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

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **October/November 2012**

1 hour

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

0858808304

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.

© UCLES 2012

1 A business makes up its financial statements to 30 April each year.

Included in the ledger account balances on 1 May 2011 was insurance (debit) $800.

On 31 October 2011 an insurance premium of $2100 was paid for the year ending 31 October 2012.

Which amount was charged for insurance in the income statement for the year ended 30 April 2012?

A $1050 **B** $1850 **C** $2100 **D** $2900

2 A business increases its provision for doubtful debts by $1600.

What will be the effect of this adjustment on the financial statements?

	profit for the year	trade receivables (net)
A	decrease by $1600	decrease by $1600
B	decrease by $1600	increase by $1600
C	increase by $1600	decrease by $1600
D	increase by $1600	increase by $1600

3 The dividends receivable account shows dividends of $7500 received during the year. Dividends of $1200 are due at the year end.

How will dividends be shown in the financial statements?

	income statement	$	statement of financial position	$
A	credit	7500	other receivables	1200
B	credit	8700	other receivables	1200
C	debit	7500	other payables	1200
D	debit	8700	other payables	1200

4 Which statement is correct?

A All reserves are created by a transfer from retained earnings.

B Revaluation reserves appear in the non-current assets section of the statement of financial position.

C Some reserves are treated as current liabilities at the financial year end.

D Total reserves form part of shareholders' equity.

© UCLES 2012

5 A business has a good reputation. The owner wishes to include goodwill in the financial statements. An accountant advises against it.

Which accounting principle is the accountant applying?

A business entity

B going concern

C matching

D prudence

6 A trader provided the following information.

	$
gross profit	3 000
motor expenses for repairs to private motor car	500
wages paid to staff	1 000
rent paid for premises	600
interest on home loan	700

What is the profit for the year?

A $200 **B** $700 **C** $900 **D** $1400

7 What is an example of the substance over form concept?

A accounting for assets on hire purchase

B depreciating assets over their useful lives

C using doubtful debt provisions

D valuing inventory at the lower of cost and net realisable value

© UCLES 2012

8 Alfredo received his bank statement which showed a balance of $937 overdrawn. This did not agree with his cash book.

On investigation he noted the following.

- Bank charges of $76 had not been entered in the cash book.
- There was an unpresented cheque of $214.
- Alfredo had paid $35 cash into his bank account but this was not showing on the statement.

At which value was the bank overdraft shown in the statement of financial position?

A $758 **B** $937 **C** $1116 **D** $1192

9 The purchases ledger control account has a closing balance of $15 300. Discounts received of $600 have been entered on the wrong side of the control account.

What is the corrected balance?

A $14 100 **B** $14 700 **C** $15 900 **D** $16 500

10 Which statement about trial balance totals is correct?

A They may not agree since a trial balance is not a statement of financial position.

B They may not agree until various adjustments are made.

C They should, in the absence of errors, always agree.

D They will not agree because the trial balance does not include a figure for closing inventory.

11 A manufacturer has inventories of

1 finished goods
2 work-in-progress
3 raw materials

Which inventories appear in the manufacturing account?

A 1 and 2 only

B 1 and 3 only

C 1, 2 and 3

D 2 and 3 only

© UCLES 2012

12 A company discovers that its opening inventory was overvalued by $30 000.

Which effect will the correction of this error have on the financial statements for the year?

	profit for the year	closing inventory
A	–$30 000	nil
B	nil	–$30 000
C	+$30 000	nil
D	+$30 000	–$30 000

13 In the absence of a partnership agreement partners are:

1 entitled to interest on the capitals at 5% per annum

2 entitled to interest on loans at 5% per annum

3 entitled to interest on loans at 10% per annum

4 not entitled to interest on capitals

5 not entitled to interest on loans

Which statements are correct?

A 1 and 2 **B** 2 and 4 **C** 3 and 4 **D** 4 and 5

14 X and Y are in partnership. Their income statement and appropriation account shows the following.

	$
depreciation of non-current assets	5 000
interest on loan from Y	600
interest on capital	2 400
interest charged on drawings	900
partners' salaries	5 000
residual profit	12 000

What is the profit for the year before any appropriations?

A $18 500 **B** $19 100 **C** $20 300 **D** $25 900

15 The committee of a sports club decided to introduce a life membership scheme.

The cost of life membership was $200, to be transferred to the income and expenditure account over a twenty–year period. Seven members took up life membership in the first year.

Which values would be shown in the financial statements at the end of year 1?

	income and expenditure account $	current liabilities $	deferred income $
A	nil	nil	1400
B	70	nil	1330
C	70	70	1260
D	1400	nil	nil

16 A company commences business on 1 April. It buys the following units of inventory.

date	quantity	unit cost
1 April	200	$250
1 September	400	$200
1 December	200	$300

During the year, it sells 500 units at $550 each.

What is the gross profit for the year using the FIFO method of inventory valuation?

A $85 000 **B** $155 000 **C** $156 250 **D** $165 000

17 A business sells a non-current asset for cash. The disposal account includes entries for the cost of the asset and the sales proceeds.

Which books of prime entry are used?

	cost	sales proceeds
A	cash book	general journal
B	cash book	sales journal
C	general journal	cash book
D	purchases journal	cash book

© UCLES 2012

18 A business buys a vehicle for $10 000 on 1 January Year 1 and sells it for $6500 on 1 January Year 3, having depreciated it at 10 % a year using the straight line method.

The company provides a full year's depreciation in the year of purchase and none in the year of disposal.

Which amount for profit or loss will appear in the disposal account and on what side of the disposal account will it be shown?

A $1500 on the credit side

B $1500 on the debit side

C $2500 on the credit side

D $2500 on the debit side

19 A company raises cash by issuing 8 % debentures.

What is the effect on the company's profits and net current assets in the year of issue?

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

20 A company is financed by 25 000 $1 ordinary shares.

The company wishes to finance expansion by issuing 5000 $1 ordinary shares at a premium of $0.20 and $10 000 debentures.

What will be the new equity figure in the statement of financial position?

A $30 000 **B** $31 000 **C** $40 000 **D** $41 000

21 What does the current ratio show?

A if inventory is being used efficiently

B the profit that has been made

C whether a business is able to pay its debts

D whether revenue is likely to increase or decrease

22 A company has the following year end information.

	$000
credit purchases	320
credit sales	800
total purchases	440
total sales	900
trade payables	40
trade receivables	160

How long does the company take to pay its trade suppliers?

A 34 days **B** 46 days **C** 65 days **D** 73 days

23 The following information is extracted from a company's financial statements.

income statement	$000
profit from operations	200
finance charges	(20)
	180
taxation	(70)
profit for the year	110

statement of financial position	$000
net assets	1 000
non-current liabilities	(100)
	900
share capital and reserves	900

What is the return on total capital employed?

A 12.2% **B** 18% **C** 20% **D** 22.2%

© UCLES 2012

24 A company's profit before finance charges has increased by 10 % in a year, whilst its gross profit has only increased by 5 %.

Which factors could explain this?

1 a decrease in finance charges

2 a decrease in selling and distribution expenses

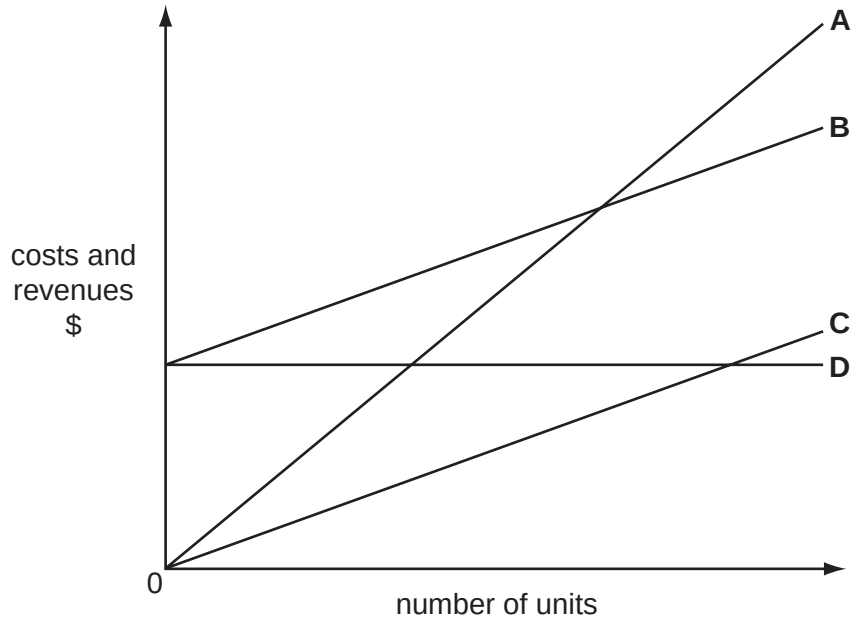
3 an increase in rent received

4 an increase in selling prices

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

25 The diagram shows costs and revenues of a business.

Which line represents total cost?



26 A business pays a salesman a basic salary, plus commission based on how much he sells.

Which type of cost is the salesman's total earnings?

A fixed

B semi-variable

C stepped

D variable

27 A business has fixed costs for a month of $150 000. It sells its single product for $20 per unit and has a contribution/sales ratio of 0.75. It wishes to make a profit of $300 000 for the month.

How many units does the business need to sell?

A 10 000 **B** 20 000 **C** 22 500 **D** 30 000

28 When valuing inventory of finished goods on an absorption cost basis, which costs should be included?

A production

B production and administration

C production, marketing and distribution

D production, marketing, administration and distribution

29 A hospital budgets for overheads totalling $11 500 000 for a financial year. It expects to treat 25 000 patients in the year. Each patient stays an average of 10 days and the hospital absorbs overheads on a patient/day basis. Its direct costs for the year are budgeted at $25 000 000.

What is its overhead absorption rate per patient day?

A $46 **B** $100 **C** $146 **D** $460

30 The following data applies to a business.

budgeted labour hours	10 000
actual labour hours	9 500
budgeted overheads	$150 000
actual overheads	$160 000

What is the amount of overhead under-absorbed?

A $7500 **B** $8000 **C** $10 000 **D** $17 500

© UCLES 2012

BLANK PAGE

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.