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

ACCOUNTING **9706/13**

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)

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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.

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1 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

2 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

3 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

4 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

5 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

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6 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.

7 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

8 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

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9 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

10 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

11 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

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12 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

13 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

14 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

15 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

16 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

17 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

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18 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

19 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

20 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

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21 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

22 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

23 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

24 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

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25 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

26 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?

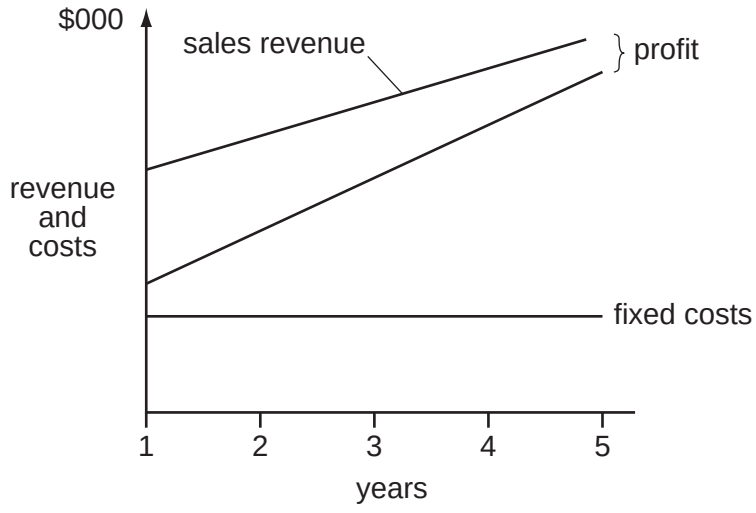
A $3500 decrease

B $4000 decrease

C $4000 increase

D no effect

27 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.

28 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

29 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

30 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

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