Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **May/June 2020**

1 hour

You must answer on the multiple choice answer sheet.

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You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.

1 A business depreciates its non-current assets. It then includes them in the statement of financial position at the net book value.

Which concept is the business following?

A duality

B prudence

C realisation

D substance over form

2 Which item is capital income?

A bank interest received

B proceeds from sale of business premises

C rental income from property

D sale of inventory to a customer

3 A company purchased a machine on 1 April 2017 for $25 000. It was depreciated at 20% per annum using the straight-line method. A full year's depreciation is charged in the year of purchase but none in the year of sale. On 30 June 2019 the machine was sold for $12 500. The company year-end is 31 December.

What was the profit or loss on the disposal of the machine?

A $1250 loss

B $1250 profit

C $2500 loss

D $2500 profit

4 Why do businesses charge depreciation on their non-current assets?

A to ensure that sufficient cash is available to replace the assets

B to show the realisable value of the assets in the statement of financial position

C to spread the cost of the assets over their estimated useful life

D to show when the assets must be replaced

5 A trader's trial balance did not agree at the end of the financial period and a suspense account was opened.

The following errors were discovered.

1. No entry had been made in the books of account for a purchase of inventory, $650.
2. Purchase of a vehicle by cheque had been credited to bank but debited to motor expenses.
3. The discount received of $300 had been correctly recorded in the purchases ledger control account and was debited to discount allowed account.
4. The purchases account for the year had been incorrectly totalled.

Which errors would affect the suspense account?

A 1, 2 and 3

B 1 and 3 only

C 2 and 4 only

D 3 and 4 only

6 The following financial information is available for a business.

	$
draft profit for the year	12 650
closing capital	52 780

The following error has been discovered.

Private fuel costs, $1930, had been charged in the business motor expenses account.

What are the correct figures for the year?

	profit for the year $	closing capital $
A	10 720	50 850
B	10 720	54 710
C	14 580	52 780
D	14 580	54 710

7 A sales ledger control account has a closing balance of $21 000.

It was discovered that a contra entry with the purchases ledger control account for $700 had been incorrectly entered on the wrong side of the sales ledger control account.

What was the correct sales ledger control account balance?

A $19 600 **B** $20 300 **C** $21 700 **D** $22 400

8 A sole trader does not keep a complete set of books of account. He believes a staff member has stolen some cash.

Which items will **not** be needed to calculate the amount missing?

1 cash in hand at the beginning and end of the year

2 owner's drawings taken from the bank

3 cheques received from customers

4 totals of cash sales and cash purchases

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

9 A business provides the following information.

	trade receivables $	provision for doubtful debts $
31 December 2018	46 200	1386
31 December 2019	48 100	1924

Which statement must be correct?

A The rate of provision for doubtful debts has decreased.

B The rate of provision for doubtful debts has increased.

C The value of irrecoverable debts incurred has decreased.

D The value of irrecoverable debts incurred has increased.

10 On 1 March a company has prepaid $3600 for 12 months' travel costs. It also has an outstanding hotel bill of $180.

During March it pays the outstanding hotel bill and a further $700 for airline tickets for the month.

At 31 March it has an outstanding hotel bill of $220.

What is the correct cost of travel in the income statement for March?

A $920 **B** $1220 **C** $1400 **D** $4520

11 A business owner provided the following information at the end of his first year of trading.

	$
closing inventory	15 000
total payments to suppliers	60 000
amount owing to suppliers	5 000
total receipts from customers	85 000
amount owed by customers	10 000

What was the gross profit for the year?

A $10 000 **B** $15 000 **C** $25 000 **D** $45 000

12 How should interest charged on a partner's drawings account be treated?

A credited to the appropriation account

B credited to the income statement

C debited to the appropriation account

D debited to the income statement

13 X, Y and Z were in partnership, sharing profits equally. When Z retired from the business the assets were revalued. Goodwill was also valued but was not retained in the books of accounts.

Which statement about Z's retirement is correct?

A Only X and Y's capital accounts will be adjusted for the revaluation.

B Only X and Y's capital accounts will be adjusted for goodwill.

C The balance on Z's current account will form part of her retirement settlement.

D Z may only be paid in cash for her share on retirement.

14 L and M are in partnership, sharing profits and losses in the ratio of 3 : 2. They have the following current account balances.

	L $	M $
31 March 2019	3 000 credit	4500 debit
31 March 2020	14 200 credit	6200 debit

The balances at 31 March 2020 are after taking into account the following.

	L $	M $
interest on drawings	1 000	1 500
interest on capital	3 000	2 000
drawings	10 000	15 000

What was the residual profit to be shared between L and M for the year ended 31 March 2020?

A $24 000 **B** $27 000 **C** $29 000 **D** $32 000

15 How is unpaid debenture interest recorded in the financial statements of a company at the year end?

1 a current liability in the statement of financial position

2 a non-current liability in the statement of financial position

3 an expense in the income statement

4 an item in the statement of changes in equity

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

16 On 1 December 2019 a company's statement of financial position included the following.

	$
ordinary shares of $5 each	2 500 000
share premium	850 000
retained earnings	710 000

2019	
15 December	paid an ordinary share interim dividend of $0.15 per share
23 December	made a bonus issue of 25 000 ordinary shares

Reserves were kept in their most flexible form.

What were the balances on the revenue reserves and capital reserves accounts after these transactions?

	revenue reserves $	capital reserves $
A	335 000	725 000
B	335 000	825 000
C	635 000	725 000
D	635 000	825 000

17 A business sells goods at a uniform mark-up of 25%.

The following information is available.

	$
sales revenue	120 000
opening inventory	18 000
purchases	95 000
returns outwards	2 000

What is the value of closing inventory?

A $15 000 **B** $19 000 **C** $21 000 **D** $25 000

18 The rate of inventory turnover of a company has been calculated for two successive periods.

current period 5.6 times

previous period 4.8 times

The following statements have been made about the change.

1 Inventory is moving more slowly in the current period.

2 Inventory is moving more quickly in the current period.

3 Management of inventory has been more efficient in the current period.

Which statements may explain the change?

A 1 and 3 **B** 1 only **C** 2 and 3 **D** 2 only

19 The following items appear on a statement of financial position.

	$
inventory	20 000
cash and cash equivalents	3 500
trade payables	11 000
provision for doubtful debts	500

The current ratio is 3 : 1.

How much do the trade receivables owe?

A $9500 **B** $10 000 **C** $12 000 **D** $12 500

20 Which costs are indirect?

1 bought-in components used in a finished product

2 materials used for factory maintenance

3 raw materials used in a finished product

4 spare parts bought for factory machinery

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

21 A business provided the following information.

budgeted overheads	$20 000
budgeted direct labour hours	2000
direct labour rate	$20 per hour

A job used materials costing $45 and 6 hours of direct labour.

Overheads are charged on the basis of direct labour hours used.

What was the cost of the job before adding any profit?

A $105 **B** $165 **C** $180 **D** $225

22 A business has produced the following estimates of labour costs for next month.

units produced	600	800	1100
total labour cost	$5690	$6170	$6890

What was the monthly fixed labour cost?

A $480 **B** $1200 **C** $2640 **D** $4250

23 Why are service centre costs apportioned to production departments?

A to act as a check on service centre managers

B to ascertain whether service centres are cost effective

C to ensure the service centre costs are included in selling prices

D to minimise the total costs of service centres

24 The following data were available for a department for July.

	budget	actual
direct labour hours	40 000	41 950
machine hours	60 000	60 900
overheads	$480 000	$499 200

What was the over or under absorption of overheads for July?

A $4200 over absorbed

B $4200 under absorbed

C $12 000 over absorbed

D $12 000 under absorbed

25 Which statements about marginal costing are correct?

1 It cannot be used as a basis to calculate contribution.

2 It is useful for decision-making.

3 It recognises the importance of fixed costs.

A 1 and 2 **B** 2 and 3 **C** 2 only **D** 3 only

26 A company with fixed costs of $50 000 and a contribution to sales ratio of 40% makes a profit of $30 000.

What are the total costs?

A $130 000 **B** $170 000 **C** $175 000 **D** $200 000

27 What is **not** an assumption made in cost–volume–profit analysis?

A Unit fixed cost is constant.

B Unit selling price is constant.

C Unit variable cost is constant.

D Units produced are all sold.

28 The actual output for a business is lower than that forecast.

Which costs would normally still be the same as forecast?

1 fixed cost per unit
2 total fixed cost
3 total variable cost
4 variable cost per unit

A 1 and 2 **B** 2 and 3 **C** 2 and 4 **D** 3 and 4

29 A manufacturer produces a single product. The following information is available.

	$
selling price per unit	14
variable costs per unit	8
fixed costs per annum	96 000

There are plans to reduce the selling price by $3 per unit and to reduce variable costs by $1 per unit. Fixed costs will remain unchanged.

What will be the new break-even point?

A 9600 units
B 12 000 units
C 24 000 units
D 48 000 units

30 A company has recently introduced a system of budgetary control.

Workers have given the following reasons for failing to achieve the budget targets.

1 'We need more training.'
2 'The budget is unrealistic.'
3 'The budget needs to be changed to reflect actual conditions.

Which reasons should be considered when evaluating a worker's performance?

A 1, 2 and 3
B 2 and 3 only
C 2 only
D 3 only

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