



Cambridge International AS & A Level

ACCOUNTING

9706/12

Paper 1 Multiple Choice

May/June 2022

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.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.



- 1 Which accounting concept states that revenue can only be recognised after it has been earned?
- A** consistency
B going concern
C money measurement
D realisation

- 2 A sole trader has changed the method of depreciating his machinery from the reducing balance method in the year 1 to the straight-line method in the year 2 of trading. The same percentage rate of depreciation is used in both cases.

What is the effect on the net book value of machinery and profit for the year 2?

	net book value	profit for the year 2
A	higher	higher
B	higher	lower
C	lower	higher
D	lower	lower

- 3 Paul has a year end of 31 December.

On 1 January 2020, he bought a non-current asset for \$10 000. He sold it on 1 January 2021 for \$8500.

Paul usually provides depreciation at the rate of 10% per annum. A full year's depreciation is charged in the year of acquisition and none in the year of disposal. He forgot to provide for any depreciation on this non-current asset.

What was the effect of this error on Paul's profit for the year ended 31 December 2021?

- A** \$1000 higher
B \$1000 lower
C \$1500 higher
D \$1500 lower
- 4 A business depreciates its machinery at 10% per annum using the straight-line method on a month-by-month basis. The business's financial year end is 30 June.

Machinery which had cost \$6600 on 1 April 2020 was sold on 30 November 2021. The profit on sale was \$350.

What were the sale proceeds?

- A** \$5150 **B** \$5425 **C** \$5850 **D** \$6125

5 Why does a business maintain sales and purchases ledger control accounts as part of the double entry accounting system?

- 1 It allows a trial balance to be prepared easily from the nominal ledger.
- 2 It can involve separate employees which makes fraud more difficult.
- 3 There is no need to keep sales and purchases journals.
- 4 There is no need to reconcile with personal accounts for customers and suppliers.

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

6 Doug received his business bank statement. He updated the cash book and prepared the bank reconciliation statement.

Which items appeared on the bank reconciliation statement?

	bank charges	customer payments by direct debit	uncredited deposits
A	no	no	yes
B	no	yes	yes
C	yes	no	no
D	yes	yes	no

7 At 31 December 2021, the sales ledger control account had a balance of \$19 100 while the total balances in the sales ledger were \$20 900.

The following reconciliation statement had been prepared after the errors were located.

	\$
balance of sales ledger control account	19 100
credit sales omitted from the sales journal	1 600
discount allowed understated in sales ledger	200
total of balances in the sales ledger	20 900

What is the correct amount of total trade receivables as shown in the statement of financial position?

A \$17 500 **B** \$18 900 **C** \$19 300 **D** \$20 700

- 8 At the year-end, Victor had 100 units of inventory which had cost \$12 per unit.

Of these, eight units had been received on the last day of the year and had **not** yet been paid for.

An additional six units were damaged and would be sold for \$10 each once repairs to them totalling \$20 were made.

What was the value of inventory in Victor's financial statements at the year-end?

- A** \$1072 **B** \$1092 **C** \$1168 **D** \$1188

- 9 Which items are treated as expenses in the income statement?

	accrued wages at the end of the year	prepaid telephone charges at the end of the year	increase in provision for doubtful debts
A	✓	✓	✗
B	✗	✓	✓
C	✓	✗	✓
D	✗	✗	✓

- 10 At 31 December 2021, the draft statement of financial position for a business showed total assets of \$1 000 000.

The following was then discovered.

- 1 An increase in the provision for doubtful debts, \$5000, had **not** been recorded.
- 2 Closing inventory had been overvalued by \$20 000.
- 3 Depreciation, \$10 000, had **not** been recorded.

What was the corrected total assets value?

- A** \$965 000 **B** \$985 000 **C** \$1 005 000 **D** \$1 015 000

- 11 On what basis does a trading business produce an income statement?

- 1 cash received and paid out by the business in the year
- 2 income earned less costs incurred by the business during the year
- 3 revenue received less any cash paid out by the business during the year

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

12 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** \$10500 **C** \$12500 **D** \$17500

13 A business owner does **not** maintain a full set of accounting records. At the end of the financial year the following information is available.

	\$
trade payables	
opening balance	22 500
closing balance	27 400
returns outwards	1 000
payments to trade payables	110 600

There were no cash purchases.

The opening and closing inventory has remained at the same amount.

What was the amount of the cost of sales?

- A** \$105700 **B** \$106700 **C** \$115500 **D** \$116500

14 The provisions of the Partnership Act apply if partners do **not** draw up a partnership agreement.

Which statement is true as a provision of the Partnership Act?

- A** Interest on drawings is charged at 5% a year.
B Interest on loans from partners is to be at 8% a year.
C Partners are not entitled to salaries.
D Profits are to be shared in the ratio of fixed capitals.

15 Dua and Noor are in partnership sharing profits and losses equally.

They admitted Zee and now share profits and losses in the ratio Dua : Noor : Zee, 2 : 2 : 1.

On admission of Zee, tangible assets were reduced in value by \$20 000 and goodwill was valued at \$60 000, but was **not** retained in the books of account.

What was the **net** decrease on Noor's capital account?

- A \$4000 B \$8000 C \$10 000 D \$14 000

16 The following information is available for a partnership.

	\$
profit for the year before interest	15 000
interest on partner's loan to the firm	1 000
interest on capital	2 000
drawings	10 000

Which profit figure is to be appropriated between the partners?

- A \$3000 B \$13 000 C \$14 000 D \$15 000

17 Which item should **not** be recorded in a statement of changes in equity?

- A bonus issue of ordinary shares
 B dividends paid on ordinary shares
 C profit from operations for the year
 D transfer to general reserve

18 The following information has been extracted from the statement of financial position of a limited company.

	\$
6% debenture (2026–2028)	20 000
400 000 ordinary shares of \$1 each	400 000
5-year bank loan	200 000
share premium account	50 000
retained earnings	75 000

What is the value of the total equity?

- A \$525 000 B \$545 000 C \$695 000 D \$725 000

- 19 On 1 January, X Limited had share capital of 100 000 ordinary shares which had been issued at their par value of \$1 each. There was no share premium account.

On 1 March, a bonus issue of one new ordinary share for every five ordinary shares held was made from retained earnings.

On 1 June, the company made a rights issue of one new ordinary share for every four ordinary shares held at a price of \$1.50 each. All the rights were taken up.

How much was recorded in the share premium account?

- A \$12 500 B \$15 000 C \$30 000 D \$45 000

- 20 The following information is available for a business.

sales revenue	\$500 000
purchases	\$365 000
gross margin	25%
mark-up	$33\frac{1}{3}\%$
inventory at start of the period	\$20 000

What was the value of closing inventory?

- A \$10 000 B \$20 000 C \$30 000 D \$50 000

- 21 The following shows extracts from the statement of financial position of a company.

	at 30 September \$
non-current assets	120 000
inventory	35 000
trade receivables	23 000
cash at bank (debit balance)	12 000
trade payables	15 000
bank loan repayable within 12 months	40 000

What is the liquid (acid test) ratio?

- A 0.64 : 1 B 1.27 : 1 C 2.33 : 1 D 4.67 : 1

22 The cost of direct materials is increasing.

What is the effect if a business uses first-in-first-out (FIFO) instead of average cost (AVCO) for inventory valuation in this situation?

	cost of sales	profit for the year	closing inventory value
A	increases	decreases	increases
B	increases	decreases	decreases
C	decreases	increases	decreases
D	decreases	increases	increases

23 Q Limited employs machine operators and supervisors.

Each machine operator produces 100 units per week.

One supervisor can supervise up to 10 machine operators and is paid \$550 per week.

Production is 7700 units per week.

Which type of cost is the supervisors' pay and how much is their total pay per week?

	type of cost	total pay per week \$
A	stepped	4235
B	stepped	4400
C	variable	4235
D	variable	4400

24 What is a limitation of absorption costing?

- A** It does **not** comply with accounting principles.
- B** It does **not** take into account all costs of production.
- C** It is **not** accepted for preparing published financial statements.
- D** It is **not** useful for improving the organisation's performance.

25 The following information relates to one accounting period.

opening inventory	40 000 units
closing inventory	44 000 units
absorption cost profit	\$284 000
marginal cost profit	\$250 000

What was the overhead absorption rate per unit during the accounting period?

- A** \$6.25 **B** \$6.45 **C** \$7.10 **D** \$8.50

26 The selling price of a product remains constant.

In which circumstances will the break-even point in units decrease?

- 1 increase in labour costs per unit
- 2 decrease in material costs per unit
- 3 decrease in variable costs per unit
- 4 increase in total fixed costs

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

27 A company makes and sells a single product type.

The product is sold for \$50 per unit and variable costs are \$30 per unit.

Total fixed costs are \$500 000.

How many units of the product does the company need to sell to make a profit of \$300 000?

- A** 6400 **B** 15000 **C** 25000 **D** 40000

- 28 A business makes and sells three different product types, M, N and O. The following information is available.

	product		
per unit	M \$	N \$	O \$
selling price	240	280	250
direct material	110	120	90
direct labour	65	90	100
variable overheads	20	30	25
fixed overheads	50	30	18
profit/(loss)	(5)	10	17

Each product uses the same direct material, which is in short supply.

In which order of priority should the products be produced to maximise the profit?

- A M → N → O
- B M → O → N
- C N → O → M
- D O → N → M

- 29 A business has the following information.

break-even point	5000 units
variable costs per unit	\$27
contribution to sales ratio	40%

What is the total fixed cost?

- A \$54 000
 - B \$81 000
 - C \$90 000
 - D \$135 000
- 30 Why does a business prepare budgets?
- A to assess their non-financial performance
 - B to control their expenditure
 - C to strategically plan several years ahead
 - D to value the assets and liabilities of the organisation

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