



# Cambridge International AS & A Level

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## ACCOUNTING

9706/13

Paper 1 Multiple Choice

May/June 2020

1 hour

You must answer on the multiple choice answer sheet.

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

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## 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.

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



- 1 The owner of a business purchased a camera to take some photographs of her family.

She wishes to include it as an asset in the financial statements of the business. Her accountant says that she should **not** do this.

Which accounting principle is the accountant applying?

- A business entity
- B consistency
- C going concern
- D realisation

- 2 What are the characteristics of non-current assets?

- 1 They are not intended for resale.
- 2 They provide future economic benefits.
- 3 They prevent the company from going out of business.

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

- 3 A business has a year end of 31 December. It depreciates its motor vehicles over four years using the straight-line method. A full year's depreciation is charged in the year of purchase, but none in the year of sale.

A motor vehicle purchased on 1 July 2016 for \$18 000 had an estimated residual value of \$4000. The motor vehicle was sold for \$5000 on 31 December 2019.

What was the profit or loss on disposal?

- A \$1000 loss
- B \$1000 profit
- C \$2500 loss
- D \$2500 profit

- 4 The following information is available in respect of the purchase of a new machine.

|                         | \$     |
|-------------------------|--------|
| machine cost            | 80 000 |
| less 10% trade discount | 8 000  |
|                         | 72 000 |
| delivery cost           | 1 200  |
| installation cost       | 1 800  |
| annual maintenance cost | 4 000  |

The business plans to keep the machine for 5 years. It is expected to be sold for \$5000.

What will be the annual depreciation charge using the straight-line method?

- A** \$13 400      **B** \$14 000      **C** \$14 800      **D** \$15 600

- 5 What does the debit side closing balance carried down and the credit side opening balance brought down represent in a sales ledger control account?

|          | debit side closing<br>balance carried down | credit side opening<br>balance brought down |
|----------|--------------------------------------------|---------------------------------------------|
| <b>A</b> | owing from customers                       | owing from customers                        |
| <b>B</b> | owing from customers                       | owing to customers                          |
| <b>C</b> | owing to customers                         | owing from customers                        |
| <b>D</b> | owing to customers                         | owing to customers                          |

- 6 The trial balance of a business did not agree and a suspense account was opened.

The following errors were then discovered.

- 1 The sales journal total of \$9150 had been credited to both the sales account and the sales ledger control account.
- 2 The purchases journal total of \$3450 had been entered correctly in the purchases account but as \$3350 in the purchases ledger control account.
- 3 Motor expenses of \$6450 paid by cheque had only been entered in the bank account.

What was the opening balance in the suspense account?

- A** \$15 700 credit  
**B** \$15 700 debit  
**C** \$24 650 credit  
**D** \$24 650 debit

- 7 A bank statement showed an overdraft of \$750. The following was then discovered.
- 1 A cheque issued in payment of rent for \$570 had not been presented.
  - 2 A cheque for \$624 received was not shown on the bank statement.
  - 3 The bank statement included a bank charge of \$50 which had not been entered in the cash book.

What amount of overdraft should appear in the statement of financial position?

- A** \$646                      **B** \$696                      **C** \$754                      **D** \$1894

- 8 What is a purpose of financial statements?

- A** to aid managers to manage the business  
**B** to allow the owner to take drawings  
**C** to ensure a profit is made  
**D** to ensure accuracy of the double entry

- 9 An electricity accrual of \$375 was treated as a prepayment when preparing a trader's income statement.

What was the effect of this on the profit for the year?

- A** overstated by \$375  
**B** overstated by \$750  
**C** understated by \$375  
**D** understated by \$750

- 10 The draft financial statements of a business show a profit for the year of \$64 000 before taking account of the following:

- 1 the reduction of the provision for doubtful debts by \$300
- 2 the purchase of office stationery costing \$2400 which has not been entered in the books; only one-sixth of this stationery was used by the year end.

What is the corrected profit for the year?

- A** \$61 900                      **B** \$63 900                      **C** \$64 100                      **D** \$64 300

- 11** A company receives rental income from letting out two properties. Total rental income received from these two properties for the year ended 31 December 2019 was \$55 000.

Further information relating to these two properties was as follows.

|                            | property 1 | property 2 |
|----------------------------|------------|------------|
| rent received in advance   | \$         | \$         |
| 1 January 2019             | 1840       |            |
| 31 December 2019           |            | 720        |
| rent receivable in arrears |            |            |
| 1 January 2019             |            | 2120       |
| 31 December 2019           | 1100       |            |

What was the total amount of rental income shown in the income statement for the year ended 31 December 2019?

- A** \$54 340      **B** \$54 900      **C** \$55 100      **D** \$55 660

- 12** Finn provided the following information.

|                                             | \$     |
|---------------------------------------------|--------|
| capital at the start of the year            | 19 800 |
| profit for the year                         | 24 000 |
| drawings (cash)                             | 19 500 |
| drawings (goods for own use)                | 1 100  |
| private vehicle transferred to business use | 6 000  |

What was Finn's capital at the end of the year?

- A** \$23 200      **B** \$24 300      **C** \$29 200      **D** \$31 400

- 13** What would be recorded in a partnership appropriation account?

- 1 interest on capital
- 2 interest on drawings
- 3 interest on loan by partner to partnership
- 4 interest on bank overdraft

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

- 14** X and Y were in partnership and shared their profits equally. On 1 March 2019, Z is admitted as a partner.

In future they will share profits in the ratio X, Y and Z, 3:2:1. The net assets valued at \$20 000 have lost \$8000 in value. Goodwill is valued at \$9000 but will not be retained in the books of account.

What will the entries in the capital accounts of Y be to record these changes?

|          | debit<br>\$ | credit<br>\$ |
|----------|-------------|--------------|
| <b>A</b> | 4500        | 9000         |
| <b>B</b> | 4500        | 7000         |
| <b>C</b> | 6000        | 4500         |
| <b>D</b> | 7000        | 4500         |

- 15** The statement of financial position showed the following balances at 31 December 2019.

|                  | L<br>\$     | M<br>\$      |
|------------------|-------------|--------------|
| capital accounts | 20 000      | 10 000       |
| current accounts | 1 000 debit | 2 500 credit |

Net assets at 1 January 2019 were \$14 000.

Property had been revalued upwards by \$12 000 during the year ended 31 December 2019. No drawings had been made during the year.

What was the profit for the year ended 31 December 2019?

- A** \$2500      **B** \$5500      **C** \$14 500      **D** \$17 500

- 16** 'Shareholders are entitled to a fixed annual dividend with any unpaid dividends being paid out of future profits.'

What does this statement describe?

- A** cumulative preference shares  
**B** debentures  
**C** ordinary shares  
**D** participating preference shares

**17** Which statements about a bonus issue of ordinary shares are correct?

- 1 It will generate extra funds for the company.
- 2 The company's liquidity is not affected.
- 3 Shareholders can sell their bonus shares.

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

**18** The following information is available for T Limited.

|                       | 30 June 2018 | 30 June 2019 |
|-----------------------|--------------|--------------|
|                       | \$           | \$           |
| retained earnings     | 94 000       | 148 000      |
| general reserve       | 50 000       | 65 000       |
| accrued loan interest | 3 000        | 1 000        |

During the year ended 30 June 2019, T Limited made the following payments.

|               |        |
|---------------|--------|
|               | \$     |
| dividend      | 60 000 |
| loan interest | 27 000 |

What was the profit from operations for the year ended 30 June 2019?

**A** \$104 000      **B** \$114 000      **C** \$129 000      **D** \$154 000

**19** Which ratio tells managers how long it takes to receive payment for goods sold on credit?

- A** current ratio
- B** liquid (acid test) ratio
- C** trade payables turnover
- D** trade receivables turnover

**20** The following information is available for G Limited for the year ended 31 December 2019.

|                                                 | \$      |
|-------------------------------------------------|---------|
| share capital                                   | 275 000 |
| long-term bank loan                             | 180 000 |
| current liabilities                             | 120 000 |
| profit from operations                          | 244 000 |
| bank loan interest                              | 34 000  |
| retained earnings including profit for the year | 400 000 |

What was the return on capital employed?

- A** 21.54%      **B** 24.56%      **C** 25.03%      **D** 28.54%

**21** A company has been asked to prepare a quotation to print 100 leaflets for a customer. The total cost of direct materials, direct labour and a share of overheads is \$820 and a profit of 25% on cost has been added.

Which costing method is this an example of?

- A** absorption costing  
**B** job costing  
**C** marginal costing  
**D** unit costing

**22** Which expense for a business may be classified as a stepped cost?

- A** direct labour  
**B** direct materials  
**C** factory rent  
**D** telephone

- 23** The inventory movements of a business in a three-month period are shown.

| date     | receipts |          | issues<br>units |
|----------|----------|----------|-----------------|
|          | units    | per unit |                 |
| January  | 100      | \$5      |                 |
| January  | 200      | \$6      |                 |
| February |          |          | 50              |
| March    |          |          | 200             |

The business uses the first in first out (FIFO) method of inventory valuation.

What was the value of inventory at the end of March?

- A** \$250                      **B** \$275                      **C** \$283                      **D** \$300
- 24** A company uses absorption costing based on predetermined absorption rates.
- Which statement about absorption rates is correct?
- A** They will be based on budgeted costs and outputs.
- B** They will be calculated only when actual costs and outputs are known.
- C** They will be changed each time outputs and costs change.
- D** They will be set for a period of more than one year.
- 25** A business absorbs fixed overheads using direct labour hours.

The following information is provided.

|                       | actual    | budgeted  |
|-----------------------|-----------|-----------|
| overheads             | \$525 000 | \$525 000 |
| direct labour hours   | 16 300    | 15 000    |
| indirect labour hours | 2700      | 2500      |

Which statement is correct?

- A** Overheads were over absorbed by \$45 000.
- B** Overheads were under absorbed by \$45 000.
- C** Overheads were over absorbed by \$45 500.
- D** Overheads were under absorbed by \$45 500.

26 The data relate to the production of three products.

|                         | product X<br>\$ | product Y<br>\$ | product Z<br>\$ |
|-------------------------|-----------------|-----------------|-----------------|
| contribution per unit   | 160             | 175             | 190             |
| fixed overhead per unit | 125             | 130             | 160             |
| labour hours per unit   | 1               | 1.25            | 0.75            |

The company is experiencing a shortage of labour.

In which order should the products be ranked to maximise profit?

|          | 1 | 2 | 3 |
|----------|---|---|---|
| <b>A</b> | X | Y | Z |
| <b>B</b> | Y | X | Z |
| <b>C</b> | Z | X | Y |
| <b>D</b> | Z | Y | X |

27 A company has the following budgeted information for May.

|                           | \$     |
|---------------------------|--------|
| selling price (per unit)  | 120    |
| variable costs (per unit) | 80     |
| total fixed costs         | 56 000 |

The company is planning to buy a new machine which will reduce the variable costs by 20% and increase fixed costs by 20%.

What is the change in break-even sales in units?

- A** increase by 200 units
- B** decrease by 200 units
- C** increase by 700 units
- D** decrease by 700 units

28 What does cost–volume–profit analysis assume causes costs to change?

- 1 production methods
- 2 sales mix
- 3 sales volume

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

- 29** A business has a sales revenue of \$400 000 and total fixed cost of \$140 000. Its contribution to sales ratio is 40%.

What is the sales revenue if profit for the year increases by \$40 000?

- A** \$360 000      **B** \$450 000      **C** \$480 000      **D** \$500 000

- 30** Budgetary control systems have just been introduced by a company but employees have not achieved their targets.

Reasons given for this are as follows:

- 1 The budget was unrealistic.
- 2 Actual trading conditions differed from budget assumptions.
- 3 The workforce needs more training.

Which reasons should be considered when evaluating employees' performance?

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

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