

ACCOUNTING

9706/13

Paper 1 Multiple Choice

October/November 2018

1 hour

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



READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, 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.

DO NOT WRITE IN ANY BARCODES.

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 An item is found to be the subject of a material error in a company's financial statements.

What does 'material' mean?

- A The item affects only the income statement of the entity.
- B The item affects only the statement of financial position of the entity.
- C The item has a small monetary value.
- D The item may affect the economic decisions of a user of the financial statements.

- 2 Why does a business charge depreciation?

- 1 to be able to replace an asset at the end of its useful life
- 2 to charge the cost of an asset to each period that benefits from its use
- 3 to treat each asset according to the concept of consistency

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

- 3 Which items are revenue expenditure?

- 1 cost of painting new office premises during construction
- 2 cost of repairs to factory plant and machinery
- 3 legal fees for the purchase of new factory premises

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

- 4 The following information relates to non-current assets.

	\$
net book value at 31 December 2016	42 000
net book value at 31 December 2017	34 000
assets bought	8 700
receipts from assets sold	7 900
depreciation charge for the year 2017	9 500

What was the profit or loss on the disposal of non-current assets sold during the year?

- A loss \$700
- B loss \$900
- C profit \$700
- D profit \$900

- 5 During the year a business sells a non-current asset. The following information is available.

	\$
original cost	500
accumulated depreciation at date of sale	240
profit on sale	70

What are the proceeds from the sale of the non-current asset?

- A** \$170 **B** \$190 **C** \$310 **D** \$330

- 6 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	cash
D	customer	sales

- 7 A business has a bank balance of \$4800. It pays for materials invoiced at \$3000 less trade discount of 30% and cash discount of 10%. A cheque for \$450 is received from a customer.

What is the bank balance after these transactions?

- A** \$2250 **B** \$2460 **C** \$3360 **D** \$3450

- 8 A business maintains control accounts as part of its double entry.

The trial balance of the business did not balance and the difference was posted to a suspense account. On investigation, the following errors were found.

The purchases journal had been overcast by \$300.

Discounts allowed of \$100 had been posted to the credit of discounts received account.

What was the balance on the suspense account **before** the correction of these errors?

- A** \$200 credit **B** \$200 debit **C** \$400 credit **D** \$400 debit

- 9 A business has trade receivables of \$52 000 at the year-end.

The existing provision for doubtful debts is \$3000.

The provision for doubtful debts is to be maintained at 5% of trade receivables.

What is the effect of adjusting the provision?

	on profit	on current assets
A	decrease by \$2600	decrease by \$400
B	decrease by \$2600	decrease by \$2600
C	increase by \$400	decrease by \$400
D	increase by \$400	increase by \$400

- 10 The closing balance on a purchases ledger control account is \$163 762. The purchases journal has been undercast by \$1000.

What is the correct closing balance on the purchases ledger control account?

- A** \$162 762 **B** \$163 762 **C** \$164 762 **D** \$165 762

- 11 A business provided the following information for two years.

	year 1	year 2
	\$	\$
non-current assets	9 000	12 000
net current assets	1 000	2 000

There were no non-current liabilities.

The drawings in year 1 were \$5000 and in year 2 were \$3000.

What was the profit for year 2?

- A** \$1000 **B** \$4000 **C** \$5000 **D** \$7000

- 12 Why is the profit on revaluation credited to the capital accounts and **not** the current accounts of existing partners?

- A** assets are long term and so are the capital accounts
B profit on revaluation is an unrealised profit
C so that partners can get more money when they retire from the partnership
D to increase the capital accounts balances so that partners can earn a higher interest on capital

- 13** X and Y were in partnership sharing profits and losses equally. When Z became a partner, profits continued to be shared equally and partnership goodwill was valued at \$120 000.

Goodwill was not retained in the partnership books of account.

How is this recorded in the partners' capital accounts?

	credit X and Y \$	debit Z \$
A	20 000 each	40 000
B	40 000 each	40 000
C	60 000 each	no effect
D	60 000 each	120 000

- 14** An inexperienced book-keeper has prepared the following appropriation account for the partnership of P and Q.

		\$	\$
profit as per income statement			18 861
interest on capital	P	1 000	
	Q	<u>500</u>	<u>1 500</u>
			17 361
salary	P		<u>900</u>
balance of profit			18 261
share of balance of profit	P	12 174	
	Q	<u>6 087</u>	<u>18 261</u>
			nil

What should be the correct share of residual profit due to P?

- A** \$10 974 **B** \$11 574 **C** \$12 974 **D** \$14 174

- 15 L and M are in partnership. The following information relates to the year ended 31 December 2017.

	L \$	M \$
drawings	20 000	30 000
interest on drawings	1 200	1 800
loan interest on partner's loan	8 000	
salary		20 000
residual profit share	36 000	18 000

What was the profit for the year ended 31 December 2017?

- A** \$71 000 **B** \$77 000 **C** \$79 000 **D** \$121 000

- 16 A limited company provided the following information.

	\$
retained earnings at the start of the year	244 000
retained earnings at the end of the year	286 000
finance costs	12 000
dividend paid	80 000
dividend proposed	50 000

What is the profit or loss from operations?

- A** \$122 000 **B** \$134 000 **C** \$172 000 **D** \$184 000

- 17 What is the effect of a company issuing bonus shares?

- A** increases liquidity
B increases profitability
C reduces gearing
D reduces reserves

- 18 What could make financial statements **less** reliable for users?

- 1 a disclosure of changes in accounting policies
- 2 an irrecoverable debt not written off
- 3 revaluation of assets

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

19 The following information is available for a business for the year.

	\$
revenue	2 400 000
cost of sales	1 100 000
administration expenses	400 000
distribution costs	500 000
finance costs	25 000
profit for the year	375 000

What is the operating expenses to revenue ratio for the year?

- A** 37.5% **B** 38.54% **C** 45.83% **D** 83.33%

20 A company's financial statements include the following.

	\$
profit before interest	200 000
profit for the year	140 000
issued share capital	500 000
reserves	160 000
non-current liabilities	380 000

What is the return on capital employed?

- A** 19.2% **B** 21.2% **C** 30.3% **D** 40.0%

21 Which costs would be included in the manufacturing overheads for a computer assembly plant?

- 1 assembly line employees' wages
- 2 cost of components used to make computers
- 3 depreciation of factory machinery
- 4 production supervision costs

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

22 The inventory records of a business show the following information for product X.

		units	cost per unit \$
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 FIFO method?

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

23 A company has the following budgeted information.

	units
opening inventory	60 900
closing inventory	67 500
	\$
profit using marginal costing	271 350
profit using absorption costing	300 126

What is the value of overheads absorbed by each unit?

- A** \$4.02 **B** \$4.36 **C** \$4.45 **D** \$4.93

24 A manufacturer makes a single product. He sells this for \$240 per batch.

The variable cost is \$80 per batch.

Fixed costs have been absorbed based on a normal activity level of 1000 batches at \$60 per batch.

What is the profit if the company makes and sells 1250 batches?

- A** \$100 000 **B** \$125 000 **C** \$140 000 **D** \$200 000

25 Which statements are **not** correct when using a break-even chart?

- 1 Fixed and variable costs are shown as separate lines.
- 2 Fixed costs are shown as a straight horizontal line.
- 3 They are quick and easy to prepare by people with no accounting knowledge.

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

26 A manufacturer has the following overheads for two different levels of production.

total overheads \$	production units
400 000	40 000
432 000	60 000

What is the total fixed overhead cost?

- A** \$32 000 **B** \$96 000 **C** \$336 000 **D** \$432 000

27 A business makes and sells four products.

Which product should be produced first when labour hours are **not** sufficient to produce all four products?

	selling price \$	variable costs \$	labour hours \$
A	10	15	1
B	35	10	5
C	50	30	2
D	75	57	3

28 Why is cost–volume–profit analysis used by management?

- 1 for planning purposes
- 2 to calculate over or under absorbed overheads
- 3 to determine actual profit

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

29 A business has a margin of safety of \$10 000.

What does this mean?

- A** It will break even if profit is reduced by \$10 000.
B It will break even if sales revenue is reduced by \$10 000.
C It will make a loss if sales revenue is reduced by \$10 000.
D It will make a profit of \$10 000.

30 Which statement about budgeting is **not** correct?

- A It helps managers to check differences between actual and budgeted data.
- B It helps managers to control activities.
- C It helps managers to ensure targets are met.
- D It helps managers plan operations.

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