

Cambridge  
International  
AS & A Level

Cambridge International Examinations  
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING**

**9706/11**

Paper 1 Multiple Choice

**May/June 2016**

**1 hour**

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

\* 4 1 9 1 2 1 9 3 8 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.

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

- 1 Inventories are valued at the lower of cost and net realisable value in the statement of financial position.

Which accounting concept is being applied?

- A duality
- B historic cost
- C matching
- D prudence

- 2 The table shows extracts from the statements of financial position of a business.

	2014 \$	2015 \$
non-current assets (at cost)	190 000	245 000
less accumulated depreciation	75 000	90 000
net book value	115 000	155 000

Other information for the financial year 2015 is as follows.

	\$
depreciation charged	40 000
new non-current assets purchased (at cost)	105 000
loss on sale of non-current assets	10 000

Which amount was received from the sale of the non-current assets?

- A \$15 000      B \$25 000      C \$35 000      D \$50 000

- 3 What would be treated as part of the capital cost of the purchase of a building?

- 1 cost of purchase
- 2 insurance of the building
- 3 installation of air conditioning needed for the machinery in the building

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

- 4 The total of trade payables balances in Konrad's purchases ledger was \$57 400. The following errors were then discovered.

	\$
discount allowed overcast in cash book	2000
returns outwards omitted in a supplier's account	350
payments to trade payables undercast in cash book	137
purchases journal overcast	500

What is the correct total of trade payables balances?

- A** \$54 413      **B** \$54 913      **C** \$55 050      **D** \$57 050
- 5 The debit balance on a company's sales ledger control account was \$125 000. The following errors were then discovered.
- 1 A bad debt of \$800 had not been entered in the sales ledger control account.
  - 2 An increase in the provision for doubtful debts of \$500 was required.
  - 3 The sales journal had been overcast by \$1000.

What was the total of the balances in the sales ledger?

- A** \$122 700      **B** \$123 200      **C** \$124 000      **D** \$125 200
- 6 A business's suspense account appears as follows.

	\$		\$
discount allowed	150	opening balance	100
		sales	50
	150		150

Which statements are correct?

- 1 Total debits had been \$100 less than total credits in the trial balance.
  - 2 The sales account had been overcast by \$50.
  - 3 The discount allowed account had been overcast by \$150.
- A** 1 and 2      **B** 1 only      **C** 2 and 3      **D** 3 only

## 4

- 7 A bank statement shows a credit balance of \$1500.

A payment of \$500 and a receipt of \$1250 were included in the cash book but have not yet appeared on the bank statement.

Bank interest payable of \$1100 had been correctly recorded in the cash book but due to a bank error had been recorded in the bank statement as \$1000.

What is the cash book balance?

- A \$650                      B \$850                      C \$2150                      D \$3350

- 8 A company calculates a draft profit for the year of \$88 000. This includes the profit margin of \$3000 on goods sold on credit but not yet paid for. It also includes \$500 profit taken on goods sold to a customer on a sale or return basis.

What is the correct gross profit?

- A \$84 500                      B \$85 000                      C \$87 500                      D \$91 000

- 9 The draft profit for the year for a sole trader was \$108 000 before the following were taken into account.

- 1 The provision brought forward for doubtful debts was \$1850. The provision to carry forward should be \$2250.
- 2 Depreciation of non-current assets had been undercharged by \$2000.
- 3 An accrual of \$600 for repairs had been treated as a prepayment.

What was the correct profit for the year?

- A \$104 400                      B \$105 200                      C \$109 000                      D \$111 600

- 10 The following balance appeared on a trial balance at 31 December 2015, after the preparation of the company's financial statements.

	\$
stationery	8000 debit

What did this represent?

- A an amount due to the company's stationery supplier for 2015  
 B a prepayment made to the stationery supplier at 31 December 2015  
 C inventory of stationery at 31 December 2014  
 D the annual stationery charge for 2015

11 At 31 December the following information was available.

	\$
non-current assets at net book value	10 000
current assets	5 000
provision for doubtful debts	(1 500)
current liabilities	(3 000)

It was decided to reduce the provision for doubtful debts to \$800.

Which effects will this adjustment have on the profit for the year and on net assets?

	profit for the year	net assets
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

12 The table shows information relating to closing inventory.

	\$
cost	50 000
realisable value	45 000
costs of realisation	5 000
replacement cost	35 000

What is the value of the closing inventory?

- A** \$35 000      **B** \$40 000      **C** \$45 000      **D** \$50 000

13 A business provides the following information.

	\$
accrued expenses	9 350
accrued income	24 750
prepaid expenses	14 250
prepaid income	32 650

What is the total amount to be included in current liabilities?

- A** \$34 100      **B** \$39 000      **C** \$42 000      **D** \$46 900

- 14 The statement of financial position showed the following balances at 31 December 2015.

	X \$	Y \$
capital accounts	20 000	10 000
current accounts	1 000 debit	2 500 credit

Net assets at 1 January 2015 were \$14 000.

Property had been revalued upwards by \$12 000 during the year ended 31 December 2015. No drawings had been made during the year.

What was the profit for the year ended 31 December 2015?

- A** \$2500      **B** \$5500      **C** \$14 500      **D** \$17 500
- 15 Smith and Jones are in partnership sharing profits and losses in the ratio 3 : 2 respectively. Profit for the year was \$152 000.
- Smith was charged interest on drawings of \$1650.
- Jones had a partnership salary of \$40 000.
- What was Smith's share of residual profit?
- A** \$66 210      **B** \$68 190      **C** \$114 210      **D** \$116 190
- 16 X, Y and Z have been in business sharing profits in the ratio 3 : 2 : 1. Y decided to retire at the end of the year when the balance on his capital account was \$39 400.

On that date the assets were revalued upwards by \$57 000. The partnership does not account for goodwill. Y took a car valued at \$4800 as part of the amount due to him.

How much cash did Y receive?

- A** \$25 200      **B** \$44 100      **C** \$53 600      **D** \$58 400

17 A company has a bank balance of \$20 000.

The company's equity and reserves are shown.

	\$
ordinary shares of \$0.50 each	10 000
capital reserves	5 000
revenue reserves	3 000

The directors wish to pay the maximum dividend possible.

How much of the bank balance will be used to pay the dividend?

- A** \$3000      **B** \$5000      **C** \$8000      **D** \$20 000

18 Which statement about rights issues is true?

- A** Shares can be sold to anyone.
- B** Shares can only be offered to existing shareholders.
- C** Shares cannot be sold at a premium.
- D** Shares cannot be sold at less than the market price.

19 A limited company's financial statements contain the following items.

- 1 bonus issue of ordinary shares
- 2 debenture interest
- 3 profit for the year
- 4 profit on disposal of non-current assets

Which items would be found in the statement of changes in equity?

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

20 A company issued 25 000 ordinary shares of \$0.50 each at a premium of 25%. They had a market value of \$1.50 each.

What is the value of ordinary share capital in the statement of financial position?

- A** \$12 500      **B** \$15 625      **C** \$31 250      **D** \$37 500

21 A company provides the following information.

	\$
ordinary share capital	50 000
retained earnings at the end of the year	11 000
8% debentures (2020-2022)	15 000
bank overdraft	8 000
profit from operations	17 700
profit for the year	16 500

What is the return on capital employed?

- A** 21.07%      **B** 21.71%      **C** 23.29%      **D** 27.05%

22 A business purchases inventory by cash.

Which effects will this have on liquidity ratios?

	current ratio	liquid (acid test) ratio
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	no change	decrease
<b>D</b>	no change	increase

23 X supplies goods on credit. He looked at the financial statements of two other businesses to see if he wanted to trade with them. He found the following information.

business	credit purchases \$	trade payables \$
G	21 800	2320
H	49 500	5750

X only trades with businesses with a trade payables turnover of 42 days or less.

With which business(es) did X decide to trade?

- A** both G and H  
**B** G only  
**C** H only  
**D** neither G nor H



- 24** A business pays its employees \$2 for each unit of X they assemble and \$3.20 for each unit of Y. Monthly output is 1800 units of X and 1000 units of Y. The factory supervisor is paid \$1000 per month.

What is the direct labour cost per month?

- A** \$6800      **B** \$7760      **C** \$7800      **D** \$8760

- 25** A garage owner paid the following costs.

- 1 mechanics' wages
- 2 garage equipment repairs
- 3 spare parts used to repair vehicles
- 4 rent paid for garage premises

Which of these are direct costs?

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

- 26** A business incurs the following costs.

- 1 direct material and direct labour costs
- 2 indirect factory production overheads
- 3 administrative expenses
- 4 distribution costs

Which costs are included in the cost per unit using absorption costing?

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

27 A company absorbs overheads using machine hours. The following information is available.

	overheads	machine hours
budgeted	\$200 000	40 000 hours
actual	\$240 000	60 000 hours

What was the over or under absorption of overheads?

- A \$40 000 over
  - B \$40 000 under
  - C \$60 000 over
  - D \$60 000 under
- 28 How is margin of safety calculated?
- A actual sales minus break-even sales
  - B actual sales minus budgeted sales
  - C actual sales minus cost of sales
  - D budgeted sales minus cost of sales
- 29 A company incurs total costs of \$2200 for producing 100 units and \$4600 for 300 units. The selling price per unit is \$20.

What is the total profit or loss at a production level of 200 units?

- A \$400 loss
  - B \$600 profit
  - C \$933 profit
  - D \$1600 profit
- 30 A company provides the following information in respect of its carriage costs.

units carried	total cost \$
2 000	6 000
5 000	13 500

When more than 5000 units are carried the cost will increase the fixed charge by a further \$2000.

What will be the cost to carry 6000 units?

- A \$15 500
- B \$16 200
- C \$18 000
- D \$20 000



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