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Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/13**

Paper 1 Multiple Choice **October/November 2017**

1 hour

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

* 3 4 8 4 3 3 5 7 0 3 *

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.

This document consists of **10** printed pages and **2** blank pages.

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1 Which statements about the prudence concept are correct?

1 Assets should not be overstated.

2 Liabilities should be overstated.

3 Losses should only be provided for after they have occurred.

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

2 The accounting year for a business ends on 31 December. On September 2013 it had purchased a machine for $20 000.

The machine was sold on 30 November 2016 for $7500.

The company depreciated the machinery at 15% using the straight-line method. It charged a full year's depreciation in the year of purchase and none in the year of sale.

What is the profit or loss on disposal?

A $2750 loss

B $2750 profit

C $3500 loss

D $3500 profit

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3 The table shows how a property was recorded in the statement of financial position.

	$
land and buildings	100 000
accumulated depreciation	(40 000)
net book value	60 000

The land and buildings were later revalued to $150 000.

What is the journal entry to record the revaluation?

		Dr $	Cr $
A	income statement	50 000	
	land and buildings		50 000
B	land and buildings	50 000	
	income statement		50 000
C	land and buildings	50 000	
	provision for depreciation	40 000	
	revaluation reserve		90 000
D	revaluation reserve	90 000	
	land and buildings		50 000
	provision for depreciation		40 000

4 A company purchased a machine for $50 000. It had an estimated resale value of $5000 at the end of five years.

The machine was sold for $6000 at the end of its five year life.

Which statement is correct?

A Depreciation charges over the five year period have reduced profits by a total of $50 000.

B The annual depreciation charge was overstated by $200.

C The company profits in years one to four need to be adjusted.

D The depreciation method used by the company has no effect on profits.

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5 The following errors in the accounting records have been found and corrected:

1 A purchase invoice for $250 was omitted from the books of account.

2 A sale for $120 to X was debited to the account of Y.

3 The sales journal was over-added by $100.

The gross profit for the year before correcting the errors was $60 200.

What is the correct gross profit for the year?

A $59 850 **B** $59 970 **C** $60 350 **D** $60 550

6 A trial balance does not agree and the book-keeper finds the following errors.

1 A bank overdraft of $100 was shown as a debit in the trial balance.

2 A telephone invoice for $400 was debited to the insurance account.

3 A cash purchase of $160 was entered in the purchases account as $150; the purchase was entered correctly in the cash account.

The book-keeper opens a suspense account in order to correct the errors.

What is the opening entry in the suspense account?

A credit $190

B credit $210

C debit $60

D debit $550

7 For which of these purposes can the purchases ledger control account be used?

1 to warn of possible errors in the purchases ledger

2 to show that there are errors in the purchases journal

3 to provide quick totals of trade payables

4 to guarantee the accuracy of the purchases ledger

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

8 A trader's accounts showed a gross profit for the year of $32500. After the draft financial statements were prepared, it was found that the opening inventory had been overstated by $2400 and the closing inventory had been understated by $3400.

What is the corrected gross profit for the year?

A $26 700 **B** $31 500 **C** $33 500 **D** $38 300

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9 At 1 January 2016 a company had the trade receivables totalling $45 000. At 31 December 2016 the trade receivables totalled $32 800 after writing off irrecoverable debts. The company policy is to maintain a provision for doubtful debts of 5%.

On 1 March 2016 the company was owed $7750 by a customer. The customer could only pay 40% of the debt. The balance was written off as irrecoverable.

What was the net expense in the income statement for the year ended 31 December 2016 for irrecoverable and doubtful debts?

A $3010 **B** $4040 **C** $5260 **D** $6290

10 At 31 December a business provides the following information.

	$
balance per the cash book	790 credit
balance per the bank statement	800 debit
unpresented cheques	30

The only other reconciling item between the cash book and the bank statement is bank charges recorded on the bank statement but not in the cash book.

How much are the bank charges?

A $10 **B** $20 **C** $30 **D** $40

11 Which errors **cannot** be identified by reconciling a sales ledger control account with the sales ledger balances?

1 entering an incorrect amount from a customer's invoice into the sales journal

2 not recording a discount allowed to a customer into the three column cash book

3 posting the value of a dishonoured cheque from the cash book to the credit side of the sales ledger control account

4 posting the sales returns journal total to the debit side of the sales ledger control account

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

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12 X and Y are in partnership, sharing profits and losses equally. They agree to admit Z as an equal partner.

Z is to introduce $100 000 as capital and his share of goodwill. The partnership's goodwill is $60 000 and all adjustments are to be made in the capital accounts.

What is the balance on Z's capital account after his admission to the partnership?

A credit $80 000

B credit $160 000

C debit $20 000

D debit $60 000

13 There were three partners in a partnership.

The total of their current accounts at the start of the year was $18 000 and at the end of the year was $32 000.

Drawings for the year amounted to $22 000 and partners' salaries were $13 000.

What was the profit for the year?

A $5000 **B** $14 000 **C** $23 000 **D** $36 000

14 Which items would appear in a partnership's appropriation account, in the absence of a partnership agreement?

1 profit for the year

2 partners' interest on drawings

3 partners' salaries

4 partners' share of profits

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

15 Which event does **not** require entries in a company's ledger accounts?

A a bonus issue of shares

B a rights issue of shares at a price above nominal value

C a sale by a shareholder of shares at a price above nominal value

D an issue of the company's shares at par value

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16 An extract from a statement of changes in equity for the year ended 31 December 2016 is shown.

	ordinary share capital $	share premium $	retained earnings $
balance at start of year	50 000	3000	35 000
profit for the year			9 000

During the year 2016 the following occurred, but had not yet been entered.

1 10 000 ordinary shares of $1 each were issued at $1.50.

2 An interim dividend of $2000 was paid.

3 A final dividend of $3000 was proposed.

What are the final balances at 31 December 2016?

	ordinary share capital $	share premium $	retained earnings $
A	60 000	8000	39 000
B	60 000	8000	42 000
C	65 000	3000	39 000
D	65 000	3000	42 000

17 The following information has been extracted from the statement of financial position of a limited company.

	$
6% debenture (2020–2022)	20 000
400 000 ordinary shares of $1 each	400 000
5-year bank loan	200 000
share premium account	50 000
retained earnings	75 000

What is the value of the total equity?

A $525 000 **B** $545 000 **C** $695 000 **D** $725 000

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18 The opening inventory for a business was $60 000. The closing inventory was $80 000.

Inventory turnover for the year was 10 times.

The gross margin was 30%.

What were the sales for the year?

A $300 000 **B** $700 000 **C** $720 000 **D** $1 000 000

19 A company had a profit after interest of $25 000.

Interest charged was $5000.

The company's statement of financial position showed the following.

	$
ordinary share capital	100 000
non-redeemable preference shares	50 000
reserves	75 000
debentures (2021–2023)	15 000
bank overdraft	10 000

What was the return on capital employed?

A 10.00% **B** 10.42% **C** 12.00% **D** 12.50%

20 Which statement about the limitations of comparing accounting ratios between similar businesses and over time is correct?

A The ratios are best used when the businesses trade in different markets.

B The ratios are only useful when the businesses have different accounting policies.

C The ratios never explain the cause of difference between the results of the two businesses.

D The ratios always take into account seasonal factors.

21 Which cost is fixed?

A freight charges

B insurance

C piece rate labour cost

D sales commission

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22 The production wages paid for the year totalled $257 000.

Indirect wages are 30% of the total. Direct workers were expected to work 15 000 hours but only worked 13 000 hours.

No overtime or bonus payments were made.

What is the hourly rate of pay paid to direct labour?

A $5.14 **B** $5.93 **C** $11.99 **D** S13.84

23 Which will result in a high valuation of closing inventory?

A AVCO in periods of rising cost prices

B AVCO in periods of rising selling prices

C FIFO in periods of rising cost prices

D FIFO in periods of rising selling prices

24 A manufacturing business has the following data.

budgeted factory overheads	$144 000
budgeted machine hours	40 000
actual factory overheads	$147 600
actual machine hours	36 000

What is the overhead absorption rate per machine hour?

A $3.60 **B** $3.69 **C** $4.00 **D** $4.10

25 Which values can be calculated when absorption costing is used?

1 an inventory value which includes all production costs

2 the margin of safety at the current level of production

3 the selling price of the product

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

26 Whose wages would be treated as an indirect cost?

A assemblers at a car manufacturer

B lorry drivers at an engineering company

C sewers at a dress-making business

D welders at a building construction company

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27 A company has the following record of the costs of water consumed in its factory.

period	units produced	water cost $
1	222 000	166 600
2	173 000	151 900

Water costs are treated as a semi-variable cost.

What would the cost of water be at an output of 185 000 units?

A $138 833 **B** $149 171 **C** $155 500 **D** $162 436

28 How is margin of safety calculated?

A actual total contribution – break-even contribution

B actual total contribution – budgeted total contribution

C budgeted total sales units – actual total sales units

D budgeted total sales units – break-even sales units

29 A business has fixed costs for a month of $150 000. It sells its single product for $20 per unit and has a contribution to sales ratio of 75%. It wishes to make a profit of $300 000 for the month.

How many units does the business need to sell?

A 10 000 **B** 20 000 **C** 22 500 **D** 30 000

30 The following information is available for a product.

The budgeted selling price per unit is $250.

Break-even quantity is 800 units.

Contribution to sales ratio is 60%.

What are the values for **both** fixed and variable costs?

	total fixed costs $	variable costs per unit $
A	80 000	100
B	80 000	150
C	120 000	100
D	120 000	150

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