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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/12**

Paper 1 Multiple Choice **February/March 2020**

1 hour

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.

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1 A trader sells goods for $6600 to a customer on 31 March 2019, the last day of his financial year. He does not produce an invoice until three days later. He is advised that the sales of $6600 should be entered in the financial statements for the year ended 31 March 2019.

Which accounting concepts are being applied?

1 consistency

2 prudence

3 realisation

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

2 The following costs for a business relate to a newly purchased machine.

1 alterations to the factory building to install the machine

2 payment of insurance for the new machine

3 the final purchase price of the machine agreed with the supplier

4 the price of the machine before the discount from the supplier

Which costs would be treated as capital expenditure?

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

3 The following information is available.

	$
freehold premises at cost	125 000
provision for depreciation of freehold premises	50 000

The premises were revalued at $180 000.

Which entries are required to record the revaluation?

	income statement	freehold premises at cost account	provision for depreciation	revaluation reserve
A	credit $105 000	debit $55 000	none	debit $50 000
B	debit $55 000	debit $75 000	debit $50 000	credit $180 000
C	debit $75 000	debit $55 000	debit $50 000	credit $180 000
D	none	debit $55 000	debit $50 000	credit $105 000

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4 A business has a year end of 31 December.

It purchased a motor vehicle on 1 January 2017 for $15 000. The motor vehicle was sold on 31 March 2019 for $8000.

Depreciation is calculated at 20% per annum using the reducing balance method on a month by month basis.

What is the accumulated depreciation and profit/loss on disposal of the motor vehicle?

	accumulated depreciation $	profit/loss on disposal $
A	5400	1600 loss
B	5400	1600 profit
C	5880	1120 loss
D	5880	1120 profit

5 A trial balance does not balance and a suspense account is opened.

Later the following errors are found and the suspense account is cleared.

1 A sales invoice for $1240 had been completely omitted from the books.

2 Purchases had been entered as $85 600. The correct amount should have been $87 580.

3 Rent paid of $2600 was entered correctly in the cash book but as $6200 in the rent account.

What was the original balance on the suspense account?

A $1620 credit

B $1620 debit

C $5580 credit

D $5580 debit

6 A sales ledger control account included the following entries.

1 contra with the purchases ledger control account $500, debit

2 discount allowed $600, debit

3 irrecoverable debts written off $1200, debit

Which entries must be corrected?

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

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7 A company's bank statement showed a credit balance of $2000.

The following errors were found.

1 A receipt of $2700 and a payment for $3000 were recorded on the bank statement. Both had been omitted from the cash book.

2 Bank charges of $500 were correctly shown on the bank statement but had been recorded as $600 in the cash book.

What was the cash book balance **before** the errors were corrected?

A $1600 **B** $1800 **C** $2200 **D** $2400

8 A business makes a provision for doubtful debts equal to 10% of trade receivables.

The provision at 31 March 2018 was $8300.

The trade receivables after the provision on 31 March 2019 were $55 800.

What is the change in the provision over the year?

A $2100 decrease

B $2100 increase

C $2720 decrease

D $2720 increase

9 A trader sent goods to a customer on a sale or return basis. At the trader's year end he had not heard if the customer had accepted the goods.

Where should the value of goods be included in the trader's books of account at the year end?

A inventory and sales revenue

B inventory only

C sales revenue and trade receivables

D sales revenue only

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10 On 1 May 2018 Trevor had a debit balance of $3000 on his rent receivable account.

Rent received during the year was as follows.

	$
28 May 2018	18 000
30 November 2018	16 000

On 30 April 2019, $4000 was owing to Trevor for rent for the period ended 30 April 2019.

Which entry should be made in the income statement for rent receivable for the year ended 30 April 2019?

A $33 000 **B** $35 000 **C** $38 000 **D** $41 000

11 A sole trader makes a profit for the year of $31 000, after taking the following items into account.

	$
carriage inwards	2 600
decrease in provision for doubtful debts	1 500
discount received	2 000
other expenses	28 000
profit on disposal of non-current asset	300

What was the gross profit for the year?

A $55 200 **B** $55 500 **C** $56 700 **D** $57 800

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12 X and Y are in partnership sharing profit and losses equally.

Y's opening current account balance was $1350 debit.

The residual profit for the year was $23 500.

Y was entitled to the following.

	$
interest on capital	1 200
salary	14 500

Y's drawings during the year were $25 000.

What is the closing balance of Y's current account at the year end?

A $1100 credit

B $1100 debit

C $3800 credit

D $3800 debit

13 F and P are in business sharing profits and losses in the ratio 3 : 1.

Their capital account balances are:

	$
F	90 000
P	60 000

B is introduced as a new partner and invests $50 000 as capital.

Goodwill is valued at $20 000 and is not to be retained in the books of account.

The new profit sharing ratio will be 2 : 2 : 1 for F, P and B respectively.

What is the new capital account balance of F following B's admission?

A $57 000 **B** $83 000 **C** $97 000 **D** $105 000

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14 L and M are in partnership, sharing profits and losses in proportion to their capital invested. The following information is available:

		$
capital:	L	68 000
	M	102 000
profit for the year before appropriation		28 900
drawings:	L	8 000
	M	12 000

No interest is charged on drawings up to $10 000 for each partner.

Interest at a rate of 5% is charged on any drawings in excess of $10 000.

What was L's share of residual profit?

A $11 520 **B** $11 600 **C** $11 800 **D** $11 960

15 Which item is shown in the statement of changes in equity?

A dividend proposed

B interest on long-term loan

C issue of debenture

D revaluation gain on non-current assets

16 Which statement about bonus shares is correct?

A They may be issued as repayment of debentures.

B They may be issued at a premium.

C They may be issued to the holders of preference shares.

D They may be issued using the share premium account.

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17 The equity of P Limited at 1 January 2019 was $668 000.

Profit for the year ended 31 December 2019 was $120 000.

During the year ended 31 December 2019, the following also took place:

1 April	Paid an interim dividend of $40 000
1 July	Transferred $50 000 from retained earnings to general reserve
1 October	Issued 5% debentures for $200 000
31 December	Proposed a final dividend of $30 000

What was the **total** equity of P Limited at 31 December 2019?

A $698 000 **B** $718 000 **C** $748 000 **D** $948 000

18 A business applied a mark-up of 25%.

Which statement is correct?

A Gross margin is 20%.

B Gross margin is 25%.

C Profit margin is 20%.

D Profit margin is 25%.

19 A company's results for a year showed credit sales of $500 000.

The trade receivables collection period was 73 days.

In the next year, credit sales were expected to be $550 000 and the collection period was **not** expected to change.

What is the expected percentage change in trade receivables?

A decrease of 10%

B increase of 10%

C decrease of 20%

D increase of 20%

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20 A business has the following current assets and current liabilities.

	$
trade receivables	6000
bank overdraft	1500
cash in hand	50
trade payables	5050

The only other item in the working capital is inventory.

The current ratio is 2 : 1.

What is the value of the inventory?

A $2550 **B** $4050 **C** $5550 **D** $7050

21 A mechanic carries out regular factory machine maintenance. He is paid an annual salary of $20 000.

Which type of cost is this?

A direct labour cost

B fixed factory cost

C variable factory cost

D variable administrative cost

22 A manufacturer uses the weighted average cost (AVCO) method of inventory valuation. Opening inventory was 10 units at $50 each.

During the month:

30 units were purchased costing $70 each.

20 units were sold at $80 each.

What was the value of the inventory at the end of the month?

A $1200 **B** $1300 **C** $1400 **D** $1600

23 Which statement is correct when production increases?

A Total fixed costs fall.

B Total variable costs fall.

C The fixed cost per unit falls.

D The variable cost per unit falls.

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24 Why might absorption costing be used?

1 to calculate contribution

2 to decide whether or not to accept a special order

3 to make long-term decisions

4 to set the selling price of a product

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

25 The following information is available for a business.

	fixed overheads $	hours
budget	180 000	10 000
actual	190 000	11 000

What was the over-absorption or under-absorption of fixed overheads?

A $8000 over

B $8000 under

C $10 000 over

D $10 000 under

26 A business plans to sell all the 10 000 units produced next year at the same price as this year.

Direct costs are forecast to decrease by $2 per unit and total fixed costs will increase by $40 000.

What will be the effect of this?

	total cost	break-even point
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

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27 The following information is available for a business.

	$
sales revenue	600 000
variable cost	180 000
break even sales revenue	400 000

What is the profit for the period?

A $120 000 **B** $140 000 **C** $280 000 **D** $300 000

28 Which statements about cost–volume–profit analysis are correct?

1 It assumes costs and revenues behave in a linear fashion.

2 It assumes that only activity levels are uncertain.

3 It considers activity levels, marginal costs and revenues.

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

29 A company is forecasting its profits at two levels of activity.

sales units	5000	8000
	$	$
total fixed and variable costs	20 000	26 000
profit	15 000	30 000
sales revenue	35 000	56 000

Fixed costs and selling prices are unchanged within the above activity range.

What is the forecast profit if sales were 7000 units?

A $21 000 **B** $25 000 **C** $26 000 **D** $26 250

30 Why would a business prepare budgets?

1 to communicate its plans

2 to enable it to control costs

3 to improve its products' quality

4 to plan its operations

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

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