

ACCOUNTING

9706/11

Paper 1 Multiple Choice

October/November 2016

1 hour

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



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 **9** printed pages and **3** blank pages.

- 1 A company changes from the straight-line method of depreciation to the reducing balance method.

Which accounting principle has **not** been applied?

- A consistency
- B going concern
- C historic cost
- D materiality

- 2 A company purchased a lorry for \$50 000 on 1 January 2015. It has an estimated residual value of \$10 000 and a four-year life. The company charges depreciation monthly on a straight-line basis.

What will the charge for depreciation be for the year to 30 June 2015?

- A \$5000 B \$6250 C \$10 000 D \$12 500

- 3 The opening net book value of motor vehicles was \$150 000.

During the year a motor vehicle was sold for \$26 000. There was a profit on disposal of \$2000.

Depreciation is calculated at 10% on the opening net book value.

The closing net book value was \$145 000.

What was the cost of motor vehicles purchased during the year?

- A \$33 500 B \$34 000 C \$35 500 D \$36 000

- 4 Ryan sells goods on credit to Sumit. Sumit also supplies goods to Ryan.

It is decided to make a set-off of the purchases ledger and sales ledger balances.

In which books of prime entry is this set-off recorded?

	in Ryan's books	in Sumit's books
A	general journal	general journal
B	general journal	purchases journal
C	sales journal	general journal
D	sales journal	sales journal

- 5 A book-keeper compared the business bank statement with the cash book. He then updated the cash book and finally prepared a bank reconciliation statement.

Why was the bank reconciliation statement prepared?

- A to ensure no transactions had been omitted from the cash book
- B to establish the value of un-presented cheques
- C to explain the difference between the cash book balance and the bank statement balance
- D to find out if any cheques had been dishonoured

- 6 A suspense account was opened to record the difference on a trial balance.

The following errors were then discovered.

- 1 Discount allowed of \$2000 had only been entered in the sales ledger control account.
- 2 A cheque for \$1500 paid for repairs had been entered as \$5100 in the repairs account.

What was the opening balance on the suspense account?

- A \$1600 credit
- B \$1600 debit
- C \$5600 credit
- D \$5600 debit

- 7 Inventory costing \$1200 has been damaged. It would normally be sold for \$1800.

It can be sold for \$1700 if repairs are undertaken at a cost of \$600. To replace the inventory would cost \$1000.

At which value should the damaged inventory be shown in the financial statements?

- A \$1000
- B \$1100
- C \$1200
- D \$1800

- 8 A company's trial balance showed trade receivables of \$14 600 and an existing provision for doubtful debts of \$470.

It was discovered that the trade receivables included an irrecoverable debt of \$500. A contra entry of \$400 was also to be made.

The provision for doubtful debts is to be maintained at 5% of trade receivables.

Which amount for doubtful debts was charged in the income statement?

- A \$215
- B \$235
- C \$470
- D \$685

- 9 A business did not maintain control accounts as part of its double entry books of account.

An examination of its books revealed the following errors.

- 1 The purchases journal was undercast by \$100.
- 2 A sales invoice, \$180, was entered in the sales journal twice.

What was the effect of the errors on the trial balance?

- A** credit side higher by \$100
B credit side higher by \$280
C debit side higher by \$100
D debit side higher by \$280
- 10 A trader has prepared a draft income statement for the year showing a gross profit of \$64 200. He discovers the following two errors.
- 1 Closing inventory has been overstated by \$2500.
 - 2 Sales returns of \$400 have been treated as purchases returns.

What is the correct gross profit?

- A** \$60 900 **B** \$62 100 **C** \$65 900 **D** \$66 300
- 11 A business paid \$5750 during its trading year for advertising. This amount included \$500 in respect of the next financial year.

How would the correct treatment of the \$500 affect the financial statements?

	profit for the year	net current assets
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

12 A statement of financial position at 31 December 2015 showed the following:

	\$
non-current assets	18 000
trade receivables	3 000
inventory	1 800
trade payables	3 600
bank	350 credit
capital (1 January 2015)	19 100
profit for the year	9 200

What were the owner's drawings?

- A** \$8250 **B** \$8750 **C** \$8950 **D** \$9450

13 A trader received \$15 000 from his credit customers in the first year of trading. At the end of the year they still owed \$600.

Payments to credit suppliers was \$3000 and \$500 was owing to them at the end of the period. There was no closing inventory of unsold goods.

What was the gross profit for the period?

- A** \$10 900 **B** \$11 500 **C** \$12 100 **D** \$12 500

14 Abdul and Omar are in partnership. The following information has been extracted from their current accounts.

	Abdul \$	Omar \$
balances at 1 January 2015	2 000 debit	3 000 credit
drawings for the year	15 000	18 000
balances at 1 January 2016	1 000 credit	4 000 debit

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

- A** \$29 000 **B** \$33 000 **C** \$37 000 **D** \$39 000

15 J, H and P are in partnership. The profit for the year was \$80 000.

J is entitled to a partnership salary of \$5000.

They share profits in the ratio of 2 : 2 : 1 but P has guaranteed minimum earnings of \$20 000.

Which total profit share did J receive?

- A \$27 500 B \$32 000 C \$32 500 D \$35 000

16 X, Y and Z were partners sharing profits and losses equally. On 31 March 2014 Z retired and the net asset valuation showed a loss of \$15 000. Unrecorded goodwill was valued at \$30 000.

What was the net entry in Z's capital account?

- A credit \$5000
B credit \$15 000
C debit \$5000
D debit \$15 000

17 Which statement about ordinary shares is **not** correct?

- A Shareholders receive return on investment before other investor groups.
B They are the most risky form of investment.
C They carry a variable rate of dividends.
D They entitle the shareholder to part ownership.

18 An investor owns 10 000 5% preference shares in Howdo Limited.

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

The investor expects the profits to improve and he 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

- 19** The issued ordinary share capital of a company at the beginning of a period was \$240 000 (nominal value \$0.60 per share).

A rights issue of one share for every five held was made during the period at a price of \$0.90 per share. At that time the market price was \$1.10 per share.

What was the issued ordinary share capital after the rights issue?

- A** \$288 000 **B** \$292 800 **C** \$312 000 **D** \$328 000

- 20** In 2014 a company was entirely financed by its equity and reserves which total \$1 000 000. Its return on capital employed was 28%.

On 1 January 2015 the company issued a 10% debenture of \$300 000.

During 2015 the profit from operations increased by 20%. No dividends were paid.

What was the return on capital employed for 2015?

- A** 19.1% **B** 20.9% **C** 23.4% **D** 25.8%

- 21** Which action will improve the current ratio?

- A** providing a cash discount to trade receivables
B requesting a longer payment period from suppliers
C selling non-current assets for cash
D increasing a bank overdraft

- 22** Raj, a supplier of goods, has calculated the following ratios from the financial statements of a possible new customer.

- 1 current ratio
- 2 non-current asset turnover
- 3 trade payables turnover
- 4 trade receivables turnover

Which ratios would help Raj decide whether or not to supply goods?

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

23 A manufacturer operates a bonus system. He provides the following information.

output required from each worker	175 units
time allowed to complete output	10.5 hours
actual time worked by Fred	7 hours

A bonus is paid of 25% of the labour costs for time saved, in addition to the hourly rate of \$8.75.

What did Fred earn for his output of 175 units?

- A** \$68.91 **B** \$76.56 **C** \$91.88 **D** \$99.53

24 A potential investor looks at the financial statements of four companies. Their income statements all show the same level of revenue and profit from operations. The cost of purchasing inventory is increasing.

company 1 uses AVCO to value inventory

company 2 uses FIFO to value inventory

company 3 uses absorption costing

company 4 uses marginal costing

The investor wishes to invest in companies with the best underlying profitability.

Which companies should he select?

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

25 A company is classifying its costs. It discovers that for any level of output between 10 000 and 15 000 units the freight cost per unit is always the same figure of \$2 per unit.

Of which type of cost is this an example?

- A** fixed cost
B semi-variable cost
C stepped fixed cost
D variable cost

26 When does under absorption of overheads occur?

- 1 Actual expenditure is less than budgeted.
- 2 Actual expenditure is more than budgeted.
- 3 Production is lower than planned.
- 4 Production is higher than planned.

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

27 The following information is available in respect of department 1.

	actual	forecast
direct labour hours	45 000	40 000
machine hours	12 000	10 000
overheads to be apportioned to department 1		\$90 000

The company has been asked to quote for an order. The expected time taken in department 1 will be four direct labour hours and seven machine hours.

How much overhead should be charged to the order as it passes through department 1?

- A** \$8.00 **B** \$9.00 **C** \$52.50 **D** \$63.00

28 A business manufactures a single product. The following information is available.

	this year \$	estimated next year \$
selling price per unit	25	25
variable cost per unit	15	17
total fixed costs	80 000	84 000
profit for the year	20 000	

How many units must be sold to achieve the same profit next year?

- A** 10 000 **B** 10 500 **C** 12 500 **D** 13 000

29 A company wants to sell 50 000 units and achieve a profit of \$600 000. It has variable costs of \$60 per unit and total fixed overheads of \$400 000.

What is the selling price per unit it needs to charge?

- A** \$64 **B** \$68 **C** \$72 **D** \$80

30 A business manufactures several products. There is a shortage of direct materials.

Which product will it manufacture first?

- A** the one with the highest contribution per unit of limiting factor
B the one with the highest demand
C the one with the lowest quantity of total direct materials used
D the one with the lowest variable costs

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