Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **October/November 2014**

1 hour

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

* 4 9 1 7 4 1 5 5 7 7 *

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 At the end of its financial year a business had trade receivables of $16 000 and had provision for doubtful debts of $640. The provision is to be maintained at 5%.

Which amount is shown in the income statement?

A $160 credit **B** $160 debit **C** $800 credit **D** $800 debit

2 The non-current assets of a business are shown in the table.

	end of year $	start of year $
cost	360 000	300 000
accumulated depreciation	120 000	75 000
net book value	240 000	225 000

During the year, non-current assets costing $110 000 were bought and non-current assets with a net book value of $20 000 were sold.

What was the depreciation charge for the year?

A $35 000 **B** $45 000 **C** $50 000 **D** $75 000

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

He then discovers 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

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 suspense account shows a debit balance of $350.

What could have caused this?

A A purchase of $350 was debited to the rent account.

B A purchase of $350 was omitted from the purchases journal.

C A sale of $350 was debited to the sales account and credited to the debtors' control account.

D A sale of $350 was posted twice to the sales account.

6 A cash book showed a credit bank balance of $6100 on 31 December.

The bank statement on that date showed $60 of bank charges not in the cash book.

Unpresented cheques amounted to $500.

What was the balance on the bank statement?

A $5540 credit

B $5540 debit

C $5660 credit

D $5660 debit

7 A purchase ledger control account shows the following:

	$
opening balance	1 200
closing balance	1 300
purchases	18 400
payments made	17 800
discount received	300

Which entry appears in the control account to record the contra with the sales ledger control account?

A $200 credit

B $200 debit

C $800 credit

D $800 debit

8 A business sells some of its inventory for $500 on credit to a customer. The inventory originally cost $600.

What is the effect of this transaction on the statement of financial position?

	current assets	owner's capital
A	decrease by $100	decrease by $100
B	decrease by $100	increase by $100
C	increase by $100	decrease by $100
D	increase by $100	increase by $100

9 Goodwill is adjusted in partners' accounts when there is a change in the profit sharing ratio.

How is this recorded?

	debit	credit
A	capital accounts in new profit sharing ratio	capital accounts in old profit sharing ratio
B	capital accounts in old profit sharing ratio	capital accounts in new profit sharing ratio
C	current accounts in new profit sharing ratio	current accounts in old profit sharing ratio
D	current accounts in old profit sharing ratio	current accounts in new profit sharing ratio

10 What is the purpose of providing for depreciation?

A to apply the matching principle

B to calculate the true value of non-current assets

C to ensure that money is available for repair of non-current assets

D to provide cash in the business for replacement of non-current assets

11 A trader decides to prepare departmental accounts.

Which statements explain the reason for his decision?

1 To be able to calculate inventory for each department.

2 To establish how to improve service to customers.

3 To have a basis for calculating staff bonuses.

4 To know the profit for each department.

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

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12 A sports club provides the following information at the year end.

The bank balance had increased by $5000.

The depreciation charge for the year was $600.

Subscriptions in arrears had increased by $100.

What was the surplus for the year?

A $4300 **B** $4400 **C** $4500 **D** $4900

13 The following information is available for a partnership at 31 December 2013.

	$
residual loss	3 000
total salaries to partners	5 000
total interest on capital	27 000
total drawings	14 000
total interest on drawings	700

How much is the profit for the year?

A $14 300 **B** $20 300 **C** $28 300 **D** $34 300

14 The manufacturing account and income statement of a trader show the following:

	$
purchases of raw materials	70 000
direct costs and overheads	54 000
increase in inventory of raw materials	8 000
decrease in work in progress	3 000
increase in inventory of finished goods	14 000

What are the values of cost of production and cost of sales?

	cost of production $	cost of sales $
A	119 000	105 000
B	124 000	105 000
C	124 000	143 000
D	129 000	143 000

15 The following balances are extracted from the books of Juno Limited.

	30 April 2014 $	30 April 2013 $
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 2014?

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

16 A company issues 1 000 000 ordinary shares of $1 each at a premium of 20%.

Which value will be shown for ordinary shares in the statement of financial position?

A $200 000 **B** $800 000 **C** $1 000 000 **D** $1 200 000

17 Which items increase when a company issues new shares?

A equity and bank

B equity and current liabilities

C intangible assets and current liabilities

D intangible assets and equity

18 A business has the following information for the past two financial years.

year 1: average inventory $100 000; revenue $800 000; gross margin 25%.

year 2: average inventory $140 000; revenue $1 200 000; gross margin 30%

What is the inventory turnover in year 2?

A 37 days **B** 43 days **C** 52 days **D** 61 days

19 The draft accounts of a business for the year ended 30 June 2013 include the following:

	$
revenue	280 000
gross profit	60 000

It was subsequently discovered that the closing inventory was understated by $10 000.

What was the gross profit percentage after correcting this error?

A 17.9% **B** 20.7% **C** 21.4% **D** 25.0%

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20 The following financial information is available.

	$
trade payables	10 000
bank overdraft	4 400
trade receivables	20 000
other receivables	600
other payables	1 600
non-current liabilities	5 000

The business has a current ratio of 2.5 : 1.

What is the value of inventory?

A $15 900 **B** $16 900 **C** $19 400 **D** $31 900

21 Analysis of a business's financial statements shows the following.

	net profit ratio (%)	inventory turnover (days)
2011	21	62
2012	23	58
2013	26	53

Revenue has stayed the same over the three years.

Which statement is correct?

A Profitability is decreasing and inventory is decreasing.

B Profitability is decreasing and inventory is increasing.

C Profitability is increasing and inventory is decreasing.

D Profitability is increasing and inventory is increasing.

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22 X Limited and Y Limited both started trading on 1 January 2001.

Each year, both businesses had a profit from operations of $20 000.

On 31 December 2013 retained earnings were as follows:

	$
X Limited	145 000
Y Limited	95 000

Which statement explains the difference?

A X Limited has transferred higher amounts to general reserve.

B X Limited pays a higher dividend per share.

C Y Limited has fewer shares in issue.

D Y Limited has a higher level of debt.

23 Who will be most interested in a business maximising its profitability?

A customers

B general public

C investors

D suppliers

24 A company's sales revenue has increased by 40% in a period, but its gross profit has only increased by 30%.

Which factors could explain this?

1 a decrease in the cost of sales

2 a decrease in selling price per unit

3 an increase in administration expenses

4 an increase in purchase price per unit

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

25 What will cause under-absorption of fixed production overheads?

A absorption of overheads is based on actual expenditure and actual activity

B actual activity is above budgeted activity

C actual activity is below budgeted activity and actual expenditure is as budgeted

D actual expenditure on overheads is below budget expenditure

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26 A business has fixed costs of $100 000. It sells a single product for $25 per unit, and its contribution to sales ratio is 40%.

What is the break-even point in units?

A 6667 **B** 10 000 **C** 40 000 **D** 250 000

27 What is the purpose of cost accounting?

A to aid decision-making

B to calculate the value of non-current assets

C to give a true and fair view of a company's financial situation

D to value the contribution made by a firm's workforce

28 A business provides the following financial information.

	$ per unit
selling price	41
direct materials	5
direct labour	8
variable overhead	3
fixed overhead	4
profit	21

What is the marginal cost per unit?

A $13 **B** $16 **C** $20 **D** $25

29 A business hires machinery at a cost of $700 per machine per month. Each machine can produce 1000 units a month. A maximum of 10 machines can fit into the factory. The factory rent is $4900 per month. Other costs amount to $2 per unit.

What is the unit cost if 8500 units are produced in a month?

A $3.19 **B** $3.23 **C** $3.28 **D** $3.32

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30 A business prepared a cash budget using the following information.

	$
fixed costs each month	5000
depreciation each month	1000

	July $	August $	September $
credit sales	80 000	100 000	110 000
credit purchases	40 000	60 000	80 000

Cash for credit sales is received one month after the goods are sold. Purchases are paid two months after the goods are bought.

Other costs are paid in the month they are incurred.

What was the budgeted cash surplus for the month of September?

A $54 000 **B** $55 000 **C** $59 000 **D** $60 000

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