Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **October/November 2018**

1 hour

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

8355321680

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 accounting concept is being applied when goods taken by an owner for own use are treated as drawings?

A business entity

B materiality

C realisation

D substance over form

2 Why is an expense for depreciation included in the financial statements?

A to charge the wear and tear on non-current assets against profits

B to make cash available to replace non-current assets

C to set cash aside for future repairs of non-current assets

D to show the current market values of non-current assets

3 A company incurred the following expenditures on a motor van.

		$
year 1	purchase of motor van	80 000
year 2	purchase of new tyres	2 000
year 2	purchase of trailer attached to the motor van	10 000

Depreciation to all vehicles is 20% on cost. A full year's depreciation is charged in the year of purchase.

What was the depreciation charge on vehicles for year 2?

A $16 000 **B** $16 400 **C** $18 000 **D** $18 400

4 Which items will be debited to accounts in the purchases ledger?

1 discount allowed

2 payments to suppliers

3 purchases

4 purchases returns

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

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5 A business keeps a separate sales ledger. Its nominal ledger includes a sales ledger control account.

Which entry corrects the nominal ledger when the sales journal is undercast?

	account to debit	account to credit
A	sales	suspense
B	sales	trade receivables
C	suspense	sales
D	trade receivables	sales

6 Which statement is correct?

A The balance on the irrecoverable debts account is carried down to the next accounting period.

B The balance on the irrecoverable debts account is treated as an expense in the income statement.

C The balance on the provision for doubtful debts account is calculated before the deduction of irrecoverable debts.

D The balance on the provision for doubtful debts account is not included in a trial balance.

7 What would result in cash coming into a business?

A a transfer to general reserve

B an issue of bonus shares

C proceeds from the sale of a non-current asset

D the revaluation of an asset

8 A sole trader has the following information available for rent and rates for a year.

	$
opening accrual	750
bank payments during the year	2650
closing prepayment	850

What is the rent and rates expense to be included in the income statement for the year?

A $1050 **B** $2550 **C** $2750 **D** $4250

9 A company sells goods at a mark-up of 25%.

The following information was available at the end of the financial year.

goods in warehouse	$300 000 (cost)
goods sent on sale or return	$200 000 (at invoice price)

What was the value of closing inventory in the financial statements?

A $300 000 **B** $450 000 **C** $460 000 **D** $500 000

10 X started a business 3 years ago and now has a capital of $175 000.

Over that period his profits have been $73 000 and his drawings $52 000. In year 2 he introduced cash of $35 000 and in year 3 he took out of the business, for his own use, a non-current asset with a net book value of $4000.

How much capital did he start the business with?

A $67 000 **B** $115 000 **C** $123 000 **D** $158 000

11 When is a revaluation account prepared?

1 when a new partner is admitted

2 when an existing partner retires

3 when the partnership is sold

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

12 P and Q are in partnership sharing profits and losses equally.

The following information is available in respect of P.

	$
current account credit balance at start of the year	20 150
share of asset revaluation	10 000
drawings	10 200

The total partnership profit for the year was $130 000.

Partnership salaries were P $20 000, Q $30 000.

What was the balance on the current account of P at the end of the year?

A $10 350 **B** $69 950 **C** $79 950 **D** $90 350

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13 Dele and Iyabo are partners in a business and share profits in the ratio of 3 : 1.

Their profit for the year is $80 000.

The following information is available.

	Dele $	Iyabo $
interest on capital	3000	2500
interest on drawings	500	1000

How will the residual profit be shared?

	Dele $	Iyabo $
A	57 000	19 000
B	57 500	18 500
C	62 500	21 500
D	63 000	21 000

14 Which items only appear on the credit side of a partner's capital account?

1 goodwill in an agreed ratio split

2 opening balances

3 profit on revaluation of assets

4 transfers from current accounts

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

15 Which statements about limited companies are correct?

1 Debenture interest is recorded in the income statement.

2 Director's remuneration is recorded in the statement of changes in equity.

3 Share premium is a revenue reserve.

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

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16 A company has the following capital and reserves.

	$
ordinary shares of $1 each	400 000
share premium account	60 000
revaluation reserve	120 000
general reserve	300 000
retained earnings	90 000
	970 000

The company plans to make a bonus issue of one share for every four held.

What will be the maximum amount of distributable reserves for the company after the bonus issue?

A $290 000 **B** $300 000 **C** $350 000 **D** $390 000

17 A company provided the following information.

	$
total assets	160 000
non-current assets	124 000
equity	92 000
non-current liabilities	45 000

What was the amount of working capital?

A $13 000 **B** $23 000 **C** $79 000 **D** $115 000

18 Which items would **not** appear in the income statement?

1 finance costs

2 loss on sale of non-current assets

3 ordinary share dividends

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

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19 A business provides the following extract from its income statement.

	$
opening inventory	15 000
purchases	180 000
closing inventory	(18 750)
cost of sales	176 250

What is the rate of inventory turnover?

A 9.4 times

B 9.6 times

C 10.4 times

D 10.7 times

20 Which actions would, in general, improve the liquid (acid test) ratio of a business in the short term?

1 delaying trade payables

2 selling inventory

3 selling surplus non-current assets

4 trade receivables paying their debts

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

21 Why is inventory excluded from the calculation of the quick ratio?

A Business can choose either FIFO and AVCO for inventory valuation.

B Inventory can become obsolete easily.

C Inventory is the slowest current asset to be converted into cash.

D The value of inventory fluctuates.

22 A business uses absorption costing and applies an overhead absorption rate based on direct labour hours.

Why does the business distinguish between direct and indirect labour?

1 to aid the preparation of a quote

2 to assist when planning production

3 to help when purchasing materials

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

23 A business values its inventory using the FIFO method. The following transactions took place.

month		units
April	opening inventory	700 at $190 each
May	purchases	500 at $220 each
June	sales	400 at $400 each

What was the value of the closing inventory at the end of June?

A $152 000 **B** $162 000 **C** $167 000 **D** $176 000

24 The unit cost of a product is as follows.

	$
direct materials	30
direct labour	25
variable manufacturing overhead	20
fixed manufacturing overhead	18
sales commission (1.5% of sales)	4
administrative staff salaries	15
	112

What is the total variable cost per unit of the product?

A $75 **B** $79 **C** $94 **D** $97

25 A business absorbs overheads based on machine hours.

During last month it had the following results.

actual overheads	$158 200
actual machine hours	7310
budgeted overheads	$168 200
budgeted machine hours	8410

Which statement is correct?

A Overheads were over-absorbed by $10 000.

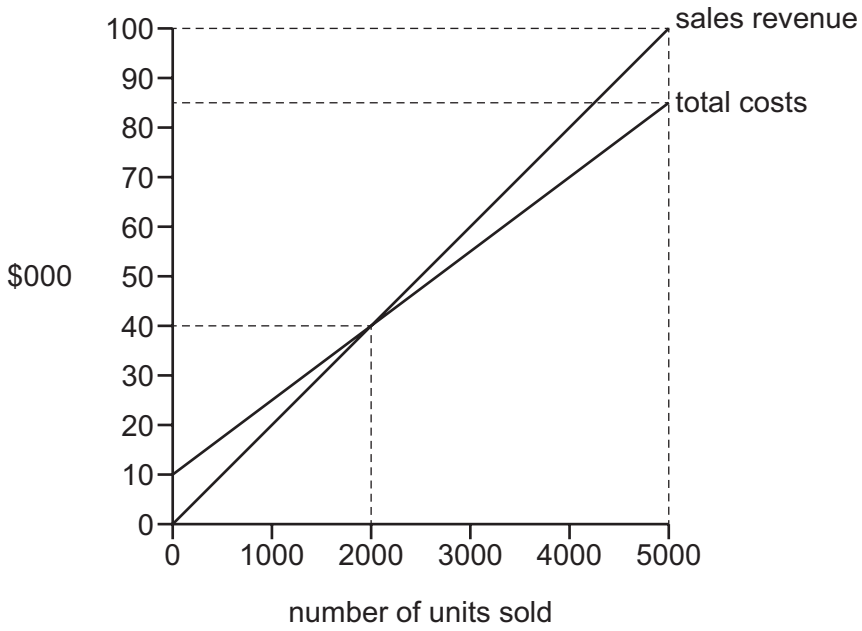
B Overheads were over-absorbed by $12 000.

C Overheads were under-absorbed by $10 000.

D Overheads were under-absorbed by $12 000.

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26 The diagram shows a break-even chart.



What is the margin of safety?

A $10 000 **B** $15 000 **C** $40 000 **D** $60 000

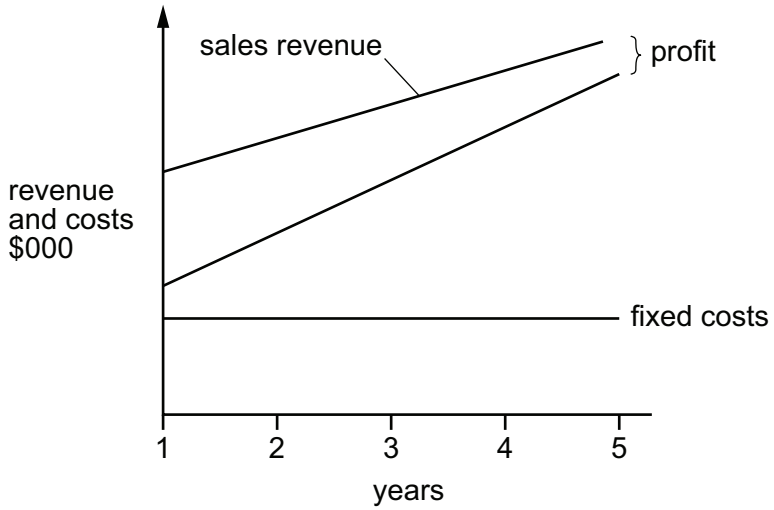
27 The following information applies to a business.

output (units)	sales $	profits $
375	750 000	100 000
500	1 000 000	250 000

What is the contribution to sales ratio?

A 25% **B** 50% **C** 60% **D** 83%

28 What does the diagram show about costs?



A Fixed costs are increasing.

B Total costs as a percentage of sales are decreasing.

C Variable costs per unit are decreasing.

D Variable costs per unit are increasing.

29 A business makes and sells three products: X, Y and Z. There will be a maximum of 3000 hours of labour time available in January.

The following information for the three products is available:

	X	Y	Z
contribution per unit	$50	$60	$70
maximum demand per month (units)	1000	500	800
labour time per unit	1 hour	1.5 hours	2 hours

What will be the optimal sales mix of products in January?

	X	Y	Z
A	825	500	800
B	1000	325	800
C	1000	500	625
D	1000	500	800

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30 In which way can a budget be used to help the management of a company?

A ascertain actual profit

B compare the company's budget with its competitors

C implement strategic planning

D increase the company's public image

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