| •••••••• | OF CAMBRIDGE INTERNATIONAL EX Certificate of Education Advanced Subsi and Advanced Level | |
|-----------------------|--|---------------|
| ACCOUNTING | | 9706/01 |
| Paper 1 Multiple | Choice | May/June 2005 |
| Additional Materials: | Multiple Choice Answer Sheet Soft clean eraser Soft pencil (type B or HB is recommended) | 1 hour |

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.



1 A business purchases a new van.

The table shows the purchase invoice details:

| | \$ |
|-----------------|--------|
| purchase price | 13 000 |
| delivery charge | 500 |
| sign writing | 200 |
| road tax | 200 |
| tank of fuel | 50 |

How much should be debited to the motor van account?

| A \$ | 13 500 | В | \$13 700 | С | \$13 900 | D | \$13 950 |
|-------------|--------|---|----------|---|----------|---|----------|
|-------------|--------|---|----------|---|----------|---|----------|

2 A company has completed arrangements for the closure of part of its business next year.

What should the company create in this year's accounts for the closure costs?

- **A** a contingency
- **B** a liability
- **C** a provision
- D a reserve
- **3** The journal entry 'Debit Subscription Income, Credit Creditors' was made in the accounting records of a club.

What does this represent?

- **A** subscriptions owed by members
- **B** subscriptions received by cheque
- C subscriptions received in advance
- **D** subscriptions refunded to members
- **4** A business makes a provision for doubtful debts equal to 5% of its debtors.

At 31 March 2003 net debtors were shown in the Balance Sheet as \$17 100.

At 31 March 2004 the balance on its Sales Ledger Control account was \$19 000. In the year ended 31 March 2004 a bad debt of \$800 had been written off.

How much should be debited in the Profit and Loss Account for the year ended 31 March 2004 for the provision for doubtful debts?

A \$10 **B** \$50 **C** \$55 **D** \$95

5 At the end of year 1 a company had a debit balance of \$760 on its Rent Payable account.
Payments for rent in year 2 totalled \$10 600 and at the end of the year rent prepaid was \$1290.
How much rent was charged against profit in year 2?

A \$8550 **B** \$10 070 **C** \$10 600 **D** \$11 130

6 Businesses anticipate losses but not profits in preparing their annual accounts.

Which accounting concept is being applied here?

- A accruals
- **B** consistency
- **C** going concern
- **D** prudence
- 7 What is an example of the application of the concept of accounting for substance over form?
 - A accounting for stock losses
 - B recording an asset acquired under a hire purchase agreement as a fixed asset
 - **C** recording the premium on the issue of ordinary shares in a share premium account
 - **D** writing off a debt from a customer in liquidation
- 8 The following information is extracted from the books of a company.

| | \$000 |
|---|-------|
| freehold premises at cost | 125 |
| provision for depreciation of freehold premises | 50 |

The premises are revalued at \$180 000.

Which entries are required in the company's books to record the revaluation?

| | Profit and Loss Account | Freehold Premises at Cost account | Provision for depreciation | Revaluation Reserve |
|---|----------------------------|--------------------------------------|----------------------------|------------------------|
| Α | none | debit \$55 000 | debit \$50 000 | credit \$105 000 |
| в | debit \$50 000 | debit \$55 000 | none | credit \$105 000 |
| С | debit \$55 000 | debit \$75 000 | debit \$50 000 | credit \$180 000 |
| D | debit \$75 000 | debit \$55 000 | debit \$50 000 | credit \$180 000 |

What has caused this balance in the Suspense account?

- A motor expenses of \$225, correctly entered in the cash book, and posted to Motor Expenses as a credit
- **B** motor expenses of \$225, entered in the cash book as a receipt and posted to Motor Expenses as a credit
- **C** motor expenses of \$450, correctly entered in the cash book, and posted to Motor Vehicles as a debit
- **D** motor expenses of \$675, entered in the cash book as a credit of \$225 and posted to Motor Expenses as \$225 debit
- **10** Motor vehicles purchased for \$530 000 at the start of the year have been incorrectly depreciated for the whole year using the straight line method at 10% instead of 25%.

Ledger balances after the entries have been posted:

| motor vehicles at cost | \$530 000 |
|----------------------------|-----------|
| provision for depreciation | \$53 000 |

Which entries will correct the error?

- A debit Profit & Loss \$79 500; credit Provision for Depreciation of Motor Vehicles \$79 500
- **B** debit Profit & Loss \$132 500; credit Provision for Depreciation of Motor Vehicles \$132 500
- **C** debit Provision for Depreciation of Motor Vehicles \$79 500; credit Profit & Loss \$79 500
- D debit Provision for Depreciation of Motor Vehicles \$132 500; credit Profit & Loss \$132 500
- **11** How may net profit be calculated?
 - A Closing Capital + Drawings Additional Capital Opening Capital
 - **B** Closing Capital Drawings + Additional Capital Opening Capital
 - **C** Opening Capital + Drawings Additional Capital Closing Capital
 - **D** Opening Capital Drawings Additional Capital Closing Capital

- **12** A manufacturer has stocks of:
 - 1 finished goods
 - 2 work-in-progress
 - 3 raw materials

Which stocks will 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
- 13 What is a factory overhead expense in a Manufacturing account?
 - A cost of raw materials used
 - B depreciation of factory machinery
 - **C** royalties paid per item produced
 - **D** wages of production machine operators
- **14** The wages of staff employed in getting goods into a saleable condition have been debited in the Profit and Loss Account.

What is the effect of this error?

| | Gross profit | Net profit |
|---|--------------|-------------|
| Α | overstated | no effect |
| В | overstated | overstated |
| С | understated | no effect |
| D | understated | understated |

15 A company has two items in stock which require to be repaired before sale.

| | cost \$ | selling price \$ | repair costs \$ |
|--------|---------|------------------|-----------------|
| item 1 | 5 260 | 7 600 | 880 |
| item 2 | 2 360 | 2 450 | 190 |

What is the total stock value of these items?

| Α | \$6550 | В | \$7520 | С | \$7620 | D \$8980 |
|---|--------|---|--------|---|--------|-----------------|
| | | | + · · | - | | T |

16 A business does not keep proper accounting records.

The following information is available at the start of the year.

- 1 a motor car valued at \$2500
- 2 stocks which cost \$4000 with a sale value of \$6000
- 3 bank overdraft of \$500
- 4 a loan to a friend from the business bank account \$1000

What is the Capital account balance at the start of the year?

| Α | \$5000 | В | \$7000 | С | \$8000 | D | \$9000 |
|---|--------|---|--------|---|--------|---|--------|
|---|--------|---|--------|---|--------|---|--------|

17 Which statements are true about debentures and ordinary shares?

| | debentures | ordinary shares |
|---|-------------------------------------|---|
| Α | can be issued at a premium | are never issued at a premium |
| в | holders are owners of a company | holders are creditors of a company |
| С | interest is a charge against profit | dividends are an appropriation of profit |
| D | interest varies from year to year | dividends are paid at the same rate each year |

18 A company makes a 1 for 4 bonus issue of ordinary shares.

What will happen to share capital and shareholders funds?

| | share capital | shareholders funds |
|---|------------------|--------------------|
| Α | increased by 25% | decreased by 25% |
| в | increased by 25% | increased by 25% |
| С | increased by 25% | no change |
| D | no change | increased by 25% |

19 The table shows information from a company's accounts.

| | \$ 000 |
|--------------------------------|--------|
| Turnover | 135 |
| Gross profit | 34 |
| Profit before interest and tax | 11 |
| Profit after tax | 8 |
| Fixed assets | 59 |
| Current assets | 50 |
| Debentures | 12 |
| Current liabilities | 40 |

What is the return on total capital employed?

| A 8.1% B 11.3% C 14.0% D 15.9% | Α | 8.1% | В | 11.3 % | C 14.0% | D | 15.9% |
|--|---|------|---|--------|----------------|---|-------|
|--|---|------|---|--------|----------------|---|-------|

20 A company has a high liquidity ratio.

Which of the following will reduce liquidity?

- A doubling the annual rates of depreciation
- **B** making a bonus issue to existing shareholders
- C converting loan stock into shares
- **D** replacing machinery earlier than planned
- 21 A company has revalued its fixed assets upwards during the most recent accounting period.

What will be the effect of this?

- A to increase capital employed and increase profits
- B to increase capital employed and reduce profits
- C to reduce capital employed and reduce profits
- D to reduce capital employed and no effect on profits
- **22** Which statement correctly expresses the relationship between return on capital employed, net asset turnover and profit margin?
 - A net asset turnover = return on capital employed profit margin
 - $\mathbf{B} \quad \frac{\text{profit margin}}{\text{net asset turnover}} = \text{return on capital employed}$
 - **C** profit margin + net asset turnover = return on capital employed
 - **D** return on capital employed = net asset turnover x profit margin

23 The following information has been calculated from the accounts of a business.

| days taken to pay creditors | 36 |
|------------------------------|----|
| days taken by debtors to pay | 65 |
| stock turnover in days | 14 |

What is the cash operating cycle?

| Α | 15 days | В | 29 days | С | 43 days | D | 79 days |
|---|---------|---|---------|---|---------|---|---------|
| | | _ | | - | | _ | |

24 The following information is given for a business at 31 December 2004.

| current ratio | 3.6:1 |
|---------------|--------|
| | \$ |
| average stock | 12 000 |
| debtors | 4 000 |
| creditors | 5 000 |

What was the value of stock at 1 January 2004?

| A \$9400 B \$10 000 C \$12 000 D \$14 |
|---|
|---|

25 A particular cost is classified as 'semi-variable'.

Which effect will a 20% reduction in activity have on the unit cost?

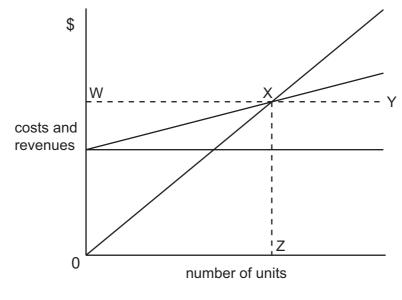
- A decrease by 20%
- B decrease by less than 20%
- **C** increase by 20%
- **D** increase by less than 20%

26 The following information relates to a product.

| | \$ |
|------------------------|--------|
| fixed costs | 72 000 |
| desired profit | 30 000 |
| selling price per unit | 10 |
| variable cost per unit | 4 |

How many units must be produced and sold to cover fixed costs and make the desired profit?

- **A** 12 000 units
- **B** 17 000 units
- C 18 000 units
- **D** 25 500 units
- 27 The diagram shows a break-even chart.



Which line represents the margin of safety?

A WX B WY C XY D XZ

28 The following information applies to X Ltd.

| output (units) | sales \$ 000 | profits \$ 000 |
|-------------------|-----------------|-------------------|
| 750 | 750 | 100 |
| 1000 | 1000 | 250 |

What is the contribution to sales ratio?

- **A** 25% **B** 40% **C** 60% **D** 87%
- 29 What may result in an under-absorption of fixed overhead?
 - A absorption based on actual expenditure and actual activity
 - B activity above budget
 - **C** activity below budget
 - D expenditure below budget
- 30 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 only
 - B 1 and 4 only
 - C 2 and 3 only
 - D 2 and 4 only

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