Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **October/November 2019**

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, 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 **11** printed pages and **1** blank page.

1 Which concept requires that profits should be based on recognising revenues and their related expenses for an accounting period?

A consistency

B matching

C materiality

D prudence

2 A business buys a non-current asset and decides to apply the straight-line method of depreciation. The accountant forgets to include an estimate of scrap value in the calculation.

Which statements are correct?

1 The annual depreciation charge is too high.

2 The annual depreciation charge is too low.

3 There is likely to be a loss on disposal in the future.

4 There is likely to be a profit on disposal in the future.

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

3 The table gives information relating to the non-current assets of a business.

	$
net book value at the end of the year	25 000
net book value at the beginning of the year	16 000
depreciation charge for the year	5 000
additions at cost during the year	22 000

What is the net book value of disposals during the year?

A $8000 **B** $14 000 **C** $18 000 **D** $24 000

4 The accounting year of a company ends on 31 December. It purchased a warehouse for $100 000 on 1 January 2013. The warehouse had an estimated useful economic life of 25 years. The company's accounting policy is to depreciate the warehouse using the straight-line method. On 1 January 2018, the warehouse was revalued at $120 000.

What was the depreciation charge for the year ended 31 December 2018?

A $4000 **B** $4800 **C** $5000 **D** $6000

5 A company prepared a sales ledger control account. The balance did not agree with the total of the sales ledger balances, which were $42 650. The following was discovered.

1 An irrecoverable debt of $500 in the general journal has not been recorded in the sales ledger.

2 The sales journal has been incorrectly added and must be reduced by $750.

3 The sales ledger control account includes the discount received of $400. It should have been discount allowed, $600.

4 Sales to J Brown, $640, have not been entered in his account.

What was the correct total of the sales ledger balances?

A $41 700 **B** $41 840 **C** $42 510 **D** $42 790

6 The correction of which error would require an entry in the suspense account?

A $100 paid for vehicle repairs were debited to the vehicles account.

B A sales invoice for $45 was omitted from the sales journal.

C Drawings of $60 were debited in the cash book and were credited to the drawings account.

D Wages, $150, were correctly recorded in the wages account and debited in the cash book.

7 The table shows information for a business at 31 March 2019.

	$
inventory	16 100
trade payables	5 200
other payables	2 000

The information excludes the purchase of $3700 of goods. These goods were delivered on 31 March 2019, but the invoice states that legal title to the goods does not pass until payment is received.

Which values should appear in the statement of financial position on 31 March 2019?

	inventory $	trade payables $	other payables $
A	16 100	5200	2000
B	16 100	5200	5700
C	19 800	5200	5700
D	19 800	8900	2000

8 A business has valued some of its closing inventories at cost. Their net realisable value is lower than cost.

What is the effect of this error on financial statements?

	profit for the year	current assets
A	no effect	no effect
B	overstated	overstated
C	understated	understated
D	no effect	overstated

9 The following balances were extracted from a trial balance at 31 March 2019.

	$
total trade receivables	84 600
provision for doubtful debts at 1 April 2018	2 835
irrecoverable debt	1 600

There was a decrease in the provision for doubtful debts, $280, for the year ended 31 March 2019.

What was the amount of net trade receivables at 31 March 2019?

A $79 885 **B** $80 445 **C** $81 485 **D** $82 045

10 A business had the following assets and liabilities at the start of the year.

a motor car valued at $2500

inventory which cost $4000 with a sales value of $5800

bank overdraft of $500

a loan to a friend from the business bank account of $1000

What was the capital account balance at the start of the year?

A $5000 **B** $7000 **C** $8000 **D** $8800

11 A sole trader had the following transactions.

	$
returns outwards	2750
carriage inwards	4820
goods for own use	1460

What was the total effect of these transactions on the cost of sales?

A $610 increase

B $3530 increase

C $6110 decrease

D $9030 decrease

12 A sole trader's personal expenses had been paid out of the business bank account and included in his income statement.

What was the effect of this on the profit and capital?

	profit	capital
A	no effect	no effect
B	no effect	overstated
C	understated	no effect
D	understated	understated

13 A warehouse was damaged by fire on 31 March and some of the inventory was destroyed. The following information is available.

	$
inventory at cost on 1 January	6 000
inventory at cost on 31 March after fire	3 200
sales during the period	14 700
purchases during the period	9 500

The business uses a mark-up of 33.33%.

What was the value of the inventory destroyed?

A $1275 **B** $1800 **C** $2000 **D** $2500

14 P and Q are in partnership. R was admitted as a partner on 1 July 2018, and the profit and loss sharing ratio among P, Q and R was 2 : 2 : 1 respectively.

For the purpose of R's admission, the partners agreed:

goodwill would be valued at $20 000, but not retained in the books of account

R would introduce cash, $40 000, and motor vehicle, $10 000

R would be entitled to an annual salary, $5000.

What was R's capital account balance immediately after his admission?

A $36 000 **B** $46 000 **C** $51 000 **D** $54 000

15 Hilary and Lee commenced in partnership on 1 January 2018. There was no partnership agreement. They provided the following information.

	Hilary $	Lee $
capital contributions	5000	6000
loan to partnership	–	1000

Profit for the year ended 31 December 2018 **before** the loan interest was $8850.

What was Lee's share of the profit?

A $4400 **B** $4425 **C** $4800 **D** $4827

16 L, M and N are in partnership sharing profits and losses equally.

L retired when the credit balances on her capital and current accounts were $100 000 and $40 000.

Partnership assets were revalued upwards by $60 000.

L took half of the amount due to her on retirement. The other half was left as a loan to the business.

How much was L paid from the partnership bank account on her retirement?

A $20 000 **B** $40 000 **C** $60 000 **D** $80 000

17 The directors of a limited company recently made a rights issue of one ordinary share for every three held at a premium of $0.50 per share. The rights issue was fully subscribed.

The statement of financial position showed the following information **after** the rights issue was made.

	$000
issued share capital: (shares of $1 each)	1200
share premium	300

Which amount was debited to the company's bank account when the rights issue was made?

A $300 000 **B** $400 000 **C** $450 000 **D** $600 000

18 A company's year end is 31 December. During the year ended 31 December 2018 it paid the following dividends:

	$
final dividend for the year ended 31 December 2017	15 000
interim dividend for the year ended 31 December 2018	8 000

On 1 February 2019 it declared a final dividend of $10 000 for the year ended 31 December 2018.

How much should be recorded for dividends in the statement of changes in equity for the year ended 31 December 2018?

A $8000 **B** $18 000 **C** $23 000 **D** $33 000

19 Which information would an investor gain by looking at the financial statements of a business?

1 identifying future trading prospects

2 identifying the amount of future dividends

3 identifying that the entity is a going concern

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

20 The following information is available for a limited company.

	$
profit from operations	40 475
profit for the year	26 380
10% debenture (2025)	75 000
100 000 shares ($1 each)	100 000
retained earnings at the end of the year	135 679

What was the return on capital employed?

A 8.49% **B** 11.19% **C** 13.03% **D** 17.17%

21 A manufacturing business has provided the following information about a product.

units produced	total cost $
8 000	37 000
14 000	53 500

What is the variable cost per unit?

A $2.75 **B** $3.82 **C** $4.11 **D** $4.63

22 The following information relates to the inventory of a business.

date	purchases	unit cost	sales	unit selling price
2 June	1000 units	$12		
12 June	1000 units	$13		
18 June			800 units	$18
28 June	1000 units	$14		

Estimated unit selling price at 30 June is $20.

There was no opening inventory.

What was the value of closing inventory at 30 June using FIFO?

A $24 600 **B** $28 600 **C** $29 400 **D** $44 000

23 Inventory cost prices are rising for a business. The company uses AVCO rather than FIFO to value its inventory.

What is the effect on inventory valuation and profit of using AVCO rather than FIFO?

	inventory valuation	profit
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

24 A company calculates its profit using marginal costing as $90 000 for a month.

Opening inventory was 4000 units and closing inventory 6000 units.

The fixed production overhead absorption rate is $20 per unit.

What is the profit under absorption costing?

A $10 000 **B** $50 000 **C** $130 000 **D** $170 000

25 A manufacturing business has provided the following information.

budgeted labour hours	12 000
budgeted overhead absorption rate	$7.50 per labour hour
actual overhead cost	$101 250
actual labour hours	15 000

What is the over or under absorption of overheads?

A $11 250 under absorbed

B $11 250 over absorbed

C $20 250 under absorbed

D $20 250 over absorbed

26 A business has the following information relating to its single product.

	$
selling price per unit	30
variable cost per unit	14
total cost per unit	24

What is its contribution to sales ratio?

A 20% **B** 46.67% **C** 53.33% **D** 80%

27 A company makes three products for which the following details are given.

	product X $	product Y $	product Z $
selling price per unit	40	48	72
direct material per unit	18	24	30
direct labour per unit	10	6	18

The same material is used to make all three products and it costs $2.00 per kilo.

There is a shortage of material.

In which order should the products be made to achieve maximum profit?

	first	$\longrightarrow$	last
A	X	Y	Z
B	Y	Z	X
C	Z	X	Y
D	Z	Y	X

28 Last month a company made and sold 10 000 units and earned a contribution of $20 per unit.

Its final profit, after deducting total fixed costs, was $120 000.

This month its sales volume has increased by 20%, its contribution per unit has increased by 5% and its total fixed costs have increased by 15%.

What is its profit this month?

A $118 000 **B** $148 000 **C** $160 000 **D** $172 000

29 Which statements about cost–volume–profit analysis are correct?

1 Fixed costs remain constant over a range of activity.

2 Profits are calculated on an absorption costing basis.

3 Sales revenue increases in direct proportion to output.

4 There is only one product or constant sales mix.

A 1 and 2 only

B 1, 2, 3 and 4

C 1, 3 and 4 only

D 2, 3 and 4 only

30 Why do businesses prepare budgets?

1 to communicate plans

2 to improve coordination

3 to plan annual operations

4 to plan long-term strategies

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

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