customers |
|---|---|---|
| **A** | 20 % | 30 days |
| **B** | 20 % | 60 days |
| **C** | 25 % | 30 days |
| **D** | 25 % | 60 days |

**22** The balance sheet of a business at 30 June includes the following items:

| | Year 1 | Year 2 |
|---|---|---|
| trade receivables | 47 000 | 63 000 |
| other receivables | 1 900 | 2 700 |

Total sales for Year 2 amounted to $450 000 of which $85 000 were cash sales.

What is the average trade receivables collection period during the year ended 30 June Year 2?

**A** 44 days **B** 51 days **C** 55 days **D** 63 days

**23** The opening inventory of a business is $10 000 and the cost of goods sold is $200 000.

Using the average figure of opening and closing inventory, what value of closing inventory is needed to give an inventory turnover of 10 times?

**A** $10 000 **B** $20 000 **C** $30 000 **D** $40 000

**24** What are major assumptions in contribution / sales (c / s) analysis?

1 Costs can be identified as either variable or fixed.

2 Fixed cost per unit is constant as activity rises.

3 Variable cost per unit fluctuates with the volume of activity.

4 Volume of activity is the only factor that affects revenue and variable costs.

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

© UCLES 2011

**25** Which statements about marginal costing are correct?

1 The marginal cost of a product includes an allowance for fixed overheads.

2 The marginal cost of a product represents the additional cost of making one extra unit.

3 If inventory decreases during a period, the profits under absorption costing will be lower than under marginal costing.

**A** 1 only **B** 1, 2 and 3 **C** 2 only **D** 2 and 3 only

**26** A company absorbs overheads on machine hours which are budgeted at 11 250. The budgeted overhead is $281 250.

Results show actual hours of 10 980 and overhead of $276 652.

What is the under/over-absorption?

**A** overhead over-absorbed by $2152

**B** overhead over-absorbed by $4598

**C** overhead under-absorbed by $2152

**D** overhead under-absorbed by $4598

**27** A company uses absorption costing and makes and sells one product. In the last month budgeted overheads totalled $60 000. Budgeted production was 15 000 units and budgeted sales were 14 000 units.

The company now decides to apply marginal costing principles for the last month.

Which effect will this have on profits?

**A** $3500 decrease

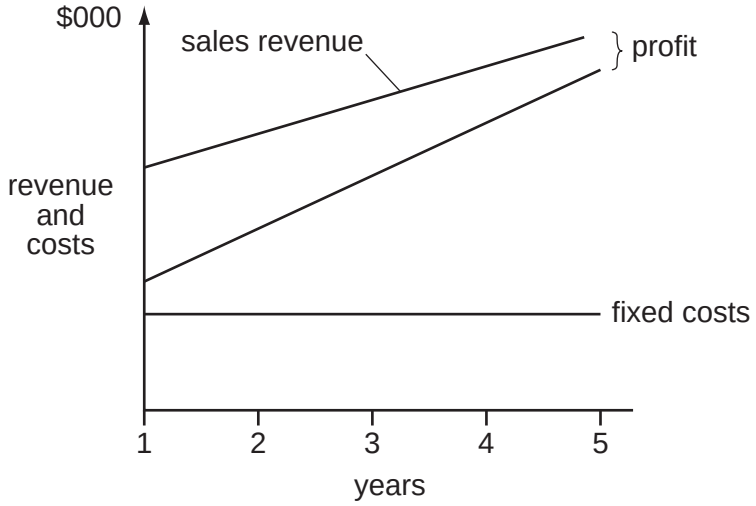
**B** $4000 decrease

**C** $4000 increase

**D** no effect

© UCLES 2011

**28** What does the diagram show about costs?




**A** Fixed costs are increasing.

**B** Total costs as a percentage of sales are decreasing.

**C** Variable costs per unit are decreasing.

**D** Variable costs per unit are increasing.

**29** A DVD has a selling price of $10.

| cost per DVD | $ |
|---|---|
| direct materials | 1.20 |
| direct labour | 0.80 |
| factory overhead (fixed) | 1.50 |
| royalty payment | 1.00 |
| administration overhead (fixed) | 0.60 |

What is the contribution per DVD?

**A** $4.90 **B** $5.90 **C** $7.00 **D** $8.00

© UCLES 2011

**30** A business has the following budgeted and actual results for a period.

| | $ |
|---|---|
| budgeted fixed overheads | 354 000 |
| actual fixed overheads | 360 000 |
| under absorption of overheads | 3 000 |

The fixed overheads are absorbed per unit.

The budgeted number of units was 118 000.

What is the actual level of activity in units?

**A** 118 000 **B** 119 000 **C** 120 000 **D** 121 000

© UCLES 2011

**BLANK PAGE**

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2011