UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **May/June 2012**

1 hour

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

9326809883

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, 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.

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.

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1 Which statement is correct?

A Carriage inwards is a credit.

B Carriage outwards is a debit.

C Purchase returns is a debit.

D Sales returns is a credit.

2 The table shows opening and closing balances for the rent receivable account.

	start of year $	end of year $
rent received in advance	4200	1600
rent due in arrears	2000	2400

During the year, $111 000 rental income was received.

What is the total rent receivable for the year?

A $110 600 **B** $111 000 **C** $113 200 **D** $114 000

3 A non-current asset costing $206 000, with a net book value of $131 000, is revalued to $275 000.

How should the revaluation be recorded?

A Dr Asset at cost $69 000
Cr Revaluation reserve $69 000

B Dr Provision for depreciation $75 000
Dr Asset at cost $69 000
Cr Revaluation reserve $144 000

C Dr Provision for depreciation $144 000
Cr Revaluation reserve $144 000

D Dr Revaluation reserve $144 000
Cr Asset at cost $69 000
Cr Provision for depreciation $75 000

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4 A business buys a machine on hire purchase for $50 000.

Although it will not own the machine until it has paid the final instalment, it has made the following entries:

debit		credit	
Machinery account	$50 000	Bank account	$5 000
		Finance company account	$45 000

Which accounting principle has been applied?

A going concern

B matching

C prudence

D substance over form

5 A sole trader owns a vehicle valued at $4000 for his own use and a vehicle valued at $2500 for business use.

On 1 April 2012 he sold the business vehicle. On the same date he bought a new vehicle for $8000 for his own use and transferred his old vehicle to the business.

What is the change in the value of vehicles in the business accounts?

A $1500 **B** $4000 **C** $5500 **D** $6500

6 Which accounting principle means that a company's financial statements are comparable from one period to the next?

A accruals

B consistency

C going concern

D materiality

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7 The table shows details relating to a company's banking transactions at 31 December.

	$
balance at bank as per bank statement	22 650
uncleared lodgements	3 110
unpresented cheques	6 290
bank credit recorded twice by bank in error	650

Which balance for cash at bank should appear in the statement of financial position at 31 December?

A $18 820 **B** $20 120 **C** $25 180 **D** $26 480

8 A company's accounts showed a gross profit for the year of $32 500. After the draft financial statements were prepared it was found that the opening inventory had been overstated by $2400 and the closing inventory had been understated by $3400.

What is the corrected gross profit for the year?

A $26 700 **B** $31 500 **C** $33 500 **D** $38 300

9 A manufacturing company has the following information for the year ended 31 December.

	$
purchase of raw materials	58 000
wages of machine operators	97 000
depreciation on factory plant	15 000
opening inventory of raw materials	10 000
closing inventory of raw materials	8 000
wages of factory supervisor	18 000
factory light and heating costs	22 000

What is the prime cost for the year?

A $153 000 **B** $157 000 **C** $175 000 **D** $212 000

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10 The table shows information about four partners in a partnership.

Which partner has the greatest net reward from interest on capital and interest on drawings?

	fixed capital $	annual drawings $
A	20 000	30 000
B	20 000	50 000
C	60 000	30 000
D	60 000	50 000

11 X and Y are in partnership sharing the profits equally. No goodwill account is maintained in the accounts. Z joins the partnership and pays $30 000 cash for his share of the goodwill.

Profits are to be shared equally between X, Y and Z.

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

	capital accounts		
	X $	Y $	Z $
A	10 000	10 000	10 000
B	–	–	30 000
C	15 000	15 000	–
D	–	–	–

12 Which statements about non-profit making organisations are correct?

1 A club or society may engage in trading activities.

2 A club or society may suffer bad debts.

3 Subscriptions are credited to the income and expenditure account in the year in which they are received.

4 The term ‘excess of expenditure over income’ replaces ‘profit for the year’.

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

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13 A business sells goods at cost plus 25%.

Information for a year is shown.

	$
revenue	240 000
opening inventory	42 000
closing inventory	48 000

What is the total of purchases for the year?

A $180 000 **B** $186 000 **C** $192 000 **D** $198 000

14 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 first in first out (FIFO) method?

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

15 A company has an issued share capital of 200 000 6% cumulative preference shares of $1 each fully paid and 800 000 ordinary shares of $1 each fully paid.

Assuming that the company earns no profit in the year, which statement is correct?

A Both preference and ordinary shares are paid a dividend in the year.

B The unpaid dividends for both preference and ordinary shares are carried forward to a future year.

C The unpaid preference dividend is carried forward to a future year.

D The preference shares are paid a total dividend of $12 000 in the year.

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16 A company raises finance by issuing debentures.

What is the effect on net current assets and short term profits?

	net current assets	profits
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

17 A business finds that it is unable to pay its trade payables because of a poor cash flow.

What should it do to improve its cash flow?

A factor its trade receivables

B increase its trade receivables

C increase its inventory

D repay its overdraft

18 For some years a business has given 2% cash discount to its customers and lost 3% of its inventory to pilferage by staff.

On 1 January, the business changed the rate of cash discount to 5% and introduced a new inventory control system that stopped the pilferage.

Which effect do these changes have on the gross profit to sales ratio?

	change in cash discount	new inventory control system
A	decrease	no effect
B	increase	no effect
C	no effect	decrease
D	no effect	increase

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19 The table gives information about a company.

	year 1 $	year 2 $
revenue	150 000	200 000
cost of sales	105 000	130 000
	45 000	70 000
administration and distribution expenses	27 000	47 500
profit from operations	18 000	22 500
non-current assets	120 000	110 000
net current assets	30 000	40 000
non-current liabilities	(50 000)	(10 000)

What happened to gross profit margin and return on capital employed in year 2?

	gross profit margin	return on capital employed
A	decreased	decreased
B	increased	decreased
C	decreased	increased
D	increased	increased

20 A business turns over its inventory 5 times a year. Average inventory is $54 000 and sales are made at a mark-up of one-third.

How much are the sales?

A $202 500 **B** $270 000 **C** $360 000 **D** $405 000

21 What is **not** included in the calculation of the liquid ratio (acid test)?

A accruals for rent

B amounts prepaid for insurance

C inventory of finished goods

D trade payables

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22 The owner of a business has to decide whether to sell a particular type of product.

Which ratio is the most useful in making the decision?

A current ratio

B gross profit ratio

C return on capital employed

D trade receivables turnover

23 Which statement best describes a sunk cost?

A a cost which is irrelevant for the future

B a cost which must be matched against the revenue

C a cost which remains the same at all levels of production

D a cost which varies with the level of production

24 A business has the following costs.

raw materials $3 per unit

direct labour $2 per unit

stepped costs of $5000 for every 10 000 units

What is the cost of producing 15 000 units?

A $75 000 **B** $82 500 **C** $85 000 **D** $105 000

25 Which statement best describes fixed costs?

A costs that are constant in total over a range of output.

B costs that are the same in total over any output level.

C costs that are constant per unit as output increases.

D costs that are the same as stepped costs.

26 Which costs are classified as manufacturing overheads for a car assembly plant?

1 assembly line employees' wages

2 cost of components assembled

3 depreciation of assembly line equipment

4 production managers' salaries

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

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27 A business has the following budget for April.

	$
sales revenue	1 000 000
contribution	550 000
fixed production costs	275 000
fixed selling costs	55 000

What is the break-even sales revenue for April?

A $450 000 **B** $500 000 **C** $600 000 **D** $670 000

28 Which costing method is best suited to valuing inventory and which for deciding whether to accept an order below normal selling price?

	valuation of inventory	decision on accepting order below normal selling price
A	absorption costing	absorption costing
B	absorption costing	marginal costing
C	marginal costing	absorption costing
D	marginal costing	marginal costing

29 The following information is forecast for May.

	units
opening inventory	25 200
closing inventory	28 200
	$
marginal cost profit	100 800
absorption cost profit	120 300

What is the overhead absorption rate?

A $3.57 **B** $4.27 **C** $4.77 **D** $6.50

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30 What is the purpose of a job cost sheet?

A to enable the business to recover its overheads

B to ensure the customer knows the split between materials and labour

C to inform the customer of the profit margin

D to let the business find the price for a quotation

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