Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **May/June 2016**

1 hour

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

* 1 5 8 5 6 8 2 7 1 9 *

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 **9** printed pages and **3** blank pages.

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1 What might stop financial statements showing a true and fair view?

A changes in depreciation methods from year to year

B changes in dividend policy

C creation of a general reserve

D inclusion of purchased goodwill in a statement of financial position

2 A company's financial year ends on 31 December.

On 1 April 2015, the following payments relating to a new machine were made.

	$
purchase cost	50 000
installation	10 000

Machinery is depreciated at 20% on cost per annum, calculated from the date of purchase.

What was the depreciation of the new machine for the year ended 31 December 2015?

A $7500 **B** $9000 **C** $10 000 **D** $12 000

3 A business purchased a motor vehicle on 1 January 2012 for $24 000. The estimated useful life of the motor vehicle was four years and the estimated residual value at the end of four years was $8000.

The business depreciates motor vehicles at 25% per annum using the reducing balance method. No depreciation is charged in the year of disposal.

The motor vehicle was sold on 31 July 2015 for $12 000.

What was the profit on the sale of the motor vehicle?

A $1875 **B** $4000 **C** $5250 **D** $8000

4 A building was purchased for $500 000. The following costs were also incurred.

	$
adapting the new building	50 000
legal fees for the building purchase	5 000
cleaning the building	4 000
salary of building manager	20 000

What was the capital cost of the building?

A $550 000 **B** $555 000 **C** $559 000 **D** $579 000

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5 Which statement about the sales ledger control account is correct?

A It is to verify the total of the customers' account balances in the sales ledger.

B It is used to calculate the gross profit on sales.

C It is used to calculate the total sales for the year.

D It is used to reconcile the cash received from customers with the bank statement.

6 In which book of prime entry is the contra between the sales ledger control account and the purchase ledger control account recorded?

A cash book

B general journal

C purchases journal

D sales journal

7 A business omitted discounts allowed of $700 from its trial balance. During the year a machine had been sold for cash of $500 but the only accounting entry made was a debit in the bank account.

What is the balance on the suspense account before these errors are corrected?

A $200 debit **B** $1200 debit **C** $200 credit **D** $1200 credit

8 In an income statement carriage outwards of $5000 has been treated as carriage inwards.

Carriage inwards of $3000 has been treated as carriage outwards.

What are the effect(s) of these errors on the profit?

	gross profit	profit for the year
A	overstated by $2000	understated by $2000
B	overstated by $8000	no effect
C	understated by $2000	no effect
D	understated by $8000	overstated by $8000

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9 A company received interest of $8800 during the financial year. Interest of $700 was due at the beginning of the year and $850 at the end of the year.

Which entry appeared in the interest received account to make the transfer to the income statement?

A $8650 credit

B $8650 debit

C $8950 credit

D $8950 debit

10 Katrina commenced business on 1 January 2015. For the year ended 31 December 2015, the following information is available.

	$
drawings	53 500
profit for the year	62 700
revenue	1 500 000
expenses	875 000

What was the cost of sales for the year?

A $562 300 **B** $571 500 **C** $678 000 **D** $687 700

11 The following information is available for rent and rates.

	$
prepaid rent at the start of the year	1250
accrued rates at the start of the year	1380
rent and rates income statement amount	8750
prepaid rent at the end of the year	1104
accrued rates at the end of the year	1000

What is the amount paid for rent and rates during the year?

A $8516 **B** $8854 **C** $8880 **D** $8984

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12 The directors of a company are completing the financial statements for the year ended 30 April 2016. They discover that the inventory at 1 May 2015 was over-valued by $50 000.

What are the effects of correcting this error?

	profit for the year ended 30 April 2016	retained earnings brought forward at 1 May 2015
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

13 X and Y were in partnership sharing profit and losses equally. They then admitted Z into the partnership and profits and losses were still shared equally.

The following transactions took place.

1 Z introduced capital of $50 000.

2 Goodwill was valued at $30 000. No goodwill account is kept in the books of account.

3 X took a computer from the business at a value of $3000.

After these transactions had taken place, the balance on X's capital account was $60 000.

What was the opening balance on X's capital account?

A $55 000 **B** $58 000 **C** $65 000 **D** $75 000

14 A and B were in partnership sharing profits and losses equally when they decided to retire. Details of the realisation are shown in the table.

	book value $000	realised value $000
non-current assets	50	65
current assets excluding cash and bank	25	23
cash and bank balances	4	–
current liabilities	18	14
costs of realisation	1	–

How much profit was **each** partner entitled to on realisation?

A $8000 **B** $10 000 **C** $12 000 **D** $16 000

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15 A company's profit from operations has increased by 10% in a year, whilst its gross profit has only increased by 5%.

Which factors could explain this?

1 a decrease in finance costs

2 a decrease in distribution costs

3 an increase in rent received

4 an increase in selling prices

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

16 A company has 1 000 000 ordinary shares of $1 issued at $2.50. It also has a 5% debenture of $300 000.

Profit from operations for the year was $465 000.

The directors paid an 8% ordinary share dividend during the year.

By which amount did the retained earnings increase during the year?

A $250 000 **B** $370 000 **C** $385 000 **D** $400 000

17 A company issues 100 000 new $1 ordinary shares at a premium of $0.20 each.

Which effect does this have on the statement of financial position?

A Equity increases by the nominal value of the shares but decreases by the value of the premium.

B Equity increases by the nominal value of the shares only.

C Net assets increase by the nominal value of the shares plus the value of the premium.

D Net assets increase by the nominal value of the shares but decrease by the value of the premium.

18 The trial balance on 31 December 2015 showed the following information.

	$
ordinary share capital ($1 shares)	500 000
retained earnings	300 000

On 1 January 2016 the directors created the general reserve of $70 000. At the same time 200 000 ordinary shares were issued for $300 000.

By which amount did the total reserves increase on 1 January 2016?

A $100 000 **B** $170 000 **C** $300 000 **D** $370 000

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19 A company wants to increase its return on capital employed in the short term.

Which course of action will achieve this?

A invest in new plant and machinery

B make a bonus issue of shares

C reduce overhead expenses

D reduce the dividends paid to investors

20 Which item is included in the current ratio but **not** the liquid (acid test) ratio?

A cash at bank

B inventory

C trade payables

D trade receivables

21 A business has prepared the following information for the year ended 30 April 2015.

	$	$
revenue		220 000
opening inventory	25 000	
purchases	120 000	
closing inventory	(31 000)	
cost of goods sold		114 000
gross profit		106 000

What was the inventory turnover?

A 86 days

B 90 days

C 95 days

D 100 days

22 An employee works a standard 40-hour week. In that time he is expected to make 200 complete units.

He is paid a bonus of $10 for every hour saved in production.

For week 25 he worked 44 hours and produced 250 units.

How much was his bonus payment for week 25?

A $30 **B** $40 **C** $50 **D** $60

23 A business was started on 1 January. The purchases and sales of inventory for January were as follows.

date	purchases	sales
4 January	3 at $200 each	–
13 January	–	2 at $400 each
26 January	3 at $250 each	–
28 January	–	2 at $400 each

The business used the first in first out (FIFO) method of inventory valuation.

What was the gross profit for January?

A $250 **B** $650 **C** $700 **D** $750

24 A manager is preparing a quotation for Job 88. A specialised technician is hired to work for this job only. He will use machinery that the company already owns.

Which statement is correct about expenses for Job 88?

A Both machinery depreciation and technician wage are direct.

B Both machinery depreciation and technician wage are indirect.

C Machinery depreciation is direct and technician wage is indirect.

D Machinery depreciation is indirect and technician wage is direct.

25 Budgeted overhead expenditure was $180 000 and budgeted labour hours were 12 000. Actual overheads amounted to $196 000 and actual labour hours were 12 200.

What was the under or over absorption of overheads?

A $3000 over

B $3000 under

C $13 000 over

D $13 000 under

26 Why might a business use marginal costing?

1 to calculate break-even units

2 to decide on the most profitable use of limited resources

3 to decide whether to make a product or buy it

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

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27 A business provided the following information for the past two months.

month	number of labour hours	total overheads $
February	64 000	918 000
March	76 000	1 062 000

What was the monthly fixed overhead cost?

A $144 000 **B** $150 000 **C** $768 000 **D** $912 000

28 A company uses marginal costing.

Which costs are included in its inventory valuation?

A variable manufacturing cost, fixed manufacturing overhead and variable selling expenses

B variable manufacturing cost and fixed manufacturing overhead only

C variable manufacturing cost and variable selling expenses only

D variable manufacturing cost only

29 The break-even sales of a company are 1000 units when the variable costs are $30 000 and fixed costs are $20 000.

What is the profit if 70 units above the break-even point are sold?

A $700 **B** $1400 **C** $2100 **D** $3500

30 Who should be on the budget committee?

A accounting and finance staff only

B sales manager and production manager only

C sales staff only

D senior management representing every department in the organisation

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