

Cambridge  
International  
AS & A Level

**Cambridge International Examinations**  
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING**

**9706/12**

Paper 1 Multiple Choice

**February/March 2017**

**1 hour**

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

\* 7 2 6 4 6 2 8 5 2 1 \*

**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.

## 2

- 1 Which accounting treatments illustrate the use of the matching concept?
- 1 comparing the receipts and payments in the cash book to obtain the balance of inventory at net realisable value rather than cost
  - 2 using the FIFO method of inventory valuation each year
  - 3 charging depreciation on non-current assets
- A** 1, 2 and 3      **B** 1 and 3 only      **C** 2 only      **D** 3 only
- 2 Which item should be treated as capital expenditure?
- A** cost of carriage on the purchase of a non-current asset
- B** cost of replacement of part of a non-current asset
- C** depreciation of a non-current asset
- D** repairs to a non-current asset
- 3 During the year ended 31 December 2012 a business purchased a vehicle for \$23 500. On 30 September 2015 it was sold for \$3 500. Depreciation was charged at 20% per annum using the straight line method. A full year's depreciation was charged in the year of purchase **and** the year of disposal.
- What was the profit or loss on disposal of the vehicle?
- A** \$1 200 loss
- B** \$1 200 profit
- C** \$5 900 loss
- D** \$5 900 profit
- 4 Why is a sales ledger control account used?
- 1 to control discounts received
  - 2 to ensure credit customers pay promptly
  - 3 to provide a trial balance figure for trade receivables
- A** 1 and 2      **B** 1 only      **C** 2 and 3      **D** 3 only

- 5 A purchases ledger control account was prepared but contained a number of errors.

| purchases ledger control account |        |                               |        |
|----------------------------------|--------|-------------------------------|--------|
|                                  | \$     |                               | \$     |
| balance b/d                      | 45 750 | cash paid to credit suppliers | 19 730 |
| credit purchases                 | 20 380 | cash discounts received       | 1 500  |
| cash purchases                   | 19 440 | refunds from credit suppliers | 3 500  |
|                                  |        | balance c/d                   | 60 840 |
|                                  | 85 570 |                               | 85 570 |

What was the correct balance carried down?

- A** \$47 100      **B** \$48 400      **C** \$60 840      **D** \$67 840
- 6 A suspense account shows a debit balance of \$350.
- What could have caused this?
- A** A purchase of \$350 was debited to the rent account.
- B** A purchase of \$350 was omitted from the purchases journal.
- C** A sale of \$350 was debited to the sales account and credited to the sales ledger control account.
- D** The sales journal was overcast by \$350.
- 7 The following balances related to Ladha's business.

|                          | at 31 March 2016<br>\$ | at 31 March 2015<br>\$ |
|--------------------------|------------------------|------------------------|
| total assets             | 388 000                | 345 000                |
| total liabilities        | 84 000                 | 75 000                 |
| net assets               | <u>304 000</u>         | <u>270 000</u>         |
| drawings during the year | 22 000                 | 20 000                 |

What was Ladha's profit for the year ended 31 March 2016?

- A** \$12 000      **B** \$32 000      **C** \$36 000      **D** \$56 000

- 8 A trial balance showed a provision for doubtful debts as \$1350. Trade receivables were \$50 320 which included a debt of \$500 which was irrecoverable.

Which entry was required in the provision for doubtful debts account if the closing balance was to be 5% of trade receivables?

- A \$1141 credit  
 B \$1141 debit  
 C \$1166 credit  
 D \$1166 debit
- 9 A business provides the following information.

|                   | \$      |
|-------------------|---------|
| revenue           | 140 000 |
| opening inventory | 22 000  |
| closing inventory | 24 500  |
| purchases         | 120 000 |

Goods are sold at cost plus 25%.

The owner has taken goods for own use but has not recorded these as drawings.

What is the value of the goods taken for own use?

- A \$5500      B \$10 500      C \$12 500      D \$17 500
- 10 The draft financial statements of a business show a profit for the year of \$64 000 before taking account of the following:
- 1 the reduction of the provision for doubtful debts by \$300
  - 2 the purchase of office stationery costing \$2400 which has not been entered in the books; only one-sixth of this stationery was used by the year end.

What is the corrected profit for the year?

- A \$61 900      B \$63 900      C \$64 100      D \$64 300

- 11 The table shows transactions relating to a product during July. There was no opening inventory.

|           | units | \$ (per unit) |
|-----------|-------|---------------|
| purchased | 50    | 4             |
| sold      | 30    | 10            |

Of the remaining units, 8 are damaged and therefore have no value.

What is the profit for July?

- A \$68                      B \$100                      C \$148                      D \$180
- 12 A trader provides the following financial information for the year ended 31 December.

|                     |           |
|---------------------|-----------|
| gross margin        | 20%       |
| cost of goods sold  | \$220 000 |
| drawings            | \$7 000   |
| profit for the year | \$28 000  |

How much are expenses?

- A \$9000                      B \$16 000                      C \$20 000                      D \$27 000
- 13 Why is goodwill adjusted in the books of account when a new partner is admitted?
- A A more accurate value of non-current assets is shown in the statement of financial position.
- B Original partners can be credited for their efforts in building up the partnership business.
- C Partners can take higher drawings as a result of their share of the goodwill.
- D The new partner knows how much they have to introduce as capital.

- 14 A partnership revalues its non-current assets upwards.

What are the ledger entries to record this?

|          | account to debit   | account to credit          |
|----------|--------------------|----------------------------|
| <b>A</b> | non-current assets | bank                       |
| <b>B</b> | non-current assets | partners' capital accounts |
| <b>C</b> | non-current assets | partners' current accounts |
| <b>D</b> | non-current assets | revaluation reserve        |

- 15** X and Y are in partnership. They admit Z as a new partner. The profit sharing ratio will be 2 : 1 : 1 respectively. Goodwill is valued at \$100 000. Goodwill is not to be retained in the books of account.

Other assets are revalued at \$40 000 in excess of their net book value.

Z introduces \$250 000 cash and office equipment valued at \$30 000.

What is Z's capital account balance after his admission?

- A** \$255 000      **B** \$265 000      **C** \$305 000      **D** \$315 000

- 16** Which facts about preference shares are correct?

|          | rate of dividends | voting rights |
|----------|-------------------|---------------|
| <b>A</b> | fixed             | no            |
| <b>B</b> | fixed             | yes           |
| <b>C</b> | variable          | no            |
| <b>D</b> | variable          | yes           |

- 17** The table shows year end information for a company.

| income statement                      | \$      | statement of financial position | \$     |
|---------------------------------------|---------|---------------------------------|--------|
| profit from operations                | 14 000  | 5% debenture 2020               | 30 000 |
| finance costs                         | (1 500) | ordinary share capital          | 70 000 |
| loss on disposal of non-current asset | (2 500) | share premium account           | 15 000 |
| profit for the year                   | 10 000  | retained earnings               | 35 000 |

What is the return on capital employed (ROCE)?

- A** 6.7%      **B** 8.3%      **C** 9.3%      **D** 11.7%

- 18** A company provided the following information.

|                                     | \$      |
|-------------------------------------|---------|
| revenue for the year                | 390 000 |
| year-end non-current assets at cost | 260 000 |
| year-end accumulated depreciation   | 65 000  |

What was the non-current asset turnover?

- A** 0.5 times      **B** 0.67 times      **C** 1.5 times      **D** 2 times

19 The following information is given in the financial statements of a limited company.

|                   | \$        |
|-------------------|-----------|
| ordinary shares   | 1 200 000 |
| general reserve   | 120 000   |
| retained earnings | 710 000   |
| 8% debentures     | 400 000   |

What is the value of total equity?

- A** \$1 910 000    **B** \$2 030 000    **C** \$2 310 000    **D** \$2 430 000

20 Which item is a direct cost?

- A** cost of production materials  
**B** factory supervisor's salary  
**C** machine cleaning materials  
**D** stores staff wages

21 Samuel manufactures a single product. Total cost per unit is \$70 when production is 100 units per week, and \$62.50 when production is 160 units per week.

What are the total fixed costs per week?

- A** \$450    **B** \$750    **C** \$1200    **D** \$2000

22 How is the issue of inventory from stores valued when using FIFO?

- A** It is calculated using the average purchase price of goods.  
**B** It is calculated using the price paid for the earliest delivery of goods.  
**C** It is the same as the current replacement cost.  
**D** It is the same as the most recent price paid for the goods.

**23** A business absorbs overheads based on machine hours.

During the last quarter it had the following budgeted and actual results.

|                        |           |
|------------------------|-----------|
| actual overheads       | \$118 505 |
| actual machine hours   | 6 230     |
| budgeted overheads     | \$126 725 |
| budgeted machine hours | 6 850     |

By how much were overheads over or under absorbed?

- A** over absorbed by \$3250
- B** over absorbed by \$8220
- C** under absorbed by \$3250
- D** under absorbed by \$8220

**24** Actual output exceeds budgeted output.

Which cost is higher than budgeted?

- A** fixed costs per unit
- B** total fixed costs
- C** total variable costs
- D** variable costs per unit

**25** A company manufactures three products. The following information is obtained in respect of next month's budgeted production.

|   | product X | product Y | product Z |
|---|-----------|-----------|-----------|
| contribution per unit                     | \$7       | \$6       | \$8       |
| contribution per kilo                     | \$3       | \$4       | \$6       |
| kilos of material required for production | 400       | 600       | 1000      |

The company has been advised that only 1800 kilos of material will be available for production next month.

What is the maximum contribution the company can earn?

- A** \$9000
- B** \$9600
- C** \$13 000
- D** \$13 200



26 The following information is available.

|                    | \$      |
|--------------------|---------|
| direct materials   | 20 000  |
| direct labour      | 45 000  |
| direct expenses    | 6 000   |
| variable overheads | 11 000  |
| fixed overheads    | 38 000  |
| sales              | 240 000 |

What is the contribution to sales ratio?

- A** 50%      **B** 54.58%      **C** 65.83%      **D** 70.42%

27 A company provides the following information.

|                       |           |
|-----------------------|-----------|
| budgeted overheads    | \$136 000 |
| budgeted labour hours | 10 568    |
| actual overheads      | \$146 000 |
| actual labour hours   | 10 110    |

What is the overhead absorption rate per labour hour?

- A** \$12.87      **B** \$13.45      **C** \$13.82      **D** \$14.44

28 The following information is for a business.

|                                | \$   |
|--------------------------------|------|
| budgeted fixed costs per month | 2000 |
| target profit per month        | 3000 |
| budget variable cost per unit  | 15   |
| selling price per unit         | 40   |

Fixed costs are expected to increase by \$500 per month and variable costs increase by \$5 per unit.

Which value of revenue will be required to achieve the target profit?

- A** \$8000      **B** \$8800      **C** \$10 000      **D** \$11 000

29 The costs of a company that annually sells 10 000 units are as follows.

|                   | \$      |
|-------------------|---------|
| direct material   | 50 000  |
| assembly labour   | 100 000 |
| factory overheads | 70 000  |

The normal selling price of each unit is \$50.

How many more units need to be sold to break even if the selling price is reduced to \$35?

**A** 1500 units      **B** 2000 units      **C** 3500 units      **D** 5000 units

30 Which statements identify a disadvantage of break-even analysis?

- 1 It does not show the effect of changes in output on the break-even point.
- 2 It is assumed that all costs can be split between fixed and variable.
- 3 It makes it difficult to decide the profitability of a product at different levels of activity.

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



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