



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

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**ACCOUNTING**

**9706/11**

Paper 1 Multiple Choice

**May/June 2012**

**1 hour**

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

\* 2 8 8 8 0 0 5 1 2 5 \*

**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 **9** printed pages and **3** blank pages.



- 1 Which asset is often revalued in a business's accounts?
  - A buildings
  - B inventory
  - C IT equipment
  - D trade receivables
  
- 2 Which statement is correct?
  - A Carriage inwards is a credit.
  - B Carriage outwards is a debit.
  - C Purchase returns is a debit.
  - D Sales returns is a credit.
  
- 3 The principle of prudence in the preparation of financial statements is practised through the application of which action?
  - A create additional reserves
  - B exclude unpaid credit sales
  - C overstate the liabilities
  - D provide for anticipated losses
  
- 4 What is evidence that a company's financial statements are true and fair?
  - A The directors have signed off the financial statements.
  - B The profit has been agreed with the tax authorities.
  - C They are filed on time.
  - D They follow generally accepted accounting principles.

- 5 The following items appear in the books of a builder.

|                            | \$    |
|----------------------------|-------|
| rent of own home           | 3 000 |
| rent of builder's yard     | 2 500 |
| housekeeping expenses      | 2 000 |
| overalls                   | 100   |
| loose tools                | 300   |
| equipment                  | 3 000 |
| lorries                    | 1 500 |
| rates on business premises | 650   |
| rent of business premises  | 3 500 |
| assistant's wages          | 3 000 |

What is the total business expenditure?

- A** \$11 250      **B** \$14 550      **C** \$16 550      **D** \$19 550
- 6 The table shows details relating to a company's banking transactions at 31 December.

|   | \$     |
|---|--------|
| balance at bank as per bank statement       | 22 650 |
| uncleared lodgements                        | 3 110  |
| unpresented cheques                         | 6 290  |
| bank credit recorded twice by bank in error | 650    |

Which balance for cash at bank should appear in the statement of financial position at 31 December?

- A** \$18 820      **B** \$20 120      **C** \$25 180      **D** \$26 480
- 7 A company's accounts showed a gross profit for the year of \$32 500. After the draft financial statements were prepared it was found that the opening inventory had been overstated by \$2400 and the closing inventory had been understated by \$3400.

What is the corrected gross profit for the year?

- A** \$26 700      **B** \$31 500      **C** \$33 500      **D** \$38 300

- 8 A manufacturing company has the following information for the year ended 31 December:

|                                    | \$     |
|------------------------------------|--------|
| purchase of raw materials          | 58 000 |
| wages of machine operators         | 97 000 |
| depreciation on factory plant      | 15 000 |
| opening inventory of raw materials | 10 000 |
| closing inventory of raw materials | 8 000  |
| wages of factory supervisor        | 18 000 |
| factory light and heating costs    | 22 000 |

What is the prime cost for the year?

- A** \$153 000      **B** \$157 000      **C** \$175 000      **D** \$212 000
- 9 The table shows information about four partners in a partnership.
- Which partner has the greatest net reward from interest on capital and interest on drawings?

|          | fixed capital<br>\$ | annual drawings<br>\$ |
|----------|---------------------|-----------------------|
| <b>A</b> | 20 000              | 30 000                |
| <b>B</b> | 20 000              | 50 000                |
| <b>C</b> | 60 000              | 30 000                |
| <b>D</b> | 60 000              | 50 000                |

- 10 In which account should a partner's drawings appear in the partnership's end-of-year financial statements?
- A** appropriation account  
**B** income statement  
**C** partner's capital account  
**D** partner's current account

- 11 The table shows the assets and liabilities of a club.

|                    | \$     |
|--------------------|--------|
| non-current assets | 10 000 |
| cash at bank       | 6 400  |
| electricity owing  | 600    |
| rent prepaid       | 900    |
| subscriptions:     |        |
| in arrears         | 5 700  |
| in advance         | 3 800  |

How much is the accumulated fund?

- A** \$14 200      **B** \$14 800      **C** \$18 000      **D** \$18 600
- 12 A company purchases a product that costs \$120. The company expects to make a gross profit margin of one-third.

What is the company's mark-up?

- A** \$40      **B** \$60      **C** \$160      **D** \$180
- 13 The inventory records of a business show the following information for product X.

|           |                         | units | cost per unit<br>\$ |
|-----------|-------------------------|-------|---------------------|
| 1 January | opening balance         | 100   | 3                   |
| 3 January | receipts into inventory | 50    | 4                   |
| 8 January | inventory issued        | 120   | –                   |

What is the value of the inventory issued on 8 January using the first in first out (FIFO) method?

- A** \$360      **B** \$380      **C** \$410      **D** \$420

- 14** A company has an issued share capital of 200 000 6% cumulative preference shares fully paid and 800 000 ordinary shares of \$1 each fully paid.

Assuming that the company earns no profit in the year, which statement is correct?

- A** Both preference and ordinary shares are paid a dividend in the year.
  - B** The unpaid dividends for both preference and ordinary shares are carried forward to a future year.
  - C** The unpaid preference dividend is carried forward to a future year.
  - D** The preference shares are paid a total dividend of \$12 000 in the year.
- 15** A company raises finance by issuing debentures.

What is the effect on net current assets and short term profits?

|          | net current assets | profits  |
|----------|--------------------|----------|
| <b>A</b> | decrease           | decrease |
| <b>B</b> | decrease           | increase |
| <b>C</b> | increase           | decrease |
| <b>D</b> | increase           | increase |

- 16** A business finds that it is unable to pay its trade payables because of a poor cash flow.

What should it do to improve its cash flow?

- A** factor its trade receivables
  - B** increase its trade receivables
  - C** increase its inventory
  - D** repay its overdraft
- 17** Which accounting ratio is used to assess working capital management?
- A** gross profit ratio
  - B** net profit ratio
  - C** rate of inventory turnover
  - D** return on capital employed

18 The following are extracts from a company's financial statements.

|  | \$      |
|--|---------|
| profit for the year before finance charges | 100 000 |
| issued share capital                       | 200 000 |
| reserves                                   | 80 000  |
| non-current liabilities                    | 260 000 |

What is the company's return on capital employed?

- A** 18.5%      **B** 21.7%      **C** 35.7%      **D** 50.0%

19 Owusu Limited has a constant level of annual sales and a constant gross margin. Each year the inventory increases.

What effect does this have on inventory holding and inventory turnover?

|          | inventory holding<br>(in days) | inventory turnover<br>(times) |
|----------|--------------------------------|-------------------------------|
| <b>A</b> | decrease                       | decrease                      |
| <b>B</b> | decrease                       | increase                      |
| <b>C</b> | increase                       | decrease                      |
| <b>D</b> | increase                       | increase                      |

20 Which item accounts for the difference between the current and liquid ratios?

- A** cash and cash equivalents  
**B** inventory  
**C** trade payables  
**D** trade receivables

21 Arun wishes to invest in a business with a skilled workforce which will make a profit in each of the next five years.

Which aspect of financial statements helps Arun to decide where to invest?

- A** Financial statements deal with past performance.  
**B** Historic cost is based on objective figures.  
**C** Non-monetary values are excluded.  
**D** Provisions can be based on estimates.

22 Which statement best describes a sunk cost?

- A a cost which is irrelevant for the future
- B a cost which must be matched against the revenue
- C a cost which remains the same at all levels of production
- D a cost which varies with the level of production

23 A business has the following costs.

raw materials \$3 per unit

direct labour \$2 per unit

stepped costs of \$5000 for every 10 000 units

What is the cost of producing 15 000 units?

- A \$75 000      B \$82 500      C \$85 000      D \$105 000

24 Which statement best describes fixed costs?

- A costs that are constant in total over a range of output.
- B costs that are the same in total over any output level.
- C costs that are constant per unit as output increases.
- D costs that are the same as stepped costs.

25 Ehsen Nadeen manufactures one product, the miji. Each miji has a selling price of \$10 and variable costs of \$8 and annual fixed costs total \$12 000. Ehsen wishes to make a profit of \$14 000 a year.

How many mijis should Ehsen make each year?

- A 2600      B 6000      C 7000      D 13 000

26 Which costing method is most suitable for fixing a selling price and which for deciding whether to make or buy in a product?

|   | fixing of selling price | decision to make or buy in a product |
|---|-------------------------|--------------------------------------|
| A | absorption costing      | absorption costing                   |
| B | absorption costing      | marginal costing                     |
| C | marginal costing        | absorption costing                   |
| D | marginal costing        | marginal costing                     |



27 A business provides the following data.

|                     |           |           |
|---------------------|-----------|-----------|
| output level        | 1         | 2         |
| direct labour hours | 8 500     | 9 250     |
| total overheads     | \$123 250 | \$124 563 |

The variable overhead cost is \$1.75 per direct labour hour.

What is the fixed overheads cost when 8500 labour hours are used?

- A** \$1313      **B** \$14 875      **C** \$108 375      **D** \$123 250

28 The following information is forecast for May.

|                        |         |
|------------------------|---------|
|                        | units   |
| opening inventory      | 25 200  |
| closing inventory      | 28 200  |
|                        | \$      |
| marginal cost profit   | 100 800 |
| absorption cost profit | 120 300 |

What is the overhead absorption rate?

- A** \$3.57      **B** \$4.27      **C** \$4.77      **D** \$6.50

29 The manufacture of which product is best suited to job costing?

- A** aeroplanes  
**B** medicines  
**C** newspapers  
**D** paint

30 What is the purpose of a job cost sheet?

- A** to enable the business to recover its overheads  
**B** to ensure the customer knows the split between materials and labour  
**C** to inform the customer of the profit margin  
**D** to let the business find the price for a quotation





