Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **May/June 2015**

1 hour

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

* 1 8 8 4 3 8 8 8 7 2 *

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.

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1 Which statement contains the correct accounting treatment for accrued income?

A added to income and shown as a current asset

B added to income and shown as a current liability

C deducted from income and shown as a current asset

D deducted from income and shown as a current liability

2 A trader made the following transactions.

	$
cash withdrawn from bank for business use	200
cash banked	120

What was the total effect on ledger accounts?

	increase	$	decrease	$
A	bank account	80	cash account	80
B	bank account	320	cash account	320
C	cash account	80	bank account	80
D	cash account	320	bank account	320

3 Rent is paid by a business monthly in advance on the first day of each month. The payments during this financial year have been as follows.

up to and including 1 June	$500 per month
from 1 July	$600 per month

Which amount(s) will appear in the financial statements for the year ended 31 October?

	income statement expense	statement of financial position
A	$6400	$600 other receivables
B	$6400	$600 other payables
C	$6400	–
D	$7000	–

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4 A business started on 1 January 2013. At 31 December 2014 the following information is available.

	31 December 2013 $	31 December 2014 $
trade receivables	80 000	100 000
increase in provision for doubtful debts in income statement	4 000	2 000

What is the rate for provision for doubtful debts in 2014?

A 2% **B** 3.33% **C** 5% **D** 6%

5 A business purchases inventory on a credit basis.

Which item affects the amount paid to suppliers?

A bad debts

B contra with the sales ledger

C discount allowed

D returns inwards

6 A business depreciates its non-current assets at 20% using the straight-line method. Depreciation is calculated on a time basis in the year of acquisition and disposal.

	$
non-current assets, at cost, 31 December 2013	200 000
purchase of machinery 1 January 2014	50 000
disposal of machinery 30 September 2014	40 000
non-current assets, at cost, 31 December 2014	210 000

What is the depreciation charge for non-current assets for the year ended 31 December 2014?

A $42 000 **B** $48 000 **C** $50 000 **D** $52 000

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7 The table shows information for a business at 31 March in Year 1.

	$
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 Year 1, 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 Year 1?

	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 The following information is available.

		$
prime cost		400 000
factory overheads		220 000
inventories:		
	opening $	closing $
raw materials	25 000	28 000
work-in-progress	46 000	52 000
finished goods	84 000	72 000

What is the cost of production?

A $611 000 **B** $614 000 **C** $620 000 **D** $623 000

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9 A business has extracted the following information from its books of account at 31 December 2014, its first year of trading.

	$000
carriage inwards	12
carriage outwards	15
closing inventory	86
purchases	286
returns inwards	10
returns outwards	2
revenue	524

What is the gross profit for the year ended 31 December 2014?

A $301 000 **B** $304 000 **C** $320 000 **D** $328 000

10 A trader maintains a sales ledger control account.

How can he calculate credit sales?

A balance carried down + receipts + balance brought down

B balance carried down + receipts – balance brought down

C balance carried down – receipts + balance brought down

D balance carried down – receipts – balance brought down

11 How are closing inventory and loss for the year treated?

	closing inventory	loss for the year
A	debit in statement of financial position credit in income statement	debit in capital account credit in income statement
B	debit in statement of financial position credit in income statement	debit in income statement credit in capital account
C	debit in income statement credit in statement of financial position	debit in capital account credit in income statement
D	debit in income statement credit in statement of financial position	debit in income statement credit in capital account

12 How should interest charged on a partner's drawings account be treated?

A credited to the appropriation account

B credited to the income statement

C debited to the appropriation account

D debited to the income statement

13 Kay and Lay share profits and losses in the ratio of 3 : 1. Capital account balances are Kay $100 000 and Lay $84 000. There was no goodwill account in the books.

The partners change the profit sharing ratio to 4 : 1. Goodwill is valued at $54 000 and is not to be retained in the books of account.

What is the balance on Lay's capital account after the adjustment for goodwill?

A $70 500 **B** $81 300 **C** $86 700 **D** $97 500

14 A cricket club provides the following information.

	$
subscriptions owing at 1 January 2014	340
subscriptions paid in advance at 1 January 2014	580
subscriptions received in the year ended 31 December 2014	3600
subscriptions owing at 31 December 2014	410
subscriptions paid in advance at 31 December 2014	320

What is the value of subscriptions in the income and expenditure account for the year ended 31 December 2014?

A $3450 **B** $3600 **C** $3750 **D** $3930

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15 DEC Limited has produced the following information for the current financial year.

	department X $	department Y $
revenue	54 000	26 000
cost of sales	23 700	16 600
gross profit	30 300	9 400

The rent and insurance of buildings total is $13 000. Heating and lighting total is $12 500.

The floor area occupied by each department: X 60%, Y 40%.

What is the profit or loss for the year for department Y?

A $800 loss

B $5900 loss

C $15 000 profit

D $20 100 profit

16 A business bought and sold the following items of inventory.

month	details	units	cost per unit $
January	purchased	30	2.00
February	purchased	20	2.50
March	sold	10	–

It uses the AVCO method of inventory valuation.

What was the value of inventory at the end of March?

A $20 **B** $22 **C** $88 **D** $90

17 The profits of Bronte Limited are as follows.

year ended 31 December 2013	nil
year ended 31 December 2014	$60 000

Bronte Limited has in issue 200 000 5% preference shares of $1 each.

What is the profit available for distribution to ordinary shareholders for the year ended 31 December 2014, if the preference shares are (i) cumulative or (ii) non-cumulative?

	cumulative $	non-cumulative $
A	40 000	40 000
B	40 000	50 000
C	50 000	40 000
D	50 000	50 000

18 A limited company issues 5000 ordinary shares of $2 each at a premium of $0.50.

What is the effect on share capital and liquidity?

	share capital $	liquidity
A	increase 10 000	improve
B	increase 10 000	no effect
C	increase 12 500	improve
D	increase 12 500	no effect

19 A new business was established with opening capital of $20 000.

At the end of the first year, assets less liabilities were $26 000. The owner withdrew $7000 as drawings during the year and this resulted in a bank overdraft of $5000 at the end of the year.

What was the profit during the first year?

A $8000 **B** $12 000 **C** $13 000 **D** $18 000

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20 A company's gross profit ratio (margin) for the year ended 31 December 2013 was 25%. This increases to 28% for the year ended 31 December 2014.

What could have been responsible for the increase?

A an increase in the cost of purchases during 2014

B an increase in the volume of sales during 2014

C an over-valuation of inventory at 31 December 2014

D an under-valuation of inventory at 31 December 2014

21 Which ratio will give the best indication of short term liquidity?

A current ratio

B liquid (acid test) ratio

C trade payables turnover (days)

D trade receivables turnover (days)

22 An investor is looking at the financial statements of a company in which he may decide to invest.

Which item helps him to rely on the financial statements?

A consistency of accounting policies from one period to the next

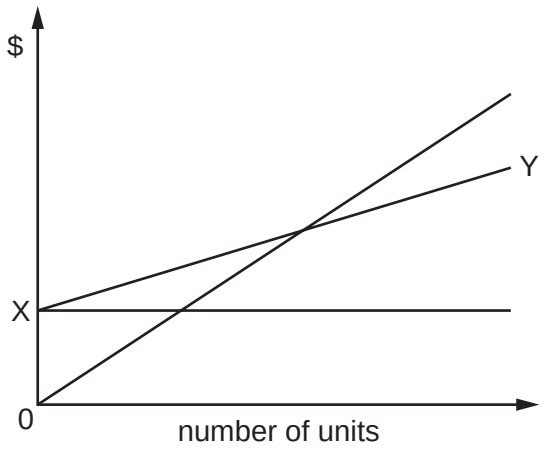
B estimation of accounting provisions relying on the opinion of managers

C inflation in the currency in which the financial statements are prepared

D lapse of time since the date of the statement of financial position

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23 The diagram shows a break-even chart.



What is indicated by the line XY?

A total costs

B total fixed costs

C total sales

D total variable costs

24 The following figures are given for a factory's overheads and machine hours worked.

	machine hours	total overhead costs	overhead absorption rate
budgeted	122 000	$268 400	$2.20
actual	116 000	$261 000	$2.25

What was the under or over absorption of overhead for the quarter?

A $5800 over absorbed

B $5800 under absorbed

C $7400 over absorbed

D $7400 under absorbed

25 Which costing method is used to calculate a break-even point?

A absorption

B batch

C marginal

D unit

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26 Which is **not** a characteristic of job costing?

A Each cost unit is separately identifiable.

B Production involves repetitive operations.

C Production is based on specific customer orders.

D Production is usually of short duration.

27 A business plans to replace its computer systems. Its existing hardware was bought seven years ago and its software five years ago.

What type of cost is the existing system?

A fixed

B stepped

C sunk

D variable

28 A business manufactures three products which all use the same material. The following information is available.

	X $000	Y $000	Z $000
selling price	160	190	240
direct material	56	68	90
direct labour	35	32	50
variable overhead	28	34	45
contribution	41	56	55

Direct material is in short supply.

In which order should the products be manufactured to maximise profits?

A $X \rightarrow Y \rightarrow Z$

B $Y \rightarrow X \rightarrow Z$

C $Y \rightarrow Z \rightarrow X$

D $Z \rightarrow Y \rightarrow X$

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29 A company is forecasting its profits at two levels of activity.

sales units	5000	8000
	$	$
total fixed and variable costs	20 000	26 000
profit	15 000	30 000
sales revenue	35 000	56 000

Fixed costs and selling prices are unchanged within the above activity range.

What is the forecast profit if sales were 7000 units?

A $21 000 **B** $25 000 **C** $26 000 **D** $26 250

30 Which statement about a cash budget is correct?

A It includes credit sales and discount allowed.

B It includes credit sales but excludes discount allowed.

C It includes receipts from debtors and discount allowed.

D It includes receipts from debtors but excludes discount allowed.

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