|                       |  | XAMINATIONS<br>idiary Level |
|-----------------------|--|-----------------------------|
|                       | OF CAMBRIDGE INTERNATIONAL EX<br>ertificate of Education Advanced Subsi<br>and Advanced Level  | XAMINATIONS<br>idiary Level |
| ACCOUNTING            |  | 9706/01                     |
| Paper 1 Multiple      | Choice   | May/June 2004               |
| Additional Materials: | Multiple Choice Answer Sheet<br>Soft clean eraser<br>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 Expenditure on a machine during a year has included the following:

|  | \$     |
|--|--------|
| insurance costs  | 2 400  |
| new engine – machine will now produce more products per hour | 22 300 |
| cleaning costs   | 7 200  |

How much of this expenditure should be treated as capital expenditure?

| Α | none | В | \$22 300 | С | \$24 700 | D | \$31 900 |
|---|------|---|----------|---|----------|---|----------|
|---|------|---|----------|---|----------|---|----------|

2 An item of capital expenditure has been incorrectly treated as revenue expenditure in the accounts of a business.

What is the effect of this error on the accounts of the business?

|   | assets      | profit      |
|---|-------------|-------------|
| Α | overstated  | overstated  |
| в | overstated  | understated |
| С | understated | overstated  |
| D | understated | understated |

**3** A business buys a computer for \$2200 on 1 January 2002. The computer will be used for four years, after which time it will be sold for \$280. The business uses the straight-line method of depreciation.

What is the depreciation charge for the year ended 31 December 2003?

**A** \$480 **B** \$550 **C** \$960 **D** \$1100

**4** A vehicle was part exchanged for a new vehicle. The value placed on the old vehicle was \$12 000.

Which entries record the \$12 000 part exchange?

|   | account debited | account credited |
|---|-----------------|------------------|
| Α | Cash            | Motor Vehicles   |
| в | Motor Vehicles  | Cash             |
| С | Disposals       | Motor Vehicles   |
| D | Motor Vehicles  | Disposals        |

5 At the end of a financial period, a business has the following balances.

|   | \$     |
|---|--------|
| total debtors balances                      | 10 620 |
| bad debt not yet written off                | 260    |
| provision for doubtful debt brought forward | 460    |

What should the business do if it wishes to maintain the bad debt provision at 5% of debtors?

- **A** decrease the existing provision by \$58
- **B** increase the existing provision by \$58
- **C** decrease the existing provision by \$71
- **D** increase the existing provision by \$71
- 6 A fixed asset is purchased on 1 April 2000 at a cost of \$240 000. It has an estimated residual value of \$40 000 at the end of its 5 year life and is to be depreciated on the reducing balance basis at the rate of 30 % each year.

What is the depreciation charge for the year ending 31 March 2002 (to the nearest \$)?

- **A** \$42 000 **B** \$50 400 **C** \$98 000 **D** \$117 600
- 7 What does the 'going concern' principle mean?
  - A a business is profitable
  - **B** a business will continue to operate for the foreseeable future
  - C the assets of a business exceed its liabilities
  - **D** the assets of a business should be valued at disposal value
- 8 When a businessman introduces capital into his business, the transaction is debited in the Cash Book and credited to his Capital account.

Of which accounting principle is this an example?

- A entity
- **B** going concern
- **C** matching
- D prudence

Which accounting principle is being applied?

- A consistency
- **B** materiality
- **C** money measurement
- D substance over form
- **10** When preparing a bank reconciliation statement the following information is available.

|   | \$     |       |
|---|--------|-------|
| bank balance shown by the cash book                             | 20 000 | debit |
| unpresented cheques   | 2 500  |       |
| uncleared bankings  | 1 400  |       |
| standing order shown on the bank statement (not in a cash book) | 300    |       |

What is the balance on the bank statement?

| Α | \$18 600 | В | \$19 200 | С | \$20 800 | D | \$21 400 |
|---|----------|---|----------|---|----------|---|----------|
|---|----------|---|----------|---|----------|---|----------|

**11** A trial balance does not balance. The difference has been entered in a Suspense account.

The following errors are found.

| 1 | The Purchase Ledger Control account balance of \$48 300 has been |
|---|--|
|   | included as a debit balance.                                     |

- 2 Provision for depreciation has been overcast by \$960.
- 3 A cash payment of \$630 for rent has been credited in the cash book and debited to the Bad Debts account.

What is the correcting debit entry to the Suspense account?

**A** \$47 340 **B** \$95 010 **C** \$95 640 **D** \$97 560

**12** An item of revenue expenditure has been incorrectly treated as capital expenditure in the accounts of a business.

What effect will the correction of this error have on the accounts?

|   | net profit | net assets |
|---|------------|------------|
| Α | decrease   | decrease   |
| В | decrease   | increase   |
| С | increase   | decrease   |
| D | increase   | increase   |

**13** A club charges each of its 100 members an annual subscription of \$12.

At the end of a year four members had not paid their annual subscription.

What will be the entries in the financial statements for subscriptions?

|   | Income and Expenditure account | Balance She       | et   |
|---|--------------------------------|-------------------|------|
| Α | \$1 152                        | current asset     | \$48 |
| в | \$1 152                        | current liability | \$48 |
| С | \$1 200                        | current asset     | \$48 |
| D | \$1 200                        | current liability | \$48 |

- 14 Which item will be included in a Balance Sheet as a creditor?
  - **A** loan stock issued by a company
  - **B** preference shares issued by a company
  - **C** revaluation reserve
  - **D** Share Premium account

**15** The directors of a company are completing the accounts for the year ended 30 April 2004. They discover that the stock at 1 May 2003 was over-valued by \$50 000.

What is the effect of correcting this error in the accounts?

|   | net profit for year-end<br>30 April 2004 | reserves brought forward at<br>1 May 2003 |
|---|--|---|
| Α | decrease                                 | decrease                                  |
| в | decrease                                 | increase                                  |
| С | increase                                 | decrease                                  |
| D | increase                                 | increase                                  |

- **16** What is the definition of prime cost?
  - A direct materials + direct labour
  - **B** direct materials + direct labour + direct expenses
  - **C** direct materials + direct labour + factory overheads
  - **D** direct materials + direct labour + direct expenses + factory overheads
- **17** A business ends its financial year on 31 December. The stock was not counted until 10 January when it was found to be \$104 000 at cost. The following transactions took place from 1 to 10 January.

|                             | \$     |
|-----------------------------|--------|
| stock purchased             | 16 000 |
| stock sold at selling price | 15 000 |

Stock is sold at a mark-up of 25%.

What was the value of stock at 31 December?

- **A** \$99 250
- **B** \$100 000
- **C** \$108 000
- **D** \$108 750

- 18 When a company is short of liquid funds, for what purpose may the reserves be used?
  - A to finance the take-over of another business the company is anxious to acquire
  - B to maintain dividends during periods of low profitability
  - **C** to pay creditors promptly so as to obtain discounts
  - **D** to write down assets whose value to the business has fallen
- **19** A company's share capital consists of 150 000 ordinary shares of \$0.50 each.

It makes a rights issue of 1 ordinary share for every 3 already held at \$1.20 per share.

It then makes a bonus issue of 1 share for every 5 held.

Which amount will be shown in the Balance Sheet for share capital?

**A** \$120 000 **B** \$145 000 **C** \$155 000 **D** \$165 000

- 20 Which statement about bonus shares is true?
  - **A** They may be issued as repayment of debentures.
  - **B** They may be issued at a premium.
  - **C** They may be issued to the holders of preference shares.
  - **D** They may be issued using the premium received from an issue of preference shares.
- 21 The table shows the gross profit margin and net profit margin of a company.

|                     | year ended<br>31 March 2003 | year ended<br>31 March 2004 |
|---------------------|-----------------------------|-----------------------------|
|                     | %                           | %                           |
| gross profit margin | 38.6                        | 40.1                        |
| net profit margin   | 13.5                        | 13.1                        |

What caused these changes between 2003 and 2004?

- **A** a change in products sold leading to lower selling costs
- **B** a loss of trade discounts on purchases but an increase in cash discounts taken from suppliers
- **C** an advertising campaign to promote higher sales leading to higher selling prices
- **D** an increase in both production and selling costs

22 A company wants to increase its return on capital employed in the short term.

Which course of action will achieve this?

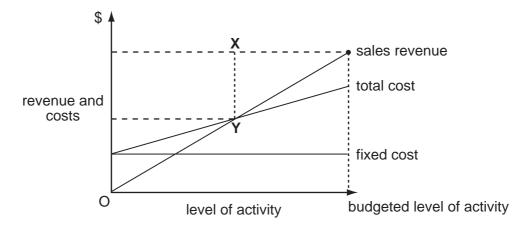
- A invest in new plant and machinery
- B reduce the level of dividends paid to investors
- **C** reduce the level of overhead expenses
- **D** revalue freehold land and buildings upwards
- 23 What would increase the working capital (current) ratio of a business?
  - A buying stock on credit for \$2000 and selling immediately for \$3000 cash
  - **B** paying creditors \$1000 cash
  - **C** purchasing a fixed asset of \$10 000 on credit
  - D selling stock of \$1000 at cost price on credit
- 24 The following relates to a business.

|                            | days |
|----------------------------|------|
| debtor's collection period | 26   |
| creditor's payment period  | 34   |
| rate of stock turnover     | 33   |

What is the business's working capital cycle?

- **A** 25 days **B** 27 days **C** 59 days **D** 93 days
- **25** Which item is a fixed cost?
  - A factory rent
  - **B** maintenance of machinery
  - **C** postage and stationery
  - D sales commission

**26** The diagram shows a break-even chart.



What does line **XY** represent?

- A the break-even point revenue
- B the margin of safety in terms of revenue
- C the profit at break-even point
- **D** the total contribution at break-even point
- **27** Production overhead expenditure in a period totalled \$102 660 compared with a budget of \$105 270.

Direct labour hours are used to absorb production overheads. 8700 direct labour hours were worked in the period and production overhead was over-absorbed by \$1740.

What was the production overhead absorption rate per direct labour hour?

| Α | \$11.60 | В | \$11.80 | С | \$12.00 | D | \$12.10 |
|---|---------|---|---------|---|---------|---|---------|
|---|---------|---|---------|---|---------|---|---------|

28 A company sells two products, X and Y.

|                    | X    | Y    |
|--------------------|------|------|
| sales (units)      | 1000 | 2000 |
|                    | \$   | \$   |
| selling price/unit | 22   | 12   |
| contribution/unit  | 12   | 4    |

Which would increase the company's profit by \$10 000?

- **A** a 30% increase in the sales of X
- **B** a 50% increase in the sales of both products
- **C** an increase in the selling price of X by \$1 and Y by \$6
- D a reduction in the variable costs of both products by \$5

**29** A business provides the following data for the year.

| budgeted output (units)            | 10 000    |
|------------------------------------|-----------|
| actual output (units)              | 8 000     |
|                                    | \$        |
| budgeted fixed production costs    | 1 200 000 |
| budgeted variable production costs | 800 000   |
| budgeted fixed selling overhead    | 600 000   |

What is the absorption cost per unit used for stocktaking?

| <b>A</b> \$20 | 0 B | <b>3</b> \$25 | ) <b>C</b> | : 9 | \$260 | D | \$325 |
|---------------|-----|---------------|------------|-----|-------|---|-------|
|---------------|-----|---------------|------------|-----|-------|---|-------|

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

|                               | \$      |  |
|-------------------------------|---------|--|
| budgeted fixed overheads      | 354 000 |  |
| budgeted number of units      | 118 000 |  |
| actual fixed overheads        | 360 000 |  |
| under absorption of overheads | 3 000   |  |

The fixed overheads are absorbed per unit.

What is the actual level of activity in units?

| Α | 118 000 | В | 119 000 | С | 120 000 | D | 121 000 |
|---|---------|---|---------|---|---------|---|---------|
|---|---------|---|---------|---|---------|---|---------|

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