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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/11**

Paper 1 Multiple Choice **October/November 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 Which accounting concept is being applied when calculating depreciation?

A business entity

B matching

C materiality

D substance over form

2 A company purchased a new delivery vehicle.

Which items would appear in the income statement?

1 delivery cost of the delivery vehicle

2 insurance for the delivery vehicle

3 painting of the company name on the delivery vehicle

4 purchase cost of the delivery vehicle

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

3 A company has two non-current assets. Details are as follows:

asset	date bought	cost $	depreciation method		residual value
X	1 Jan 2018	10 000	straight-line	life 5 years	$2000
Y	1 Jan 2018	20 000	reducing balance	rate 20%	nil

What was the total depreciation charge in the income statement for the year ended 31 December 2019?

A $4800 **B** $5200 **C** $5600 **D** $6000

4 A business purchased a new machine on 1 January 2020 for $15 000 paying $10 000 by cheque.

The balance was settled by part exchange of an old machine. This old machine had cost $12 000 on 1 January 2018 and had been expected to last for 6 years with a residual value of $2400.

The business uses the straight-line method of depreciation.

What was the loss on the disposal of the old machine?

A $1400 **B** $3000 **C** $3800 **D** $4600

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5 Which errors will result in a difference between the total of the individual customer account balance in the sales ledger and the balance on the sales ledger control account?

1 An irrecoverable debt has been posted to the debit of a customer's account.

2 Discount allowed has only been credited to the customer's account.

3 Returns by a customer have been omitted from the customer's account.

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

6 When preparing the financial statements for the year the following errors are discovered.

1 No provision had been made for accrued wages of $250.

2 No account had been taken of prepaid rent of $400.

3 The sales journal was undercast by $300.

The draft profit for the year is $8050.

What will be the profit when the errors are corrected?

A $8100 **B** $8500 **C** $8750 **D** $9000

7 The following information relates to a company's banking transactions at 31 December.

	$
balance at bank as per bank statement	22 650 credit
uncleared bankings	3 110
unpresented cheques	6 290
bank interest received recorded twice by bank in error	650

What amount should appear as the bank balance in the statement of financial position at 31 December?

A $18 820 **B** $20 120 **C** $25 180 **D** $26 480

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8 John did not keep sales or purchases ledger control accounts. His trial balance did not balance and a suspense account was opened. The following errors were discovered.

1 Sales of $200 had been entered as a credit in both a customer's account and the sales account.

2 Purchases of $350 from J Brown had been entered as a credit in E Brown's account.

3 Machinery repairs of $600 had been entered in the machinery at cost account.

4 Returns inwards of $450 had been entered in the sales returns account but omitted from the customer's account.

What was the amount of opening balance on the suspense account?

A $400 **B** $500 **C** $650 **D** $850

9 A business valued its inventory at the year end at cost, $24 650. This did **not** take account of the following.

1 Goods had been invoiced to a customer at $3000 and included in sales. They should have been treated as goods on sale or return as the customer had not indicated they would buy them.

2 Goods purchased for $6400 and included in the inventory have been damaged and now have a sales value of $5700.

3 Returns inwards which had been sold for $800 had not been included in the inventory.

The business has a mark-up of 25%.

What was the correct value of the inventory?

A $26 350 **B** $26 990 **C** $27 590 **D** $27 750

10 A business prepaid its rent.

What is the effect of this on the current assets and the rent expense at the year end?

	current assets	rent expense
A	decrease	increase
B	increase	decrease
C	increase	no effect
D	no effect	increase

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11 At 1 April 2019 a business had a provision for doubtful debts of $3400.

An analysis of trade receivables at 31 March 2020 was as follows.

amount $	provision required
50 000	nil
40 000	5%
1 600	20%

During the year an irrecoverable debt of $3000 had been written off in the customer's account, but no entry made in the income statement.

No entry had been made for the increase or the decrease in the provision for doubtful debts.

The income statement for the year ended 31 March 2020 showed a draft profit for the year of $90 000.

What was the effect on the draft profit for the year of these omissions?

A $680 overstated

B $680 understated

C $1920 overstated

D $1920 understated

12 X and Y were in partnership sharing profits and losses equally.

Z joined the partnership and profit continued to be shared equally between the three partners. Goodwill was valued but no goodwill account was to remain in the books of account.

Which entries were made to record the goodwill adjustment?

	debit account	credit account
1	goodwill	X and Y
2	goodwill	X, Y and Z
3	X and Y	goodwill
4	X, Y and Z	goodwill

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

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13 Which are **not** appropriations of partnership profit?

1 interest on capital

2 interest on drawings

3 interest on loan from partner

4 partner's drawings

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

14 L, M and N were in partnership sharing profits and losses in the ratio 3 : 2 : 1. The partnership was dissolved on 31 December 2019. After all assets had been realised and all liabilities paid, the following balances remained in the books of account.

	L ($)	M ($)	N ($)	total ($)
partners' capital accounts	30 000	20 000	10 000	60 000
partners' current accounts	4 000	8 000	(3 000)	9 000
cash at bank (debit)				60 000
realisation account (debit)				9 000

How much cash did N receive when the dissolution was complete?

A $5500 **B** $7000 **C** $10 000 **D** $11 500

15 Which items will be shown in the equity and reserves section of the statement of financial position?

1 debentures

2 finance charges

3 retained earnings

4 share premium

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

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16 An investor owns 5% preference shares in H Limited.

One year H Limited does not have enough profits to pay the preference dividend.

The investor expects the profits to improve and thinks the directors will pay the outstanding dividend in the following year.

Which type of preference shares does the investor own?

A cumulative

B non-cumulative

C participating

D redeemable

17 The following information was taken from the accounting records of a company at 1 January 2020.

	$
non-current assets at cost	250 000
accumulated depreciation	120 000
trade receivables	42 000
bank overdraft	25 000
cash & cash equivalents	9 000
prepaid expenses	2 000
inventory	17 000
5% debenture (2025)	7 000

What was the **total** capital employed?

A $164 000 **B** $168 000 **C** $171 000 **D** $175 000

18 A trader has a current ratio of 2 : 1.

Which event would cause this ratio to increase?

A buying goods for resale on credit

B buying new machinery on credit

C converting an overdraft to a long-term loan

D credit customers paying their account

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19 A company buys and sells all of its inventory on a credit basis.

The following information is available.

	$
purchases	450 000
sales	500 000
trade payables	80 000
trade receivables	120 000

Which period of credit was taken by customers?

A 59 days

B 65 days

C 88 days

D 98 days

20 A company purchases a product that costs $120. The company expects to make a gross margin of one-third.

What is the company's mark-up?

A $40 **B** $60 **C** $160 **D** $180

21 A business manufactures electric motors.

Which cost can be classified as a direct cost?

A assembly workers' wages

B factory rent

C machine depreciation

D sales person's commission

22 An employee is paid $16 an hour basic pay for working 7 hours a day.

Overtime is paid at the rate of time and a half.

A bonus is also paid at the rate of $32 per unit for output in excess of 9 units per day.

On Monday the employee worked 10 hours and produced 12 units.

What was the employee's total pay for Monday?

A $232 **B** $280 **C** $520 **D** $568

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23 Details of inventory movements for an item are shown.

date	transaction	quantity (units)	unit value $
1 January	opening balance	400	10.00
2 February	bought	200	11.00
3 June	sold	100	12.50
4 August	bought	200	12.00
4 December	sold	300	13.00
31 December	closing inventory	400	?

What is the value of closing inventory if the first in first out (FIFO) method of inventory valuation is used?

A $4000 **B** $4600 **C** $5000 **D** $5200

24 What are advantages of absorption costing?

1 conforms to the matching concept

2 is a recognised method of inventory valuation

3 is suitable for determining selling price

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

25 A business calculates its overhead absorption rates on the basis of direct labour hours. For the month of October the following information is available.

	$
budgeted overhead expenditure	15 000
budgeted direct labour hours	5 000
actual overhead expenditure	15 800
actual direct labour hours worked	4 000

What was the under or over absorption of overheads for October?

A $3000 over

B $3000 under

C $3800 over

D $3800 under

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26 How is contribution calculated?

A sales revenue minus cost of goods sold

B sales revenue minus fixed costs

C sales revenue minus variable costs

D sales revenue minus (variable costs + fixed costs)

27 A company has the following budgeted information.

	$
revenue	800 000
contribution	480 000
fixed production costs	300 000
fixed non-production costs	120 000

What is its budgeted break-even sales revenue?

A $500 000 **B** $700 000 **C** $750 000 **D** $1 050 000

28 Which statements describe assumptions made when using cost–volume–profit analysis?

1 Costs can be accurately divided into their fixed and variable parts.

2 Costs cannot be accurately divided into their fixed and variable parts.

3 There are multiple products or a varying sales mix.

4 There is a single product or constant sales mix.

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

29 The following budgeted information relates to a business that manufactures two products.

	product X $	product Y $
selling price per unit	120	130
marginal cost per unit	110	115

The budgeted fixed costs for the period are $400 000.

The forecasted sales quantity of product X for the period is 25 000 units.

The business has a target profit for the period of $180 000.

How many units of product Y must be sold to achieve the target profit for the period?

A 10 000 **B** 12 000 **C** 22 000 **D** 33 000

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30 How can budgeting help a business achieve control of its performance?

A by comparing the actual performance with the budgeted performance

B by comparing the business' performance with its competitors

C by comparing the business' performance with the industry averages

D by comparing the current year's performance with its previous year's performance

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