Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/12**

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)

* 5 9 2 9 4 3 6 9 2 9 *

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 company does not include in the financial statements the value of skills gained by its employees from training programmes.

Which accounting concept is being applied?

A consistency

B materiality

C money measurement

D substance over form

2 Which non-current asset is most likely to be depreciated using the revaluation method?

A loose tools

B motor vehicles

C office equipment

D plant and machinery

3 A trader purchased a motor vehicle costing $36 000 on 1 July 2016. The estimated useful life of the motor vehicle was five years and the estimated residual value was $6000. Depreciation is provided on a month-by-month basis using the straight-line method.

The motor vehicle was sold on 31 March 2018 for $22 500.

What was the profit or loss on disposal of the motor vehicle?

A $900 loss **B** $900 profit **C** $3000 loss **D** $3000 profit

4 The following is an extract from the statement of financial position for a company at 31 December 2016.

	cost $	accumulated depreciation $	net book value $
non-current assets	250 000	95 000	155 000

The assets have a residual scrap value of $12 500.

The company's policy is to provide depreciation using the reducing balance method at a rate of 25% per annum.

What was the depreciation charge for the year ended 31 December 2017?

A $35 625 **B** $38 750 **C** $59 375 **D** $62 500

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5 A business sells a non-current asset for cash. The disposal account includes entries for the cost of the asset and the sales proceeds.

Which books of prime entry are used?

	cost	sales proceeds
A	cash book	general journal
B	cash book	sales journal
C	general journal	cash book
D	purchases journal	cash book

6 A trader has extracted the following information from his books of account at 31 March 2018.

	$
purchase ledger balances at 1 March 2018	32 100
credit purchases for March	26 400
cheques paid to credit suppliers in March	29 700
contra to sales ledger	600
discount received	400

What was the closing balance on the purchases ledger control account at 31 March 2018?

A $27 800 **B** $29 800 **C** $29 000 **D** $34 400

7 The table shows extracts from a business's bank reconciliation.

	$
balance per cash book at 31 December	2075 debit
balance per bank statement at 31 December	2250 credit
bank charges per bank statement not entered in cash book	150
outstanding cheques not presented at the year end	325

What is the bank balance to be shown in the financial statements?

A $1600 **B** $1925 **C** $2075 **D** $2225

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8 Bank interest income, $1800, had been correctly entered in the bank account but recorded as interest expense.

Which entries in the ledger will correct the error?

	account to be debited	$	account to be credited	$
A	interest expense	1800	suspense	1800
B	interest income interest expense	1800 1800	suspense	1800
C	suspense	1800	interest income	1800
D	suspense	3600	interest income interest expense	1800 1800

9 A company has the following balances.

	$
trade receivables at 31 December 2017	125 400
provision for doubtful debts at 1 January 2017	1 800

During the year ended 31 December 2017 debts of $20 500 had been written off. The company provides for doubtful debts at a rate of 5% of trade receivables at each year end.

Which expense for doubtful debts was included in the income statement for the year ended 31 December 2017?

A $3445 **B** $4470 **C** $5245 **D** $6270

10 How are purchases calculated when proper accounting records have **not** been kept?

A sales × (1 – margin) – closing inventory + opening inventory

B sales × (1 – margin) + closing inventory – opening inventory

C sales × (1 – mark-up) – closing inventory + opening inventory

D sales × (1 – mark-up) + closing inventory – opening inventory

11 The draft financial statements for a business included an inventory valued at $550 000.

This valuation included damaged items which originally cost $50 000. These could be sold for $15 000 provided that $5000 is spent on repairs.

What is the correct inventory valuation?

A $490 000 **B** $500 000 **C** $510 000 **D** $515 000

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12 A trader took out a 6% bank loan of $30 000 on 1 November 2017, to be repaid in full in 10 years' time. Interest is to be paid annually. No interest had been paid by 30 April 2018.

How should this be recorded in the statement of financial position at 30 April 2018?

	current liabilities $	non-current liabilities $
A	0	30 000
B	900	30 000
C	1 800	30 000
D	30 900	0

13 Which items would **not** be in the appropriation account for a partnership?

1 interest on capital

2 interest on a partner's loan

3 share of profit on revaluation of assets

4 share of residual profit

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

14 X and Y had been in partnership sharing profit and losses in the ratio of 1 : 2 respectively.

Z was later admitted to the partnership.

It was agreed that the goodwill is valued at $120 000. No goodwill account is to be retained in the books of account.

Profit and losses were to be shared between X, Y and Z in the ratio of 2 : 1 : 1 respectively.

What was the effect of the goodwill adjustment in X's capital account?

A decreased by $20 000

B decreased by $60 000

C increased by $20 000

D increased by $60 000

15 J and K shared profits equally.

Their capital account balances were J $400 000 and K $160 000.

L was admitted as a partner. The three partners then shared profits equally.

On admission of L as a partner, assets were increased in value by $210 000. L paid in capital equal to the average new capital balances of J and K.

What was the capital paid in by L?

A $175 000 **B** $280 000 **C** $350 000 **D** $385 000

16 The statement of financial position of a business on 31 December 2017 showed the following.

	$
retained earnings	136 000
general reserves	28 000
share premium	55 000

During the year ended 31 December 2017 the business had made a profit for the year of $25 000 and had transferred $10 000 to the general reserve.

What was the total of revenue reserves on 1 January 2017?

A $101 000 **B** $139 000 **C** $149 000 **D** $194 000

17 A company provides the following information.

	$
ordinary shares of $0.50 each	84 000
retained earnings	50 000
	134 000

The following transactions then take place.

1 The company makes a rights issue of one new ordinary share for every two held, at $1.30. The issue was fully subscribed.

2 A bonus issue of two new ordinary shares for every three held was then made.

What is the maximum possible balance of the retained earnings after these transactions?

A $8400 **B** $16 800 **C** $33 200 **D** $41 600

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18 The financial data relates to two businesses.

	X	Y
trade receivable turnover (days)	90	40
trade payable turnover (days)	50	70
liquid (acid test) ratio	3 : 1	1 : 1
current ratio	4.5 : 1	6.2 : 1

Which statement about the comparison of the two businesses' performance is correct?

A X has better credit control system.

B X has higher profitability.

C Y has better credit control system.

D Y has higher profitability.

19 A company's financial statements show the following.

	$
profit before interest	125 378
profit for the year	120 426
200 000 ordinary shares $1 each	200 000
retained earnings	191 982
debentures	150 000

What is the return on capital employed (ROCE)?

A 22.22% **B** 23.13% **C** 30.72% **D** 31.99%

20 A company's income statement shows the following.

	$
revenue	460 000
cost of sales	120 000
administration expenses	54 000
distribution costs	47 000
finance charges	7 000

What is the operating expenses to revenue ratio?

A 21.96% **B** 23.48% **C** 48.04% **D** 49.57%

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21 To make a single unit of output a business requires material costing $1000.

When 20 items are produced, the total cost of the material is $20 000.

What best describes this cost?

A fixed cost

B semi variable cost

C stepped cost

D variable cost

22 A business has the following total overheads for two different output levels.

total overheads $	output (units)
200 000	20 000
216 000	30 000

What is the total fixed overhead cost?

A $16 000 **B** $48 000 **C** $168 000 **D** $216 000

23 A retailer uses the FIFO method for inventory valuation. The following information is available.

June		$
1	opening inventory 300 units at $12 per unit	3 600
10	purchased 1000 units at $12.50 per unit	12 500
21	sold 1200 units for $16 each	19 200
28	purchased 700 units at $13 per unit	9 100

What was the value of the inventory at 30 June?

A $6000 **B** $9850 **C** $10 080 **D** $10 350

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24 A business manufactures 175 units of a product each month.

The following information is available for the month.

Per unit	$
revenue	580
variable costs	230
fixed overheads	90

What is the break-even point in units?

A 45 units **B** 61 units **C** 88 units **D** 160 units

25 When is marginal costing less useful than absorption costing?

A when choosing to make or buy a product

B when dealing with a limiting factor

C when producing a special order

D when valuing closing inventory

26 A company manufactures a single product with a selling price of $75 per unit. The table shows the costs based on sales and production volume of 8000 units.

	$
direct costs	158 000
variable manufacturing overheads	74 000
fixed manufacturing overheads	80 000
variable selling overheads	20 000
fixed administration overheads	100 000

If absorption costing is applied, what is the gross profit on each unit sold?

A $21.00 **B** $36.00 **C** $43.50 **D** $46.00

27 A company has the following revenue information for a month.

	$
actual revenue	510 000
break-even revenue	555 000
budgeted revenue	570 000

What was its margin of safety during the month?

A –$60 000

B –$45 000

C +$45 000

D +$60 000

28 A business provides the following information.

budgeted overhead costs	$280 000
budgeted labour hours	25 000
budgeted machine hours	20 000
actual overhead cost	$336 000
actual labour hours	35 000
actual machine hours	30 000

What is the over-absorption or under-absorption of overheads?

A $56 000 over absorbed

B $56 000 under absorbed

C $84 000 over absorbed

D $84 000 under absorbed

29 A business provides the following budgeted information.

contribution to sales ratio	60%
budgeted sales	$240 000
budgeted production units	40 000

What is the contribution per unit?

A $3.60 **B** $3.75 **C** $9.60 **D** $10.00

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30 Which statement identifies an advantage to a business of financial planning?

A Not all managers are aware of business financial planning.

B Specialist knowledge is required to prepare the financial plans.

C The financial plans provide targets for managers to achieve.

D Time and cost is required to prepare the financial plans.

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