Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **May/June 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.

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1 Which concept is identified by the accounting equation assets = capital + liabilities?

A business entity

B duality

C going concern

D realisation

2 What are causes of depreciation on non-current assets?

1 change in its cost of repair

2 change in its market value

3 changes in technology

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

3 June purchased a new machine. She depreciated it at a rate of 40% per annum using the reducing balance method. After two years its net book value was $3600.

What was the purchase price of the machine?

A $7056 **B** $9216 **C** $10 000 **D** $22 500

4 The following information relates to the motor vehicles of a business.

	1 January 2018 $	31 December 2018 $
net book value	398 000	480 000

During 2018 the following occurred.

1 Additional motor vehicles costing $195 000 were purchased.

2 A motor vehicle (original cost $80 000) was sold for $24 000 at a profit of $2000.

What was the depreciation charge for 2018?

A $87 000 **B** $89 000 **C** $91 000 **D** $113 000

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5 A book-keeper compared the business bank statement with the cash book. He then updated the cash book and finally prepared a bank reconciliation statement.

Why was the bank reconciliation statement prepared?

A to ensure no transactions had been omitted from the cash book

B to establish the value of unpresented cheques

C to explain the difference between the cash book balance and the bank statement balance

D to find out if any cheques had been dishonoured

6 On 31 December 2018, a business had the following balances.

	$
sales ledger	12 800
sales ledger control account	15 200

Which error explains the difference between the two figures?

A A credit balance of $1200 was brought forward as a debit balance in the sales ledger control account.

B An irrecoverable debt of $2400 was omitted in a customer's personal account in the sales ledger.

C Purchases returns, $1200, were wrongly entered on the debit side of the sales ledger control account.

D Sales returns, $1200, were entered twice in a customer's personal account in the sales ledger.

7 The provision for doubtful debts at 1 January 2018 was $1580.

Trade receivables at 31 December 2018 were $44 750. This included a debt of $12 500, considered irrecoverable.

The provision for doubtful debts was to be maintained at a rate of 5%.

Which entry for doubtful debts was included in the income statement for the year ended 31 December 2018?

A $32.50 expense

B $32.50 income

C $657.50 expense

D $657.50 income

8 Which statements about valuing inventory are correct?

1 Any charges for carriage inwards should be included in its cost.

2 Cost should always be compared with the net realisable value.

3 Cost should always be compared with replacement price.

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

9 A sole trader calculated a draft profit for the year of $56 750.

He then discovered that discounts received of $580 and discounts allowed of $665 had been recorded on the wrong sides of their respective accounts.

What is the correct profit for the year?

A $56 580 **B** $56 665 **C** $56 835 **D** $56 920

10 Which item will **not** appear in the income statement of a sole trader?

A accounting charges

B bank loan interest

C director's fee

D rental charge for machinery

11 X and Y are in partnership sharing profits and losses in the ratio 2 : 1.

Z will be admitted with the following new arrangements.

Profit and loss sharing ratio will be 2 : 1 : 2 respectively.

Goodwill is valued at $90 000. Z will pay the partners for his share of the goodwill.

How much will Z pay X?

A $18 000 **B** $24 000 **C** $45 000 **D** $60 000

12 D, E and F are in partnership, sharing profits in the ratio 2 : 2 : 1.

D is allowed an annual salary of $10 000.

E has made a loan to the partnership on which the partnership pays interest of $5000 each year.

Profit for the year before appropriation was $150 000.

What was F's total share of profit for the year?

A $27 000 **B** $28 000 **C** $29 000 **D** $30 000

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13 L and M had been in partnership sharing profits and losses equally. P was admitted to the partnership and the partners continued to share profits and losses equally. Goodwill was valued at $48 000 but the partners agreed that no goodwill account would be retained in the books of account.

What were the accounting entries to record the goodwill?

A debit L capital account $16 000, debit M capital account $16 000, credit P capital account $32 000

B debit P capital account $32 000, credit L capital account $16 000, credit M capital account $16 000

C debit L capital account $8000, debit M capital account $8000, credit P capital account $16 000

D debit P capital account $16 000, credit L capital account $8000, credit M capital account $8000

14 Which items do **not** appear in a statement of changes in equity?

1 dividend paid

2 dividend proposed

3 loan interest

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

15 On 1 January a company's equity included 100 000 $1 ordinary shares.

The directors of the company then did the following:

1 March	Made a rights issue of 20 000 ordinary shares at $1.25 each. The rights issue was fully subscribed.
1 June	Made a bonus issue of 5000 ordinary shares.
1 July	Paid an interim dividend of $0.10 on all of the shares in issue at that date.

By how much did the bank account increase as a result of these transactions?

A $12 500 **B** $17 500 **C** $30 000 **D** $37 000

16 The following balances are extracted from the books of J Limited.

	30 April 2019 $	30 April 2018 $
ordinary shares of $0.50 each	700 000	500 000
share premium	90 000	50 000

How many ordinary shares have been issued during the year ended 30 April 2019?

A 200 000 **B** 240 000 **C** 400 000 **D** 480 000

17 Which action will increase a company's current ratio?

A making an issue of bonus shares

B making a rights issue of shares

C increasing the provision for doubtful debts

D reducing the rate of depreciation on non-current assets

18 A trader wishes to set a selling price.

How does he use a mark-up?

A by adding a percentage to the cost

B by adding a percentage to the selling price

C by deducting a percentage from the cost

D by deducting a percentage from the selling price

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19 The following information is available for the year ended 31 December 2018.

	$
revenue	800 000
cost of sales	(175 000)
gross profit	625 000
distribution costs	(95 000)
administrative expenses	(35 000)
profit from operations	495 000
finance costs	(5 000)
profit for the year	490 000

What was the operating expenses to revenue ratio?

A 16.25% **B** 16.88% **C** 21.88% **D** 38.13%

20 On 1 January 2018 a business expected to have sales for the year ended 31 December 2018 of $450 000.

Its non-current assets at that date were $306 000.

On 1 July 2018 it purchased new machinery at a cost of $180 000, in order to increase its sales by an extra $20 000 each month.

What was the rate of non-current asset turnover in 2018? (Ignore depreciation.)

A 1.17 times

B 1.42 times

C 1.44 times

D 1.74 times

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21 A business uses the First In First Out (FIFO) method to value its inventory.

The following inventory transactions took place during a month. There was no opening balance.

date	receipts		issues
	units	$ per unit	units
1 July	100	15.50	
6 July	100	15.60	
10 July			80
20 July	50	15.80	
25 July			100

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

A $1085 **B** $1092 **C** $1102 **D** $1106

22 A business has two production departments: assembly and machinery. The following budgeted information is available.

	assembly	machinery
labour hours	5600	1350
machine hours	1200	6900
overheads	$75 000	$80 000

What is the overhead absorption rate for the assembly department?

A $13.39 per labour hour

B $19.14 per machine hour

C $22.30 per labour hour

D $62.50 per machine hour

23 A shortage caused a business to pay more for its purchases of raw materials.

What is the effect of this?

	break-even point	marginal cost	contribution
A	decrease	decrease	increase
B	decrease	decrease	decrease
C	increase	decrease	increase
D	increase	increase	decrease

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24 Which statement **best** describes a stepped fixed cost?

A It changes in direct proportion to changes in output.

B It changes in proportion to changes in prime cost.

C It remains at a constant amount until output changes significantly.

D It represents a constant amount of total cost.

25 A company produces less than it sells in a particular period.

Which statement is correct?

A Reported profit is the same whether absorption or marginal costing is used.

B Reported profit is the difference between absorption and marginal costing closing inventories.

C Reported profit is lower using absorption costing.

D Reported profit is lower using marginal costing.

26 Which statements are true about the preparation of a break-even chart?

1 Costs are easily classified into fixed and variable.

2 Fixed costs always change as output changes.

3 The break-even point is clearly seen.

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

27 When a company had sales revenue of $600 000, its variable costs were $300 000.

At the break-even point, its sales were $400 000.

How much profit did it make when sales were $600 000?

A $100 000 **B** $200 000 **C** $300 000 **D** $400 000

28 A company provided the following information.

total sales	$400 000
production and sales (units)	10 000
total costs	$250 000
total fixed costs	$60 000

What was the contribution to sales ratio?

A 37.5% **B** 47.5% **C** 52.5% **D** 62.5%

29 Last year a company sold 2000 units and made a contribution of $50 per unit. Profit, after deducting total fixed costs, was $60 000.

This year:

sales volume increased by 10%

contribution per unit decreased by 5%

total fixed costs increased by 25%.

What was the company's profit this year?

A $45 000 **B** $54 500 **C** $60 000 **D** $64 500

30 Why do businesses prepare budgets?

1 to communicate plans

2 to control activities

3 to improve co-ordination

4 to prepare their annual financial statements

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

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