Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **May/June 2018**

1 hour

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

* 8 8 4 0 7 0 4 2 2 0 *

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 A book-keeper enters a sales order in the sales journal.

Which accounting concept is **not** being applied?

A matching

B prudence

C realisation

D substance over form

2 A company purchased a new machine costing $110 000 with an estimated life of 10 years. The machine was considered to have a residual value of $10 000.

The company uses the straight-line method of depreciation and provides depreciation in full in the year of purchase and sale.

The machine was sold for $20 000 at the end of its life.

Which statement is correct?

A The annual depreciation charges have been overstated by $1000.

B The choice of the depreciation method has no effect on the annual profits of the company.

C The company can replace the machine from accumulated depreciation charges over its life.

D The effect of depreciation had been to reduce profits by a total of $110 000 over the life of the asset.

3 A new business has several costs relating to its building.

Which costs are classified as revenue expenditure?

1 cost of an extension to the factory

2 legal fees on purchase of land

3 repairs to the warehouse roof

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

4 Opening inventory is found to be overstated by $8000 and closing inventory is overstated by $6500.

What is the effect of the **correction** of these errors on profit for the year?

A decrease of $1500

B decrease of $14 500

C increase of $1500

D increase of $14 500

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5 A business has provided the following information.

	$
provision for doubtful debts at 1 January 2017	2 950
trade receivables at 31 December 2017	75 000

The provision for doubtful debts is to be maintained at 5% of trade receivables.

Which entries are made at 31 December 2017?

	income statement	provision for doubtful debts account
A	$800 credit	$800 debit
B	$800 debit	$800 credit
C	$3750 credit	$3750 debit
D	$3750 debit	$3750 credit

6 What is the use of a sales ledger control account?

A to assist in the location of errors

B to calculate the value of irrecoverable debts to be written off

C to determine the value of total sales revenue

D to identify possible contras with purchases ledger control account

7 On 1 January a business has prepaid $800 for four months' motor insurance. It also has an outstanding invoice for fuel of $140.

During January it pays the fuel invoice and a further $600 for fuel.

At 31 January it has an outstanding fuel invoice of $160.

What is the charge for motor expenses in the income statement for January?

A $760 **B** $960 **C** $1100 **D** $1560

8 A business provided the following information for a month.

	$
credit sales	16 810
sales returns	1 150
discounts allowed	276
irrecoverable debts written off	100
increase in provision for doubtful debts	600
increase in trade receivables	406

How much cash was received from trade receivables during the month?

A $14 278 **B** $14 878 **C** $15 154 **D** $15 690

9 At the end of the year, the debit balance on a sales ledger control account was $15 000.

It was later discovered that when a customer who owed the business $500 had paid, she had taken a cash discount of $20. This was correctly entered in the discount column of the cash book and the full $500 was entered in the bank column.

Which value for trade receivables should be included in the statement of financial position?

A $14 520 **B** $14 980 **C** $15 000 **D** $15 020

10 A returns inward of $180 has been wrongly recorded as carriage inwards.

What is the impact on profit of the **correction** of this error?

A decreased by $360

B increased by $180

C increased by $360

D no effect

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11 During the past month, a business lost some inventory because of theft. The table shows the trading results for the month.

	$
opening inventory, at cost	50 000
purchases	220 000
sales	300 000
closing inventory, at cost	16 000

The mark-up was 25%.

What was the cost price of the stolen inventory?

A $13 000 **B** $14 000 **C** $29 000 **D** $34 000

12 The correction of which error requires an entry in the suspense account?

A A cheque, $1000, paid to Kong had been debited to Kang's account.

B A purchase of stamps, $50, had been debited to the purchases account.

C Commission income, $170, had been debited to a loan interest account.

D The insurance account had been undercast by $200 and the wages account had been overcast by $200.

13 Partnership profit, $60 000, accrued evenly through the year ended 31 December 2017. Jim became a third partner on 31 March 2017. The partners shared profits equally from that date.

An irrecoverable debt of $12 000 in the financial statements would be ignored when calculating Jim's share of the profit.

What was Jim's share of the profit for the year ended 31 December 2017?

A $5000 **B** $12 000 **C** $15 000 **D** $18 000

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14 X and Y are in partnership and revalue their assets as follows.

asset	book value $	revalued amount $
freehold property	50 000	71 000
fixtures and fittings	20 000	16 000
inventory	15 000	13 000

X and Y share profits and losses in the ratio of 2 : 1.

What is X's share of profit from revaluation?

A $5000 **B** $10 000 **C** $14 000 **D** $15 000

15 The following statements relate to a revaluation account.

1 An entry on the credit side of the revaluation account means that a non-current asset has fallen in value.

2 If a credit entry is required to close off a revaluation account there is a profit on revaluation.

Which row is correct regarding these statements?

	statement 1	statement 2
A	false	false
B	false	true
C	true	false
D	true	true

16 Which item will **not** be affected by the issue of shares at a premium?

A capital reserves

B net assets

C profit for the year

D working capital

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17 A company has the following capital and reserves.

	$000
ordinary shares of $1 each, fully paid	1250
share premium account	100
revaluation reserve	200
general reserve	150
retained earnings	210

It is company policy to maintain reserves in their most flexible form.

The company makes a 1-for-5 bonus issue.

What is the maximum amount of distributable reserves **after** the bonus issue?

A $110 000 **B** $310 000 **C** $360 000 **D** $410 000

18 P Limited has an ordinary share capital of 100 000 shares of $1 each. The market value per share is $1.20.

Which entries could record a 1-for-10 bonus issue of ordinary shares?

		debit $	credit $
A	dividend	10 000	
	ordinary shares		10 000
B	dividend	12 000	
	ordinary shares		10 000
	share premium		2 000
C	retained earnings	10 000	
	ordinary shares		10 000
D	retained earnings	12 000	
	ordinary shares		10 000
	share premium		2 000

19 The following has been extracted from the financial statements of a business.

income statement	$	statement of financial position	$
profit from operations	48 000	7% debenture	65 000
debenture interest	(4 550)	ordinary share capital	95 000
loss on disposal of non-current asset	(3 250)	share premium	7 500
profit for the year	40 200	retained earnings	35 000

What was the return on capital employed (ROCE)?

A 19.9% **B** 23.7% **C** 29.2% **D** 34.9%

20 What would affect the current ratio of a business?

A purchase of inventory by cash

B purchase of new machinery by cheque

C receipt of cash from a credit customer

D revaluation of a non-current asset

21 A restaurant has the following costs in a period.

1 wages of the kitchen staff

2 depreciation of kitchen equipment

3 costs of ingredients for meals

4 rent paid for the restaurant building

What are indirect costs for an individual meal?

A 1, 2, 3 and 4

B 1, 2 and 3 only

C 1 and 2 only

D 2 and 4 only

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22 A business employs 20 production staff. Each worker is employed for 40 hours per week at a rate of $7.80 per hour.

Piece rate is calculated at 20% of basic rate pay per hour for each product manufactured above 120 units per employee.

In a week, each employee produced 145 units.

What were the total wages for the week?

A $7020 **B** $9984 **C** $10 764 **D** $10 920

23 A business had the following transactions relating to inventory.

March 1	opening inventory	20 items at $7.50 each
3	sales of inventory	12 items at $9 each
6	purchases of inventory	18 items at $8.20 each

What was the cost per unit of closing inventory on 7 March using the AVCO (perpetual) method?

A $7.29 **B** $7.85 **C** $7.98 **D** $8.23

24 Which statements about marginal costing are correct?

1 The marginal cost of a product includes an allowance for fixed overheads.

2 The marginal cost of a product represents the additional cost of making one extra unit.

3 If inventory decreases during a period, the profits under absorption costing will be lower than under marginal costing.

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

25 How is an overhead absorption rate per machine hour calculated?

A by dividing actual overheads with actual machine hours

B by dividing actual overheads with budgeted machine hours

C by dividing budgeted overheads with actual machine hours

D by dividing budgeted overheads with budgeted machine hours

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26 Which changes would result in a decrease in the margin of safety?

	unit variable cost	total fixed costs
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

27 A business provided the following information.

total fixed costs	$12 000
break-even point	1500 units
unit variable costs	$12

What was the contribution to sales ratio?

A 12.5% **B** 40% **C** 60% **D** 66.67%

28 A company provides the following information about its product.

selling price	$100
variable cost per unit	$40
fixed costs	$21 600
break-even point	360 units

If the business changes its production method, contribution will increase by 10% and fixed costs will increase by 5%.

What would be the effect on the break-even point?

A decrease by 16 units

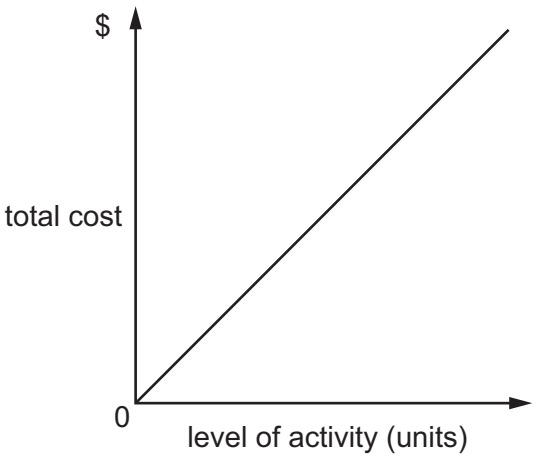
B decrease by 18 units

C increase by 16 units

D increase by 18 units

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29 The graph shows the way in which a cost increases according to the level of activity of the business.



Which cost follows this pattern?

A administrative salaries

B commission on sales

C depreciation of factory

D office rent

30 Why does a business prepare budgets?

1 co-ordinate business activities

2 meet IAS requirements

3 motivate management

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

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