Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **October/November 2016**

1 hour

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

* 7 5 9 9 4 6 1 9 1 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 Which transaction applies the matching concept?

A A machine acquired on long-term rental is included in non-current assets.

B Computer equipment is depreciated over two years.

C A building is revalued following a fall in property prices.

D A waste-paper basket is treated as revenue expenditure.

2 A disposal account is used to record the sale of a non-current asset.

Which transactions are recorded on the credit side of the disposal account?

A cost, loss on disposal and sale proceeds

B cost, profit on disposal and sale proceeds

C depreciation, loss on disposal and sale proceeds

D depreciation, profit on disposal and sale proceeds

3 The following information was available for the disposal of a machine.

	$
accumulated depreciation	45 000
profit on disposal	8 100
sale proceeds	75 600

What was the original cost of the machine?

A $22 500 **B** $38 700 **C** $112 500 **D** $128 700

4 A printing company installed a large printing press.

Which costs are capital expenditure in the first year of its operation?

1 installation of the press

2 depreciation of the press

3 repairs to the press

4 upgrades to the press

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

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5 The year-end balance in the cash book was $23 780. This was different from the balance on the bank statement. The difference was due to the following items.

	$
bank charges	216
a customer's cheque which was dishonoured	1375
a bank error meant a cheque was incorrectly debited to the bank account	560

What should be the value of bank in the statement of financial position?

A $21 629 **B** $22 189 **C** $25 371 **D** $25 931

6 At the end of the year, the balance on a firm's sales ledger control account was $12 900. The total of the customers' accounts in sales ledger was $11 900.

The following errors were then discovered.

1 A customer's account had been undercast by $700.

2 A contra with a supplier in the purchases ledger of $200 had only been entered in the sales ledger control account.

3 The discount allowed column in the cash book totalled $500. This had not been posted to the nominal ledger.

What was the correct balance on the sales ledger control account?

A $11 200 **B** $11 400 **C** $12 000 **D** $12 400

7 A suspense account has a balance of $450 debit.

What has caused this balance in the suspense account?

A motor expenses of $225, correctly entered in the cash book, and posted to motor expenses as a credit

B motor expenses of $225, entered in the cash book as a receipt and posted to motor expenses as a credit

C motor expenses of $450, correctly entered in the cash book, and posted to motor vehicles as a debit

D motor expenses of $675, entered in the cash book as a credit of $225 and posted to motor expenses as $225 debit

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8 An item of capital expenditure has been incorrectly treated as revenue expenditure in the financial statements of a business.

What is the effect of this error on the financial statements of the business?

	assets	profit
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

9 A company pays or receives the following amounts on the last day of its financial year.

	$
deposit paid to a supplier	6500
rental income received in advance	8000
loan repayment	3000
payment for last month's sales commission	900

Which of these amounts will be included as other receivables in the statement of financial position?

A $6500 **B** $14 500 **C** $17 500 **D** $18 400

10 A sole trader provides the following information.

	start of year $	end of year $
total assets	100 000	135 000
total liabilities excluding owner's capital	(35 000)	(40 000)

During the year the owner took drawings of $18 000.

What was the profit for the year?

A $12 000 **B** $30 000 **C** $35 000 **D** $48 000

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11 A trader did not keep full accounting records. The following information was available for 2015.

	$
trade payables on 1 January	32 785
trade payables on 31 December	43 630
payments to suppliers during the year	72 830
discounts received during the year	3 450

What was the value of purchases?

A $58 535 **B** $65 435 **C** $80 225 **D** $87 125

12 A partnership admits a new partner.

Which statement is correct?

A Profits will always be shared equally following the new partner's admission.

B The new partner will always benefit if assets are later revalued upwards.

C The new partner must always contribute capital to the partnership.

D The new partner will always pay for a share of partnership goodwill.

13 X, Y and Z are in partnership sharing the profits and losses in the ratio of 2 : 2 : 1.

At 31 December the following information is available.

	X $	Y $	Z $
capital account balances	100 000	100 000	50 000
current account balances	20 000	15 000	(5 000)

On 31 December Z retires from the partnership. Total assets are revalued upwards by $45 000. There is no goodwill.

How much will Z be paid on his retirement?

A $54 000 **B** $59 000 **C** $60 000 **D** $65 000

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14 The following information relates to a partnership.

	$
profit from operation	90 000
loan interest	3 200
interest on drawings	6 000
drawings	40 000
interest on capital	11 000

What is the residual profit to be appropriated amongst the partners?

A $41 800 **B** $69 800 **C** $81 800 **D** $91 800

15 A partnership earned an average profit during the year of $15 000 per month.

Halfway through the year D and E were joined by a new partner F and profits were shared equally before and after the change. In the first half of the year D transferred his private vehicle to the partnership at a valuation of $12 000. D's drawings amounted to $60 000 during the year.

What was the increase in D's current account balance during the year?

A $15 000 **B** $30 000 **C** $75 000 **D** $87 000

16 How would a transfer to general reserve and the issue of shares at a premium affect the revenue reserves of a limited company?

	transfer to general reserve	issue of shares at a premium
A	decrease	decrease
B	decrease	increase
C	no effect	increase
D	no effect	no effect

17 A company is formed with the issue of 100 000 6% non-cumulative preference shares of $1 each and 300 000 ordinary shares of $1 each issued at a premium of $0.20.

It earned profits of $3000, $16 000 and $31 000 in the first three years of trading. The directors wish to pay an ordinary dividend of 5% each year when possible.

What value of ordinary dividends does the company actually pay in years 2 and 3?

	year 2 $	year 3 $
A	7 000	15 000
B	7 000	18 000
C	10 000	15 000
D	10 000	18 000

18 A company had an issued share capital of 400 000 ordinary shares of $1 each. It then made a bonus issue of one share for every five held. This was later followed by a rights issue of one share for every three held.

What was the balance on the share capital account after these transactions?

A $480 000 **B** $533 333 **C** $613 333 **D** $640 000

19 Which action will increase the equity of a limited company?

A creating a general reserve

B issuing bonus shares

C issuing debentures

D issuing non-redeemable preference shares

20 Which action leaves the value of working capital unchanged?

A disposal of a non-current asset

B issuing shares for cash

C purchasing goods for resale on credit

D writing off an irrecoverable debt

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21 Owusu Limited has a constant level of annual sales and a constant gross margin. Each year the inventory increases.

Which effects does this have on the inventory holding period and on inventory turnover?

	inventory holding (in days)	inventory turnover (times)
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

22 A business uses the AVCO method of inventory valuation.

The following transactions took place.

1 March	purchased 1000 units at $65 per unit
2 March	purchased 1200 units at $66 per unit
4 March	sold 1850 units at $68 per unit

What was the value of closing inventory?

A $22 750 **B** $22 941 **C** $23 100 **D** $23 800

23 A manufacturing company employs 20 workers who are paid a basic rate of $30 per hour for a 40-hour week. To meet a special order, the workers each worked 50 hours and were paid a premium of 40% over basic rate for the overtime.

What was the value of wages paid to meet the special order?

A $30 000 **B** $32 400 **C** $33 600 **D** $42 000

24 A manufacturing business is currently operating at full capacity.

As part of an expansion programme to increase production capacity, the business intends to employ an additional factory supervisor.

How are total supervisory salaries classified?

A fixed cost

B semi-variable cost

C stepped cost

D variable cost

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25 In a manufacturing business the following could occur.

1 Actual overheads paid are less than budgeted overheads.

2 Actual overheads paid are more than budgeted overheads.

3 Actual units produced are less than budgeted units.

4 Actual units produced are more than budgeted units.

Which situations would result in an under absorption of overhead expenditure?

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

26 A company makes and sells a single product for $12 per batch.

The variable cost is $4 per batch.

Fixed costs have been absorbed based on a normal activity level of 1000 batches at $3 per batch.

What is the profit under marginal costing if the company makes and sells 1500 batches?

A $6000 **B** $7500 **C** $9000 **D** $12 000

27 The following information was provided about a product.

selling price per unit	$50
variable cost per unit	$26
total fixed costs	$10 000
demand	1800 units

If the selling price increases only demand changes.

When the selling price increased by $4 profit fell by $1200.

What was the decrease in demand?

A 214 units

B 300 units

C 571 units

D 657 units

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28 A business that uses flexible budgets shows the following:

units of output	100 000	110 000
total fixed and variable costs	$400 000	$425 000

What are fixed costs?

A $125 000 **B** $150 000 **C** $250 000 **D** $275 000

29 A company makes a product for which the following information is given.

	per unit $
selling price	100
direct materials	40
direct labour	30

Total fixed costs are $40 000.

Planned production is 1000 units.

Which action should the company take to break-even?

A decrease direct labour cost by 30%

B decrease direct material cost by 25%

C increase direct labour cost by 30%

D increase direct materials cost by 25%

30 What is the objective of a system of budgetary planning and control?

A to determine next year's production

B to determine next year's profits

C to motivate the manufacturing staff

D to provide a system for communication, coordination and control

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