Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **February/March 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 **10** printed pages and **2** blank pages.

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1 An item is included in the financial statements because it affects their interpretation.

Which accounting concept is being applied?

A consistency

B materiality

C money measurement

D substance over form

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 business 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 A company purchased an asset costing $100 000. It had a life of five years and an estimated residual value of $20 000. The company uses straight-line depreciation.

The asset was sold for $5000 at the end of the five-year period.

What is the **total** effect on year five profits from both depreciating and selling the asset?

	amount of expense $
A	1000
B	15 000
C	16 000
D	31 000

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4 A business provides the following information.

	$
cheque paid in 2018 for equipment bought in 2017	15 000
equipment purchased on credit in 2018	42 000
net book value of equipment at 1 January 2018	83 000
net book value of equipment at 31 December 2018	67 000

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

A $16 000 **B** $31 000 **C** $43 000 **D** $58 000

5 Daphne buys a non-current asset for $10 000. It has an estimated life of two years and a scrap value of $2000. She is considering whether to depreciate it using the straight-line method or to use the reducing balance method at a rate of 60% per annum.

Which statements are correct?

1 The profit for the year in Year 1 is higher if the reducing balance method is chosen.

2 The profit for the year in Year 1 is higher if the straight-line method is chosen.

3 The profit on disposal at the end of Year 2 is higher if the reducing balance method is chosen.

4 The profit on disposal at the end of Year 2 is higher if the straight-line method is chosen.

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

6 What is **not** a purpose of control accounts?

A to assist in the preparation of financial statements

B to identify all errors where the trial balance agrees

C to provide a total for trade receivables and trade payables

D to verify the accuracy of the individual ledger accounts

7 The balance on a sales ledger control account was $21 500. This did not agree with the total of the sales ledger account balances.

It was discovered that a credit note for $200 sent to a credit customer had been posted to the debit of the customer's account.

What was the total of balances in the business's sales ledger **before** the error was corrected?

A $21 100 **B** $21 300 **C** $21 700 **D** $21 900

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8 During the month of June, a business recorded the following information.

	$
payments to credit suppliers during June	16 380
credit purchases for June	21 650
discount received	850
purchases ledger balances at the start of June	5 730
purchases returns during June	1 200

What was the purchases ledger control account balance at the end of June?

A $8950 **B** $10 650 **C** $15 570 **D** $27 380

9 A business paid an annual rent of $24 000. At 1 January 2018 there was accrued rent of $4000.

Rental payments were as follows.

	$
1 January 2018	12 000
1 July 2018	10 000
1 September 2018	13 000

How was rent recorded in the financial statements at 31 December 2018?

	income statement $	other receivables $	other payables $
A	24 000	7 000	nil
B	24 000	nil	7 000
C	35 000	11 000	nil
D	35 000	nil	11 000

10 At the year-end, a business has some damaged goods in inventory. The following information is available.

1 The goods were purchased for $8500.

2 If the goods are repaired, they can be sold for $10 400. The business will have to pay $2000 repairing cost and pay $300 to a salesman.

3 The same quantity of damaged goods can be purchased from the supplier for $8200.

What is the value of the damaged goods at the year-end?

A $8100 **B** $8200 **C** $8400 **D** $8500

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11 A company undervalued the closing inventory for its current accounting period.

How did this affect gross profit?

	current period	following period
A	no effect	no effect
B	understated	overstated
C	understated	no effect
D	understated	understated

12 For the year ended 31 December 2018, Sim's net assets increased by $1210.

The following transactions took place during 2018.

1 Payments out of Sim's personal bank account: rent for business office $3600, rent for personal residence $2000.

2 Drawing of goods: with a cost $6200 and sales value $7700.

3 Drawing of cash: $9750.

What was the profit for the year ended 31 December 2018?

A $11 560 **B** $13 560 **C** $15 060 **D** $15 160

13 Meena was a sole trader. On 1 July 2018, Hanna entered into a partnership with her sharing profits equally.

Profit for the year ended 31 December 2018 was $168 000 accruing evenly over the year. An irrecoverable debt of $8000 was incurred during March 2018 and it was agreed that this would be paid for by Meena.

What is Hanna's share of profit?

A $40 000 **B** $42 000 **C** $44 000 **D** $46 000

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14 Z is admitted as a new partner in the partnership of X and Y. He brings the following into the business.

	$
cash	20 000
inventory	6 000
vehicle	11 000

Interest on capital is calculated at 10% per annum. There is no goodwill on Z's admission.

What is Z's interest on capital per annum?

A $1700 **B** $2000 **C** $3100 **D** $3700

15 L and M are in partnership sharing the profits equally. No goodwill account is maintained in the accounts. N joins the partnership and pays $30 000 cash for his share of the goodwill.

Profits are to be shared equally between L, M and N.

What are the increases in the capital accounts on the admission of N into the partnership?

	capital accounts		
	L $	M $	N $
A	10 000	10 000	10 000
B	–	–	30 000
C	15 000	15 000	–
D	–	–	–

16 During the year a business issued $1 ordinary shares at $1.20 each. The directors proposed a final dividend at the end of the year.

Which balances in the statement of changes in equity were affected by these transactions?

	ordinary share capital	share premium	general reserve	retained earnings
A	✓	✓		
B	✓	✓		✓
C	✓		✓	
D	✓			✓

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17 A company has ordinary share capital of $250 000. The ordinary shares have a nominal value of $0.25 each.

A rights issue is made on the basis of 2 shares for every 5 shares held at a premium of $0.15.

What is the total amount of capital raised from the rights issue of shares?

A $15 000 **B** $40 000 **C** $60 000 **D** $160 000

18 A shareholder sells some shares for less than he paid for them.

What happens to the share capital of the company?

A decreases by the nominal value of the shares sold

B decreases by the sales proceeds of the shares sold

C increases by the amount received from the sale of the shares

D remains the same as before

19 Which item would result in a decrease in the expenses to revenue ratio?

A accrual for telephone

B increase in provision for doubtful debts

C prepayment for rent and rates

D the return of goods sold

20 A company provided the following information.

	$
profit from operations	109 000
interest paid	12 000
share capital	250 000
total reserves	129 000
5% debentures	60 000

What was the return on capital employed (ROCE) to **two** decimal places?

A 22.10% **B** 24.83% **C** 25.59% **D** 28.76%

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21 A business provided the following information.

budgeted overheads	$127 000
budgeted machine hours	10 450
actual overheads	$149 000
actual machine hours	9 300

What was the absorption rate per machine hour?

A $12.15 **B** $13.66 **C** $14.26 **D** $16.02

22 Which costs are stepped costs?

1 Increase in indirect materials cost.

2 Increase in variable overheads.

3 Renting further factory space.

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

23 An employee worked a normal 35-hour week and was paid $15 per hour. He also worked 5 hours of overtime which was paid at $20 per hour and received a bonus of $50.

What was his total pay for the week?

A $525 **B** $600 **C** $625 **D** $675

24 A company uses machine hours to absorb its overheads.

The following information is provided for a month.

	actual	budgeted
overheads	$237 010	$253 450
machine hours	12 460	13 700

Which statement regarding overheads is correct?

A $6500 over-absorbed

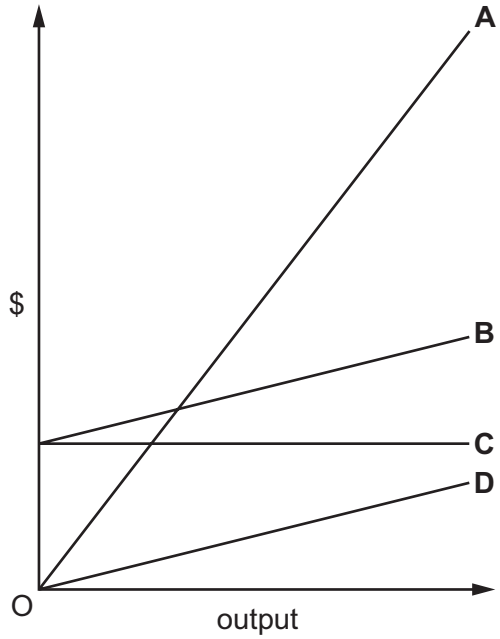
B $6500 under-absorbed

C $16 440 over-absorbed

D $16 440 under-absorbed

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25 Which line represents total variable cost?



26 The following information is available in respect of a product.

per unit	$
selling price	25
variable costs	15
contribution	10

Production is 50 000 units.

The fixed costs are $300 000. The margin of safety is 20 000 units.

The directors propose to increase the unit selling price by 10%.

What will be the percentage increase in the margin of safety?

A 13.6% **B** 20% **C** 30% **D** 36.4%

27 A company makes a single product and sells it for $12 per batch.

The variable cost is $4 per batch.

Fixed costs have been absorbed based on a normal activity level of 1000 batches at $3 per batch.

What is the profit under marginal costing if the company makes and sells 1500 batches?

A $6000 **B** $7500 **C** $9000 **D** $12 000

28 The following information relates to one unit of a product.

per unit	$
selling price	20
marginal cost	8
fixed costs	5

What is its contribution to sales ratio?

A 35% **B** 40% **C** 60% **D** 65%

29 The budgeted information for one month is shown.

units sales	20 000
selling price per unit	$12
variable cost per unit	$3
fixed costs	$50 000

It is expected that the number of units sold will increase by 10%.

Fixed costs will increase by 5%.

What is the increase in profit as a result of these changes?

A $15 500 **B** $18 000 **C** $20 500 **D** $21 500

30 What are the disadvantages of budgetary control systems?

1 Budget holders can be blamed for uncontrollable adverse outcomes.

2 Only financial outcomes are measured and considered.

3 Rigid decision-making often occurs.

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

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