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

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **October/November 2010**

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.

IB10 11_9706_11/6RP

UNIVERSITY *of* CAMBRIDGE International Examinations

1 On 1 January 2009 a business had prepaid rent of $50. During 2009, three rent pa e made of $250 each. On 31 December 2009, the business still owes $200 rent on a 2009.

The business owner has charged the rent payments made during 2009 in his income (profit a loss) account.

What is the effect on net profit?

A $200 too high

B $200 too low

C $250 too high

D $250 too low

2 A customer paid a deposit in advance for goods to be supplied at a later date.

How should this be recorded in the seller's books?

	debit	credit
A	cash	customer
B	cash	sales
C	customer	prepayment
D	customer	sales

3 Non current (fixed) assets of a company were:

	start of year $	end of year $
at cost	460 000	505 000
cumulative depreciation	215 000	237 000
net book value	245 000	268 000

During the year non current (fixed) assets costing $92 000 were purchased and non current (fixed) assets with a net book value of $16 000 were sold.

What was the depreciation charge for the year?

A $22 000 **B** $23 000 **C** $53 000 **D** $69 000

4 What does the application of the accounting principle of consistency ensure?

A that all losses are provided for

B that assets are recorded at their actual cost

C that financial statements are produced annually

D that profits are calculated the same way each year

5 At 30 June the balance sheet of a business includes the following.

	$
trade receivables (debtors)	46 000
provision for doubtful debts 5 %	2 300

During July, sales of $350 000 were made of which 20 % were in cash. Credit customers paid $303 800 after deducting a 2 % cash discount.

How much did the trade receivables (debtors) owe to the business at 31 July?

A $15 200 **B** $16 000 **C** $22 200 **D** $76 000

6 Which error will **not** affect the trial balance?

A posting of $3000 purchases to the debit of the motor vehicle account

B posting of $3000 purchases to the credit of the motor vehicle account

C posting of $3000 road tax refund to the debit of the motor vehicle account

D posting of $3000 sales to the debit of the motor vehicle account

7 Closing inventory (stock) has been overvalued.

What is the effect on the financial statements?

	net current assets	net profit
A	no effect	understated
B	overstated	no effect
C	overstated	overstated
D	understated	understated

8 The trade receivable (debtors) control account of Y shows a balance of $14 320.

Customer X, who owes Y $1000, has also supplied Y with $400 of goods.

The supply of goods, $400, is to be offset by Y.

What is the corrected trade receivable (debtors) control account balance?

A $13 720 **B** $13 920 **C** $14 720 **D** $14 920

9 An electricity accrual of $375 was treated as a prepayment in preparing a trader's income (profit and loss) account.

What was the effect on profit?

A overstated by $375

B overstated by $750

C understated by $375

D understated by $750

10 At the end of a financial year the following information is available.

	$
sales	200 000
opening inventory (stock)	15 000
closing inventory (stock)	18 000

If the business makes a standard mark-up of 25%, what were the purchases?

A $147 000 **B** $153 000 **C** $157 000 **D** $163 000

11 For the eleven months ended 31 August 2009, snack bar takings were correctly recorded at $109 340. For September 2009, the snack bar takings were mixed up with other income. The snack bar profit margin was 30%.

The table shows figures for the snack bar for September 2009.

	$
opening inventory (stock) at cost	6 303
purchases	8 844
closing inventory (stock) at cost	7 370

What was the gross profit of the snack bar for the year ended 30 September 2009?

A $27 566 **B** $36 135 **C** $36 593 **D** $43 912

12 Information relating to a club's subscription is:

	$
received during the year	20 000
paid in advance in the previous year	2 000
paid in advance during the current year	1 000

There were no subscriptions in arrears at the start or end of the year.

Individual subscriptions have remained constant at $500 per annum for the last two years.

How many members does the club have?

A 38 **B** 40 **C** 42 **D** 44

13 X and Y are in partnership, sharing residual profits and losses equally after the payments below are made.

1 2% interest is charged on partners' drawings

2 salary to Y of $10 000

The partners' drawings for the year were:

X $12 000

Y $8000

The net profit for the current year is $52 000.

How much will each partner receive in share of residual profits?

A $10 800 **B** $11 200 **C** $20 800 **D** $21 200

14 The table shows data for a manufacturing company for a year.

	$
office salaries	34 500
factory wages	115 000
depreciation on plant	3 700
depreciation on office equipment	1 500
cost of raw materials	89 600
royalties paid	4 200
closing inventory (stock) of completed goods	5 100

What is the production cost of completed goods for the year?

A $203 000 **B** $208 300 **C** $212 500 **D** $214 000

15 A company has the following current assets and current liabilities.

	$
bank deposit account	6 000
bank overdraft	4 500
loan interest payable	2 500
deposits from customers (for orders)	1 500
loans to employees	4 000
trade payables (creditors)	9 000
trade receivables (debtors)	12 000

What is the amount of the net current assets?

A $(3500) **B** $4500 **C** $7500 **D** $13 500

16 X started a business 3 years ago and now has a capital of $175 000.

Over that period his profits have been $73 000 and his drawings $52 000. In year 2 he introduced cash of $35 000 and in year 3 he took out of the business, for his own use, a non current (fixed) asset with a net book value of $4000.

How much capital did he start the business with?

A $67 000 **B** $115 000 **C** $123 000 **D** $158 000

17 A business has two departments, men's clothing and ladies' clothing. The following information is available.

	men's department	ladies' department
sales assistants	7	9
floor space	160 m^2	200 m^2
value of non current (fixed) assets	\$59 000	\$61 000
annual sales	\$450 000	\$750 000

The cost of heating and lighting is \$17 692.

What is the cost of heating and lighting for the men's department?

A \$6634.50 **B** \$7740.25 **C** \$7863.11 **D** \$8698.57

18 A company makes a bonus issue of shares.

What is the effect on the net assets and the reserves in the balance sheet?

	net assets	reserves
A	increase	decrease
B	increase	unchanged
C	unchanged	decrease
D	unchanged	increase

19 The table shows extracts from the trial balance of a company at 31 December 2009.

	\$
ordinary share capital	750 000
8 % preference shares	250 000
6 % debentures (2015)	150 000
bank loan repayable (2012)	75 000
bank overdraft	110 000
mortgage on buildings (repayable 2010)	120 000

What is the total of non current liabilities in the balance sheet at 31 December 2009?

A \$195 000 **B** \$225 000 **C** \$345 000 **D** \$595 000

20 A company's share capital and reserves are:

	$
non current (fixed) assets	250 000
net current assets	125 000
	375 000
share capital and reserves	
150 000 shares $1 each	150 000
share premium	75 000
general reserve	125 000
profits retained	25 000
	375 000

The directors propose to issue bonus shares on the basis of one $1 share for every three already held.

Following this the directors intend to make a rights issue on the basis of one new $1 share for every four shares held, at a premium of $0.20 per share.

What will the total net assets of the company be after the share issues?

A $425 000 **B** $435 000 **C** $475 000 **D** $485 000

21 A business has current liabilities of $4000 at its year end.

The quick (acid test) ratio is 1.5 : 1

The current ratio is 2.25 : 1

What is the value of inventory (stock) held at the year end?

A $3000 **B** $4000 **C** $9000 **D** $15 000

22 A company's gross profit ratio for the year ended 31 December 2008 was 25 %. This increases to 28 % for the year ended 31 December 2009.

What could have been responsible for the increase?

A an increase in the cost of purchases during 2009

B an increase in the volume of sales during 2009

C an over-valuation of inventory (stock) as at 31 December 2009

D an under-valuation of inventory (stock) as at 31 December 2009

23 A business has the following assets and liabilities.

	$000	$000
non current (fixed) assets		420
inventory (stocks)	120	
trade receivables (debtors)	310	
	430	
trade payables (creditors)	(220)	
net current assets		210
total assets less current liabilities		630
long term loan		(130)
net assets		500

What is the business's quick (acid test) ratio?

A 1.41 : 1 **B** 1.95 : 1 **C** 2.43 : 1 **D** 3.86 : 1

24 The table shows the year end information for three companies.

company	sales $	operating profit as % of all sales	capital employed $
X	500 000	15	100 000
Y	200 000	8	40 000
Z	400 000	10	80 000

How should the companies rank in order of return on the actual capital employed?

	return on capital employed		
	highest → lowest		
A	X	Z	Y
B	Y	Z	X
C	Z	X	Y
D	Z	Y	X

25 In a job costing system, what is the correct entry to record the return of unused di[illegible]s from production to stores?

	debit	credit
A	cost of sales	work in progress
B	stores control	finished goods
C	stores control	work in progress
D	work in progress	stores control

26 A company manufactures two products.

	product X $	product Y $
selling price	20	30
direct labour (per unit)	10	20
direct materials (per unit)	4	2

Total fixed costs are $48 000.

Only 3000 units of Y can be made and sold.

How many units of product X must be made and sold to break even?

A 1800 **B** 3000 **C** 4000 **D** 8000

27 A factory produces a product with a variable cost of $0.60 per unit.

Fixed costs are $15 000 per quarter, including rent of $6000 per quarter.

If more than 20 000 units are made per quarter, additional space is required which increases the rent by 50 %.

What is the total cost per unit of producing 30 000 units in a quarter?

A $0.60 **B** $0.90 **C** $1.10 **D** $1.20

28 A manufacturer has 700 units of finished goods in stock on 1 March.

On 31 March the total number of units in stock is 770.

At present, stock is valued using the total costing method.

What would be the effect on the operating profit if the marginal costing method is used for stock valuation?

A increase operating profit

B no change in operating profit

C no change in operating profit but a 10% increase in gross profit

D reduce operating profit

29 A job cost sheet showed the following estimates.

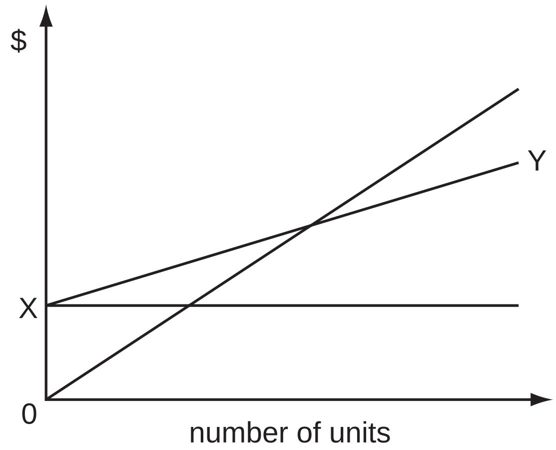
	$
materials	680
labour at $20 per hour	200
overheads at $10 per labour hour	100
profit	280
price of job	1 260

The job actually took 25% more labour hours than were estimated.

What was the profit?

A $205 **B** $230 **C** $330 **D** $355

30 The diagram shows a break-even chart.



What is indicated by the line XY?

A total costs

B total fixed costs

C total sales

D total variable costs