Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **February/March 2016**

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.

IB16 03_9706_12/RP
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1 A business has a good reputation. The owner wishes to include goodwill in the financial statements. An accountant advises against it.

Which accounting concept is the accountant applying?

A business entity

B going concern

C matching

D prudence

2 Why is depreciation provided on non-current assets?

A so that the cost is allocated to periods that benefit from them

B so that the entity concept is applied

C so that there is enough cash in the business to replace them

D so that they are shown at market value

3 The following information relates to the disposal of a non-current asset.

	$
profit on disposal	5 200
cost of non-current asset sold	14 400
sales proceeds	6 800

What was the accumulated depreciation on the non-current asset sold?

A $1600 **B** $2400 **C** $7600 **D** $12 800

4 Omar wishes to become a trader. He decides to buy an existing business in a good location. He pays more for the business than its net asset value.

How is the extra amount paid shown in the books of the new business?

	account to be debited	account to be credited
A	capital	goodwill
B	goodwill	bank
C	goodwill	capital
D	premises	goodwill

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5 A sales ledger control account was prepared. An irrecoverable debt of $40 was omitted and a discount allowed of $68 was entered as $86.

What was the total effect of these errors on the closing balance of the sales ledger control account?

A $22 overstated

B $22 understated

C $58 overstated

D $58 understated

6 The trial balance totals are as follows:

debit $500 150 credit $500 000

Which error could have caused the difference?

A A cash sale has only been recorded in the sales account.

B A credit purchase has only been recorded in a supplier's account.

C A credit sale has not been recorded.

D A credit sale has only been recorded in a customer's account.

7 A business maintains a provision for doubtful debts of 5% per annum. It has trade receivables balances of $560 000 at the start and $468 000 at the end of the financial year.

Which statements are correct?

1 Customers' accounts have been credited with $4600.

2 $4600 is treated as income in the income statement.

3 $4600 is deducted from current assets in the statement of financial position.

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

8 The statement of the financial position of a company shows the following:

	$
tangible non-current assets	20 600
intangible non-current assets	5 700
trade receivables	8 600
trade payables	3 200
loan repayable in three years	4 000
bank balance	5 200 credit
inventory	6 900

What is total working capital?

A $3100 **B** $7100 **C** $17 500 **D** $29 400

9 An inexperienced bookkeeper calculated a draft profit for the year ended 31 December 2015 of $578 500. He had not accounted for the following:

	1 January 2015 $	31 December 2015 $
provision for doubtful debts	12 800	11 300
provision for depreciation	95 000	126 200

What was the revised profit for the year?

A $441 000 **B** $463 600 **C** $545 800 **D** $548 800

10 A computer used for demonstration to customers was treated as capital expenditure.

At the end of the year a customer purchased the computer in the ordinary course of business.

Which entries are needed to adjust the cost of sales?

	account to be debited	account to be credited
A	inventory	demonstration equipment
B	purchases	demonstration equipment
C	sales	inventory
D	selling expenses	sales

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11 A business makes up its financial statements to 30 April each year.

Included in the ledger account balances on 1 May 2014 was insurance (debit) $800.

On 31 October 2014 an insurance premium of $2100 was paid for the year ended 31 October 2015.

Which amount was charged for insurance in the income statement for the year ended 30 April 2015?

A $1050 **B** $1850 **C** $2100 **D** $2900

12 The statements of financial position of Goh's business showed the following:

	30 June 2014	30 June 2015
net assets	$152 000	$184 000

During the year ended 30 June 2015, Goh brought his own motor car into the business at the value of $14 000. The net book value of this motor car at 30 June 2015 was $13 200.

He also withdrew $7900 cash from the business bank account.

What was the profit for the year ended 30 June 2015?

A $25 900 **B** $26 700 **C** $37 300 **D** $38 100

13 P joined the partnership of G and H. He brought into the business the following assets.

non-current assets	cost $25 000, valued at $38 000
inventory	cost $6000, valued at $4500
cash	$20 000

There was no goodwill arising when P joined the partnership.

What was the balance on P's capital account?

A $20 000 **B** $49 500 **C** $51 000 **D** $62 500

14 X and Y have capital accounts of $50 000 each and share profits equally. They plan to admit Z into partnership.

The new profit sharing ratio will be 2 : 2 : 1. The balances on the capital accounts will also be in this ratio.

Goodwill is valued at $20 000 and will not be retained in the books of account.

How much cash will Z need to pay to join the partnership?

A $25 000 **B** $26 000 **C** $29 000 **D** $30 000

15 David and Jane have been business partners for several years, sharing profits in the ratio of 2 : 1. Jane now wishes to retire. Her capital account amounts to $15 800 and her current account shows a debit balance of $3500.

Goodwill is valued at $6600. The book values of certain tangible assets are to be valued upwards by $3000.

What is the amount due to Jane on her retirement from the business?

A $15 500 **B** $18 700 **C** $22 500 **D** $25 700

16 Which is **not** an appropriation of partnership profit?

A interest on capital

B interest on drawings

C interest on loan

D share of profit

17 A limited company intends to issue shares at a price above the nominal value.

Which items, apart from bank balance, will be affected by the share issue?

A share capital, capital reserves and revenue reserves

B share capital and capital reserves only

C share capital and revenue reserves only

D share capital only

18 A company issues one million ordinary shares of $1 each at $1.30 per share. It also issues a debenture for $500 000.

What is the increase in the equity of the company?

A $1 000 000 **B** $1 300 000 **C** $1 500 000 **D** $1 800 000

19 What is measured by the return on capital employed ratio?

A percentage of profit paid out as dividends only

B percentage of profit paid out as dividends and interest

C return earned on funds invested by business owners only

D return earned on funds invested by business owners and long-term lenders

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20 The following ratios have been calculated for two businesses, both with the same revenue of $100 000.

	X	Y
gross margin	20%	25%
profit margin	10%	10%

How do the cost of sales and expenses of X compare with those of Y?

	cost of sales	expenses
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

21 A business provides the following information.

gross margin	20%
	$
sales	275 325
opening inventory	25 450
closing inventory	55 975

What are the purchases?

A $189 735 **B** $220 260 **C** $250 785 **D** $259 963

22 A company provided the following information.

	material units	cost per unit $
opening inventory	100	2.00
receipt of new inventory	400	2.10
issued to production	200	

The company uses the first in first out (FIFO) method of valuing inventory.

What is the cost of material issued to production?

A $400 **B** $410 **C** $416 **D** $420

23 A production centre uses 20 000 machine hours and 17 000 labour hours each month.

Which formula is used to calculate the overhead absorption rate?

A $\frac{\text{total machine hours}}{\text{total overhead cost}}$

B $\frac{\text{total overhead cost}}{\text{total labour hours}}$

C $\frac{\text{total overhead cost}}{\text{total (labour hours + machine hours)} \div 2}$

D $\frac{\text{total overhead cost}}{\text{total machine hours}}$

24 The following information is available.

	budget	actual
overheads	$60 000	$66 000
direct labour	30 000 hours	35 000 hours

The overhead absorption rate is based on direct labour hours.

What is the amount of overhead over-absorbed or under-absorbed?

A $4000 over

B $4000 under

C $6000 over

D $6000 under

25 A particular cost is classified as 'semi-variable'.

What effect will a 20% reduction in activity have on the unit cost?

A decrease by 20%

B decrease by less than 20%

C increase by 20%

D increase by less than 20%

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26 A business produces and sells watches. In 2015, 4000 watches were produced and 3600 watches were sold. Other information for the year included the following:

	$ per unit
direct materials	60
direct labour	80
variable selling expenses	15
fixed manufacturing overheads	45
fixed administrative costs	50

What is the cost of goods sold for 2015 if the business uses absorption costing?

A $558 000 **B** $666 000 **C** $720 000 **D** $740 000

27 Which items are included in the marginal cost of a unit of production?

A direct labour, direct materials, fixed production costs and variable production overheads

B direct labour, direct materials, fixed costs and variable production overheads

C direct labour, direct materials and variable production overheads only

D direct labour and direct materials only

28 Which statements about cost-volume-profit analysis are correct?

1 Profits are calculated on an absorption costing basis.

2 Profits are calculated on a marginal costing basis.

3 It only applies where there is a constant sales mix.

4 It only applies where there is a changing sales mix.

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

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29 A business has the following budgeted and actual results for a period.

	$
budgeted fixed overheads	354 000
actual fixed overheads	360 000
under-absorption of overheads	3 000

The fixed overheads are absorbed per unit.

The budgeted number of units were 118 000.

What is the actual level of activity in units?

A 118 000 **B** 119 000 **C** 120 000 **D** 121 000

30 What are the main purposes of budgeting?

1 to control expenditure

2 to forecast future expenditure

3 to determine company strategy

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

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