



Cambridge International AS & A Level

ACCOUNTING

9706/13

Paper 1 Multiple Choice

May/June 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.



- 1 The owner of a business purchased a camera to take some photographs of her family.

She wishes to include it as an asset in the financial statements of the business. Her accountant says that she should **not** do this.

Which accounting principle is the accountant applying?

- A business entity
- B consistency
- C going concern
- D realisation

- 2 What are the characteristics of non-current assets?

- 1 They are not intended for resale.
- 2 They provide future economic benefits.
- 3 They prevent the company from going out of business.

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

- 3 A business has a year end of 31 December. It depreciates its motor vehicles over four years using the straight-line method. A full year's depreciation is charged in the year of purchase, but none in the year of sale.

A motor vehicle purchased on 1 July 2016 for \$18 000 had an estimated residual value of \$4000. The motor vehicle was sold for \$5000 on 31 December 2019.

What was the profit or loss on disposal?

- A \$1000 loss
- B \$1000 profit
- C \$2500 loss
- D \$2500 profit

- 4 The following information is available in respect of the purchase of a new machine.

| | \$ |
|-------------------------|--------|
| machine cost | 80 000 |
| less 10% trade discount | 8 000 |
| | 72 000 |
| delivery cost | 1 200 |
| installation cost | 1 800 |
| annual maintenance cost | 4 000 |

The business plans to keep the machine for 5 years. It is expected to be sold for \$5000.

What will be the annual depreciation charge using the straight-line method?

- A** \$13 400 **B** \$14 000 **C** \$14 800 **D** \$15 600
- 5 What does the debit side closing balance carried down and the credit side opening balance brought down represent in a sales ledger control account?

| | debit side closing balance carried down | credit side opening balance brought down |
|----------|--|---|
| A | owing from customers | owing from customers |
| B | owing from customers | owing to customers |
| C | owing to customers | owing from customers |
| D | owing to customers | owing to customers |

- 6 The trial balance of a business did not agree and a suspense account was opened.

The following errors were then discovered.

- 1 The sales journal total of \$9150 had been credited to both the sales account and the sales ledger control account.
- 2 The purchases journal total of \$3450 had been entered correctly in the purchases account but as \$3350 in the purchases ledger control account.
- 3 Motor expenses of \$6450 paid by cheque had only been entered in the bank account.

What was the opening balance in the suspense account?

- A** \$15 700 credit
B \$15 700 debit
C \$24 650 credit
D \$24 650 debit

- 7 A bank statement showed an overdraft of \$750. The following was then discovered.
- 1 A cheque issued in payment of rent for \$570 had not been presented.
 - 2 A cheque for \$624 received was not shown on the bank statement.
 - 3 The bank statement included a bank charge of \$50 which had not been entered in the cash book.

What amount of overdraft should appear in the statement of financial position?

- A** \$646 **B** \$696 **C** \$754 **D** \$1894

- 8 What is a purpose of financial statements?

- A** to aid managers to manage the business
B to allow the owner to take drawings
C to ensure a profit is made
D to ensure accuracy of the double entry

- 9 An electricity accrual of \$375 was treated as a prepayment when preparing a trader's income statement.

What was the effect of this on the profit for the year?

- A** overstated by \$375
B overstated by \$750
C understated by \$375
D understated by \$750

- 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 A company receives rental income from letting out two properties. Total rental income received from these two properties for the year ended 31 December 2019 was \$55 000.

Further information relating to these two properties was as follows.

| | property 1 | property 2 |
|----------------------------|------------|------------|
| | \$ | \$ |
| rent received in advance | | |
| 1 January 2019 | 1840 | |
| 31 December 2019 | | 720 |
| rent receivable in arrears | | |
| 1 January 2019 | | 2120 |
| 31 December 2019 | 1100 | |

What was the total amount of rental income shown in the income statement for the year ended 31 December 2019?

- A** \$54 340 **B** \$54 900 **C** \$55 100 **D** \$55 660
- 12 Finn provided the following information.

| | \$ |
|---|--------|
| capital at the start of the year | 19 800 |
| profit for the year | 24 000 |
| drawings (cash) | 19 500 |
| drawings (goods for own use) | 1 100 |
| private vehicle transferred to business use | 6 000 |

What was Finn's capital at the end of the year?

- A** \$23 200 **B** \$24 300 **C** \$29 200 **D** \$31 400
- 13 What would be recorded in a partnership appropriation account?
- 1 interest on capital
 - 2 interest on drawings
 - 3 interest on loan by partner to partnership
 - 4 interest on bank overdraft
- A** 1, 2 and 3 **B** 1 and 2 only **C** 2, 3 and 4 **D** 3 and 4 only

- 14** X and Y were in partnership and shared their profits equally. On 1 March 2019, Z is admitted as a partner.

In future they will share profits in the ratio X, Y and Z, 3:2:1. The net assets valued at \$20 000 have lost \$8000 in value. Goodwill is valued at \$9000 but will not be retained in the books of account.

What will the entries in the capital accounts of Y be to record these changes?

| | debit \$ | credit \$ |
|----------|-------------|--------------|
| A | 4500 | 9000 |
| B | 4500 | 7000 |
| C | 6000 | 4500 |
| D | 7000 | 4500 |

- 15** The statement of financial position showed the following balances at 31 December 2019.

| | L \$ | M \$ |
|------------------|-------------|--------------|
| capital accounts | 20 000 | 10 000 |
| current accounts | 1 000 debit | 2 500 credit |

Net assets at 1 January 2019 were \$14 000.

Property had been revalued upwards by \$12 000 during the year ended 31 December 2019. No drawings had been made during the year.

What was the profit for the year ended 31 December 2019?

- A** \$2500 **B** \$5500 **C** \$14 500 **D** \$17 500
- 16** 'Shareholders are entitled to a fixed annual dividend with any unpaid dividends being paid out of future profits.'

What does this statement describe?

- A** cumulative preference shares
B debentures
C ordinary shares
D participating preference shares

17 Which statements about a bonus issue of ordinary shares are correct?

- 1 It will generate extra funds for the company.
- 2 The company's liquidity is not affected.
- 3 Shareholders can sell their bonus shares.

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

18 The following information is available for T Limited.

| | 30 June 2018 | 30 June 2019 |
|-----------------------|--------------|--------------|
| | \$ | \$ |
| retained earnings | 94 000 | 148 000 |
| general reserve | 50 000 | 65 000 |
| accrued loan interest | 3 000 | 1 000 |

During the year ended 30 June 2019, T Limited made the following payments.

| | \$ |
|---------------|--------|
| dividend | 60 000 |
| loan interest | 27 000 |

What was the profit from operations for the year ended 30 June 2019?

A \$104 000 **B** \$114 000 **C** \$129 000 **D** \$154 000

19 Which ratio tells managers how long it takes to receive payment for goods sold on credit?

- A** current ratio
- B** liquid (acid test) ratio
- C** trade payables turnover
- D** trade receivables turnover

20 The following information is available for G Limited for the year ended 31 December 2019.

| | \$ |
|---|---------|
| share capital | 275 000 |
| long-term bank loan | 180 000 |
| current liabilities | 120 000 |
| profit from operations | 244 000 |
| bank loan interest | 34 000 |
| retained earnings including profit for the year | 400 000 |

What was the return on capital employed?

- A** 21.54% **B** 24.56% **C** 25.03% **D** 28.54%

21 A company has been asked to prepare a quotation to print 100 leaflets for a customer. The total cost of direct materials, direct labour and a share of overheads is \$820 and a profit of 25% on cost has been added.

Which costing method is this an example of?

- A** absorption costing
B job costing
C marginal costing
D unit costing

22 Which expense for a business may be classified as a stepped cost?

- A** direct labour
B direct materials
C factory rent
D telephone

23 The inventory movements of a business in a three-month period are shown.

| date | receipts | | issues units |
|----------|----------|----------|-----------------|
| | units | per unit | |
| January | 100 | \$5 | |
| January | 200 | \$6 | |
| February | | | 50 |
| March | | | 200 |

The business uses the first in first out (FIFO) method of inventory valuation.

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

- A** \$250 **B** \$275 **C** \$283 **D** \$300

24 A company uses absorption costing based on predetermined absorption rates.

Which statement about absorption rates is correct?

- A** They will be based on budgeted costs and outputs.
B They will be calculated only when actual costs and outputs are known.
C They will be changed each time outputs and costs change.
D They will be set for a period of more than one year.

25 A business absorbs fixed overheads using direct labour hours.

The following information is provided.

| | actual | budgeted |
|-----------------------|-----------|-----------|
| overheads | \$525 000 | \$525 000 |
| direct labour hours | 16 300 | 15 000 |
| indirect labour hours | 2700 | 2500 |

Which statement is correct?

- A** Overheads were over absorbed by \$45 000.
B Overheads were under absorbed by \$45 000.
C Overheads were over absorbed by \$45 500.
D Overheads were under absorbed by \$45 500.

26 The data relate to the production of three products.

| | product X \$ | product Y \$ | product Z \$ |
|-------------------------|-----------------|-----------------|-----------------|
| contribution per unit | 160 | 175 | 190 |
| fixed overhead per unit | 125 | 130 | 160 |
| labour hours per unit | 1 | 1.25 | 0.75 |

The company is experiencing a shortage of labour.

In which order should the products be ranked to maximise profit?

| | 1 | 2 | 3 |
|----------|---|---|---|
| A | X | Y | Z |
| B | Y | X | Z |
| C | Z | X | Y |
| D | Z | Y | X |

27 A company has the following budgeted information for May.

| | \$ |
|---------------------------|--------|
| selling price (per unit) | 120 |
| variable costs (per unit) | 80 |
| total fixed costs | 56 000 |

The company is planning to buy a new machine which will reduce the variable costs by 20% and increase fixed costs by 20%.

What is the change in break-even sales in units?

- A** increase by 200 units
- B** decrease by 200 units
- C** increase by 700 units
- D** decrease by 700 units

28 What does cost–volume–profit analysis assume causes costs to change?

- 1 production methods
- 2 sales mix
- 3 sales volume

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

- 29** A business has a sales revenue of \$400 000 and total fixed cost of \$140 000. Its contribution to sales ratio is 40%.

What is the sales revenue if profit for the year increases by \$40 000?

- A** \$360 000 **B** \$450 000 **C** \$480 000 **D** \$500 000

- 30** Budgetary control systems have just been introduced by a company but employees have not achieved their targets.

Reasons given for this are as follows:

- 1 The budget was unrealistic.
- 2 Actual trading conditions differed from budget assumptions.
- 3 The workforce needs more training.

Which reasons should be considered when evaluating employees' performance?

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

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which itself is a department of the University of Cambridge.