

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

**ACCOUNTING**

**9706/01**

Paper 1 Multiple Choice

October/November 2005

**1 hour**

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

**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.



- 1 A company has issued shares at a premium.

For what purpose may the balance on the share premium account be used?

- A to provide for the premium on the redemption of shares which were issued at par
- B to provide for the discount on a new issue of shares
- C to write off the preliminary expenses incurred in forming the company
- D to write off a loss on the revaluation of fixed assets

- 2 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
	<hr/>
total telephone bill	1197

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

- A \$503                  B \$798                  C \$1093                  D \$1197

- 3 Which item should be treated as capital expenditure?

- A cost of carriage on the purchase of a fixed asset
- B cost of replacement of part of a fixed asset
- C depreciation of a fixed asset
- D repairs to a fixed asset

- 4 A loan due for repayment in 20 months' time has been included as a current liability.

What will be the effect when this is corrected?

- A increase net assets
- B increase net current assets
- C no effect on net current assets
- D reduce net current assets

- 5 The following items of expenditure take place during the first month of a transport business.

	\$
rent	1 000
insurance of building	1 300
insurance of vehicle	350
road tax	500
purchase of vehicle	15 000
number plate for vehicle	150
painting of vehicle in company colours	750
wages for lorry driver	100
wages for painting vehicle	150

What is the total capital expenditure?

- A** \$15 000      **B** \$15 500      **C** \$16 050      **D** \$16 550
- 6 A manufacturer has paid \$3000 for electricity from his private bank account.

The electricity charges are apportioned as follows:

	%
factory	50
sales office	10
private	40

Which entries for electricity are necessary in the business accounts?

	factory	sales office	capital account
<b>A</b>	credit \$1000	credit \$200	debit \$1200
<b>B</b>	credit \$1500	credit \$300	debit \$1800
<b>C</b>	debit \$1000	debit \$200	credit \$1200
<b>D</b>	debit \$1500	debit \$300	credit \$1800

- 7 A business sells its freehold premises to a bank and agrees to repurchase them in five years' time. The business continues to use the premises on lease from the bank. The premises remain in the balance sheet of the business.

What is the reason for this accounting treatment?

- A the asset must be treated in the same way from year to year
- B the commercial reality of the transaction is that the business still owns the asset
- C the cost of the asset must be matched with the periods expected to benefit from its use
- D the income from the sales proceeds must not be anticipated

- 8 A company excludes from its Balance Sheet machinery for which spare parts are no longer obtainable.

Which concept is being applied by the company?

- A going concern
- B materiality
- C prudence
- D substance over form

- 9 A company's financial year ends on 31 December.

At 31 December Year 1 the company carried forward a debit balance of \$36 200 on the Rent account.

During Year 2 payments made for 12 months' rent, to 31 March Year 3, were \$157 200.

What is the amount of rent to be charged against profit in the year ended 31 December Year 2?

- A \$121 000      B \$154 100      C \$160 200      D \$193 400

- 10 The following errors in the accounting records have been found and corrected:

- 1 a purchase invoice for \$250 was omitted from the books of account
- 2 a sale for \$120 to X was debited to the account of Y
- 3 the sales day book was over-added by \$100

The gross profit for the year before correcting the errors was \$60 200.

What is the correct gross profit for the year?

- A \$59 850      B \$59 970      C \$60 350      D \$60 550

11 A business provides information:

	\$
opening creditors	20 000
cash paid to creditors	110 000
purchases on credit	120 000
balances set-off against sales ledger	2000
discount received	3000

What is the closing creditors balance?

- A** \$25 000      **B** \$29 000      **C** \$30 000      **D** \$31 000

12 Which items are included in prime cost?

- 1 royalties on goods produced
- 2 closing stock of work in progress
- 3 depreciation of factory equipment
- 4 opening stock of raw materials

- A** 1, 3 and 4 only  
**B** 1 and 4 only  
**C** 2, 3 and 4 only  
**D** 3 and 4 only

13 What appears as a credit in the Appropriation Account of a partnership?

- A** Goodwill  
**B** interest on capital  
**C** net trading profit  
**D** partnership salaries

14 Under which heading should negative Goodwill be included in a company's Balance Sheet?

- A** capital reserves  
**B** intangible fixed assets  
**C** revenue reserves  
**D** share capital

15 Why is a provision for depreciation made in accounts?

- A to charge the cost of fixed assets against profits
- B to make a provision for repairs
- C to make cash available to replace fixed assets when necessary
- D to show the current market values of fixed assets

16 A building cost \$340 000 several years ago. At 30 June 2004 the accumulated depreciation on the building was \$47 600 and it was decided to revalue the building to its market value of \$560 000.

What will be the balance on the Revaluation Reserve?

- A \$172 400      B \$220 000      C \$267 600      D \$512 400

17 X and Y are sole traders. On 1 October 2004 they agreed to form a partnership which would take over the assets of the separate businesses.

At 30 September 2004 the following information was available:

	X \$	Y \$
Goodwill	15 000	12 000
machinery	25 000	18 000
stock and debtors	8 000	3 000
cash at bank / (overdraft)	10 000	(4 000)

What was the total of the tangible assets taken over by the partnership?

- A \$60 000      B \$64 000      C \$87 000      D \$91 000

- 18 A company made a bonus issue of shares on the basis of 1 for every 3 held. The directors wish to keep the reserves in the most flexible form.

Balance Sheet extract (before bonus issue)	\$000
capital and reserves	
ordinary shares \$0.20 each	900
share premium	100
revaluation reserve	170
retained profits	130
	1300

What will be the position after the bonus issue?

	Share capital \$000	Share premium \$000	Revaluation reserve \$000	Retained profits \$000
<b>A</b>	1200	nil	nil	100
<b>B</b>	1200	nil	70	30
<b>C</b>	1200	nil	100	nil
<b>D</b>	1200	100	nil	nil

- 19 A limited company has an authorised share capital of \$750 000 and an issued share capital of \$450 000 in \$1.00 ordinary shares.

It makes a 1 for 3 rights issue of shares at \$2.00 per share which is fully taken up.

What is the balance on the share capital account following this transaction?

- A** \$600 000      **B** \$700 000      **C** \$750 000      **D** \$900 000

- 20 A company with an issued share capital of \$200 000 of \$1.00 ordinary shares makes a bonus issue of one \$1.00 ordinary share for every five already held. It also issues \$80 000 debentures at a discount of 5%.

The company has a bank balance of \$40 000 before the issues.

What is the bank balance after the issues?

- A** \$76 000      **B** \$116 000      **C** \$120 000      **D** \$166 000

21 A business increases its provision for doubtful debts.

What is the effect on the current and acid test ratios?

	current ratio	acid test ratio
<b>A</b>	decrease	decrease
<b>B</b>	decrease	no change
<b>C</b>	no change	decrease
<b>D</b>	no change	no change

22 Which accounting ratio is used to assess working capital management?

- A** gross profit ratio
- B** net profit ratio
- C** return on capital employed
- D** stock turnover ratio

23 A company's gross profit ratio for the year ended 31 December 2003 was 25%. This increases to 28% for the year ended 31 December 2004.

What could have been responsible for the increase?

- A** an increase in the cost of purchases during 2004
- B** an increase in the volume of sales during 2004
- C** an over-valuation of stock at 31 December 2004
- D** an under-valuation of stock at 31 December 2004

- 24 Given below are extracts from a company's Profit and Loss Account and Balance Sheet for last year.

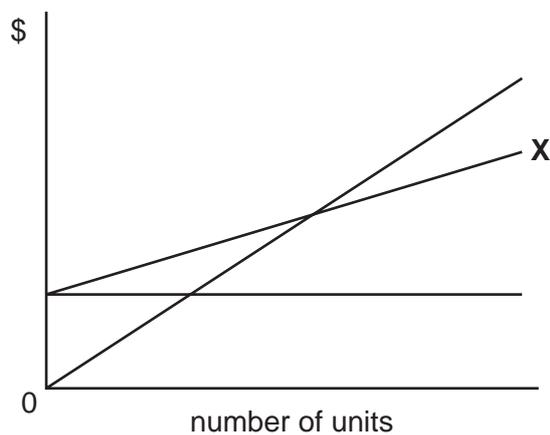
Profit and Loss Account	\$000
net profit before interest and tax	200
interest paid	<u>(20)</u>
net profit before taxation	180
taxation	(60)
dividends	(10)
retained profit for year	<u>110</u>

Balance Sheet	\$000
net assets	1 000
long term loan	(100)
	<u>900</u>
share capital and reserves	<u>900</u>

What is the return on total capital employed?

- A** 18%      **B** 20%      **C** 22.2%      **D** 25.7%

- 25 The diagram shows a break-even chart.



What is indicated by **X**?

- A** total costs  
**B** total fixed costs  
**C** total sales  
**D** total variable costs

26 The data given relates to a small business.

	\$	\$
sales		6 000
variable costs	4 500	
fixed costs	<u>900</u>	<u>5 400</u>
profit		<u>600</u>

What is the contribution to the sales ratio?

- A** 10%                      **B** 25%                      **C** 75%                      **D** 90%

27 What is the reason for overhead absorption in a manufacturing business?

- A** to enable overheads to be apportioned to cost centres  
**B** to control overhead expenditure  
**C** to establish costs per unit of product  
**D** to establish the net realisable value of stock

28 'Contribution' is an important feature of marginal costing.

How can the total contribution from a given activity be calculated?

- A** total assets plus total fixed costs  
**B** total sales minus total profit  
**C** total fixed costs plus total profit  
**D** total direct costs minus total profit

29 The budget for a product is shown.

unit sales	620 000
	\$
selling price per unit	31
variable cost per unit	16
contribution per unit	<u>15</u>
fixed costs	\$7 500 000

If the fixed costs rise to \$7 800 000, the selling price is reduced to \$29 per unit, and the variable cost remains unchanged at \$16 per unit, the sales are likely to reach 660 000 units.

By what percentage will the revised break-even point increase?

- A** 3.8%      **B** 4.0%      **C** 16.7%      **D** 20.0%

30 A company uses a predetermined direct labour rate of \$5.40 per hour to absorb production overhead. Each unit of product manufactured requires four direct labour hours.

The following information is available for a period:

actual production overhead	\$518 400
under-absorbed production overhead	\$32 400

What was the actual output of the product in the period?

- A** 22 500 units      **B** 24 000 units      **C** 25 500 units      **D** 30 000 units

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