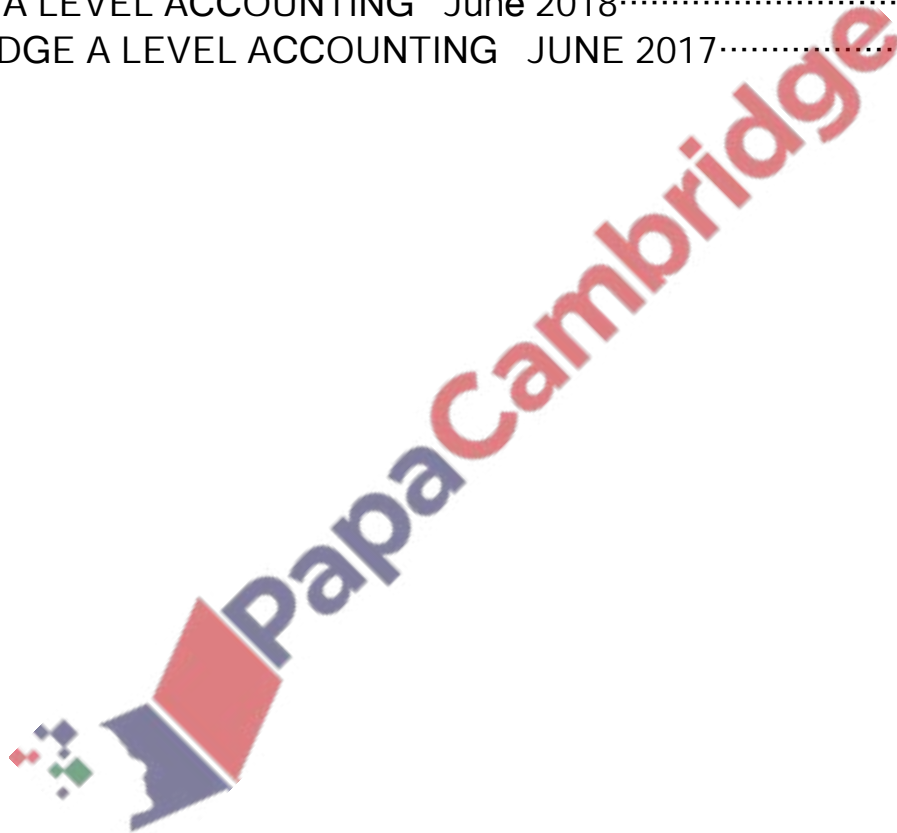


## TABLE OF CONTENTS

CAMBRIDGE A LEVEL ACCOUNTING February 2022.....	1
CAMBRIDGE A LEVEL ACCOUNTING November 2020.....	32
CAMBRIDGE A LEVEL ACCOUNTING November 2019.....	50
CAMBRIDGE A LEVEL ACCOUNTING November 2018.....	70
A LEVEL CAMBRIDGE A LEVEL ACCOUNTING November 2017.....	90
CAMBRIDGE A LEVEL ACCOUNTING November 2016.....	108
CAMBRIDGE A LEVEL ACCOUNTING June 2020.....	126
CAMBRIDGE A LEVEL ACCOUNTING June 2019.....	145
CAMBRIDGE A LEVEL ACCOUNTING June 2018.....	163
CAMBRIDGE A LEVEL ACCOUNTING JUNE 2017.....	..182



# Accounting Multiple choice Past Paper **March 2022**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**



# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 Which actions are taken in respect of the totals of a three-column cash book at the end of an accounting period?

	cash and bank columns	discount columns
<b>A</b>	balanced	balanced
<b>B</b>	balanced	totalled
<b>C</b>	totalled	balanced
<b>D</b>	totalled	totalled

- 2 Which item is an example of capital expenditure?

- A** cost of repairs to an office building
- B** cost of repainting business name on delivery van
- C** legal cost paid to purchase an office building
- D** legal cost to collect outstanding receivables

- 3 On 1 July 2021, Tim bought a delivery van for \$10 000. He paid an additional \$900 to have racks fitted inside, and \$800 for a year's insurance.

Tim provides for depreciation at the rate of 10% per annum. A full year's depreciation is charged in the year of acquisition.

What was the total for expenses recorded in Tim's income statement in respect of the van for the year ended 30 September 2021?

- A** \$1290      **B** \$1690      **C** \$2100      **D** \$2500

- 4 A business has a year end of 31 December. It purchased a non-current asset on 1 January 2020 for \$100 000. The asset was depreciated using the reducing balance method at 20% per annum. It was sold for \$40 000 on 1 January 2022.

What was the loss on disposal?

- A** \$20 000      **B** \$24 000      **C** \$40 000      **D** \$60 000

- 5 What is entered in the sales ledger control account?

- 1 cash sales
- 2 increase in provision for doubtful debts
- 3 returns inwards

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

- 6 A trial balance included a suspense account. The bank balance of \$28 412 had mistakenly been entered as an overdraft and placed on the credit side as \$28 142.

There had also been an addition error and the debit side of the trial balance had been undercast by \$450.

Which entry in the suspense account will correct these errors?

- A credit \$56 104  
 B debit \$56 104  
 C credit \$57 004  
 D debit \$57 004
- 7 Which statement is correct?
- A The balance on the irrecoverable debts account is carried down to the next accounting period.  
 B The balance on the irrecoverable debts account is treated as an expense in the income statement.  
 C The balance on the provision for doubtful debts account is calculated before the deduction of irrecoverable debts.  
 D The balance on the provision for doubtful debts account is not included in a trial balance.
- 8 The following information is available for a business at 31 December 2021.

	\$
general expenses in arrears 1 January	420
general expenses in advance 1 January	240
general expenses in arrears 31 December	720
general expenses in advance 31 December	120

Total amount paid during the year ended 31 December 2021 is \$11 500.

What is the amount to be included in the income statement for general expenses for the year ended 31 December 2021?

- A \$10 240      B \$10 720      C \$11 080      D \$11 920
- 9 When would the year end value of inventory need to be adjusted?
- 1 when inventory has not yet been paid for
  - 2 when selling price has fallen below cost
  - 3 when the owner has recorded taking goods for his own use during the year
- A 1 and 2      B 2 and 3      C 2 only      D 3 only

10 A business had a draft profit for the year of \$250 000.

The following errors were then discovered.

- 1 Depreciation charged was \$25 000. The figure should have been \$40 000.
- 2 Closing inventory for the period was undervalued by \$10 000.

What was the correct profit for the year?

- A** \$225 000      **B** \$245 000      **C** \$255 000      **D** \$275 000

11 A capital account for a sole trader contained three entries, in addition to the opening and closing balances.

What did these entries represent?

	debit side	credit side
<b>A</b>	capital introduced	drawings, loss for the year
<b>B</b>	capital introduced, drawings	profit for the year
<b>C</b>	drawings, loss for the year	capital introduced
<b>D</b>	profit for the year	capital introduced, drawings

12 The year end of a business is 31 December 2021.

On 5 January 2022, inventory was counted and valued at cost, \$30 000.

The following was then discovered.

- 1 Goods purchased and received after the year end, costing \$1500, had been included in the valuation.
- 2 It included goods returned by a customer after the year end. They had a selling price of \$900 which included a mark-up of 25% during the year.
- 3 Some goods included in the inventory, costing \$500, were damaged. They can be sold for \$300 after repairs costing \$100.

Which value of inventory should be included in the financial statements at 31 December 2021?

- A** \$27 480      **B** \$27 525      **C** \$28 275      **D** \$29 270

13 A sole trader provided the following information for the year ended 31 December.

	\$
non-current assets increased by	25 000
current assets increased by	10 000
current liabilities increased by	12 500
additional capital introduced during the year	20 000
drawings for the year	13 000

What was the profit for the year ended 31 December?

- A \$10 500      B \$14 500      C \$15 500      D \$29 500

14 Which rule does **not** apply in the absence of a partnership agreement?

- A Interest on partners' loans is charged at 6% per annum.  
 B No interest on capital is charged.  
 C No salaries are paid to partners.  
 D Profits and losses are shared equally between the partners.

15 P and Q are in partnership sharing profits and losses equally. On 1 January 2021, the partnership had net assets of \$410 000. At that date, R was admitted into the business on the following terms.

- 1 Net assets to be revalued to \$480 000.
- 2 Goodwill was valued at \$50 000 but will not be retained in the books of account.
- 3 Profits and losses will now be shared P 40%, Q 40% and R 20%.

What was the change in Q's capital immediately after R's admission?

- A decrease by \$33 000  
 B decrease by \$40 000  
 C increase by \$33 000  
 D increase by \$40 000

- 16** X and Y are in partnership, sharing residual profits and losses equally. Partners are charged 2% interest on their drawings. Y is entitled to a salary of \$10 000.

The partners' drawings for the year were as shown.

	\$
X	12 000
Y	8 000

The profit for the year was \$52 000.

How much did each partner receive as a share of residual profits?

- A** \$10 800      **B** \$11 200      **C** \$20 800      **D** \$21 200
- 17** Which statements are correct?

- 1 Dividends can be paid out of the general reserve.
- 2 Rights issues can be made from the share premium account.
- 3 The general reserve can be created from retained earnings.

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

- 18** A limited company had the following balances on 1 January 2021.

	\$
revaluation reserve	20 000
retained earnings	142 000

Profit for the year ended 31 December 2021 was \$105 000.

The revaluation reserve, \$20 000, was created two years ago from a revaluation of a property. The same property was revalued on 31 December 2021 with a revaluation loss of \$35 000.

On 1 August 2021 an interim dividend, \$40 000, was paid.

On 31 December 2021 a final dividend, \$55 000, was proposed.

What was the value of retained earnings at 31 December 2021?

- A** \$117 000      **B** \$137 000      **C** \$172 000      **D** \$192 000

19 The bank balance of a limited company was \$390 000 before the following transactions took place.

- 1 An issue of 500 000 new shares of \$0.50 each was made at a premium of \$0.25 per share.
- 2 A debenture for \$100 000 was repaid.
- 3 A bonus issue of 100 000 shares of \$0.50 each was made.

What was the bank balance after these transactions?

- A** \$540 000      **B** \$665 000      **C** \$715 000      **D** \$865 000

20 What might cause a decrease in a company's non-current asset turnover?

- A** increase in expenses  
**B** increase in sales revenue  
**C** purchase of new non-current assets  
**D** selling non-current assets

21 The following information for a limited company at 31 December 2021 is available.

	\$
ordinary share capital	300 000
retained earnings	110 000
8% debenture	100 000

Retained earnings at 1 January 2021 were \$82 000. An interim dividend of \$45 000 was paid on 1 May 2021.

What was the return on capital employed for the year ended 31 December 2021?

- A** 6.83%      **B** 7.06%      **C** 14.31%      **D** 15.88%

22 Which statements about stepped costs are correct?

- 1 fixed within a range of activity levels
- 2 fixed whatever the level of activity
- 3 include fixed costs only
- 4 include both fixed and variable costs

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

**23** A production worker is paid \$15 per hour for working 8 hours a day.

Overtime is paid at the rate of time and a fifth (basic pay plus 20%).

A productivity bonus is also paid at the rate of \$21 per unit for each unit produced in excess of 12 units per day.

Last Friday, the production worker worked 12 hours and assembled 14 units.

How much did he earn on Friday?

- A** \$144      **B** \$162      **C** \$192      **D** \$234

**24** A retailer made the following purchases of inventory in October.

purchase	quantity (units)	unit price \$	total cost \$
5 Oct	50	500	25 000
12 Oct	50	500	25 000
23 Oct	150	525	<u>78 750</u>
			<u>128 750</u>

There was no opening inventory for October.

The business uses the first-in first-out (FIFO) method to value its inventory.

In October, 200 units were sold for \$900 each.

What was the gross profit for October?

- A** \$76 667      **B** \$77 000      **C** \$77 500      **D** \$96 250

**25** A company has two departments in its factory. The details are shown.

department	budgeted fixed overheads \$	budgeted hours
machining	180 000	6 000
assembly	<u>90 000</u>	<u>10 000</u>
total	270 000	16 000

What is the fixed overhead absorption rate per hour in the machining department?

- A** \$11.25      **B** \$16.875      **C** \$30      **D** \$45



26 What would cause overheads to be over-absorbed?

- A Overhead absorbed is greater than overhead budgeted.
- B Overhead absorbed is less than overhead budgeted.
- C Overhead incurred is greater than overhead absorbed.
- D Overhead incurred is less than overhead absorbed.

27 A company has the following information for producing 2000 units of a product.

	\$
sales revenue	85 000
direct materials	30 000
direct labour	14 000
direct expenses	2 500
other variable overheads	10 200
fixed overheads	8 000

What is the contribution to sales ratio?

- A 23.88%
- B 33.29%
- C 45.29%
- D 54.71%

28 The following information is available about two products.

	product 1 per unit	product 2 per unit
material X	2 kilos	4 kilos
material Y	3 kilos	1 kilo
direct labour	3 hours	6 hours

Production is planned to be 100 units of each product.

700 kilos of material X and 400 kilos of material Y are available. A total of 800 direct labour hours can be worked.

What are the limiting factors?

- A direct labour only
- B material X only
- C material Y only
- D all three inputs

29 A company provides the following information about its product.

selling price	\$100
variable cost per unit	\$40
fixed costs	\$21 600
break-even point	360 units

If the business changes its production method, contribution will increase by 10% and fixed costs will increase by 5%.

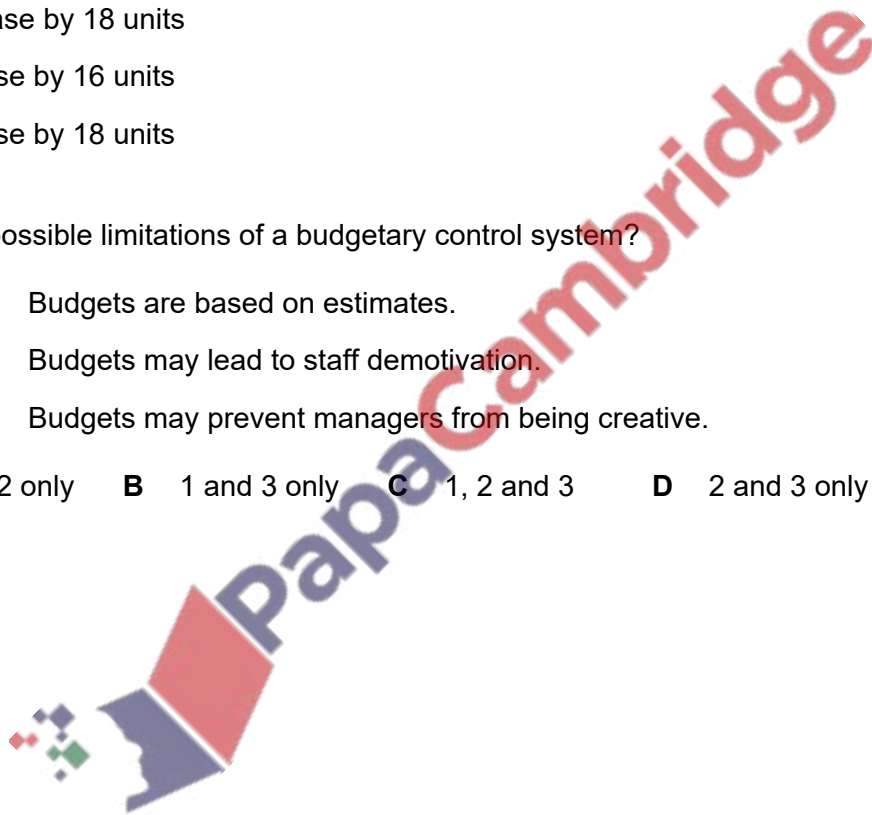
What would be the effect on the break-even point?

- A decrease by 16 units
- B decrease by 18 units
- C increase by 16 units
- D increase by 18 units

30 What are possible limitations of a budgetary control system?

- 1 Budgets are based on estimates.
- 2 Budgets may lead to staff demotivation.
- 3 Budgets may prevent managers from being creative.

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



# Answers

EXPLAINED



- 1 Which actions are taken in respect of the totals of a three-column cash book at the end of an accounting period?

	cash and bank columns	discount columns
<b>A</b>	balanced	balanced
<b>B</b>	balanced	totalled
<b>C</b>	totalled	balanced
<b>D</b>	totalled	totalled

### Answer B

The three-column cash book has an extra money column to record discounts, so it has discounts, cash and bank columns on the debit side as well as on the credit side. This is to avoid too many entries being made in the nominal (general) ledger, where discounts accounts are maintained.

At the end of the year, the cash book should be balanced. The cash and bank columns in the cash book are balanced. Note that discount columns are totalled. The discount columns are MEMORANDUM columns only, they are not part of the double entry system.

- 2 Which item is an example of capital expenditure?
- A** cost of repairs to an office building
  - B** cost of repainting business name on delivery van
  - C** legal cost paid to purchase an office building
  - D** legal cost to collect outstanding receivables

### Answer C

Capital expenditure is expenditure which forms part of the cost of non-current assets. The legal fees associated with the purchase of a property may be added to the purchase price and classified as capital expenditure. The cost of the property in the statement of financial position of the business will then include the legal fees.

Revenue expenditure is a short-term expense incurred to meet the operational costs of running the business on a day-to-day basis. Cost of repairs and repainting are treated as revenue expenditure.

Legal cost to collect outstanding receivables are not related to the purchase of a property.

- 3 On 1 July 2021, Tim bought a delivery van for \$10 000. He paid an additional \$900 to have racks fitted inside, and \$800 for a year's insurance.

Tim provides for depreciation at the rate of 10% per annum. A full year's depreciation is charged in the year of acquisition.

What was the total for expenses recorded in Tim's income statement in respect of the van for the year ended 30 September 2021?

- A \$1290      B \$1690      C \$2100      D \$2500

Answer A

The purchase cost of the delivery van (\$10 000) and the additional \$900 to have racks fitted are treated as capital expenditure. The total purchase cost is \$ 10,900. (\$10,000+\$900).

The insurance needs to be paid every year and is thus treated as an expense in the income statement. Insurance charge for 3 months (1 July to 30 September) will be included.

Depreciation is charged for full in the year of acquisition

Total expenses calculation:

		\$
Insurance	$(3/12) \times 800$	200
Depreciation	$0.1 \times 10900$	1090
<b>Total</b>		<b>1290</b>

- 4 A business has a year end of 31 December. It purchased a non-current asset on 1 January 2020 for \$100 000. The asset was depreciated using the reducing balance method at 20% per annum. It was sold for \$40 000 on 1 January 2022.

What was the loss on disposal?

- A \$20 000      B \$24 000      C \$40 000      D \$60 000

Answer B

**Depreciation calculation**

		\$
Year 1	$0.2 \times 100,000$	20,000
Year 2	$0.2 \times 80,000$	16,000
<b>Total</b>		<b>36,000</b>

The asset was sold for	40000	
The net book value was	[64000]	(100000-36000)
<b>Loss on disposal</b>	<b>24000</b>	

5 What is entered in the sales ledger control account?

- 1 cash sales
- 2 increase in provision for doubtful debts
- 3 returns inwards

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

Answer D

The sales ledger control account is an account used to record the totals of the books of prime entry, related to credit sales, to check the accuracy of the sales ledger. It is also known as the total trade receivables account.

Cash sales are not included, they do not appear in the sales ledger as the sales ledger reserve is reserved only for credit customers.

6 A trial balance included a suspense account. The bank balance of \$28412 had mistakenly been entered as an overdraft and placed on the credit side as \$28 142.

There had also been an addition error and the debit side of the trial balance had been undercast by \$450.

Which entry in the suspense account will correct these errors?

- A** credit \$56 104
- B** debit \$56 104
- C** credit \$57 004
- D** debit \$57 004

Answer C

	\$
Correcting bank balance * (28142+28412)	56554
Trial balance undercasted	450
Suspense account CREDITED	<b>57004</b>

\*The bank balance mistakenly been entered as an overdraft, on the credit side at \$28142. This is incorrect

Bank Account	
	\$
Balance b/d	28142

The correct entry in the bank account is \$28412 on the debit side. TWO entries must be made in the bank account to correct the previous error.

DR	Bank Account		CR
	\$		\$
Suspense account	28142	<b>Balance b/d</b>	<b>28142</b>
Suspense account	28412		

The correct balance will now be shown on the bank account

DR	Bank Account		CR	
	\$		\$	
Suspense account	28142	<b>Balance b/d</b>	<b>28142</b>	(Wrong amount and Wrong side)
Suspense account	28412	balance c/d	28412	
	<u>56554</u>		<u>56554</u>	
(Correct amount and Correct side)	<b>Balance b/d</b>	<b>28412</b>		

Examiner report: Using suspense accounts always seems to cause problems. Looking at the data, to correct the bank account there would need to be a debit entry of \$28 142 to cancel the error and a further debit entry of \$28 412 to ensure the correct balance was entered. The undercast of \$450 would also need a debit entry. Thus the suspense account would need to be credited with the total of these three items, \$57 004, being the key C

7 Which statement is correct?

- A The balance on the irrecoverable debts account is carried down to the next accounting period.
- B The balance on the irrecoverable debts account is treated as an expense in the income statement.
- C The balance on the provision for doubtful debts account is calculated before the deduction of irrecoverable debts.
- D The balance on the provision for doubtful debts account is not included in a trial balance.

Answer B

Irrecoverable debts are specific debts owed to a business which it decides are never going to be paid. They are written off as an expense in the statement of profit or loss.

The provision for doubtful debts is calculated AFTER the deduction of irrecoverable debts.

8 The following information is available for a business at 31 December 2021.

	\$
general expenses in arrears 1 January	420
general expenses in advance 1 January	240
general expenses in arrears 31 December	720
general expenses in advance 31 December	120

Total amount paid during the year ended 31 December 2021 is \$11 500.

What is the amount to be included in the income statement for general expenses for the year ended 31 December 2021?

- A \$10 240      B \$10 720      C \$11 080      D \$11 920

Answer D

General expenses account			
	\$		\$
balance b/d	240	balance b/d	420
Bank	11,500	<b>Income statement*</b>	<b>11,920</b>
balance c/d	720	balance c/d	120
	12,460		12,460
balance b/d	120	balance b/d	720

\*balancing figure

**Prepayments** are included in current assets in the statement of financial position. They are assets, as they represent money that has been paid out in advance of the expense being incurred. Prepayments are amounts paid for in **advance**.

**Accruals** are included in current liabilities, as they represent liabilities which have been incurred but for which no invoice has yet been received. An accrual is when you pay for something in **arrears**.

Expense			
	\$		\$
Balance b/f (opening prepaid expense)	X	Balance b/f (opening accrued expense)	X
Bank (total paid during the year)	X	Income statement (total expense for the year)	X
Balance c/f (closing accrued expense)	X	Balance c/f (closing prepaid expense)	X
	X		X
Balance b/f (opening prepaid expense)	X	Balance b/f (opening accrued expense)	X



9 When would the year end value of inventory need to be adjusted?

- 1 when inventory has not yet been paid for
- 2 when selling price has fallen below cost
- 3 when the owner has recorded taking goods for his own use during the year

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

Answer C

Option 2: An adjustment will be required. Inventory is valued at cost and net realisable value, whichever is lower

Net realisable value (NRV) is the estimated saleable value of the inventory in question, less a reasonable estimate of costs associated with the completion and eventual sale of goods.

Cost includes, in addition to cost price, all those costs necessary to acquire the inventory and convert it to a saleable condition.

Option 1 and 3 do not require adjustment.

10 A business had a draft profit for the year of \$250 000.

The following errors were then discovered.

- 1 Depreciation charged was \$25 000. The figure should have been \$40 000.
- 2 Closing inventory for the period was undervalued by \$10 000.

What was the correct profit for the year?

A \$225 000      B \$245 000      C \$255 000      D \$275 000

Answer B

	\$	
Draft profit	250,000	
Depreciation mistated	( 15,000)	40,000-25,000
Closing inventory undervalued	10,000	
	<u>245,000</u>	

- 11 A capital account for a sole trader contained three entries, in addition to the opening and closing balances.

What did these entries represent?

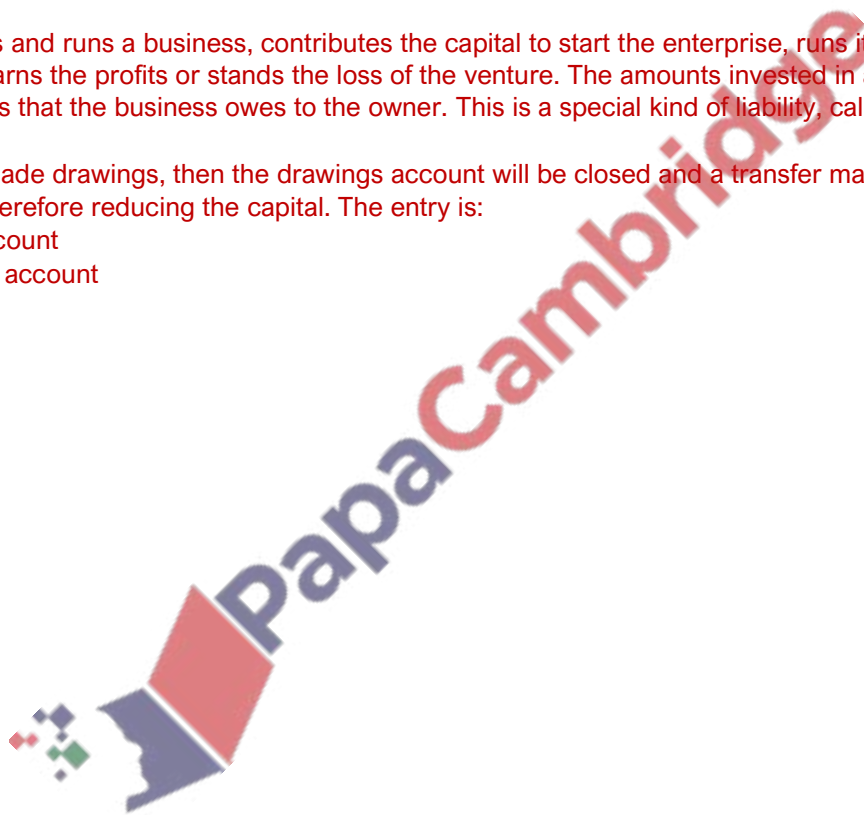
	debit side	credit side
<b>A</b>	capital introduced	drawings, loss for the year
<b>B</b>	capital introduced, drawings	profit for the year
<b>C</b>	drawings, loss for the year	capital introduced
<b>D</b>	profit for the year	capital introduced, drawings

Answer C

A sole trader owns and runs a business, contributes the capital to start the enterprise, runs it with or without employees, and earns the profits or stands the loss of the venture. The amounts invested in a business by the owner are amounts that the business owes to the owner. This is a special kind of liability, called capital. It is a credit.

If the owner has made drawings, then the drawings account will be closed and a transfer made to the debit of the capital account, therefore reducing the capital. The entry is:

- » Debit: capital account
- » Credit: drawings account



12 The year end of a business is 31 December 2021.

On 5 January 2022, inventory was counted and valued at cost, \$30 000.

The following was then discovered.

- 1 Goods purchased and received after the year end, costing \$1500, had been included in the valuation.
- 2 It included goods returned by a customer after the year end. They had a selling price of \$900 which included a mark-up of 25% during the year.
- 3 Some goods included in the inventory, costing \$500, were damaged. They can be sold for \$300 after repairs costing \$100.

Which value of inventory should be included in the financial statements at 31 December 2021?

- A \$27 480      B \$27 525      C \$28 275      D \$29 270

Answer A

	\$
Inventory before adjustment	30,000
Less goods purchased after year end	(1500)
Less goods returned after year end 900- (0.20* x 900)	(720)
Damaged goods (500-200)**	(300)
	<b>27480</b>

#### Convert markup to margin\*

Mark-up is the profit as a percentage of **cost**

Gross profit margin is the profit as a percentage of **sales**

Margin = Markup/ 1+ Markup (and Markup = Margin/ 1+Margin)

Margin =  $0.25/(1+0.25) = 0.20$

Margin=20%

#### Inventory should be valued at lower of cost or net realizable value\*\*

Cost = \$500

Net realizable value = \$300 - \$100 = \$200

13 A sole trader provided the following information for the year ended 31 December.

	\$
non-current assets increased by	25 000
current assets increased by	10 000
current liabilities increased by	12 500
additional capital introduced during the year	20 000
drawings for the year	13 000

What was the profit for the year ended 31 December?

- A \$10 500      B \$14 500      C \$15 500      D \$29 500

Answer C

closing net assets = opening net assets + capital introduced + profit – drawings

Profit/(loss) = movement in net assets – capital introduced + drawings

	\$
non-current assets increase	25,000
current assets increase	10,000
LESS current liabilities increase	(12,500)
LESS additional capital introduced during the year	(20,000)
drawings for the year	13,000
Profit	<b>15,500</b>

14 Which rule does **not** apply in the absence of a partnership agreement?

- A Interest on partners' loans is charged at 6% per annum.  
 B No interest on capital is charged.  
 C No salaries are paid to partners.  
 D Profits and losses are shared equally between the partners.

Answer A

If there is no agreement, the Partnership Act of 1890 lays down the following rules which must apply:

- Partners should contribute equal amounts of capital.
- No partner should be entitled to interest on capital.
- No partner is entitled to a salary.
- No partner is to be charged interest on drawings.
- Residual profits or losses are to be shared equally.
- Any loan made to the partnership by a partner will carry interest at the rate of **five per cent** per annum.

**15** P and Q are in partnership sharing profits and losses equally. On 1 January 2021, the partnership had net assets of \$410 000. At that date, R was admitted into the business on the following terms.

- 1 Net assets to be revalued to \$480 000.
- 2 Goodwill was valued at \$50 000 but will not be retained in the books of account.
- 3 Profits and losses will now be shared P 40%, Q 40% and R 20%.

What was the change in Q's capital immediately after R's admission?

- A** decrease by \$33 000
- B** decrease by \$40 000
- C** increase by \$33 000
- D** increase by \$40 000

**Answer D**

Revaluation = \$480,000 - \$410,000 = \$70,000  
 Q's share of revaluation =  $0.5 \times 70,000 = \$35,000$

Goodwill = \$50,000  
 Q's share of goodwill  
 $0.5 \times \$50,000 = \$25,000$   
 $0.4 \times \$50,000 = \$20,000$

Change in Q's capital immediately after R's admission  
 $(\$25,000 - \$20,000) + \$35,000 = \$40,000$

**16** X and Y are in partnership, sharing residual profits and losses equally. Partners are charged 2% interest on their drawings. Y is entitled to a salary of \$10 000.

The partners' drawings for the year were as shown.

	\$
X	12 000
Y	8 000

The profit for the year was \$52 000.

How much did each partner receive as a share of residual profits?

- A** \$10 800
- B** \$11 200
- C** \$20 800
- D** \$21 200

Answer D

	\$
Profit for the year	52,000
LESS salary	(10,000)
ADD interest on drawings	
X	240
Y	160
Residual profit	<u>42400</u>

**Share of residual profit**

X	21,200
Y	21,200
	<u>42,400</u>

17 Which statements are correct?

- 1 Dividends can be paid out of the general reserve.
- 2 Rights issues can be made from the share premium account.
- 3 The general reserve can be created from retained earnings.

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

Answer B

- 1 General reserves can be used to pay dividends.
- 2 One common use of the share premium account is to 'finance' the issue of bonus shares.
- 3 General reserves are created by **transferring some percentage (not prescribed) of current year's profit before paying the dividend** whereas the remaining profits of the current year is added to retained earnings each year.



18 A limited company had the following balances on 1 January 2021.

	\$
revaluation reserve	20 000
retained earnings	142 000

Profit for the year ended 31 December 2021 was \$105 000.

The revaluation reserve, \$20 000, was created two years ago from a revaluation of a property. The same property was revalued on 31 December 2021 with a revaluation loss of \$35 000.

On 1 August 2021 an interim dividend, \$40 000, was paid.

On 31 December 2021 a final dividend, \$55 000, was proposed.

What was the value of retained earnings at 31 December 2021?

- A** \$117 000      **B** \$137 000      **C** \$172 000      **D** \$192 000

Answer D

	\$
Retained earnings	142,000
Profit for the year	105,000
Revaluation loss (35000-20000)	(15,000)
Dividend paid	(40,000)
	<u>192,000</u>

19 The bank balance of a limited company was \$390 000 before the following transactions took place.

- 1 An issue of 500 000 new shares of \$0.50 each was made at a premium of \$0.25 per share.
- 2 A debenture for \$100 000 was repaid.
- 3 A bonus issue of 100 000 shares of \$0.50 each was made.

What was the bank balance after these transactions?

- A** \$540 000      **B** \$665 000      **C** \$715 000      **D** \$865 000

Answer B

	\$
Bank balance	390,000
Share issue ( 500,000 x (0.25+0.50))	375,000
Debenture repaid	(100,000)
	665,000
	665,000

20 What might cause a decrease in a company's non-current asset turnover?

- A** increase in expenses
- B** increase in sales revenue
- C** purchase of new non-current assets
- D** selling non-current assets

Answer C

$$\text{Non current asset turnover} = \frac{\text{Sales}}{\text{Non Current Asset}} \times 100$$

The purchase of non current asset turnover lead to a decrease in company's non-current asset turnover.

Let's assume that initially the company incurs sales of \$100 and has non current assets worth \$1000. The non current asset turnover is calculated as 10% (100/1000).

If the company still incurs sales of \$100 but it's non current assets increases to \$ 2000. The non current asset turnover is calculated as 5% (100/2000).

The non current asset turnover falls from 10% to 5% following the purchase of a non current asset.



21 The following information for a limited company at 31 December 2021 is available.

	\$
ordinary share capital	300 000
retained earnings	110 000
8% debenture	100 000

Retained earnings at 1 January 2021 were \$82 000. An interim dividend of \$45 000 was paid on 1 May 2021.

What was the return on capital employed for the year ended 31 December 2021?

- A** 6.83%      **B** 7.06%      **C** 14.31%      **D** 15.88%

Answer D

Profit  $(110,000 - 82,000 + 45,000 + 8,000)^*$       \$81,000  
 Capital employed  $(300,000 + 110,000 + 100,000)$       \$510,000

Return on Capital employed =  $\frac{\text{Profit}}{\text{Capital employed}} \times 100$

$$= (81,000 / 510,000) \times 100$$

$$= 15.88\%$$

Retained earnings at start	\$ 82,000
Interim dividend paid	(45,000)
Debenture interest	(8,000)
Profit*	<u>Missing figure</u>
Retained earnings at end	<u>110,000</u>

Examiner's report: The numerator for the calculation of ROCE is the profit from operations. In this case the change in retained earnings was \$110 000 – \$82 000 + \$45 000 + \$8 000, giving a total of \$81 000 as the numerator. Most candidates did not add back the debenture interest of \$8 000. Had they done so they would have identified the key D.

22 Which statements about stepped costs are correct?

- 1 fixed within a range of activity levels
- 2 fixed whatever the level of activity
- 3 include fixed costs only
- 4 include both fixed and variable costs

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

Answer D

Stepped costs remain fixed until a certain level of business activity is reached.

23 A production worker is paid \$15 per hour for working 8 hours a day.

Overtime is paid at the rate of time and a fifth (basic pay plus 20%).

A productivity bonus is also paid at the rate of \$21 per unit for each unit produced in excess of 12 units per day.

Last Friday, the production worker worked 12 hours and assembled 14 units.

How much did he earn on Friday?

A \$144      B \$162      C \$192      D \$234

Answer D

	\$
Basic pay(\$15x8)	120
Overtime(4x\$18)	72
Productivity bonus(\$21x2)	42
	234

24 A retailer made the following purchases of inventory in October.

purchase	quantity (units)	unit price \$	total cost \$
5 Oct	50	500	25 000
12 Oct	50	500	25 000
23 Oct	150	525	<u>78 750</u>
			<u>128 750</u>

There was no opening inventory for October.

The business uses the first-in first-out (FIFO) method to value its inventory.

In October, 200 units were sold for \$900 each.

29

15

What was the gross profit for October?

A \$76 667

B \$77 000

C \$77 500

D \$96 250

Answer C

	\$
Sales (200 units x \$900)	180,000
Purchases*	<u>(102,500)</u>
Profit	<u>77,500</u>

	\$
<b>Purchases calculation*</b>	
(50 units x \$500)	25,000
(50 units x \$500)	25,000
(100 units x \$525)	<u>52,500</u>
	<u>102,500</u>

25 A company has two departments in its factory. The details are shown.

department	budgeted fixed overheads \$	budgeted hours
machining	180 000	6 000
assembly	<u>90 000</u>	<u>10 000</u>
total	270 000	16 000

What is the fixed overhead absorption rate per hour in the machining department?

A \$11.25

B \$16.875

C \$30

D \$45

Answer C

The overhead absorption rate will take into account the number of machine hours required to produce each unit of output.

$$\text{Fixed overhead absorption rate} = \$180,000/6000 \\ = \$30$$

- 26 What would cause overheads to be over-absorbed?
- A Overhead absorbed is greater than overhead budgeted.
  - B Overhead absorbed is less than overhead budgeted.
  - C Overhead incurred is greater than overhead absorbed.
  - D Overhead incurred is less than overhead absorbed.

Answer D

Overhead recovery rates are based on predictions of future levels of activity and predicted (budgeted) levels of overhead expenditure. Over absorption means that the overheads charged to the cost of sales are greater than the overheads actually incurred.

- 27 A company has the following information for producing 2000 units of a product.

	\$
sales revenue	85 000
direct materials	30 000
direct labour	14 000
direct expenses	2 500
other variable overheads	10 200
fixed overheads	8 000

What is the contribution to sales ratio?

- A 23.88%
- B 33.29%
- C 45.29%
- D 54.71%

Answer B

<b>sales revenue</b>	<b>\$ 85,000</b>
direct materials	30,000
direct labour	14,000
other variable overheads	10,200
direct expenses	2,500
<b>Total variable costs</b>	<b><u>56,700</u></b>
Contribution	<b><u><u>28,300</u></u></b>

$$\text{Contribution/ Sales ratio} = (28,300/85000) \times 100$$

$$= 33.29\%$$

28 The following information is available about two products.

	product 1 per unit	product 2 per unit
material X	2 kilos	4 kilos
material Y	3 kilos	1 kilo
direct labour	3 hours	6 hours

Production is planned to be 100 units of each product.

700 kilos of material X and 400 kilos of material Y are available. A total of 800 direct labour hours can be worked.

What are the limiting factors?

- A direct labour only
- B material X only
- C material Y only
- D all three inputs

Answer A

	Required	Available
Material X (kilos)	600*	700
Material Y (kilos)	400**	400
Direct labour (hours)	900***	800

\* $(2 \times 100) + (4 \times 100) = 600$  kilos

\*\* $(3 \times 100) + (1 \times 100) = 400$  kilos

\*\*\* $(3 \times 100) + (6 \times 100) = 900$  hours

29 A company provides the following information about its product.

selling price	\$100
variable cost per unit	\$40
fixed costs	\$21 600
break-even point	360 units

If the business changes its production method, contribution will increase by 10% and fixed costs will increase by 5%.

What would be the effect on the break-even point?

- A decrease by 16 units
- B decrease by 18 units
- C increase by 16 units
- D increase by 18 units

Answer A

$$\begin{aligned} \text{Break even point} &= \text{Total fixed cost} / \text{Contribution per unit} \\ &= (21,600 * 1.05) / (60 * 1.1) \\ &= 343.6 \text{ units (rounded to 344)} \end{aligned}$$

$$\begin{aligned} \text{Decrease in break even} &= 360 - 344 \\ &= 16 \text{ units} \end{aligned}$$

30 What are possible limitations of a budgetary control system?

- 1 Budgets are based on estimates.
- 2 Budgets may lead to staff demotivation.
- 3 Budgets may prevent managers from being creative.

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

Answer C

Budgets are only as good as the data being used. If data are inaccurate, the budget will be of little use. Budgets might become an overriding goal. This could lead to a misuse of resources or incorrect decisions being made. Budgets might act as a demotivator if they are imposed rather than negotiated.

# Accounting Multiple choice Past Paper **November 2020**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.



- 1 The inclusion of unpaid loan interest in financial statements is in accordance with which accounting concept?
- A consistency
  - B going concern
  - C matching
  - D money measurement

2 What is depreciation?

- A a means of allocating the cost of a non-current asset over its useful life
- B a measure of the decrease in market value of a non-current asset
- C an outflow of cash from the use of a non-current asset
- D the expense spent on the non-current asset

- 3 A trader depreciates fixtures and fittings at the rate of 10% per annum on cost. On 1 January 2019 a purchase of new fixtures and fittings, \$5000, was posted to the advertising account in error.

What was the effect of this error on the trader's capital account on 31 December 2019?

- A overstated \$4500
- B overstated \$5000
- C understated \$4500
- D understated \$5000

- 4 A company had a non-current asset which cost \$370 000. The asset had a 10-year useful life and an estimated residual value of \$20 000. A full year's charge for depreciation is made in every year of use.

After four years the asset was sold. The loss on disposal was \$30 000 and disposal costs were \$10 000.

What were the sale proceeds?

- A \$192 000
- B \$200 000
- C \$202 000
- D \$210 000

- 5 Which item is recorded on the debit side of a sales ledger control account?

- A interest charged on overdue accounts of customers
- B irrecoverable debts written off
- C returns of goods supplied to credit customers
- D total of cash sales

- 6 A trader prepared a trial balance which did not balance. The difference was posted to a suspense account.

The following errors have now been found.

- 1 The returns inwards account had been overcast by \$90.
- 2 A payment of \$200 for rent had been entered correctly in the cash book but had not been posted to the rent account.

What was the opening balance on the suspense account?

- A \$110 credit
  - B \$110 debit
  - C \$290 credit
  - D \$290 debit
- 7 How could a credit entry of \$500 in X's account have arisen in the books of account of Y?
- A X bought goods from Y.
  - B X returned goods to Y.
  - C Y made a payment to X.
  - D Y returned goods to X.
- 8 An invoice for purchases was credited to the purchases account.
- How will the balance on the purchases account be corrected?
- A decrease by the value of the invoice
  - B decrease by twice the value of the invoice
  - C increase by the value of the invoice
  - D increase by twice the value of the invoice

- 9 Rent is paid by a business monthly in advance on the first day of each month. The payments during a financial year were as follows.

up to and including 1 June	\$500 per month
from 1 July	\$600 per month

Which amounts will appear in the financial statements for the year ended 31 October?

	income statement	statement of financial position
<b>A</b>	\$6300	\$600 other receivables
<b>B</b>	\$6300	\$600 other payables
<b>C</b>	\$6400	—
<b>D</b>	\$6500	—

- 10 What is the effect on profit for the year and net assets when accrued expenses are understated?

	profit for the year	net assets
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

- 11 Ali's trade receivables at 31 December 2019 were \$26 500. He knew that \$400 of these were irrecoverable.

He wished to maintain a provision for doubtful debts equal to 5% of the trade receivables.

At 1 January 2019 the balance of the provision for doubtful debts was \$1200.

Which entry does Ali make in the provision for doubtful debts account at 31 December 2019?

- A** \$105 credit
- B** \$105 debit
- C** \$125 credit
- D** \$125 debit

- 12 Adil and Bashir were in partnership sharing profits and losses in the ratio 2 : 1.

Chandra joins the partnership and profits and losses are now to be shared between Adil, Bashir and Chandra in the ratio 3 : 2 : 1.

The balances of the partners' capital accounts prior to Chandra joining the partnership are as follows:

	\$
Adil	20 000
Bashir	10 000

Goodwill is to be valued at \$36 000 and is not to be retained in the books of account.

What is the balance on Adil's capital account after Chandra joined the partnership?

- A \$20 000      B \$26 000      C \$38 000      D \$44 000

- 13 How is a loss on realisation recorded when a partnership is dissolved?

- A Credit each partner's capital account equally.  
 B Debit each partner's capital account equally.  
 C Credit each partner's capital account in the profit-sharing ratio.  
 D Debit each partner's capital account in the profit-sharing ratio.

- 14 John and Brian are in partnership sharing profits and losses equally. John receives a salary of \$2000 per annum. Brian loaned the business \$5000. He is entitled to interest of 5% per annum.

The profit for the year before appropriation was \$24 000. During the year John took drawings of \$3000.

What will be the amount of residual profit Brian will receive for the year?

- A \$9375      B \$10 875      C \$11 000      D \$11 250

- 15 A company issued 100 000 ordinary shares of \$1 each at a premium of \$2. The market value was \$4 per share.

Which statement is **not** correct?

- A Capital reserves increased by \$200 000.  
 B Cash and cash equivalents increased by \$300 000.  
 C Ordinary share capital increased by \$100 000.  
 D Revenue reserves increased by \$400 000.

16 Which item has **no effect** on the total equity of a limited company?

- A bonus issue of shares
- B dividends paid
- C rights issue of shares
- D upward revaluation of non-current assets

17 Information relating to W Limited for the year ended 31 December 2019 was as follows:

	\$
retained earnings at 1 January 2019	22 000
profit from operations	83 000
dividend paid	20 000
dividend proposed	15 000
bank loan interest	16 000

What was the amount of retained earnings at 31 December 2019?

- A \$32 000      B \$47 000      C \$54 000      D \$69 000

18 Which financial information is **not** available for potential shareholders of a limited company?

- A cash budget
- B income statement
- C notes to financial statements
- D statement of changes in equity



19 The following information is available.

	\$	\$
revenue		600 000
opening inventory	46 000	
purchases	<u>244 000</u>	
	290 000	
closing inventory	<u>50 000</u>	<u>240 000</u>
gross profit		360 000
expenses		<u>150 000</u>
profit from operations		<u>210 000</u>

What was the rate of inventory turnover (in times)?

- A 4.8                      B 5                      C 12                      D 12.5

20 A company's financial statements for the year ended 31 December showed the following:

	\$
issued share capital	150 000
non-current liabilities	280 000
reserves including retained earnings	250 000

The company's profit from operations was \$160 000 and the profit for the year was \$120 000.

What was the company's return on capital employed?

- A 23.5%                      B 30.0%                      C 37.2%                      D 40.0%

21 Which cost can be classified as a fixed cost?

- A bank overdraft interest  
 B piece rate labour cost  
 C sales commission  
 D telephone rental

- 22** An employee works a 40-hour week at an hourly rate of \$8.

She receives a bonus of 30% of the hourly rate for time saved producing each unit. The target production time is 30 minutes per unit.

Last week she worked 40 hours and produced 90 units.

What were her gross earnings for the week?

- A** \$320      **B** \$332      **C** \$360      **D** \$416

- 23** A business uses the weighted average (AVCO) method to value its inventory.

It purchased the following units of inventory.

units	cost per unit \$	total cost \$
100	36	3600
120	48	5760
80	54	4320

After these receipts it issued 250 units to production.

What was the value of the issue?

- A** \$10980      **B** \$11400      **C** \$11500      **D** \$11880

- 24** A business provides the following information.

month	number of machine hours	overheads \$
April	34 000	493 000
May	67 000	625 000

The variable overhead rate per machine hour was \$4.

What was the monthly fixed overhead cost?

- A** \$132 000      **B** \$136 000      **C** \$268 000      **D** \$357 000

25 A business absorbs its fixed overheads using direct labour hours.

The following information is provided.

	actual	budgeted
overheads	\$600 000	\$508 000
labour hours	14 300	12 700

Which statement is correct?

- A Overheads were over absorbed by \$28 000.
- B Overheads were under absorbed by \$28 000.
- C Overheads were over absorbed by \$92 000.
- D Overheads were under absorbed by \$92 000.

26 A company sells a single product for \$24 per unit.

The variable cost is \$8 per unit.

Fixed costs have been absorbed based on a normal activity level of 1000 units at \$6 per unit.

What is the profit under marginal costing if the company makes and sells 1250 units?

- A \$10 000
- B \$12 500
- C \$14 000
- D \$20 000

27 A product has the following revenue and costs per unit.

	\$
selling price	40
marginal cost	22
fixed manufacturing overhead	6
non-manufacturing overhead	2

What is the contribution to sales ratio?

- A 25%
- B 30%
- C 45%
- D 55%

28 Which statements about cost–volume–profit analysis are correct?

- 1 It applies over any time period.
- 2 It is suitable for any range of output.
- 3 Profits are calculated using marginal costing.

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



29 Total costs at two levels of production are as follows.

units	\$
10 000	230 000
16 000	320 000

Fixed costs will increase by \$30 000 if more than 20 000 units are produced.

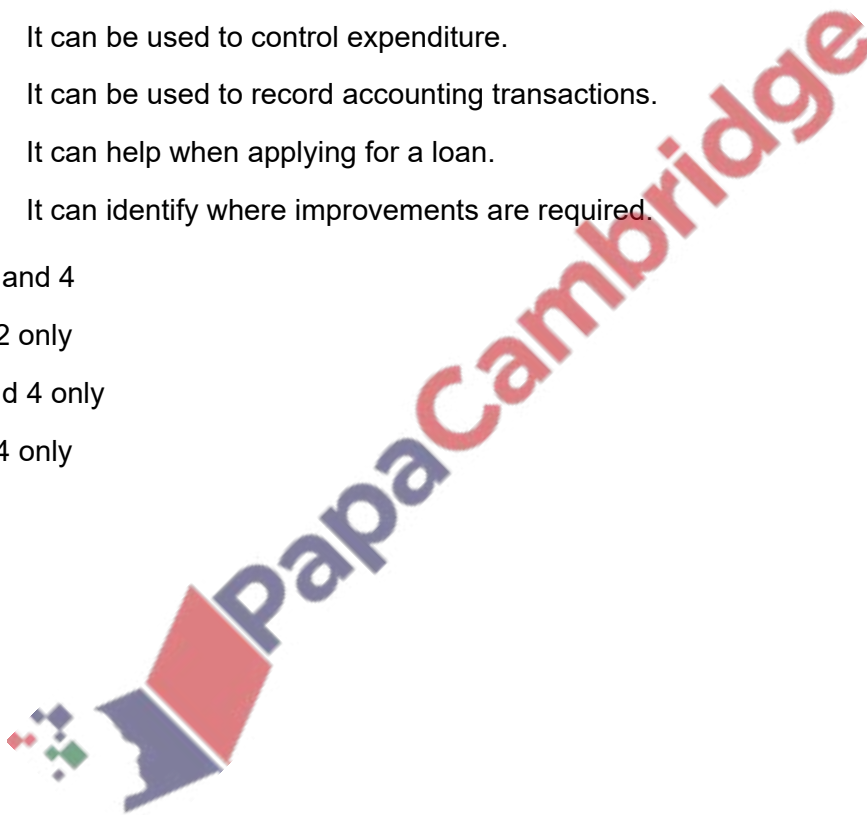
What are the total costs if 25 000 units are produced?

- A** \$405 000      **B** \$485 000      **C** \$530 000      **D** \$605 000

30 Which are benefits of a budgetary control system?

- 1 It can be used to control expenditure.
- 2 It can be used to record accounting transactions.
- 3 It can help when applying for a loan.
- 4 It can identify where improvements are required.

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



# Answers

EXPLAINED



## November 2020 Paper 1

### Multiple Choice

1. The inclusion of unpaid loan interest in financial statements is in accordance with which accounting concept?

- A consistency
- B going concern
- C matching
- D money measurement

---

The matching concept is sometimes known as the accruals concept. The value of the resources used in any time period may be different from the price paid to acquire the resources.

Answer c

2. What is depreciation?

- A a means of allocating the cost of a non-current asset over its useful life
- B a measure of the decrease in market value of a non-current asset
- C an outflow of cash from the use of a non-current asset
- D the expense spent on the non-current asset

---

Depreciation is the apportioning of the cost of a non-current asset over its useful economic life.

Answer: A

3. A trader depreciates fixtures and fittings at the rate, of 10% per annum on cost. On 1 January 2019 a purchase of new fixtures and fittings, \$5000, was posted to the advertising account in error.

What was the effect of this error on the trader's capital account on 31 December 2019?

- A overstated \$4500
- B overstated \$5000
- C understated \$4500
- D understated \$5000

---

Advertising expenses: overstated  
Profit : understated by \$5000.

Fixtures & fittings: Not depreciated  
Profit is overstated by \$500 (\$5000 x 10%)

Overall profit is understated by \$4500

Answer C

4. A company had a non-current asset which cost \$370 000. The asset had a 10-year useful life and an estimated residual value of \$20 000. A full year's charge for depreciation is made in every year of use.

After four years the asset was sold. The loss on disposal was \$30 000 and disposal costs were \$10 000.

What were the sale proceeds?

- A \$192 000
- B \$200 000
- C \$202 000
- D \$210 000

$$\text{Annual depreciation} = \frac{\$370,000 - \$20,000}{10} = \$35,000$$

$$\text{Accumulated depreciation } (\$35,000 \times 4) = \$140,000$$

$$\text{Net book value at the time of disposal } (\$370,000 - \$140,000) = \$230,000$$

$$\text{Net book value } (\$230,000) + \text{disposal costs } (\$10,000) - \text{Sales proceeds (to be determined)} = \text{Loss } (\$30,000)$$

Answer: D

5. Which item is recorded on the debit side of a sales ledger control account?

- A interest charged on overdue accounts of customers
- B irrecoverable debts written off
- C returns of goods supplied to credit customers
- D total of cash sales

---

The interest charged on overdue accounts of customers will increase receivables. It will be debited in the sales ledger control account

Answer: A

6. A trader prepared a trial balance which did not balance. The difference was posted to a suspense account.

The following errors have now been found.

- 1 The returns inwards account had been overcast by \$90.
- 2 A payment of \$200 for rent had been entered correctly in the cash book but had not been posted to the rent account.

46  
What was the opening balance on the suspense account?

- A \$110 credit                      B \$110 debit  
C \$290 credit                      D \$290 debit

Error 1: debit column overstated by \$90

Error 2: debit column understated by \$200

Overall: debit column is understated by \$ 110

The opening balance on the suspense account was \$110

*Answer: B*

7. How could a credit entry of \$500 in X's account have arisen in the books of account of Y?

- A X bought goods from Y.  
B X returned goods to Y.  
C Y made a payment to X.  
D Y returned goods to X.

Goods returned by X would be debited to sales return account and credited to X account in the books of Y

*Answer: B*

8. An invoice for purchases was credited to the purchases account.

How will the balance on the purchases account be corrected?

- A decrease by the value of the invoice  
B decrease by twice the value of the invoice  
C increase by the value of the invoice  
D increase by twice the value of the invoice

Purchases was credited instead of being debited

The purchases account should be debited twice:

- once to record omitted debit entry and  
-once to write off wrong credit entry.

The balance on the purchases account will be corrected by increasing by twice the value of the invoice

*Answer: D*

9. Rent is paid by a business monthly in advance on the first day of each month. The payments during a financial year were as follows.

up to and including 1 June \$500 per month

from 1 July \$600 per month

Which amounts will appear in the financial statements for the year ended 31 October?

	income statement	statement of financial position
A	\$6300	\$600 other receivables
B	\$6300	\$600 other payables
C	\$6400	-
D	\$6500	-

Rent is paid in same month so there is no prepayment involved

\$500 x 8 month = \$4000

\$600 x 4 month = \$2400

Total expenses is \$6400 (\$4000 + \$2400)

without any accrual or prepayment

*Answer: C*

10. What is the effect on profit for the year and net assets when accrued expenses are understated?

	profit for the year	net assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

(Accrued expenses are normally added to expenses and is a current liability)

Accrued expenses : Understated

Profit: Overstated

Net assets: Overstated

Useful formulas:

Total revenue - Total expenses = Profit

Net assets = total assets - total liabilities

*Answer: A*

11. Ali's trade receivables at 31 December 2019 were \$26 500. He knew that \$400 of these were irrecoverable. He wished to maintain a provision for doubtful debts equal to 5% of the trade receivables. At 1 January 2019 the balance of the provision for doubtful debts was \$1200.

Which entry does Ali make in the provision for doubtful debts account at 31 December 2019?

- A \$105 credit                      B \$105 debit  
C \$125 credit                      D \$125 debit

**Step 1: Calculate Provision for doubtful debts**

$(\$26,500 - \$400) \times 5\% = \$1305$

**Step 2: Calculate Increase in Provision for doubtful debts**

$(\$1305 - \$1200) = \$105$

This will be credited to provision for doubtful debts as a contra asset will increase.

*Answer: A*

12. Adil and Bashir were in partnership sharing profits and losses in the ratio 2:1.

Chandra joins the partnership and profits and losses are now to be shared between Adil, Bashir and Chandra in the ratio 3:2:1.

The balances of the partners' capital accounts prior to Chandra joining the partnership are as follows:

	S
Adil	20000
Bashir	10000

Goodwill is to be valued at \$36 000 and is not to be retained in the books of account.

What is the balance on Adil's capital account after Chandra joined the partnership?

- A \$20 000                      B \$26 000  
C \$38 000                      D \$44 000

Capital	\$20,000
Add share of goodwill(\$36,000 x 2/3)	\$24,000
Less share of goodwill written off (\$36,000x3/6) ( \$18,000)	
	\$26,000

Answer: B

13. How is a loss on realisation recorded when a partnership is dissolved?
- A Credit each partner 's capital account equally .  
B Debit each partner 's capital account equally .  
C Credit each partner's capital account in the profit-sharing ratio.  
D Debit each partner's capital account in the profit-sharing ratio.

Loss on realisation will decrease capital.  
It is debited in the capital account as per profit sharing ratio.

Answer D

14. John and Brian are in partnership sharing profits and losses equally . John receives a salary of \$2000 per annum. Brian loaned the business \$5000. He is entitled to interest of 5% per annum.  
The profit for the year before appropriation was \$24 000. During the year John took drawings of \$3000.  
What will be the amount of residual profit Brian will receive for the year?

- A \$9375                      B \$10 875  
C \$11 000                      D \$11 250

EXPLANATION

Note: The Interest on Brian's loan is an income statement item. It is already deducted from the Profit of \$24,000

#### Step 1: Calculate Residual profit

(\$24,000 - \$2000) = \$22,000

#### Step 2: Calculate Brian's share Residual

profit  
\$22,000 x 1/2 = \$11000

Answer: C

15. A company issued 100 000 ordinary shares of \$1 each at a premium of \$2. The market value was \$4 per share.  
Which statement is not correct?

- A Capital reserves increased by \$200 000.  
B Cash and cash equivalents increased by \$300 000.  
C Ordinary share capital increased by \$100 000.  
D Revenue reserves increased by \$400 000

#### Cash and cash equivalents

Issue of shares increase cash by \$300,000 (100,000 X \$[1+2])

#### Ordinary share capital

Share capital increases by \$100,000 (100,000 X \$1)

#### Capital reserves

Share premium increases by \$200,000 (100,000 X \$2)

Answer: D

16. Which item has no effect on the total equity of a limited company?

- A bonus issue of shares  
B dividends paid  
C rights issue of shares  
D upward revaluation of non-current assets

A bonus issue does not change the total equity position in the balance sheet of the company.

Answer A

17. Information relating to W Limited for the year ended 31 December 2019 was as follows:

	S
retained earnings at 1 January 2019	22000
profit from operations	83000
dividend paid	20 000
dividend proposed	15000
bank loan interest	16000

What was the amount of retained earnings at 31 December 2019?

- A \$32 000                      B \$47 000  
C \$54 000                      D \$69 000

Profit for the year = profit from operations (\$83,000) - bank loan interest (\$16,000)

Retained earnings at start (\$22,000) + Profit for the year (\$67,000) - Dividends paid (\$20,000) = \$69,000

Note : Proposed dividends are not to be taken into account

Answer: D

18. Which financial information is not available for potential shareholders of a limited company?

- A cash budget
- B income statement
- C notes to financial statements
- D statement of changes in equity

Budgets are for internal use only.

Answer: A

19. The following information is available.

	S	S
revenue		600 000
opening inventory	46000	
purchases	244 000	
	290000	
closing inventory	50 000	240000
gross profit		360000
expenses		150000
profit from operations		210000

What was the rate of inventory turnover (in times)?

- A 4.8
- B 5
- C 12
- D 12.5

$$\text{Average inventory} = \frac{\$46,000 + \$50,000}{2} = \$48,000$$

$$\text{Rate of inventory turnover} = \frac{\text{cost of sales } \$240,000}{\text{Average inventory } \$48,000} = 5$$

Answer: B

20. A company's financial statements for the year ended 31 December showed the following:

	S
issued share capital	150000
non-current liabilities	280000
reserves including retained earnings	250000

The company's profit from operations was \$160 000 and the profit for the year was \$120 000.

What was the company's return on capital employed?

- A 23.5%
- B 30.0%
- C 37.2%
- D 40.0%

**Step 1: Calculate Capital employed**  
= \$ 150,000 + \$280,000 + \$250,000

**Step 2: Calculate Return on capital employed**  
= \$160,000/\$680,000 x 100 = 23.5%

Answer: A

21. Which cost can be classified as a fixed cost ?

- A bank overdraft interest
- B piece rate labour cost
- C sales commission
- D telephone rental

Fixed costs do not change with levels of business activity. They are sometimes called period costs as they are time based. Telephone rental is time based cost.

Answer: D

22. An employee works a 40-hour week at an hourly rate of \$8.

She receives a bonus of 30% of the hourly rate for time saved producing each unit. The target production time is 30 minutes per unit.

Last week she worked 40 hours and produced 90 units.

What were her gross earnings for the week?

- A \$320
- B \$332
- C \$360
- D \$416

**Time required to produce 90 units** = (90x30)/60 = 45 hours

**Saved time**  
(45 - 40) = 5 hours

**Gross earnings for the week**  
= (40 hours X \$8) + Bonus (5 hours X \$8 X 30%) = \$332.

Answer: B

23. A business uses the weighted average (AVCO) method to value its inventory.

It purchased the following units of inventory.

units	cost per unit \$	total cost \$
100	36	3600
120	48	5760
80	54	4320

After these receipts it issued 250 units to production.

What was the value of the issue?

- A \$10 980
- B \$11400
- C \$11 500
- D \$11 880



$$\text{Average cost} = \frac{\$3600 + \$5760 + \$4320}{100 + 120 + 80} = \$45.60$$

$$\text{Value of issue} = 250 \text{ units} \times \$45.60 = \$11,400$$

Answer: B

24. A business provides the following information.

month	number of machine hours	overheads \$
April	34 000	493000
May	67000	625000

The variable overhead rate per machine hour was \$4.

What was the monthly fixed overhead cost?

- A \$132 000
- B \$136 000
- C \$268 000
- D \$357 000

$$\begin{aligned} \text{Fixed overheads} &= \text{Total overheads } (\$493,000) - \\ &\text{Variable overheads } (34,000 \text{ hours} \times \$4) = \$357,000 \end{aligned}$$

Answer D

25. A business absorbs its fixed overheads using direct labour hours.

The following information is provided.

	actual	budgeted
overheads	\$600000	\$508000
labour hours	14 300	12700

Which statement is correct?

- A Overheads were over absorbed by \$28 000.
- B Overheads were under absorbed by \$28 000.
- C Overheads were over absorbed by \$92 000.
- D Overheads were under absorbed by \$92 000.

**Step 1 : Calculate Overhead absorption rate**

$$\frac{\text{Budgeted overheads } (\$508,000)}{\text{Budgeted hours } (12,700)}$$

$$\text{Overhead absorption rate} = \$40 \text{ per labour hour}$$

**Step 2: Calculate Absorbed Overheads**

$$\text{Actual hours}(14,300) \times \text{OAR}(\$40) = \$572,000$$

**Step 3: Calculate under absorption**

$$\text{Under Absorption} = \text{Actual overheads } (\$600,000) > \text{absorbed overheads } (\$572,000)$$

Answer: B

26. A company sells a single product for \$24 per unit. The variable cost is \$8 per unit.

Fixed costs have been absorbed based on a normal activity level of 1000 units at \$6 per unit. What is the profit under marginal costing if the company makes and sells 1250 units?

- A \$10 000
- B \$12 500
- C \$14 000
- D \$20 000

The fixed cost is \$6000 (1000 units x \$6) and will remain same at any activity level.

$$\text{Total contribution} = 1250 \text{ units} \times (\$24 - \$8) = \$20,000$$

$$\text{Total profit} = \$20,000 - \$6000 = \$14,000$$

Answer: C

27. A product has the following revenue and costs per unit.

	\$
selling price	40
marginal cost	22
fixed manufacturing overhead	6
non-manufacturing overhead	2

What is the contribution to sales ratio?

- A 25%
- B 30%
- C 45%
- D 55%

$$\text{Unit contribution} = \text{selling price } (\$40) - \text{marginal cost } (\$22) = \$18$$

$$\text{Contribution to sales} = \frac{\$18}{\$40} \times 100 = 45\%$$

Answer: C

28. Which statements about cost-volume-profit analysis are correct?

- 1 It applies over any time period.
- 2 It is suitable for any range of output.
- 3 Profits are calculated using marginal costing.

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

Cost-volume-profit (CVP) analysis is a way to find out how changes in variable and fixed costs affect a firm's profit. Companies can use CVP to see how many units they need to sell to break even (cover all costs) or reach a certain minimum profit margin. Profits are calculated using marginal costing.

Answer D

29. Total costs at two levels of production are as follows.

units	\$
10000	230000
16000	320000

Fixed costs will increase by \$30 000 if more than 20 000 units are produced.

What are the total costs if 25 000 units are produced?

- A \$405 000                      B \$485 000  
C \$530 000                      D \$605 000

$$\begin{aligned} \text{Unit variable cost} &= \frac{\text{Change in total cost}}{\text{Change in activity}} \\ &= \frac{\$320,000 - \$230,000}{16,000 - 10,000} = \$15 \end{aligned}$$

Total fixed cost = Total cost (\$230,000) - Total variable cost (10,000 x \$15) = \$80,000

Total cost for 25,000 units = Total variable cost (25,000 x \$15) + Total fixed cost (\$80,000 + \$30,000) = \$485,000

Answer B

30. Which are benefits of a budgetary control system?

- 1 It can be used to control expenditure.
- 2 It can be used to record accounting transactions.
- 3 It can help when applying for a loan.
- 4 It can identify where improvements are required.

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

Budgetary control delegates financial planning to managers. It evaluates their performance by continuously comparing actual results achieved by their departments against those set in the budget. Budgetary control system deals with forecast / future information. It doesn't relate to actual transactions of business.

Answer C



# Accounting Multiple choice Past Paper **November 2019**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 Which concept requires that profits should be based on recognising revenues and their related expenses for an accounting period?
- A consistency  
B matching  
C materiality  
D prudence
- 2 A business buys a non-current asset and decides to apply the straight-line method of depreciation. The accountant forgets to include an estimate of scrap value in the calculation.

Which statements are correct?

- 1 The annual depreciation charge is too high.  
2 The annual depreciation charge is too low.  
3 There is likely to be a loss on disposal in the future.  
4 There is likely to be a profit on disposal in the future.

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

- 3 The table gives information relating to the non-current assets of a business.

	\$
net book value at the end of the year	25 000
net book value at the beginning of the year	16 000
depreciation charge for the year	5 000
additions at cost during the year	22 000

What is the net book value of disposals during the year?

A \$8000      B \$14 000      C \$18 000      D \$24 000

- 4 The accounting year of a company ends on 31 December. It purchased a warehouse for \$100 000 on 1 January 2013. The warehouse had an estimated useful economic life of 25 years. The company's accounting policy is to depreciate the warehouse using the straight-line method. On 1 January 2018, the warehouse was revalued at \$120 000.

What was the depreciation charge for the year ended 31 December 2018?

A \$4000      B \$4800      C \$5000      D \$6000

- 5 A company prepared a sales ledger control account. The balance did not agree with the total of the sales ledger balances, which were \$42 650. The following was discovered.
- 1 An irrecoverable debt of \$500 in the general journal has not been recorded in the sales ledger.
  - 2 The sales journal has been incorrectly added and must be reduced by \$750.
  - 3 The sales ledger control account includes the discount received of \$400. It should have been discount allowed, \$600.
  - 4 Sales to J Brown, \$640, have not been entered in his account.

What was the correct total of the sales ledger balances?

- A** \$41 700      **B** \$41 840      **C** \$42 510      **D** \$42 790

- 6 The correction of which error would require an entry in the suspense account?
- A** \$100 paid for vehicle repairs were debited to the vehicles account.
- B** A sales invoice for \$45 was omitted from the sales journal.
- C** Drawings of \$60 were debited in the cash book and were credited to the drawings account.
- D** Wages, \$150, were correctly recorded in the wages account and debited in the cash book.
- 7 The table shows information for a business at 31 March 2019.

	\$
inventory	16 100
trade payables	5 200
other payables	2 000

The information excludes the purchase of \$3700 of goods. These goods were delivered on 31 March 2019, but the invoice states that legal title to the goods does not pass until payment is received.

Which values should appear in the statement of financial position on 31 March 2019?

	inventory \$	trade payables \$	other payables \$
<b>A</b>	16 100	5200	2000
<b>B</b>	16 100	5200	5700
<b>C</b>	19 800	5200	5700
<b>D</b>	19 800	8900	2000

- 8 A business has valued some of its closing inventories at cost. Their net realisable value is lower than cost.

What is the effect of this error on financial statements?

	profit for the year	current assets
<b>A</b>	no effect	no effect
<b>B</b>	overstated	overstated
<b>C</b>	understated	understated
<b>D</b>	no effect	overstated

- 9 The following balances were extracted from a trial balance at 31 March 2019.

	\$
total trade receivables	84 600
provision for doubtful debts at 1 April 2018	2 835
irrecoverable debt	1 600

There was a decrease in the provision for doubtful debts, \$280, for the year ended 31 March 2019.

What was the amount of net trade receivables at 31 March 2019?

- A** \$79 885      **B** \$80 445      **C** \$81 485      **D** \$82 045

- 10 A business had the following assets and liabilities at the start of the year.

a motor car valued at \$2500

inventory which cost \$4000 with a sales value of \$5800

bank overdraft of \$500

a loan to a friend from the business bank account of \$1000

What was the capital account balance at the start of the year?

- A** \$5000      **B** \$7000      **C** \$8000      **D** \$8800

11 A sole trader had the following transactions.

	\$
returns outwards	2750
carriage inwards	4820
goods for own use	1460

What was the total effect of these transactions on the cost of sales?

- A \$610 increase
- B \$3530 increase
- C \$6110 decrease
- D \$9030 decrease

12 A sole trader's personal expenses had been paid out of the business bank account and included in his income statement.

What was the effect of this on the profit and capital?

	profit	capital
<b>A</b>	no effect	no effect
<b>B</b>	no effect	overstated
<b>C</b>	understated	no effect
<b>D</b>	understated	understated

13 A warehouse was damaged by fire on 31 March and some of the inventory was destroyed. The following information is available.

	\$
inventory at cost on 1 January	6 000
inventory at cost on 31 March after fire	3 200
sales during the period	14 700
purchases during the period	9 500

The business uses a mark-up of 33.33%.

What was the value of the inventory destroyed?

- A \$1275
- B \$1800
- C \$2000
- D \$2500

- 14 P and Q are in partnership. R was admitted as a partner on 1 July 2018, and the profit and loss sharing ratio among P, Q and R was 2:2:1 respectively.

For the purpose of R's admission, the partners agreed:

goodwill would be valued at \$20 000, but not retained in the books of account

R would introduce cash, \$40 000, and motor vehicle, \$10 000

R would be entitled to an annual salary, \$5000.

What was R's capital account balance immediately after his admission?

- A \$36 000      B \$46 000      C \$51 000      D \$54 000
- 15 Hilary and Lee commenced in partnership on 1 January 2018. There was no partnership agreement. They provided the following information.

	Hilary \$	Lee \$
capital contributions	5000	6000
loan to partnership	–	1000

Profit for the year ended 31 December 2018 **before** the loan interest was \$8850.

What was Lee's share of the profit?

- A \$4400      B \$4425      C \$4800      D \$4827
- 16 L, M and N are in partnership sharing profits and losses equally.

L retired when the credit balances on her capital and current accounts were \$100 000 and \$40 000.

Partnership assets were revalued upwards by \$60 000.

L took half of the amount due to her on retirement. The other half was left as a loan to the business.

How much was L paid from the partnership bank account on her retirement?

- A \$20 000      B \$40 000      C \$60 000      D \$80 000

- 17 The directors of a limited company recently made a rights issue of one ordinary share for every three held at a premium of \$0.50 per share. The rights issue was fully subscribed.

The statement of financial position showed the following information **after** the rights issue was made.

	\$000
issued share capital: (shares of \$1 each)	1200
share premium	300

Which amount was debited to the company's bank account when the rights issue was made?

- A \$300 000      B \$400 000      C \$450 000      D \$600 000
- 18 A company's year end is 31 December. During the year ended 31 December 2018 it paid the following dividends:

	\$
final dividend for the year ended 31 December 2017	15 000
interim dividend for the year ended 31 December 2018	8 000

On 1 February 2019 it declared a final dividend of \$10 000 for the year ended 31 December 2018.

How much should be recorded for dividends in the statement of changes in equity for the year ended 31 December 2018?

- A \$8000      B \$18000      C \$23000      D \$33000
- 19 Which information would an investor gain by looking at the financial statements of a business?
- 1 identifying future trading prospects
  - 2 identifying the amount of future dividends
  - 3 identifying that the entity is a going concern
- A 1 and 2      B 1 only      C 2 and 3      D 3 only



20 The following information is available for a limited company.

	\$
profit from operations	40 475
profit for the year	26 380
10% debenture (2025)	75 000
100 000 shares (\$1 each)	100 000
retained earnings at the end of the year	135 679

What was the return on capital employed?

- A** 8.49%      **B** 11.19%      **C** 13.03%      **D** 17.17%

21 A manufacturing business has provided the following information about a product.

units produced	total cost \$
8 000	37 000
14 000	53 500

What is the variable cost per unit?

- A** \$2.75      **B** \$3.82      **C** \$4.11      **D** \$4.63

22 The following information relates to the inventory of a business.

date	purchases	unit cost	sales	unit selling price
2 June	1000 units	\$12		
12 June	1000 units	\$13		
18 June			800 units	\$18
28 June	1000 units	\$14		

Estimated unit selling price at 30 June is \$20.

There was no opening inventory.

What was the value of closing inventory at 30 June using FIFO?

- A** \$24 600      **B** \$28 600      **C** \$29 400      **D** \$44 000

- 23** Inventory cost prices are rising for a business. The company uses AVCO rather than FIFO to value its inventory.

What is the effect on inventory valuation and profit of using AVCO rather than FIFO?

	inventory valuation	profit
<b>A</b>	higher	higher
<b>B</b>	higher	lower
<b>C</b>	lower	higher
<b>D</b>	lower	lower

- 24** A company calculates its profit using marginal costing as \$90 000 for a month.

Opening inventory was 4000 units and closing inventory 6000 units.

The fixed production overhead absorption rate is \$20 per unit.

What is the profit under absorption costing?

- A** \$10 000      **B** \$50 000      **C** \$130 000      **D** \$170 000

- 25** A manufacturing business has provided the following information.

budgeted labour hours	12 000
budgeted overhead absorption rate	\$7.50 per labour hour
actual overhead cost	\$101 250
actual labour hours	15 000

What is the over or under absorption of overheads?

- A** \$11 250 under absorbed  
**B** \$11 250 over absorbed  
**C** \$20 250 under absorbed  
**D** \$20 250 over absorbed

26 A business has the following information relating to its single product.

	\$
selling price per unit	30
variable cost per unit	14
total cost per unit	24

What is its contribution to sales ratio?

- A** 20%                      **B** 46.67%                      **C** 53.33%                      **D** 80%

27 A company makes three products for which the following details are given.

	product X \$	product Y \$	product Z \$
selling price per unit	40	48	72
direct material per unit	18	24	30
direct labour per unit	10	6	18

The same material is used to make all three products and it costs \$2.00 per kilo.

There is a shortage of material.

In which order should the products be made to achieve maximum profit?

	first	→	last
<b>A</b>	X	Y	Z
<b>B</b>	Y	Z	X
<b>C</b>	Z	X	Y
<b>D</b>	Z	Y	X

28 Last month a company made and sold 10 000 units and earned a contribution of \$20 per unit.

Its final profit, after deducting total fixed costs, was \$120 000.

This month its sales volume has increased by 20%, its contribution per unit has increased by 5% and its total fixed costs have increased by 15%.

What is its profit this month?

- A** \$118 000                      **B** \$148 000                      **C** \$160 000                      **D** \$172 000

29 Which statements about cost–volume–profit analysis are correct?

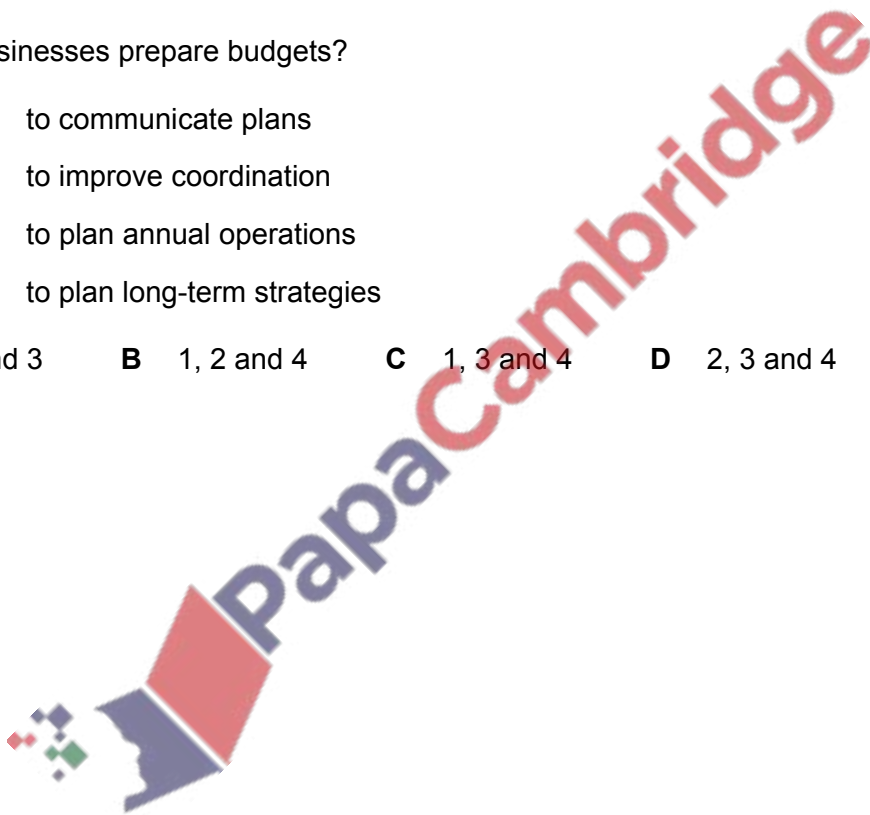
- 1 Fixed costs remain constant over a range of activity.
- 2 Profits are calculated on an absorption costing basis.
- 3 Sales revenue increases in direct proportion to output.
- 4 There is only one product or constant sales mix.

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

30 Why do businesses prepare budgets?

- 1 to communicate plans
- 2 to improve coordination
- 3 to plan annual operations
- 4 to plan long-term strategies

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



# Answers

EXPLAINED



## November 2019 Paper 1

### Multiple Choice

1. Which concept requires that profits should be based on recognising revenues and their related expenses for an accounting period?

- A** consistency                      **B** matching  
**C** materiality                        **D** prudence

Matching concept requires revenue earned should be matched with expenses incurred in same financial period irrespective of cash movement.

*Answer: B*

2. A business buys a non-current asset and decides to apply the straight-line method of depreciation. The accountant forgets to include an estimate of scrap value in the calculation.

Which statements are correct?

- 1 The annual depreciation charge is too high.
- 2 The annual depreciation charge is too low.
- 3 There is likely to be a loss on disposal in the future.
- 4 There is likely to be a profit on disposal in the future.

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

Scrap value is deducted from cost to get depreciable amount, which is then allocated over life.

If scrap value is not deducted then depreciable amount will be higher thus resulting in higher depreciation. Similarly higher depreciation would result in lower net book value thus resulting in profit on disposal.

*Answer: B*

3. The table gives information relating to the non-current assets of a business.

	\$
net book value at the end of the year	25000
net book value at the beginning of the year	16000
depreciation charge for the year	5 000
additions at cost during the year	22000

What is the net book value of disposals during the year?

- A** \$8000                              **B** \$14 000  
**C** \$18 000                        **D** \$24 000

Net book value at start (\$16,000) + additions (\$22,000) - disposals at net book value (???) - depreciation charge for the year (\$5000) = net book value at end (\$25,000)

*Answer: A*

4. The accounting year of a company ends on 31 December. It purchased a warehouse for \$100 000 on 1 January 2013. The warehouse had an estimated useful economic life of 25 years. The company's accounting policy is to depreciate the warehouse using the straight-line method. On 1 January 2018, the warehouse was revalued at \$120 000.

What was the depreciation charge for the year ended 31 December 2018?

- A** \$4000                              **B** \$4800  
**C** \$5000                              **D** \$6000

$$\frac{\$120,000}{20} = \$6000$$

Note: Total life is 25 years, at the start of 2018.

Remaining life is 20 years, so revalued amount to be allocated over 20 years.

*Answer: D*

5. A company prepared a sales ledger control account. The balance did not agree with the total of the sales ledger balances, which were \$42 650. The following was discovered.

- 1 An irrecoverable debt of \$500 in the general journal has not been recorded in the sales ledger.
- 2 The sales journal has been incorrectly added and must be reduced by \$750.
- 3 The sales ledger control account includes the discount received of \$400. It should have been discount allowed, \$600.
- 4 Sales to J Brown, \$640, have not been entered in his account.

What was the correct total of the sales ledger balances?

- A \$41 700                      B \$41 840  
C \$42 510                      D \$42 790

\$42,650 - \$500 (bad debts) + \$640 (sales) = \$42,790 Error 2 and 3 did not affect sales ledger balances, instead they are related to control account balance

Answer: D

6. The correction of which error would require an entry in the suspense account?
- A \$100 paid for vehicle repairs were debited to the vehicles account.  
B A sales invoice for \$45 was omitted from the sales journal.  
C Drawings of \$60 were debited in the cash book and were credited to the drawings account.  
D Wages, \$150, were correctly recorded in the wages account and debited in the cash book

Error 1 is error of principle i.e. not affecting trial balance

Error 2 is error of omission i.e. not affecting trial balance

Error 3 is complete reversal of entry i.e. not affecting trial balance

Error 4 caused error in cash book only while wages are correctly recorded, thus causing suspense account

Answer: D

7. The table shows information for a business at 31 March 2019.

	\$
inventory	16 100
trade payables	5 200
other payables	2 000

The information excludes the purchase of \$3700 of goods. These goods were delivered on 31 March 2019, but the invoice states that legal title to the goods does not pass until payment is received.

Which values should appear in the statement of financial position on 31 March 2019?

	inventory \$	trade payables \$	other payables \$
A	16 100	5 200	2 000
B	16 100	5 200	5 700
C	19 800	5 200	5 700
D	19 800	8 900	2 000

Substance over form requires to consider reality instead of strict legal approach. Goods have been bought so to be included in inventory & trade payables

Answer: D

8. A business has valued some of its closing inventories at cost. Their net realisable value is lower than cost.

What is the effect of this error on financial statements?

	profit for the year	current assets
A	no effect	no effect
B	overstated	overstated
C	understated	understated
D	no effect	overstated

Inventory which appears in both cost of sales & current assets is overvalued.

Answer: B

9. The following balances were extracted from a trial balance at 31 March 2019.

	\$
total trade receivables	84 600
provision for doubtful debts at 1 April 2018	2 835
irrecoverable debt	1 600

There was a decrease in the provision for doubtful debts, \$280, for the year ended 31 March 2019.

What was the amount of net trade receivables at 31 March 2019?

- A \$79 885                      B \$80 445  
C \$81 485                      D \$82 045

Irrecoverable debt appeared in trial balance so already written off provision for doubtful debts at year end (\$2835 - \$280) = \$2555

Net trade receivables at year end (\$84,600 - \$2555) = \$82,045

Answer: D

10. A business had the following assets and liabilities at the start of the year.

- a motor car valued at \$2500
- inventory which cost \$4000 with a sales value of \$5800
- bank overdraft of \$500
- a loan to a friend from the business bank account of \$1000

What was the capital account balance at the start of the year?

- A \$5000                      B \$7000  
C \$8000                      D \$8800

Loan to a friend is asset, not liability.

Assets (\$2500 + \$4000 + \$1000) - liabilities (\$500) = \$7000

Answer: B

11. A sole trader had the following transactions.

	\$
returns outwards	2750
carriage inwards	4820
goods for own use	1460

What was the total effect of these transactions on the cost of sales?

- A \$610 increase                      B \$3530 increase  
C \$6110 decrease                      D \$9030 decrease

Return outwards & goods withdrawn are deducted from purchases thus resulting decrease in cost of sales.

Carriage inwards are added in purchases thus increasing cost of sales.

$\$4820 - \$2750 - \$1460 = \$610$  increase

Answer: A

12. A sole trader's personal expenses had been paid out of the business bank account and included in his income statement.

What was the effect of this on the profit and capital?

	profit	capital
A	no effect	no effect
B	no effect	overstated
C	understated	no effect
D	understated	understated

Sole trader's personal expenses are not business expenses. If included in income statement then expenses are overstated and profit is understated.

Capital remains unaffected as both profit and drawings increase and cancel each other's effect.

Answer: C

13. A warehouse was damaged by fire on 31 March and some of the inventory was destroyed. The following information is available.

	\$
inventory at cost on 1 January	6000
inventory at cost on 31 March after fire	3200
sales during the period	14700
purchases during the period	9500

The business uses a mark-up of 33.33%.

What was the value of the inventory destroyed?

- A \$1275                                      B \$1800  
C \$2000                                      D \$2500

Mark up = 1/3

Margin = 1/4

Cost of sales = 3/4 of sales

Inventory destroyed =  $\$6000 + \$9500 - (\$14700 \times 3/4) - \$3200 = \$1275$

Answer: A

14. P and Q are in partnership. R was admitted as a partner on 1 July 2018, and the profit and loss sharing ratio among P, Q and R was 2:2:1 respectively.

For the purpose of R's admission, the partners agreed:

goodwill would be valued at \$20 000, but not retained in the books of account

R would introduce cash, \$40 000, and motor vehicle, \$10 000

R would be entitled to an annual salary, \$5000.

What was R's capital account balance immediately after his admission?

- A \$36 000  
B \$46 000  
C \$51 000  
D \$54 000



**Capital account**

	P	Q	R		P	Q	R
Goodwill	8000	8000	4000	Cash			40,000
Balance c/d			46,000	Motor vehicle			10,000

Note: salary appears in appropriation account and current account

*Answer: B*

15. Hilary and Lee commenced in partnership on 1 January 2018. There was no partnership agreement. They provided the following information.

	Hilary \$	Lee \$
capital contributions	5000	6000
loan to partnership		1000

Profit for the year ended 31 December 2018 before the loan interest was \$8850.

What was Lee's share of the profit?

- A** \$4400                      **B** \$4425  
**C** \$4800                      **D** \$4827

As per partnership act 1890 Interest on loan is payable @5% per annum and profits are to be shared equally.

Profit for the year  $[(\$8850 - (\$1000 \times 5\%))] = \$8800$

Lee's share of Profit for the year =  $\$8800 \times \frac{1}{3} =$

4400

2

*Answer: A*

16. L, M and N are in partnership sharing profits and losses equally. L retired when the credit balances on her capital and current accounts were \$100 000 and \$40 000. Partnership assets were revalued upwards by \$60 000. L took half of the amount due to her on retirement. The other half was left as a loan to the business. How much was L paid from the partnership bank account on her retirement?

- A** \$20 000                      **B** \$40 000  
**C** \$60 000                      **D** \$80 000

**Capital account**

	L	M	N		L	M	N
Bank	80,000			Balance b/d	100,000		
Loan	80,000			Current account	40,000		
				Revaluation	20,000	20,000	20,000
	<b>160,000</b>				<b>160,000</b>		

*Answer: D*

17. The directors of a limited company recently made a rights issue of one ordinary share for every three held at a premium of \$0.50 per share. The rights issue was fully subscribed.

The statement of financial position showed the following information after the rights issue was made.

	\$000
issued share capital: (shares of \$1 each)	1200
share premium	300

Which amount was debited to the company's bank account when the rights issue was made?

- A** \$300 000                      **B** \$400 000  
**C** \$450 000                      **D** \$600 000

Let's Assume number of shares before rights issue is X

$$X + \frac{1}{3}X = 1,200,000 \Rightarrow X = 900,000$$

Number of shares to be issued as rights

$$\text{issue} = 900,000 \times \frac{1}{3} = 300,000$$

$$\text{Issue price per share } (\$1 + \$0.50) = \$1.50 \text{ per share}$$

$$\text{Amount debited in bank} = (300,000 \text{ shares} \times \$1.50) = \$450,000$$

*Answer: C*

18. A company's year end is 31 December. During the year ended 31 December 2018 it paid the following dividends:

	\$
final dividend for the year ended 31 December 2017	15 000
interim dividend for the year ended 31 December 2018	8 000

On 1 February 2019 it declared a final dividend of \$10 000 for the year ended 31 December 2018. How much should be recorded for dividends in the statement of changes in equity for the year ended 31 December 2018?

- A \$8000                      B \$18 000  
C \$23 000                    D \$33 000

Dividends paid during the financial year i.e. \$15,000 + \$8000 = \$23,000 are to be included in the statement of changes in equity.

Answer: C

19. Which information would an investor gain by looking at the financial statements of a business?

- 1 identifying future trading prospects
- 2 identifying the amount of future dividends
- 3 identifying that the entity is a going concern

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

Financial statements are based on historical data only. Statements 1 & 2 are future information

Answer: D

20. The following information is available for a limited company.

	\$
profit from operations	40475
profit for the year	26380
10% debenture (2025)	75 000
100000 shares (\$1 each)	100000
retained earnings at the end of the year	135 679

What was the return on capital employed?

- A 8.49%                      B 11.19%  
C 13.03%                    D 17.17%

$$\begin{aligned} \text{Capital employed} &= \$75,000 + \$100,000 + \$135,679 \\ &= \$310,679 \end{aligned}$$

$$\begin{aligned} \text{ROCE} &= \frac{\text{Profit from operations}}{\text{Capital employed}} \times 100 \\ &= \frac{\$40,475}{\$310,679} \times 100 = 13.03\% \end{aligned}$$

Answer: C

21. A manufacturing business has provided the following information about a product.

units produced	total cost \$
8 000	37 000
14 000	53 500

What is the variable cost per unit?

- A \$2.75                      B \$3.82  
C \$4.11                      D \$4.63

Variable cost per unit =  $\frac{\text{change in total cost}}{\text{change in units}}$

$$\begin{aligned} &= \frac{\$53,500 - \$37,000}{14,000 - 8,000} \\ &= \frac{\$16,500}{6,000} \\ &= \$2.75 \end{aligned}$$

Answer: A

22. The following information relates to the inventory of a business.

date	purchases	unit cost	sales	unit selling price f
2 June	1000 units	\$12		
12 June	1000 units	\$13		
18 June			800 units	\$18
28 June	1000 units	\$14		

Estimated unit selling price at 30 June is \$20.

There was no opening inventory.

What was the value of closing inventory at 30 June using FIFO?

- A \$24 600                      B \$28 600  
C \$29 400                      D \$44 000

800 units sold on 18 June is from 1000 units @ \$12 each.

Closing inventory consist of 200 units @ \$12, 1000 units @ \$13 and 1000 units @ \$14

Answer: C

23. Inventory cost prices are rising for a business. The company uses AVCO rather than FIFO to value its inventory.

What is the effect on inventory valuation and profit of using AVCO rather than FIFO?

	inventory valuation	profit
<b>A</b>	higher	higher
<b>B</b>	higher	lower
<b>C</b>	lower	higher
<b>D</b>	lower	lower

Lower Inventory valuation because average cost using AVCO will be lower than latest prices.

Lower Inventory valuation increases cost of sales thus decreasing profit

Answer: D

24. A company calculates its profit using marginal costing as \$90 000 for a month.

Opening inventory was 4000 units and closing inventory 6000 units.

The fixed production overhead absorption rate is \$20 per unit.

What is the profit under absorption costing?

- A \$10 000                      B \$50 000  
C \$130 000                    D \$170 000

Marginal profit	890,000
Difference in closing inventory	120,000
Difference in opening inventory	(80,000)
Absorption profit	130,000

Inventory value differs due to fixed production overheads which are included in case of absorption and excluded in case of marginal.

Answer: C

25. A manufacturing business has provided the following information.

budgeted labour hours	12 000
budgeted overhead absorption rate	\$7.50 per labour hour
actual overhead cost	\$101 250
actual labour hours	15000

What is the over or under absorption of overheads?

- A \$11 250 under absorbed  
B \$11 250 over absorbed  
C \$20 250 under absorbed  
D \$20 250 over absorbed

Absorbed overheads (15,000 X \$7.50) = \$112,500

Over absorbed overheads (\$112,500 - \$101,250) = \$11,250

It is over absorption because absorbed overheads exceeds actual overheads

Answer: B

26. A business has the following information relating to its single product.

	\$
selling price per unit	30
variable cost per unit	14
total cost per unit	24

What is its contribution to sales ratio?

- A 20%                              B 46.67%  
C 53.33%                         D 80%

Unit contribution = \$30 - \$14 = \$16

Contribution to sales ratio =  $\frac{\$16}{\$30} \times 100 = 53.33\%$

Answer: C

27. A company makes three products for which the following details are given.

	product X	product Y	product Z
	\$	\$	\$
selling price per unit	40	48	72
direct material per unit	18	24	30
direct labour per unit	10	6	18

The same material is used to make all three products and it costs \$2.00 per kilo.

There is a shortage of material.

In which order should the products be made to achieve maximum profit?

	first	-----▶	last
<b>A</b>	X	Y	Z
<b>B</b>	Y	Z	X
<b>C</b>	Z	X	Y
<b>D</b>	Z	Y	X

Material is limiting factor so ranking should be based on contribution per kilo

$$\text{No. of kilos per unit: } X = \frac{\$18}{\$2} = 9 \text{ kilos}$$

$$Y = \frac{\$24}{\$2} = 12 \text{ kilos}$$

$$Z = \frac{\$30}{\$2} = 15 \text{ kilos}$$

	X	Y	Z
Unit contribution	\$12	\$18	\$24
Contribution per kilo	\$12 9	\$18 12	\$24 15
	=\$1.33	=\$15	=\$1.6
Ranking	3	2	1

Answer: D

28. Last month a company made and sold 10 000 units and earned a contribution of \$20 per unit.

Its final profit, after deducting total fixed costs, was \$120 000.

This month its sales volume has increased by 20%, its contribution per unit has increased by 5% and its total fixed costs have increased by 15%.

What is its profit this month?

- A** \$118 000                      **B** \$148 000  
**C** \$160 000                      **D** \$172 000

Last month contribution (10,000 X \$20) = \$200,000

Last month Fixed cost (\$200,000 - \$120,000) = \$80,000

This month sales volume (10,000 X 120%) = 12,000

This month unit contribution (\$20 X 105%) = \$21

This month profit [(12,000 X \$20) - \$80,000] = \$160,000

Answer: C

29. Which statements about cost - volume - profit analysis are correct?

- 1 Fixed costs remain constant over a range of activity.
- 2 Profits are calculated on an absorption costing basis.
- 3 Sales revenue increases in direct proportion to output.
- 4 There is only one product or constant sales mix.

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

Statement 2 is false because profit is calculated using Marginal costing

Answer: C

30. Why do businesses prepare budgets?

- 1 to communicate plans
- 2 to improve coordination
- 3 to plan annual operations
- 4 to plan long-term strategies

**A** 1, 2 and 3                      **B** 1, 2 and 4

**C** 1,3 and 4                      **D** 2, 3 and 4

Budgets are short term financial plans so 4th point is incorrect

Answer: A

# Accounting Multiple choice Past Paper **November 2018**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 A company does not include in the financial statements the value of skills gained by its employees from training programmes.


Which accounting concept is being applied?

- A consistency  
 B materiality  
 C money measurement  
 D substance over form
- 2 Which non-current asset is most likely to be depreciated using the revaluation method?
- A loose tools  
 B motor vehicles  
 C office equipment  
 D plant and machinery
- 3 A trader purchased a motor vehicle costing \$36 000 on 1 July 2016. The estimated useful life of the motor vehicle was five years and the estimated residual value was \$6000. Depreciation is provided on a month-by-month basis using the straight-line method.

The motor vehicle was sold on 31 March 2018 for \$22 500.

What was the profit or loss on disposal of the motor vehicle?

- A \$900 loss      B \$900 profit      C \$3000 loss      D \$3000 profit
- 4 The following is an extract from the statement of financial position for a company at 31 December 2016.

	cost \$	accumulated depreciation \$	net book value \$
non-current assets	250 000	95 000	155 000

The assets have a residual scrap value of \$12 500.

The company's policy is to provide depreciation using the reducing balance method at a rate of 25% per annum.

What was the depreciation charge for the year ended 31 December 2017?

- A \$35 625      B \$38 750      C \$59 375      D \$62 500

- 5 A business sells a non-current asset for cash. The disposal account includes entries for the cost of the asset and the sales proceeds.

Which books of prime entry are used?

	cost	sales proceeds
<b>A</b>	cash book	general journal
<b>B</b>	cash book	sales journal
<b>C</b>	general journal	cash book
<b>D</b>	purchases journal	cash book

- 6 A trader has extracted the following information from his books of account at 31 March 2018.

	\$
purchase ledger balances at 1 March 2018	32 100
credit purchases for March	26 400
cheques paid to credit suppliers in March	29 700
contra to sales ledger	600
discount received	400

What was the closing balance on the purchases ledger control account at 31 March 2018?

- A** \$27 800      **B** \$29 800      **C** \$29 000      **D** \$34 400
- 7 The table shows extracts from a business's bank reconciliation.

	\$
balance per cash book at 31 December	2075 debit
balance per bank statement at 31 December	2250 credit
bank charges per bank statement not entered in cash book	150
outstanding cheques not presented at the year end	325

What is the bank balance to be shown in the financial statements?

- A** \$1600      **B** \$1925      **C** \$2075      **D** \$2225



- 8 Bank interest income, \$1800, had been correctly entered in the bank account but recorded as interest expense.

Which entries in the ledger will correct the error?

	account to be debited	\$	account to be credited	\$
<b>A</b>	interest expense	1800	suspense	1800
<b>B</b>	interest income	1800	suspense	1800
	interest expense	1800		
<b>C</b>	suspense	1800	interest income	1800
<b>D</b>	suspense	3600	interest income	1800
			interest expense	1800

- 9 A company has the following balances.

	\$
trade receivables at 31 December 2017	125 400
provision for doubtful debts at 1 January 2017	1 800

During the year ended 31 December 2017 debts of \$20 500 had been written off. The company provides for doubtful debts at a rate of 5% of trade receivables at each year end.

Which expense for doubtful debts was included in the income statement for the year ended 31 December 2017?

- A** \$3445      **B** \$4470      **C** \$5245      **D** \$6270

- 10 How are purchases calculated when proper accounting records have **not** been kept?

- A** sales  $\times$  (1 – margin) – closing inventory + opening inventory  
**B** sales  $\times$  (1 – margin) + closing inventory – opening inventory  
**C** sales  $\times$  (1 – mark-up) – closing inventory + opening inventory  
**D** sales  $\times$  (1 – mark-up) + closing inventory – opening inventory

- 11 The draft financial statements for a business included an inventory valued at \$550 000.

This valuation included damaged items which originally cost \$50 000. These could be sold for \$15 000 provided that \$5000 is spent on repairs.

What is the correct inventory valuation?

- A** \$490 000      **B** \$500 000      **C** \$510 000      **D** \$515 000

- 12 A trader took out a 6% bank loan of \$30 000 on 1 November 2017, to be repaid in full in 10 years' time. Interest is to be paid annually. No interest had been paid by 30 April 2018.

How should this be recorded in the statement of financial position at 30 April 2018?

	current liabilities \$	non-current liabilities \$
<b>A</b>	0	30 000
<b>B</b>	900	30 000
<b>C</b>	1 800	30 000
<b>D</b>	30 900	0

- 13 Which items would **not** be in the appropriation account for a partnership?

- 1 interest on capital
- 2 interest on a partner's loan
- 3 share of profit on revaluation of assets
- 4 share of residual profit

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

- 14 X and Y had been in partnership sharing profit and losses in the ratio of 1 : 2 respectively.

Z was later admitted to the partnership.

It was agreed that the goodwill is valued at \$120 000. No goodwill account is to be retained in the books of account.

Profit and losses were to be shared between X, Y and Z in the ratio of 2 : 1 : 1 respectively.

What was the effect of the goodwill adjustment in X's capital account?

- A** decreased by \$20 000  
**B** decreased by \$60 000  
**C** increased by \$20 000  
**D** increased by \$60 000

- 15 J and K shared profits equally.

Their capital account balances were J \$400 000 and K \$160 000.

L was admitted as a partner. The three partners then shared profits equally.

On admission of L as a partner, assets were increased in value by \$210 000. L paid in capital equal to the average new capital balances of J and K.

What was the capital paid in by L?

- A** \$175 000      **B** \$280 000      **C** \$350 000      **D** \$385 000

- 16 The statement of financial position of a business on 31 December 2017 showed the following.

	\$
retained earnings	136 000
general reserves	28 000
share premium	55 000

During the year ended 31 December 2017 the business had made a profit for the year of \$25 000 and had transferred \$10 000 to the general reserve.

What was the total of revenue reserves on 1 January 2017?

- A** \$101 000      **B** \$139 000      **C** \$149 000      **D** \$194 000

- 17 A company provides the following information.

	\$
ordinary shares of \$0.50 each	84 000
retained earnings	50 000
	134 000

The following transactions then take place.

- 1 The company makes a rights issue of one new ordinary share for every two held, at \$1.30. The issue was fully subscribed.
- 2 A bonus issue of two new ordinary shares for every three held was then made.

What is the maximum possible balance of the retained earnings after these transactions?

- A** \$8400      **B** \$16 800      **C** \$33 200      **D** \$41 600

18 The financial data relates to two businesses.

	X	Y
trade receivable turnover (days)	90	40
trade payable turnover (days)	50	70
liquid (acid test) ratio	3:1	1:1
current ratio	4.5:1	6.2:1

Which statement about the comparison of the two businesses' performance is correct?

- A X has better credit control system.
- B X has higher profitability.
- C Y has better credit control system.
- D Y has higher profitability.

19 A company's financial statements show the following.

	\$
profit before interest	125 378
profit for the year	120 426
200 000 ordinary shares \$1 each	200 000
retained earnings	191 982
debentures	150 000

What is the return on capital employed (ROCE)?

- A 22.22%
- B 23.13%
- C 30.72%
- D 31.99%

20 A company's income statement shows the following.

	\$
revenue	460 000
cost of sales	120 000
administration expenses	54 000
distribution costs	47 000
finance charges	7 000

What is the operating expenses to revenue ratio?

- A 21.96%
- B 23.48%
- C 48.04%
- D 49.57%

21 To make a single unit of output a business requires material costing \$1000.

When 20 items are produced, the total cost of the material is \$20 000.

What best describes this cost?

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

22 A business has the following total overheads for two different output levels.

total overheads \$	output (units)
200 000	20 000
216 000	30 000

What is the total fixed overhead cost?

- A \$16 000
- B \$48 000
- C \$168 000
- D \$216 000

23 A retailer uses the FIFO method for inventory valuation. The following information is available.

June		\$
1	opening inventory 300 units at \$12 per unit	3 600
10	purchased 1000 units at \$12.50 per unit	12 500
21	sold 1200 units for \$16 each	19 200
28	purchased 700 units at \$13 per unit	9 100

What was the value of the inventory at 30 June?

- A \$6000
- B \$9850
- C \$10 080
- D \$10 350

24 A business manufactures 175 units of a product each month.

The following information is available for the month.

Per unit	\$
revenue	580
variable costs	230
fixed overheads	90

What is the break-even point in units?

- A** 45 units      **B** 61 units      **C** 88 units      **D** 160 units

25 When is marginal costing less useful than absorption costing?

- A** when choosing to make or buy a product  
**B** when dealing with a limiting factor  
**C** when producing a special order  
**D** when valuing closing inventory

26 A company manufactures a single product with a selling price of \$75 per unit. The table shows the costs based on sales and production volume of 8000 units.

	\$
direct costs	158 000
variable manufacturing overheads	74 000
fixed manufacturing overheads	80 000
variable selling overheads	20 000
fixed administration overheads	100 000

If absorption costing is applied, what is the gross profit on each unit sold?

- A** \$21.00      **B** \$36.00      **C** \$43.50      **D** \$46.00

27 A company has the following revenue information for a month.

	\$
actual revenue	510 000
break-even revenue	555 000
budgeted revenue	570 000

What was its margin of safety during the month?

- A -\$60 000
- B -\$45 000
- C +\$45 000
- D +\$60 000

28 A business provides the following information.

budgeted overhead costs	\$280 000
budgeted labour hours	25 000
budgeted machine hours	20 000
actual overhead cost	\$336 000
actual labour hours	35 000
actual machine hours	30 000

What is the over-absorption or under-absorption of overheads?

- A \$56 000 over absorbed
- B \$56 000 under absorbed
- C \$84 000 over absorbed
- D \$84 000 under absorbed

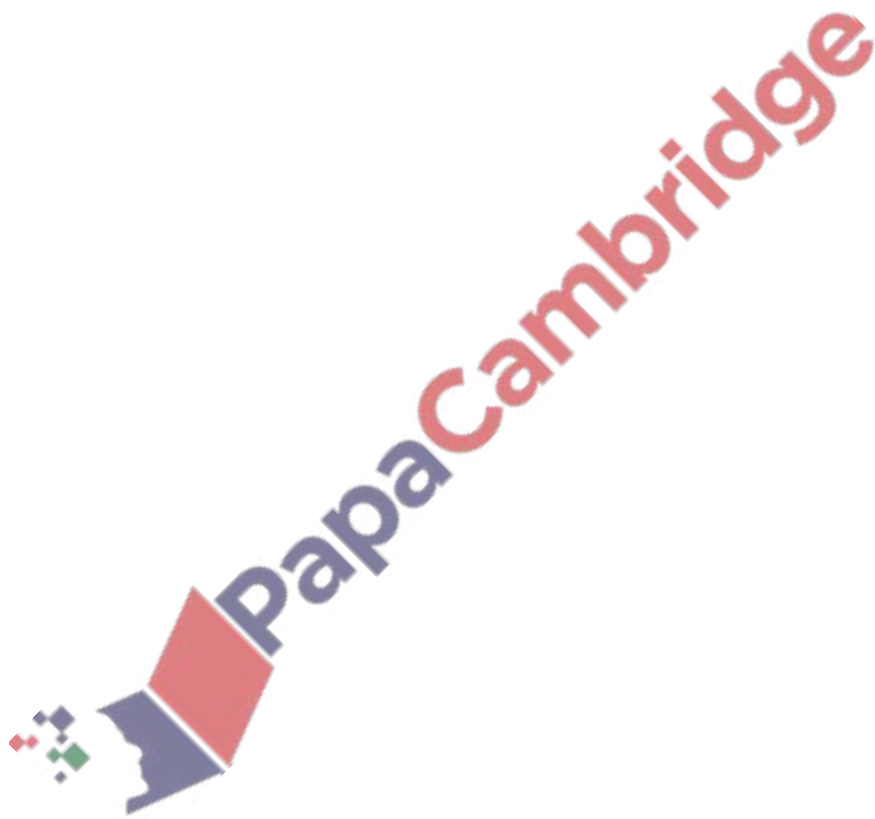
29 A business provides the following budgeted information.

contribution to sales ratio	60%
budgeted sales	\$240 000
budgeted production units	40 000

What is the contribution per unit?

- A \$3.60
- B \$3.75
- C \$9.60
- D \$10.00

- 30 Which statement identifies an advantage to a business of financial planning?
- A Not all managers are aware of business financial planning.
  - B Specialist knowledge is required to prepare the financial plans.
  - C The financial plans provide targets for managers to achieve.
  - D Time and cost is required to prepare the financial plans.





# Answers

EXPLAINED



### November 2018 Paper 1

#### Multiple Choice

1. A company does not include in the financial statements the value of skills gained by its employees from training programmes.

Which accounting concept is being applied?

- A consistency
- B materiality
- C money measurement
- D substance over form

EXPLANATION

Money measurement concept states that only financial (measurable in money terms) transactions can be recorded.

Answer: C

2. Which non-current asset is most likely to be depreciated using the revaluation method?

- A loose tools
- B motor vehicles
- C office equipment
- D plant and machinery

EXPLANATION

Loose tools are low value items held in large quantity.

Answer: A

3. A trader purchased a motor vehicle costing \$36 000 on 1 July 2016. The estimated useful life of the motor vehicle was five years and the estimated residual value was \$6000. Depreciation is provided on a month-by-month basis using the straight-line method.

The motor vehicle was sold on 31 March 2018 for \$22 500.

What was the profit or loss on disposal of the motor vehicle?

- A \$900 loss
- B \$900 profit
- C \$3000 loss
- D \$3000 profit

EXPLANATION

Depreciation per month is  $\$500 \frac{(\$36000 - \$6000)}{60}$

Accumulated depreciation (21 months x \$500) is \$10500.

Net book value (\$36,000 - \$10,500) \$25,500

Loss = \$25,500 - \$22,500 = \$3,000

Answer: C

4. The following is an extract from the statement of financial position for a company at 31 December 2016.

	cost	accumulated depreciation	net book value
	\$	\$	\$
non-current assets	250000	95000	155000

The assets have a residual scrap value of \$12 500.

The company's policy is to provide depreciation using the reducing balance method at a rate of 25% per annum.

What was the depreciation charge for the year ended 31 December 2017?

- A \$35 625
- B \$38 750
- C \$59 375
- D \$62 500

EXPLANATION

Depreciation = NBV x Depreciation rate

Depreciation = \$155,000 x 25% = \$38,750

Answer: B

5. A business sells a non-current asset for cash. The disposal account includes entries for the cost of the asset and the sales proceeds.

Which books of prime entry are used?

	cost	sales proceeds
A	cash book	general journal
B	cash book	sales journal
C	general journal	cash book
D	purchases journal	cash book

EXPLANATION

Cash book records all transactions relating to cash, bank and cash discounts so sales proceeds received in cash is recorded in cash book. Writing off cost of disposed off assets i.e. Dr Disposal account and Cr Asset account cannot be recorded in other five books of prime entry so its recorded in General journal.

Answer: C

6. A trader has extracted the following information from his books of account at 31 March 2018.

	\$
purchase ledger balances at 1 March 2018	32100
credit purchases for March	26400
cheques paid to credit suppliers in March	29700
contra to sales ledger	600
discount received	400

What was the closing balance on the purchases ledger control account at 31 March 2018?

- A** \$27 800                      **B** \$29 800  
**C** \$29 000                      **D** \$34 400

EXPLANATION

Opening payables (\$32,100) + Credit purchases (\$26,400) - Payments (\$29,700) - Contra to sales ledger (\$600) - Discount received (\$400) = closing payables (\$27,800)

Answer: A

7. The table shows extracts from a business's bank reconciliation.

	\$
balance per cash book at 31 December	2075 debit
balance per bank statement at 31 December	2250 credit
bank charges per bank statement not entered in cash book	150
outstanding cheques not presented at the year end	325

What is the bank balance to be shown in the financial statements?

- A** \$1600                      **B** \$1925  
**C** \$2075                      **D** \$2225

EXPLANATION

Balance as per updated cash book (\$2075 - \$150) \$1925 is shown in financial statements as current asset.

Alternatively it can be calculated as follows:

Balance as per bank statement (\$2250) - not presented cheques (\$325) = \$1925

Answer: B

8. Bank interest income, \$1800, had been correctly entered in the bank account but recorded as interest expense.

Which entries in the ledger will correct the error?

	account to be debited	\$	account to be credited	\$
<b>A</b>	interest expense	1800	suspense	1800
<b>B</b>	interest income	1800	suspense	1800
	interest expense	1800		
<b>C</b>	suspense	1800	interest income	1800
<b>D</b>	suspense	3600	interest income	1800
			interest expense	1800

EXPLANATION

Dr - Suspense account (this error caused suspense account balance on credit column in trial balance).

Cr - Bank interest expenses (wrongly debited)

Cr - Interest income (omitted to be credited)

Answer: D

9. A company has the following balances.

	\$
trade receivables at 31 December 2017	125400
provision for doubtful debts at 1 January 2017	1 800

During the year ended 31 December 2017 debts of \$20 500 had been written off. The company provides for doubtful debts at a rate of 5% of trade receivables at each year end.

Which expense for doubtful debts was included in the income statement the year ended 31 December 2017?

- A** \$3445                      **B** \$4470  
**C** \$5245                      **D** \$6270

EXPLANATION

New provision (\$125,400 x 5%) - Opening provision (\$1,800) = \$4,470

Answer: B

10. How are purchases calculated when proper accounting records have **not** been kept?

- A** sales x (1 - margin) - closing inventory + opening inventory  
**B** sales x (1 - margin) + closing inventory - opening inventory  
**C** sales x (1 - mark-up) - closing inventory + opening inventory  
**D** sales x (1 - mark-up) + closing inventory - opening inventory

EXPLANATION

1 - margin = Cost of sales as a percentage of sales

Cost of sales + Closing inventory - Opening inventory = Purchases

Answer: B

11. The draft financial statements for a business included an inventory valued at \$550 000. This valuation included damaged items which originally cost \$50 000. These could be sold for \$15 000 provided that \$5000 is spent on repairs. What is the correct inventory valuation?

- A \$490 000
- B \$500 000
- C \$510 000
- D \$515 000

EXPLANATION

Inventory excluding damaged (\$550,000 - \$50,000) = \$500,000  
 Net reliable value of damaged inventory (\$15,000 - \$5,000) is \$10,000  
 Damaged inventory is to be valued at net realisable value  
 Inventory valuation (\$500,000 + \$10,000) = \$510,000

Answer: C

12. A trader took out a 6% bank loan of \$30 000 on 1 November 2017, to be repaid in full in 10 years' time. Interest is to be paid annually. No interest had been paid by 30 April 2018. How should this be recorded in the statement of financial position at 30 April 2018?

	current liabilities \$	non-current liabilities \$
A	0	30000
B	900	30000
C	1800	30000
D	30900	0

EXPLANATION

Loan is payable after 10 years so it is a Non current liability  
 Accrued Six month's loan interest (loan was taken six months before year end) i.e.  
 $\$30,000 \times 6\% \times 6/12 = \$900$  is current liability

13. Which items would not be in the appropriation account for a partnership?

- 1 interest on capital
- 2 interest on a partner's loan
- 3 share of profit on revaluation of assets
- 4 share of residual profit

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

EXPLANATION

Interest on partner's loan appears in income statement and partner's current account.  
 Revaluation profit appears in revaluation account and partner's capital account.

Answer: C

14. X and Y had been in partnership sharing profit and losses in the ratio of 1 :2 respectively. Z was later admitted to the partnership.

It was agreed that the goodwill is valued at \$120 000. No goodwill account is to be retained in the books of account.

Profit and losses were to be shared between X, Y and Z in the ratio of 2 :1 :1 respectively.

What was the effect of the goodwill adjustment in X's capital account?

- A decreased by \$20 000
- B decreased by \$60 000
- C increased by \$20 000
- D increased by \$60 000

EXPLANATION

Share of goodwill (\$120,000x1/2) credited into X's capital account that increases capital account balance.

Share of goodwill written off (\$ 120,000 x 1/2) is debited in X's capital account that decreases capital account balance.

Answer: A

15. J and K shared profits equally.

Their capital account balances were J \$400 000 and K \$160 000.

L was admitted as a partner. The three partners then shared profits equally.

On admission of L as a partner, assets were increased in value by \$210 000. L paid in capital equal to the average new capital balances of J and K.

What was the capital paid in by L?

- A \$175 000
- B \$280 000
- C \$350 000
- D \$385 000

EXPLANATION

Capital account balance after adjusting revaluation profit  
 J (\$400,000 + \$105,000) \$505,000  
 K (\$160,000 + \$105,000) \$265,000

L has to pay average of  $(\$505,000 + \$265,000) / 2 = \$385,000$

Answer: D

16. The statement of financial position of a business on 31 December 2017 showed the following.

	\$
retained earnings	136000
general reserves	28000
share premium	55000

During the year ended 31 December 2017 the business had made a profit for the year of \$25 000 and had transferred \$10 000 to the general reserve.

What was the total of revenue reserves on 1 January 2017?

- A \$101 000                      B \$139 000  
C \$149 000                      D \$194 000

EXPLANATION

Revenue Reserves as at 31 December 2017 (\$136,000 + \$28,000) totalled \$164,000

Profit increases retained earnings and revenue reserves by \$25,000.

So total revenue reserves at 1 January 2017 were (\$164,000 - \$25,000) \$139,000.

Transfer to general reserves increases general reserves and decreases retained earnings so total reserves remain unaffected. Share premium is capital reserve.

Answer: B

17. A company provides the following information.

	\$
ordinary shares of \$0.50 each	84000
retained earnings	50000
	134000

The following transactions then take place.

- The company makes a rights issue of one new ordinary share for every two held, at \$1.30. The issue was fully subscribed.
- A bonus issue of two new ordinary shares for every three held was then made.

What is the maximum possible balance of the retained earnings after these transactions?

- A \$8400                              B \$16 800  
C \$33 200                            D \$41 600

EXPLANATION

No. of shares issued as Rights issue,  $168,000 \times \frac{1}{2} = 84,000$

Premium on Rights issue,  $84,000 \times \$0.80 = \$67,200$

No. of shares issued as bonus issue,

$(168,000 + 84,000) \times \frac{2}{3} = 168,000$

Reserves needed to finance bonus issue,

$(168,000 \times \$0.50) = \$84,000$

\$67,200 will be financed from share premium and remaining (\$84,000 - \$67,200) \$16,800 from Retained earnings.

Retained earnings balance, (\$50,000 - \$16,800) = \$33,200

Answer: C

18. The financial data relates to two businesses.

	X	Y
trade receivable turnover (days)	90	40
trade payable turnover (days)	50	70
liquid (acid test) ratio	3:1	1:1
current ratio	4.5:1	6.2:1

Which statement about the comparison of the two businesses' performance is correct?

- A X has better credit control system.  
B X has higher profitability.  
C Y has better credit control system.  
D Y has higher profitability.

EXPLANATION

None of the ratios relate to profitability.

Y has short collection period and long payment period

Answer: C

19. A company's financial statements show the following.

	\$
profit before interest	125378
profit for the year	120426
200 000 ordinary shares \$1 each	200000
retained earnings	191982
debentures	150000

What is the return on capital employed (ROCE)?

- A 22.22%                              B 23.13%  
C 30.72%                              D 31.99%

EXPLANATION

$$\text{ROCE} = \frac{\text{Profit from operations}}{\text{Capital employed}}$$

$$\text{Capital employed} = \$200,000 + \$191,982 + \$150,000 = \$541,982$$

Answer: B

20. A company's income statement shows the following.

	\$
revenue	460000
cost of sales	120000
administration expenses	54000
distribution costs	47000
finance charges	7000

What is the operating expenses to revenue ratio?

- A 21.96%                      B 23.48%  
C 48.04%                      D 49.57%

EXPLANATION

$$\text{Operating expenses } (\$54,000 + \$47,000) = \$101,000$$

Operating expenses

Revenue

Answer: A

21. To make a single unit of output a business requires material costing \$1000.

When 20 items are produced, the total cost of the material is \$20 000.

What best describes this cost?

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

EXPLANATION

Variable cost per unit is constant and total variable costs increase with an increase in activity in same direction & proportion.

Answer: D

22. A business has the following total overheads for two different output levels.

total overheads \$	output (units)
200000	20 000
216000	30 000

What is the total fixed overhead cost?

- A \$16 000                      B \$48 000  
C \$168 000                      D \$216 000

EXPLANATION

$$\text{Variable cost per unit} = \frac{\text{Change in total cost}}{\text{Change in activity}}$$

$$\text{Variable cost per unit} = \frac{(\$216,000 - \$200,000)}{(30,000 - 20,000)}$$

$$\text{Variable cost per unit} = \$1.60 \text{ per unit}$$

$$\text{Fixed cost} = \text{Total cost } (\$200,000) - \text{Total variable costs } (20,000 \times \$1.60) = \$168,000$$

Answer: C

23. A retailer uses the FIFO method for inventory valuation. The following information is available.

June		\$
1	opening inventory 300 units at \$12 per unit	3600
10	purchased 1000 units at \$12.50 per unit	12500
21	sold 1200 units for \$16 each	19200
28	purchased 700 units at \$13 per unit	9100

What was the value of the inventory at 30 June?

- A \$6000                      B \$9850  
C \$10 080                      D \$10 350

EXPLANATION

Opening inventory (300 @ \$12)	\$3600
Purchases (1000 @ \$12.50)	\$12500
Sales (300 @ \$12) + (900 @ \$12.50)	
Remaining inventory (100 @ \$12.50)	\$1250
Purchase (700 @ \$13)	\$9100
Remaining inventory (\$1250 + \$9100)	\$10350

Answer: D

24. A business manufactures 175 units of a product each month.

The following information is available for the month.

Per unit	\$
revenue	580
variable costs	230
fixed overheads	90

What is the break-even point in units?

- A 45 units                      B 61 units  
C 88 units                      D 160 units

EXPLANATION

$$\text{Unit contribution } (\$580 - \$230) = \$350$$

$$\text{Break even point} = \frac{\text{Total Fixed cost}}{(\$90 \times 175 / \$350)}$$

Answer: A



25. When is marginal costing less useful than absorption costing?
- A when choosing to make or buy a product
  - B when dealing with a limiting factor
  - C when producing a special order
  - D when valuing closing inventory

EXPLANATION

Inventory is valued using Absorption costing

Answer: D

26. A company manufactures a single product with a selling price of \$75 per unit. The table shows the costs based on sales and production volume of 8000 units.

	\$
direct costs	158000
variable manufacturing overheads	74000
fixed manufacturing overheads	80000
variable selling overheads	20000
fixed administration overheads	100000

If absorption costing is applied, what is the gross profit on each unit sold?

- A \$21.00
- B \$36.00
- C \$43.50
- D \$46.00

EXPLANATION

Total cost of production,  
 (\$158,000 + \$74,000 + \$80,000) = \$312,000

Total cost per unit  $\frac{\$312,000}{8000} = \$39$

Gross profit per unit (\$75 - \$39) = \$36

Answer: B

27. A company has the following revenue information for a month.

	\$
actual revenue	510000
break-even revenue	555000
budgeted revenue	570000

What was its margin of safety during the month?

- A -\$60 000
- B -\$45 000
- C + \$45 000
- D + \$60 000

EXPLANATION

Break even revenue - Actual revenue, its negative because Break even revenue is more than Actual revenue.

Answer: B

28. A business provides the following information.

budgeted overhead costs	\$280000
budgeted labour hours	25 000
budgeted machine hours	20 000
actual overhead cost	\$336000
actual labour hours	35 000
actual machine hours	30000

What is the over-absorption or under-absorption of overheads?

- A \$56 000 over absorbed
- B \$56 000 under absorbed
- C \$84 000 over absorbed
- D \$84 000 under absorbed

EXPLANATION

Labour hours being more than machine hours so OAR is calculated on the basis of labour hours.

$$\text{OAR} = \frac{\$280,000}{25,000} \text{ labour hours}$$

Absorbed overheads = OAR (\$11.20) X Actual Activity (35000 labour hours) = \$392,000

Over absorption = Absorbed overheads (\$392,000) - Actual overheads (\$336,000) = \$56,000

Answer: A

29. A business provides the following budgeted information.

contribution to sales ratio	60%
budgeted sales	\$240000
budgeted production units	40000

What is the contribution per unit?

- A \$3.60
- B \$3.75
- C \$9.60
- D \$10.00

EXPLANATION

Contribution (\$240,000 x 60%) = \$144,000

$$\text{Unit contribution} = \frac{\$144,000}{40,000 \text{ units}} = \$3.60$$

Answer: A

30. Which statement identifies an advantage to a business of financial planning?

- 
- A Not all managers are aware of business financial planning.
  - B Specialist knowledge is required to prepare the financial plans.
  - C The financial plans provide targets for managers to achieve.
  - D Time and cost is required to prepare the financial plans.

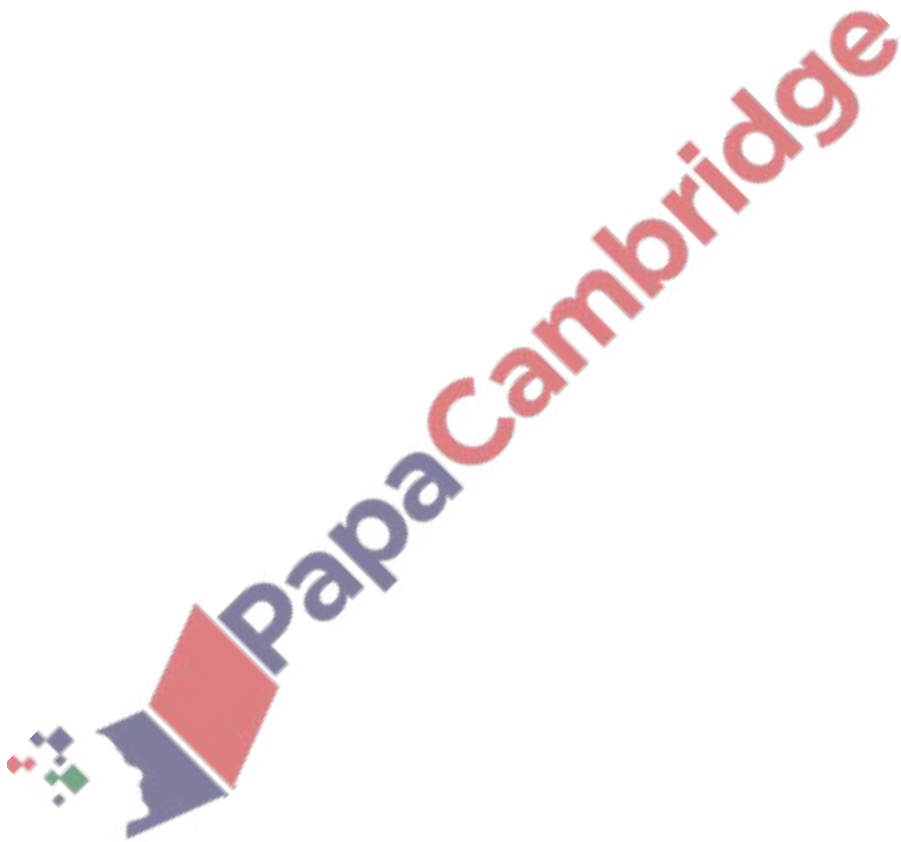
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*EXPLANATION*

Financial planning sets targets to achieve

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*Answer: C*





# Accounting Multiple choice Past Paper **November 2017**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 Which item is classed as revenue expenditure?
- A installation costs of machinery
  - B legal fees on the purchase of premises
  - C number plates on a new motor vehicle
  - D redecorating office premises
- 2 What is the purpose of depreciation?
- A to allocate the cost of the assets over their lives
  - B to improve liquidity ratios of the business
  - C to provide sufficient funds to replace the assets
  - D to show the assets at their market values
- 3 A company's year end is 30 April. It purchases a factory in May 2014 at a cost of \$200 000. The factory will be depreciated over 20 years. A full year's depreciation is charged in the year of purchase.
- In May 2017 the factory is revalued at \$300 000.
- How much should be included in the revaluation reserve account?
- A \$100 000      B \$120 000      C \$130 000      D \$140 000
- 4 A business has a year end of 31 December. It purchased a non-current asset on 1 January 2014 for \$100 000. It was depreciated using the reducing balance method at 20% per annum. It was sold for \$40 000 on 1 January 2016.
- What was the loss on disposal?
- A \$20 000      B \$24 000      C \$40 000      D \$60 000
- 5 Why does a business keep a sales ledger control account?
- 1 It helps deter fraud.
  - 2 It helps with the preparation of financial statements.
  - 3 It identifies doubtful debt easily.
  - 4 It predicts the sales for the coming year.
- A 1 and 2      B 1 and 3      C 2 and 3      D 2 and 4

- 6 A sales ledger control account had a debit balance of \$38 600. The total of individual sales ledger debit balances was \$36 500. The only errors found were as follows.

An irrecoverable debt had been recorded in the ledger of Smith but not the control account.

The sales journal was undercast by \$1500.

A contra of \$1750 had been correctly recorded in the control account but only \$1250 recorded in the ledgers.

What was the value of the irrecoverable debt?

- A \$100                      B \$1100                      C \$3100                      D \$4100
- 7 The following information is available.

	\$
provision for doubtful debts at the beginning of the year	6 250
trade receivables at the end of the year	93 750

Provision for doubtful debts is to be maintained at 6% of trade receivables.

Which effect will the provision for doubtful debts have on profit for the year in the income statement?

- A decrease by \$625  
 B decrease by \$5625  
 C increase by \$625  
 D increase by \$5625
- 8 At 31 December the following information is available about a company's banking transactions.

	\$
balance at bank per bank statement	22 650
uncleared deposits	3 110
unpresented cheques	6 290
bank credit recorded twice by bank in error	650

Which value for bank should be recorded in the statement of financial position at 31 December?

- A \$18 820                      B \$20 120                      C \$25 180                      D \$26 480

- 9 Hedley has 100 items of inventory in his warehouse and five more with a customer on a sale or return basis. He provides the following information.

	\$ per unit
historic cost paid	60
selling price	85
current replacement cost	65

Which value should appear in the statement of financial position for inventory?

- A \$6000      B \$6300      C \$6825      D \$8500
- 10 A business does not keep complete accounting records. The following information is known for the year.

	\$
capital at start	52 000
capital at end	55 000
drawings	13 000
capital introduced	25 000

What is the profit or loss for the year?

- A loss \$9000  
 B profit \$9000  
 C loss \$15 000  
 D profit \$15 000
- 11 A business has 500 items of inventory at a cost price of \$3 each. The selling price per unit is based on a mark-up of 20%. Before sale, the items need to be repaired at a total cost of \$400.

What is the net realisable value of the inventory?

- A \$1400      B \$1475      C \$2200      D \$2275

12 The following information is available for the year ended 31 December 2016.

	\$
revenue	75 000
purchases	32 000
carriage inwards	5 400
carriage outwards	4 500
inventory at 1 January 2016	6 300
inventory at 31 December 2016	7 600

What was the gross profit for the year ended 31 December 2016?

- A** \$36 300      **B** \$37 200      **C** \$38 900      **D** \$39 800

13 A partnership maintains capital accounts and current accounts.

Which statements are correct?

- 1 The capital accounts show the total amount owed to each partner.
- 2 The capital accounts represent the retained earnings of the business.
- 3 The capital and current accounts equal the net assets.

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

14 X, Y and Z had been in partnership, sharing profits and losses in the ratio of 2 : 2 : 1.

On 1 January 2017, Y retired. The balances of his capital and current accounts were as shown.

capital account	current account
\$50 000	\$6400 debit

Y took over a motor van at an agreed value of \$3800. The net book value of the motor van was \$4800.

Goodwill was valued at \$30 000.

The value of all other assets at 1 January 2017 would remain unchanged.

How much cash was Y entitled to when he retired?

- A** \$51 400      **B** \$51 800      **C** \$55 200      **D** \$64 200

- 15 S and T are in partnership, sharing profits and losses in the ratio 2:1. The balances on their capital accounts at 31 March 2017 were:

	\$
capital account S	40 000
capital account T	20 000
	60 000

On 1 April 2017 the partners decide to change the profit-sharing ratio to 3:2. Goodwill is to be valued at \$30 000 and is not to be retained in the books of account.

What is the new balance of T's capital account?

- A \$18 000      B \$20 000      C \$22 000      D \$30 000
- 16 A partnership provides the following financial information for the year ended 30 June 2017.

	\$
profit from operations	240 000
bank interest payable	21 000
interest on capital	15 000
drawings	50 000
partnership salaries	45 000

What is the residual balance of profits to be appropriated between the partners?

- A \$109 000      B \$154 000      C \$159 000      D \$204 000
- 17 Which accounting entry could record the issue of bonus shares?

	debit	credit
A	bank	share capital
B	general reserve	share capital
C	general reserve	share premium
D	share capital	general reserve

18 From which accounts can a company pay dividends?

- 1 general reserve
- 2 retained earnings
- 3 revaluation reserve
- 4 share capital

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

19 A company provides the following data on 1 January 2016.

	\$
10% debentures (2020)	200 000
bank loan (2017)	130 000
bank loan (2018)	10 000
bank overdraft	24 000

What is the total value of non-current liabilities at 31 December 2016?

A \$154 000      B \$210 000      C \$340 000      D \$364 000

20 Calculation of which ratio does **not** include revenue?

- A gross margin
- B mark-up
- C non-current asset turnover
- D profit margin





- 21 Bradshaw does not keep proper books of account. The following information is available for the year.

cost of sales	\$750 000
mark-up	20%
cash sales	\$300 000
trade receivables	\$46 000

What are total sales and trade receivables turnover?

	total sales \$	trade receivables turnover (days)
<b>A</b>	900 000	19
<b>B</b>	900 000	28
<b>C</b>	937 500	18
<b>D</b>	937 500	27

- 22 The financial statements of a company showed the following.

	\$
current liabilities	15 000
non-current liabilities	40 000
ordinary shares	120 000
general reserve	10 000
retained earnings	46 000
interest paid	11 000

Profit for the year was \$23 000.

What was the return on capital employed?

- A** 10.65%      **B** 13.07%      **C** 15.74%      **D** 19.32%
- 23 Which item is an indirect cost?
- A** carriage inwards  
**B** production materials  
**C** wages of machine operators  
**D** wages of stores staff

24 The following information is forecast for next period.

	units
opening inventory	54 275
closing inventory	60 120
	\$
profit using marginal costing	300 600
profit using absorption costing	390 780

What is the overhead absorption rate per unit?

- A \$5.00      B \$6.50      C \$7.20      D \$15.43

25 A business has total fixed costs of \$240 000. Products have a unit selling price of \$25 and a unit variable cost of \$15.

How many units need to be sold to break even?

- A 6000      B 9600      C 16 000      D 24 000

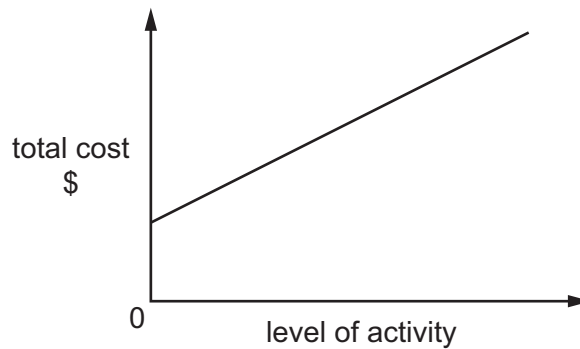
26 The table contains information provided by a company.

budgeted direct labour hours	8000
actual direct labour hours worked	7500
budgeted overhead expenditure	\$104 000
actual overhead expenditure	\$112 500

What is the over or under recovery of overheads?

- A \$8500 over recovered  
 B \$8500 under recovered  
 C \$15 000 over recovered  
 D \$15 000 under recovered

27 The diagram illustrates the cost behaviour of a typical telephone invoice.



Which term best describes the behaviour of this cost?

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

28 Which statements about the limitations of marginal costing are correct?

- 1 Finance costs are not included in the manufacturing overheads.
- 2 Variable cost per unit changes at different levels of activity.
- 3 Some costs may be semi-variable costs.

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

29 A product has a variable cost of \$31.32 per unit. Total fixed costs are \$93 600.

When production is 13 000 units the margin of safety is 5000 units.

What is the selling price per unit?

- A \$36.52
- B \$38.52
- C \$43.02
- D \$50.04

30 Why is planning important to a business?

- 1 to ensure that the business always makes a profit
- 2 to employ the correct number of workers
- 3 to reduce the risk of running out of inventory

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

# Answers

EXPLAINED



## Multiple Choice

1. Which item is classed as revenue expenditure?

- A installation costs of machinery
- B legal fees on the purchase of premises
- C number plates on a new motor vehicle
- D redecorating office premises

**Revenue expenditure** is expenditure incurred in the day-to-day running of the business. Revenue expenditure is normally recurring, compared to the one-off nature of most capital expenditure. Redecorating office premises is an example.

**Capital expenditure** is the amount spent by a business to acquire, improve or extend the life of non-current assets such as property, equipment and machinery. The one-off costs incurred in the acquisition of non-current assets should also be included as capital expenditure, for example, transportation costs, legal fees and installation costs.

*Answer D*

2. What is the purpose of depreciation?

- A to allocate the cost of the assets over their lives
- B to improve liquidity ratios of the business
- C to provide sufficient funds to replace the assets
- D to show the assets at their market values

Depreciation is the apportioning of the cost of a non-current asset over its useful economic life.

*Answer A*

3. A company's year end is 30 April. It purchases a factory in May 2014 at a cost of \$200 000. The factory will be depreciated over 20 years. A full year's depreciation is charged in the year of purchase.

In May 2017 the factory is revalued at \$300 000. How much should be included in the revaluation reserve account?

- A \$100 000
- B \$120 000
- C \$130 000
- D \$140 000

**Step 1: Calculate net book value at the time of revaluation**

Annual depreciation =  $\$200,000/20 = \$10,000$

NBV =  $[\$200,000 - (\$10,000 \times 3)] = \$170,000$

**Step 2: Calculate amount to be included in the revaluation reserve account**

Revalued amount (\$300,000) - Net book value (\$170,000) = \$130,000

The profit on revaluation is credited to revaluation reserve.

*Answer C*

4. A business has a year end of 31 December. It purchased a non-current asset on 1 January 2014 for \$100 000. It was depreciated using the reducing balance method at 20% per annum. It was sold for \$40 000 on 1 January 2016.

What was the loss on disposal?

- A \$20 000
- B \$24 000
- C \$40 000
- D \$60 000

**Step 1: Calculate Net book value at 1 Jan 2016**

$\$100,000 \times 80\% \times 80\% = \$64,000$

**Step 2: Calculate loss on disposal**

Sale price - Net book value

$\$40,000 - \$64,000 = -\$24,000$  (loss)

*Answer B*

5. Why does a business keep a sales ledger control account?

- 1 It helps deter fraud.
- 2 It helps with the preparation of financial statements.
- 3 It identifies doubtful debt easily.
- 4 It predicts the sales for the coming year.

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

The sales ledger control account is an account used to record the totals of the books of prime entry, related to credit sales, to check the accuracy of the sales ledger. It is also known as the total trade receivables account. Control accounts are used to check the accuracy of the entries made in each of the sales ledgers and help deter fraud. It helps with the preparation of financial statements.

*Answer A*

6. A sales ledger control account had a debit balance of \$38 600. The total of individual sales ledger debit balances was \$36 500. The only errors found were as follows.

An irrecoverable debt had been recorded in the ledger of Smith but not the control account.

The sales journal was undercast by \$1500.

A contra of \$1750 had been correctly

recorded in the control account but only \$1250 recorded in the ledgers.

What was the value of the irrecoverable debt?

- A \$100
- B \$1100
- C \$3100
- D \$4100

104  
Sales ledger balance must be adjusted by \$500 (the difference between \$ 1250 and \$1750)

**Step 1: Calculate the adjusted sales ledger balance**

$\$36,500 - \$500 = \$36,000$

**Step 2: Calculate the adjusted sales ledger control account balance (without adjusting irrecoverable debts)**

$\$38,600 + \$1500 = \$40,100$

The difference between sales ledger balances (\$36,000) and control account balance (\$40,100) issue to irrecoverable debts \$4100.

Answer D

7. The following information is available.

	\$
provision for doubtful debts at the beginning of the year	6250
trade receivables at the end of the year	93750

Provision for doubtful debts is to be maintained at 6% of trade receivables.

Which effect will the provision for doubtful debts have on profit for the year in the income statement?

- A decrease by \$625
- B decrease by \$5625
- C increase by \$625
- D increase by \$5625

A provision for doubtful debts is the estimated amount of the proportion of trade receivables that will turn out to be an irrecoverable debt.

**Provision for doubtful debts to be maintained**

$\$93,750 \times 6\% = \$5625$

**Decrease in provision**

$\$6250 - \$5625 = \$625$  A decrease in provision will increase profit

Answer: C

8. At 31 December the following information is available about a company's banking transactions.

	\$
balance at bank per bank statement	22 650
uncleared deposits	3110
unpresented cheques	6290
bank credit recorded twice by bank in error	650

Which value for bank should be recorded in the statement of financial position at 31 December?

- A \$18 820
- B \$20 120
- C \$25 180
- D \$26 480

Balance as per bank statement	\$22,650
Add not credited deposits	\$3110
Less unpresented cheques	(\$6,290)
Less bank credit recorded twice	(\$650)
Balance as per updated Cash book	<u>\$18,820</u>

Answer A

9. Hedley has 100 items of inventory in his warehouse and five more with a customer on a sale or return basis. He provides the following information.

	\$ per unit
historic cost paid	60
selling price	85
current replacement cost	65

Which value should appear in the statement of financial position for inventory?

- A \$6000
- B \$6300
- C \$6825
- D \$8500

**Inventory should be valued at 'the lower of cost and net realisable value'**

The cost is (\$60) of inventory is lower than it's net realisable value (\$85).

Inventory (100 + 5) 105 units are valued at \$60 each.

$105 \text{ units} \times \$60 = \$6300$

Answer B

10. A business does not keep complete accounting records . The following information is known for the year.

	\$
capital at start	52000
capital at end	55000
drawings	13000
capital introduced	25000

What is the profit or loss for the year?

- A loss \$9000
- B profit \$9000
- C loss \$15 000
- D profit \$15 000

Closing capital + drawings -additional capital - opening capital = profit / loss

$\$55,000 + \$13,000 - \$25,000 - \$52,000 = - \$9000 \text{ loss}$

Answer A

	Closing capital
Deduct	<u>Opening capital</u>
Retained profit	xxxxxxxxxxx
Add	<u>Drawings</u>
	xxxxxxxxxxx
Deduct	<u>Capital introduced</u>
Profit (loss) for the year	xxxxxxxxxxx

11. A business has 500 items of inventory at a cost price of \$3 each. The selling price per unit is based on a mark-up of 20%. Before sale, the items need to be repaired at a total cost of \$400. What is the net realisable value of the inventory?

- A \$1400
- B \$1475
- C \$2200
- D \$2275

Selling price  $(\$3 + 20\%(\$3)) = \$3.60$

Net realizable value  $(500 \times \$3.60) - \$400 = \$1400$

The overriding principle that should be used at all times is that inventory should be valued at the lower of cost or net realisable value.

The net realisable value of \$1400 is less than cost price  $(500 \times \$3) \$1500$ .

Answer: A

12. The following information is available for the year ended 31 December 2016.

	\$
revenue	75000
purchases	32000
carriage inwards	5400
carriage outwards	4500
inventory at 1 January 2016	6300
inventory at 31 December 2016	7 600

What was the gross profit for the year ended 31 December 2016?

- A \$36 300
- B \$37 200
- C \$38 900
- D \$39 800

$\$75,000 - [6300 + 32,000 + 5400 - 7600] = \$38,900$

Note: Carriage outward is not used for Gross Profit calculation.

Answer: C

Sales (Revenue)	\$	\$	\$
Less Sales returns			XXXX
			XXXX
			XXXX
Less Cost of sales			
Opening stock (Inventory)		XXXX	
Purchases	XXXX		
Less Purchases returns	XXXX		
	XXXX		
Less Goods for own use	XXXX		
	XXXX		
Carriage inwards	XXXX	XXXX	
		XXXX	
Less Closing stock (Inventory)		XXXX	XXXX
Gross profit			XXXX

13. A partnership maintains capital accounts and current accounts.

Which statements are correct?

- 1 The capital accounts show the total amount owed to each partner.
- 2 The capital accounts represent the retained earnings of the business.
- 3 The capital and current accounts equal the net assets.

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

Partners' capital accounts show deliberate injections of capital into the business; plus any goodwill adjustments; plus any profits or losses arising on a revaluation of assets (generally on the admission or the retirement of a partner).

Partners' current accounts record entries relating to each partner's share of the profits of the business in the current year. The current account would also be used to adjust for any errors made in the profit share in previous years.

Answer: D

14. X, Y and Z had been in partnership, sharing profits and losses in the ratio of 2 : 2 : 1.

On 1 January 2017, Y retired. The balances of his capital and current accounts were as shown.

capital account	current account
\$50000	\$6400 debit

Y took over a motor van at an agreed value of \$3800. The net book value of the motor van was \$4800.

Goodwill was valued at \$30 000.

The value of all other assets at 1 January 2017 would remain unchanged.

How much cash was Y entitled to when he retired?

- A \$51 400
- B \$51 800
- C \$55 200
- D \$64 200

Capital account	\$50,000
Less current account debit balance	(\$6400)
Less share of loss on motor van taken over	(400)
	$([\$1000 \times 2] / 5)$
Less motor van	(\$3800)
Plus share of goodwill $[\$30\,000 \times 2] / 5$	<u>12 000</u>
Cash entitled to Y	\$51400

Answer: A

15. S and T are in partnership, sharing profits and losses in the ratio 2:1. The balances on their capital accounts at 31 March 2017 were:

	\$
capital account S	40000
capital account T	20000
	60 000

On 1 April 2017 the partners decide to change the profit-sharing ratio to 3 : 2. Goodwill is to be valued at \$30 000 and is not to be retained in the books of account.

What is the new balance of T's capital account?

- A \$18 000
- B \$20 000
- C \$22 000
- D \$30 000



Capital Account (\$20,000)  
 + Share of goodwill ( $[\$30,000 \times 1] / 3$ )  
 - Share of goodwill written off ( $[\$30,000 \times 2] / 5$ )  
 = \$18,000

Answer: A

16. A partnership provides the following financial information for the year ended 30 June 2017.

	\$
profit from operations	240000
bank interest payable	21000
interest on capital	15000
drawings	50000
partnership salaries	45000

What is the residual balance of profits to be appropriated between the partners?

- A \$109 000                      B \$154 000  
 C \$159 000                      D \$204 000

Profit from operations (\$240,000) - interest on capital (\$15,000) - partnership salaries (\$45,000) - bank interest (\$21,000) = \$159,000

Answer: C

17. Which accounting entry could record the issue of bonus shares?

	debit	credit
A	bank	share capital
B	general reserve	share capital
C	general reserve	share premium
D	share capital	general reserve

A bonus issue is an increase in the share capital of the company along with a decrease in other reserves.

Answer: B

18. From which accounts can a company pay dividends?

- 1 general reserve
- 2 retained earnings
- 3 revaluation reserve
- 4 share capital

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

Revenue reserves are portions of profits earned by a company's normal operations which are then set aside. Revenue reserves such as general reserves and retained earnings can be used to pay dividends.

Answer: A

19. A company provides the following data on 1 January 2016.

	\$
10% debentures (2020)	200000
bank loan (2017)	130000
bank loan (2018)	10000
bank overdraft	24000

What is the total value of non-current liabilities at 31 December 2016?

- A \$154 000                      B \$210 000  
 C \$340 000                      D \$364 000

Bank loan due in 2017 : current liability  
 Bank overdraft : current liability  
 Bank loan (2018) : non-current liabilities  
 Debentures (2020) : non-current liabilities

Answer: B

20. Calculation of which ratio does not include revenue?

- A gross margin  
 B mark-up  
 C non-current asset turnover  
 D profit margin

Markup is gross profit as a percentage of cost of sales.

Answer: B

21. Bradshaw does not keep proper books of account. The following information is available for the year.

cost of sales	\$750000
mark-up	20%
cash sales	\$300000
trade receivables	\$46 000

What are total sales and trade receivables turnover?

	total sales \$	trade receivables turnover (days)
A	900 000	19
B	900000	28
C	937500	18
D	937500	27



Gross profit (\$750,000 x 20%) = \$150,000

**Total sales revenue**

107

$(\$750,000 + \$150,000) = \$900,000$

Credit sales (\$900,000 - \$300,000) = \$600,000

**Trade receivables turnover**

$(\$46,000/\$600,000) \times 365 = 27.9$  round to 28 *Answer: B*

22. The financial statements of a company showed the following.

	S
current liabilities	15000
non-current liabilities	40000
ordinary shares	120000
general reserve	10000
retained earnings	46 000
interest paid	11 000

Profit for the year was \$23 000.

What was the return on capital employed?

- A 10.65%                      B 13.07%  
C 15.74%                      D 19.32%

**Capital employed** = non-current liabilities (\$40,000) + ordinary shares (\$120,000) + general reserve (\$10,000) + retained earnings (\$46,000) = \$216,000

**Profit from operation** = profit from the year (\$23,000) + interest (\$11,000) = \$34,000

**ROCE** = (Profit from operations / Capital employed) x 100 =  $\$34,000 / \$216,000 = 15.74\%$

*Answer: C*

23. Which item is an indirect cost?

- A carriage inwards  
B production materials  
C wages of machine operators  
D wages of stores staff

Indirect costs are items of expenditure that cannot easily be identified with a specific saleable cost unit. e.g wages of stores staff

*Answer: D*

24. The following information is forecast for next period.

	units
opening inventory	54 275
closing inventory	60120
	\$
profit using marginal costing	300 600
profit using absorption costing	390780

What is the overhead absorption rate per unit?

- A \$5.00                      B \$6.50  
C \$7.20                      D \$15.43

**Step 1 : Calculate the difference in profit**

$(\$390,780 - \$300,600) = \$90,180$

**Step 2: Calculate the difference in inventories**

$(60120 - 54275) = 5845$  units

The difference in profits is due to difference in valuation of inventories. Difference in inventories is due to inclusion of fixed production costs in case of absorption costing.

**Step 3: Calculate the overhead absorption rate**

$\text{difference in profits} / \text{difference in inventories} = \text{overhead absorption rate}$

$\$90180 / 5845 = \$15.428$  (round to 15.43)

*Answer D*

A business has total fixed costs of \$240 000. Products have a unit selling price of \$25 and a unit variable cost of \$15.

How many units need to be sold to break even?

- A 6000  
B 9600  
C 16 000  
D 24 000

**Step 1: Calculate unit contribution**

Unit contribution  $(\$25 - \$15) = \$10$

**Step 2: Calculate Break even point**

BEP (units) = total fixed costs / unit contribution  $\$240000 / \$10 = 24000$  units

*Answer D*

26. The table contains information provided by a company.

budgeted direct labour hours	8000
actual direct labour hours worked	7500
budgeted overhead expenditure	\$104 000
actual overhead expenditure	\$112500

What is the over or under recovery of overheads?

- A \$8500 over recovered  
B \$8500 under recovered  
C \$15 000 over recovered  
D \$15 000 under recovered

$$\text{Overhead absorption rate} = \frac{(\$104,000)}{8000 \text{ hours}}$$

= \$13 per labour hour

Absorbed overheads (7500 hours X \$13) = \$97,500

Under recovery = excess of actual overheads over absorbed overheads.

Under recovery (\$112,500 - \$97,500) = \$15,000

Answer: D

Break even point (units) = current activity (13,000 units) - margin of safety (5000 units)

Break even point (units) = 8000 units

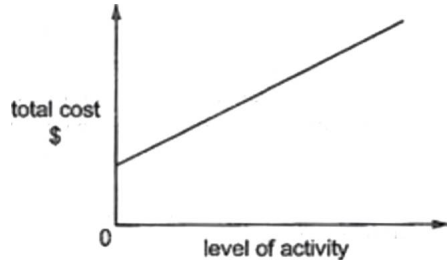
Break even point (8000 units) = Fixed cost (\$93,600) / unit contribution (to be determined)

Unit contribution = \$11.70

Selling price \$43.02 = Unit contribution (\$11.70) + variable costs (\$31.32)

Answer: C

27. The diagram illustrates the cost behaviour of a typical telephone invoice.



Which term best describes the behaviour of this cost?

- A fixed  
B semi-variable  
C stepped  
D variable

Semi variable costs are costs that cannot be classified as either fixed costs or variable costs because they contain an element of both.

Answer: B

30. Why is planning important to a business?

- 1 to ensure that the business always makes a profit
- 2 to employ the correct number of workers
- 3 to reduce the risk of running out of inventory

A 1 and 2

B 1 only

C 2 and 3

D 3 only

Planning helps in allocation of resources and inventory management.

Answer: C

28. Which statements about the limitations of marginal costing are correct?

- 1 Finance costs are not included in the manufacturing overheads.
- 2 Variable cost per unit changes at different levels of activity.
- 3 Some costs may be semi-variable costs.

A 1 and 2

B 1 only

C 2 and 3

D 3 only

Marginal costing assumes costs to be either fixed or variable i.e. no semi variable costs, whereas semi variable costs may exist. An example of a semi-variable cost is the charge for consumption of electricity. The standing charge is a fixed cost — it is charged at a fixed rate that is not dependent on the amount of electricity used. The variable cost part is based on the number of units consumed during the period.

Answer D

29. A product has a variable cost of \$31.32 per unit. Total fixed costs are \$93 600.

When production is 13 000 units the margin of safety is 5000 units.

What is the selling price per unit?

A \$36.52

B \$38.52

C \$43.02

D \$50.04

# Accounting Multiple choice Past Paper **November 2016**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

1 Which transaction applies the matching concept?

- A A machine acquired on long-term rental is included in non-current assets.
- B Computer equipment is depreciated over two years.
- C A building is revalued following a fall in property prices.
- D A waste-paper basket is treated as revenue expenditure.

2 A disposal account is used to record the sale of a non-current asset.

Which transactions are recorded on the credit side of the disposal account?

- A cost, loss on disposal and sale proceeds
- B cost, profit on disposal and sale proceeds
- C depreciation, loss on disposal and sale proceeds
- D depreciation, profit on disposal and sale proceeds

3 The following information was available for the disposal of a machine.

	\$
accumulated depreciation	45 000
profit on disposal	8 100
sale proceeds	75 600

What was the original cost of the machine?

- A \$22 500
- B \$38 700
- C \$112 500
- D \$128 700

4 A printing company installed a large printing press.

Which costs are capital expenditure in the first year of its operation?

- 1 installation of the press
- 2 depreciation of the press
- 3 repairs to the press
- 4 upgrades to the press

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

- 5 The year-end balance in the cash book was \$23 780. This was different from the balance on the bank statement. The difference was due to the following items.

	\$
bank charges	216
a customer's cheque which was dishonoured	1375
a bank error meant a cheque was incorrectly debited to the bank account	560

What should be the value of bank in the statement of financial position?

- A** \$21 629      **B** \$22 189      **C** \$25 371      **D** \$25 931
- 6 At the end of the year, the balance on a firm's sales ledger control account was \$12 900. The total of the customers' accounts in sales ledger was \$11 900.

The following errors were then discovered.

- 1 A customer's account had been undercast by \$700.
- 2 A contra with a supplier in the purchases ledger of \$200 had only been entered in the sales ledger control account.
- 3 The discount allowed column in the cash book totalled \$500. This had not been posted to the nominal ledger.

What was the correct balance on the sales ledger control account?

- A** \$11 200      **B** \$11 400      **C** \$12 000      **D** \$12 400
- 7 A suspense account has a balance of \$450 debit.

What has caused this balance in the suspense account?

- A** motor expenses of \$225, correctly entered in the cash book, and posted to motor expenses as a credit
- B** motor expenses of \$225, entered in the cash book as a receipt and posted to motor expenses as a credit
- C** motor expenses of \$450, correctly entered in the cash book, and posted to motor vehicles as a debit
- D** motor expenses of \$675, entered in the cash book as a credit of \$225 and posted to motor expenses as \$225 debit



- 8 An item of capital expenditure has been incorrectly treated as revenue expenditure in the financial statements of a business.

What is the effect of this error on the financial statements of the business?

	assets	profit
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

- 9 A company pays or receives the following amounts on the last day of its financial year.

	\$
deposit paid to a supplier	6500
rental income received in advance	8000
loan repayment	3000
payment for last month's sales commission	900

Which of these amounts will be included as other receivables in the statement of financial position?

- A** \$6500      **B** \$14 500      **C** \$17 500      **D** \$18 400

- 10 A sole trader provides the following information.

	start of year \$	end of year \$
total assets	100 000	135 000
total liabilities excluding owner's capital	(35 000)	(40 000)

During the year the owner took drawings of \$18 000.

What was the profit for the year?

- A** \$12 000      **B** \$30 000      **C** \$35 000      **D** \$48 000

11 A trader did not keep full accounting records. The following information was available for 2015.

	\$
trade payables on 1 January	32 785
trade payables on 31 December	43 630
payments to suppliers during the year	72 830
discounts received during the year	3 450

What was the value of purchases?

- A** \$58 535      **B** \$65 435      **C** \$80 225      **D** \$87 125

12 A partnership admits a new partner.

Which statement is correct?

- A** Profits will always be shared equally following the new partner's admission.  
**B** The new partner will always benefit if assets are later revalued upwards.  
**C** The new partner must always contribute capital to the partnership.  
**D** The new partner will always pay for a share of partnership goodwill.

13 X, Y and Z are in partnership sharing the profits and losses in the ratio of 2:2:1.

At 31 December the following information is available.

	X \$	Y \$	Z \$
capital account balances	100 000	100 000	50 000
current account balances	20 000	15 000	(5 000)

On 31 December Z retires from the partnership. Total assets are revalued upwards by \$45 000. There is no goodwill.

How much will Z be paid on his retirement?

- A** \$54 000      **B** \$59 000      **C** \$60 000      **D** \$65 000



14 The following information relates to a partnership.

	\$
profit from operation	90 000
loan interest	3 200
interest on drawings	6 000
drawings	40 000
interest on capital	11 000

What is the residual profit to be appropriated amongst the partners?

- A** \$41 800      **B** \$69 800      **C** \$81 800      **D** \$91 800

15 A partnership earned an average profit during the year of \$15 000 per month.

Halfway through the year D and E were joined by a new partner F and profits were shared equally before and after the change. In the first half of the year D transferred his private vehicle to the partnership at a valuation of \$12 000. D's drawings amounted to \$60 000 during the year.

What was the increase in D's current account balance during the year?

- A** \$15 000      **B** \$30 000      **C** \$75 000      **D** \$87 000

16 How would a transfer to general reserve and the issue of shares at a premium affect the revenue reserves of a limited company?

	transfer to general reserve	issue of shares at a premium
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	no effect	increase
<b>D</b>	no effect	no effect

- 17** A company is formed with the issue of 100 000 6% non-cumulative preference shares of \$1 each and 300 000 ordinary shares of \$1 each issued at a premium of \$0.20.

It earned profits of \$3000, \$16 000 and \$31 000 in the first three years of trading. The directors wish to pay an ordinary dividend of 5% each year when possible.

What value of ordinary dividends does the company actually pay in years 2 and 3?

	year 2 \$	year 3 \$
<b>A</b>	7 000	15 000
<b>B</b>	7 000	18 000
<b>C</b>	10 000	15 000
<b>D</b>	10 000	18 000

- 18** A company had an issued share capital of 400 000 ordinary shares of \$1 each. It then made a bonus issue of one share for every five held. This was later followed by a rights issue of one share for every three held.

What was the balance on the share capital account after these transactions?

- A** \$480 000      **B** \$533 333      **C** \$613 333      **D** \$640 000

- 19** Which action will increase the equity of a limited company?

- A** creating a general reserve  
**B** issuing bonus shares  
**C** issuing debentures  
**D** issuing non-redeemable preference shares

- 20** Which action leaves the value of working capital unchanged?

- A** disposal of a non-current asset  
**B** issuing shares for cash  
**C** purchasing goods for resale on credit  
**D** writing off an irrecoverable debt

- 21** Owusu Limited has a constant level of annual sales and a constant gross margin. Each year the inventory increases.

Which effects does this have on the inventory holding period and on inventory turnover?

	inventory holding (in days)	inventory turnover (times)
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 22** A business uses the AVCO method of inventory valuation.

The following transactions took place.

1 March	purchased 1000 units at \$65 per unit
2 March	purchased 1200 units at \$66 per unit
4 March	sold 1850 units at \$68 per unit

What was the value of closing inventory?

- A** \$22 750      **B** \$22 941      **C** \$23 100      **D** \$23 800

- 23** A manufacturing company employs 20 workers who are paid a basic rate of \$30 per hour for a 40-hour week. To meet a special order, the workers each worked 50 hours and were paid a premium of 40% over basic rate for the overtime.

What was the value of wages paid to meet the special order?

- A** \$30 000      **B** \$32 400      **C** \$33 600      **D** \$42 000

- 24** A manufacturing business is currently operating at full capacity.

As part of an expansion programme to increase production capacity, the business intends to employ an additional factory supervisor.

How are total supervisory salaries classified?

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

**25** In a manufacturing business the following could occur.

- 1 Actual overheads paid are less than budgeted overheads.
- 2 Actual overheads paid are more than budgeted overheads.
- 3 Actual units produced are less than budgeted units.
- 4 Actual units produced are more than budgeted units.

Which situations would result in an under absorption of overhead expenditure?

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

**26** A company makes and sells a single product for \$12 per batch.

The variable cost is \$4 per batch.

Fixed costs have been absorbed based on a normal activity level of 1000 batches at \$3 per batch.

What is the profit under marginal costing if the company makes and sells 1500 batches?

- A** \$6000      **B** \$7500      **C** \$9000      **D** \$12000

**27** The following information was provided about a product.

selling price per unit	\$50
variable cost per unit	\$26
total fixed costs	\$10000
demand	1800 units

If the selling price increases only demand changes.

When the selling price increased by \$4 profit fell by \$1200.

What was the decrease in demand?

- A** 214 units  
**B** 300 units  
**C** 571 units  
**D** 657 units

28 A business that uses flexible budgets shows the following:

units of output	100 000	110 000
total fixed and variable costs	\$400 000	\$425 000

What are fixed costs?

- A** \$125 000      **B** \$150 000      **C** \$250 000      **D** \$275 000

29 A company makes a product for which the following information is given.

	per unit \$
selling price	100
direct materials	40
direct labour	30

Total fixed costs are \$40 000.

Planned production is 1000 units.

Which action should the company take to break-even?

- A** decrease direct labour cost by 30%  
**B** decrease direct material cost by 25%  
**C** increase direct labour cost by 30%  
**D** increase direct materials cost by 25%

30 What is the objective of a system of budgetary planning and control?

- A** to determine next year's production  
**B** to determine next year's profits  
**C** to motivate the manufacturing staff  
**D** to provide a system for communication, coordination and control

# Answers

EXPLAINED





# November 2016 Paper 1

## Multiple Choice

1. Which transaction applies the matching concept?
- A A machine acquired on long-term rental is included in non-current assets.
  - B Computer equipment is depreciated over two years.
  - C A building is revalued following a fall in property prices.
  - D A waste-paper basket is treated as revenue expenditure.

**EXPLANATION**

Computer is non-current assets which provide benefits for more than one year, so its cost is allocated over two years.

Answer: B

2. A disposal account is used to record the sale of a non-current asset. Which transactions are recorded on the credit side of the disposal account?
- A cost, loss on disposal and sale proceeds
  - B cost, profit on disposal and sale proceeds
  - C depreciation, loss on disposal and sale proceeds
  - D depreciation, profit on disposal and sale proceeds

**EXPLANATION**

Accumulated Depreciation, sale proceeds and loss on disposal appear on credit side of disposal account.

Answer: C

3. The following information was available for the disposal of a machine.

	\$
accumulated depreciation	45 000
profit on disposal	8 100
sale proceeds	75 600

What was the original cost of the machine?

- A \$22 500
- B \$38 700
- C \$112 500
- D \$128 700

**EXPLANATION**

$$\text{Net book value} = \text{sale price (75600)} - \text{profit (8100)} = 67,500$$

$$\text{Cost} = \text{net book value} + \text{accumulated depreciation} = 67,500 + 45,000 = 112,500$$

Answer: C

4. A printing company installed a large printing press. Which costs are capital expenditure in the first year of its operation?

- 1 installation of the press
- 2 depreciation of the press
- 3 repairs to the press
- 4 upgrades to the press

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

**EXPLANATION**

All expenditures adding value and to bring non current assets into useable condition are capital expenditures.

Answer: B

5. The year-end balance in the cash book was \$23 780. This was different from the balance on the bank statement. The difference was due to the following items.

	\$
bank charges	216
a customer's cheque which was dishonoured	1375
a bank error meant a cheque was incorrectly debited to the bank account	560

What should be the value of bank in the statement of financial position?

- A \$21 629
- B \$22 189
- C \$25 371
- D \$25 931

**EXPLANATION**

$$\text{Given balance (23,780)} - \text{bank charges (216)} - \text{dishonoured cheque (1,375)} = \$22,189$$

Note: Bank errors don't affect cash book balance, and updated balance as per cash book is included in financial statements.

Answer: B

6. At the end of the year, the balance on a firm's sales ledger control account was \$12 900. The total of the customers' accounts in sales ledger was \$11 900.

The following errors were then discovered.

- 1 A customer's account had been undercast by \$700.
- 2 A contra with a supplier in the purchases ledger of \$200 had only been entered in the sales ledger control account.
- 3 The discount allowed column in the cash book totalled \$500. This had not been posted to the nominal ledger.

What was the correct balance on the sales ledger control account?

- A \$11 200                      B \$11 400  
C \$12 000                      D \$12 400

**EXPLANATION**

$\$12900 - \$500$  (Discount allowed omitted from control account) =  $\$12400$

Note: Other errors do not affect control account balance although affect total sales ledgers balances.

Answer: D

7. A suspense account has a balance of \$450 debit. What has caused this balance in the suspense account?

- A motor expenses of \$225, correctly entered in the cash book, and posted to motor expenses as a credit
- B motor expenses of \$225, entered in the cash book as a receipt and posted to motor expenses as a credit
- C motor expenses of \$450, correctly entered in the cash book, and posted to motor vehicles as a debit
- D motor expenses of \$675, entered in the cash book as a credit of \$225 and posted to motor expenses as \$225 debit

**EXPLANATION**

Although correct recording in cash book but Motor expenses account has been credited instead of debit, as a result of that, total of credit column exceeds debit column by \$450.

Answer: A

8. An item of capital expenditure has been incorrectly treated as revenue expenditure in the financial statements of a business.

What is the effect of this error on the financial statements of the business?

	assets	profit
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

**EXPLANATION**

Capital expenditures are to be treated as non current assets, so Non currents are understated.

Wrong treatment as revenue expenditure increases expenses in income statement so profit is understated.

Answer: D

9. A company pays or receives the following amounts on the last day of its financial year.

	\$
deposit paid to a supplier	6500
rental income received in advance	8000
loan repayment	3000
payment for last month's sales commission	900

Which of these amounts will be included as other receivables in the statement of financial position?

- A \$6500                      B \$14 500  
C \$17 500                      D \$18 400

**EXPLANATION**

Deposit paid to supplier is an asset. Advance rental income is a liability. Remaining transactions are liabilities payments.

Answer: A

10. A sole trader provides the following information.

	start of year \$	end of year \$
total assets	100 000	135 000
total liabilities excluding owner's capital	(35 000)	(40 000)

During the year the owner took drawings of \$18000.

What was the profit for the year?

- A \$12 000                      B \$30 000  
C \$35 000                      D \$48 000

**EXPLANATION**

Profit

$$= \text{Closing capital} + \text{Drawings} - \text{Opening Capital}$$

$$= (\$13,5000 - \$40,000) + (\$18,000) - (\$100,000 - 35,000)$$

$$= 95,000 + 18000 - 65000 = 48000$$

Answer: D



11. A trader did not keep full accounting records. The following information was available for 2015.

	\$
trade payables on 1 January	32 785
trade payables on 31 December	43 630
payments to suppliers during the year	72 830
discounts received during the year	3 450

What was the value of purchases?

- A \$58 535                      B \$65 435  
 C \$80 225                      D \$87 125

**EXPLANATION**

**Purchases**

$$= \text{Payments } (\$72830) + \text{Closing Payables } (\$43630) + \text{Discount } (\$3450) - \text{Opening Payables } (\$32785)$$

Answer: D

12. A partnership admits a new partner. Which statement is correct?

- A Profits will always be shared equally following the new partner's admission.  
 B The new partner will always benefit if assets are later revalued upwards.  
 C The new partner must always contribute capital to the partnership.  
 D The new partner will always pay for a share of partnership goodwill.

**EXPLANATION**

Profit on revaluation should be shared among old partners only so if assets are revalued later, then new partner would also get share of profit on revaluation.

Answer: B

13. X, Y and Z are in partnership sharing the profits and losses in the ratio of 2 : 2 : 1.

At 31 December the following information is available.

	X \$	Y \$	Z \$
capital account balances	100 000	100 000	50 000
current account balances	20 000	15 000	(5 000)

On 31 December Z retires from the partnership. Total assets are revalued upwards by \$45 000. There is no goodwill.

How much will Z be paid on his retirement?

- A \$54 000                      B \$59 000  
 C \$60 000                      D \$65 000

**EXPLANATION**

$$\text{Capital Account balance } (\$50000) - \text{Current account debit balance } (\$5000) + \text{share of Revaluation profit } (\$45,000 \times \frac{1}{5}) = \$54000$$

Answer: A

14. The following information relates to a partnership.

	\$
profit from operation	90 000
loan interest	3 200
interest on drawings	6 000
drawings	40 000
interest on capital	11 000

What is the residual profit to be appropriated amongst the partners?

- A \$41 800                      B \$69 800  
 C \$81 800                      D \$91 800

**EXPLANATION**

$$\text{Residual Profit} = \text{Profit from operation } (\$90,000) - \text{loan interest } (\$3,200) + \text{interest on drawings } (\$6,000) - \text{Interest on Capital } (\$11,000)$$

Answer: C

15. A partnership earned an average profit during the year of \$15 000 per month.

Halfway through the year D and E were joined by a new partner F and profits were shared equally before and after the change. In the first half of the year D transferred his private vehicle to the partnership at a valuation of \$12 000. D's drawings amounted to \$60 000 during the year.

What was the increase in D's current account balance during the year?

- A \$15 000                      B \$30 000  
 C \$75 000                      D \$87 000

**EXPLANATION**

$$\text{Profit for the year } (12 \times \$15000) = \$180,000$$

$$\text{Profit for each half of the year } \$90,000$$

$$\text{D's share of profit} = (\$90,000 \times \frac{1}{2}) + (\$90,000 \times \frac{1}{3}) = \$75,000$$

$$\text{Increase in current account} = \text{share of Profit} - \text{Drawings}$$

$$= \$75,000 - \$60,000 = \$15000$$

Answer: A

16. How would a transfer to general reserve and the issue of shares at a premium affect the revenue reserves of a limited company?

	transfer to general reserve	issue of shares at a premium
A	decrease	decrease
B	decrease	increase
C	no effect	increase
D	no effect	no effect

EXPLANATION

Transfer to general reserve increases general reserves and decreases retained earnings, But overall revenue reserves remains unchanged. Issue of shares involve share premium i.e. capital reserve.

Answer: D

17. A company is formed with the issue of 100 000 6% non-cumulative preference shares of \$1 each and 300 000 ordinary shares of \$1 each issued at a premium of \$0.20.

It earned profits of \$3000, \$16 000 and \$31 000 in the first three years of trading. The directors wish to pay an ordinary dividend of 5% each year when possible.

What value of ordinary dividends does the company actually pay in years 2 and 3?

	year 2 \$	year 3 \$
A	7 000	15 000
B	7 000	18 000
C	10 000	15 000
D	10 000	18 000

EXPLANATION

2nd year's Dividends = profit - Preference dividends  
= \$16,000 - (\$100,000 × 6%)  
= \$10,000

3rd Year's Dividends = \$300,000 × 5%, as profit available to pay ordinary dividends is greater than dividends to be paid i.e. Profit (\$31,000) - preference Dividends (\$100,000 × 6%)

Answer: C

18. A company had an issued share capital of 400 000 ordinary shares of \$1 each. It then made a bonus issue of one share for every five held. This was later followed by a rights issue of one share for every three held.

What was the balance on the share capital account after these transactions?

- A \$480 000
- B \$533 333
- C \$613 333
- D \$640 000

EXPLANATION

Share capital (\$400,000) + Bonus Issue  $(400,000 \times \frac{1}{5})$   
+ Right issue  $(480,000 \times \frac{1}{3}) = \$640,000$

Answer: D

19. Which action will increase the equity of a limited company?

- A creating a general reserve
- B issuing bonus shares
- C issuing debentures
- D issuing non-redeemable preference shares

EXPLANATION

Non redeemable shares are part of equity.

Answer: D

20. Which action leaves the value of working capital unchanged?

- A disposal of a non-current asset
- B issuing shares for cash
- C purchasing goods for resale on credit
- D writing off an irrecoverable debt

EXPLANATION

Purchase of goods on credit increases inventory i.e. current assets and trade payables i.e. current liability so working capital (current assets - current liabilities) remains unchanged.

Answer: C

21. Owusu Limited has a constant level of annual sales and a constant gross margin. Each year the inventory increases.

Which effects does this have on the inventory holding period and on inventory turnover?

	inventory holding (in days)	inventory turnover (times)
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

EXPLANATION

Due to constant sales & Margin, Cost of sales remain constant. Increased Inventory level increases average inventory. Inventory turnover (times) decreases due to increased denominator and Inventory holding increases due to increase in numerator.

Answer: C



22. A business uses the AVCO method of inventory valuation.

The following transactions took place.

1 March	purchased 1000 units at \$65 per unit
2 March	purchased 1200 units at \$66 per unit
4 March	sold 1850 units at \$68 per unit

What was the value of closing inventory?

- A \$22 750                      B \$22 941  
C \$23 100                      D \$23 800

**EXPLANATION**

$$\text{Value of inventory} = (1,000 \times \$65) + (1,200 \times \$66) = \$144,200$$

$$\text{Average cost} = \frac{\$144,200}{2,200} = \$65.5454$$

$$\text{Closing inventory} = (2,200 - 1,850) \times \$65.5454 = \$22,941$$

Answer: B

23. A manufacturing company employs 20 workers who are paid a basic rate of \$30 per hour for a 40-hour week. To meet a special order, the workers each worked 50 hours and were paid a premium of 40% over basic rate for the overtime.

What was the value of wages paid to meet the special order?

- A \$30 000                      B \$32 400  
C \$33 600                      D \$42 000

**EXPLANATION**

First 40 basic hours are to be paid as per basic rate  
 $(20 \times 40 \times \$30) = \$24,000$

Overtime i.e. 10 hours are to be paid at premium rate  
 $(20 \times 10 \times \$42) = \$8,400$

$$\text{Total } (\$24,000 + \$8,400) = \$32,400$$

Answer: B

24. A manufacturing business is currently operating at full capacity.

As part of an expansion programme to increase production capacity, the business intends to employ an additional factory supervisor.

How are total supervisory salaries classified?

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

**EXPLANATION**

Supervisor control certain number of employees capable of certain production level.

Answer: C

25. In a manufacturing business the following could occur.

- 1 Actual overheads paid are less than budgeted overheads.
- 2 Actual overheads paid are more than budgeted overheads.
- 3 Actual units produced are less than budgeted units.
- 4 Actual units produced are more than budgeted units.

Which situations would result in an under absorption of overhead expenditure?

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

**EXPLANATION**

Under absorption is due to actual overheads greater than budgeted overheads & Budgeted activity greater than actual activity.

Answer: C

26. A company makes and sells a single product for \$12 per batch.

The variable cost is \$4 per batch.

Fixed costs have been absorbed based on a normal activity level of 1000 batches at \$3 per batch.

What is the profit under marginal costing if the company makes and sells 1500 batches?

- A \$6000                      B \$7500  
C \$9000                      D \$12 000

**EXPLANATION**

$$\text{Total Contribution } (\$12 - \$4) \times 1,500 = \$12,000$$

$$\text{Profit} = \text{Contribution} - \text{Fixed Costs} = (\$12,000) - (1000 \times \$3)$$

Answer: C

27. The following information was provided about a product.

selling price per unit	\$50
variable cost per unit	\$26
total fixed costs	\$10 000
demand	1800 units

If the selling price increases only demand changes. When the selling price increased by \$4 profit fell by \$1200.

What was the decrease in demand?

- A 214 units                      B 300 units  
C 571 units                      D 657 units

EXPLANATION

Existing Profit  $[1,800 \times (\$50 - \$26) - \text{Fixed cost } (\$10,000)] = \$33,200$   
 If selling price increases by \$4 so unit contribution also increases by \$4.  
 New profit  $(\$33,200 - \$1,200) = \$32,000$   
 Total New Contribution  $(\$32,000 + \$10,000) = \$42,000$   
 New volume  $\left(\frac{\$42,000}{\$28}\right) = 1,500 \text{ units}$   
 Decrease in demand  $(1,800 - 1,500) = 300 \text{ units}$

Answer: B

28. A business that uses flexible budgets shows the following:

units of output	100 000	110 000
total fixed and variable costs	\$400 000	\$425 000

What are fixed costs?

- A \$125 000
- B \$150 000
- C \$250 000
- D \$275 000

EXPLANATION

$$\text{Variable cost per unit} = \frac{\text{change in total costs}}{\text{change in activity}}$$

$$= \left(\frac{\$25,000}{10,000}\right) = \$2.50 \text{ per unit}$$

Total Fixed cost at 100,000 units = Total cost at 100,000 units  $(\$400,000) - \text{total variable cost at 100,000 units } (100,000 \text{ units} \times \$2.50)$

Answer: B

29. A company makes a product for which the following information is given.

	per unit \$
selling price	100
direct materials	40
direct labour	30

Total fixed costs are \$40 000.

Planned production is 1000 units.

Which action should the company take to break-even?

- A decrease direct labour cost by 30%
- B decrease direct material cost by 25%
- C increase direct labour cost by 30%
- D increase direct materials cost by 25%

EXPLANATION

Decrease in Direct material by 25% increases contribution by \$10, new contribution would be,  $(\$100 - \$30 - \$30) = \$40$ .  
 Total contribution would become  $(1000 \text{ units} \times \$40) = \$40,000$   
 Break even is when total contribution equals total fixed costs.

Answer: B

30. What is the objective of a system of budgetary planning and control?

- A to determine next year's production
- B to determine next year's profits
- C to motivate the manufacturing staff
- D to provide a system for communication, coordination and control

EXPLANATION

Budgeting provides multiple benefits including control over activities, communication within hierarchy and coordination between various departments.

Answer: D

# Accounting Multiple choice Past Paper **June 2020**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 A business depreciates its non-current assets. It then includes them in the statement of financial position at the net book value.

Which concept is the business following?

- A duality
  - B prudence
  - C realisation
  - D substance over form
- 2 Which item is capital income?
- A bank interest received
  - B proceeds from sale of business premises
  - C rental income from property
  - D sale of inventory to a customer
- 3 A company purchased a machine on 1 April 2017 for \$25 000. It was depreciated at 20% per annum using the straight-line method. A full year's depreciation is charged in the year of purchase but none in the year of sale. On 30 June 2019 the machine was sold for \$12 500. The company year-end is 31 December.

What was the profit or loss on the disposal of the machine?

- A \$1250 loss
  - B \$1250 profit
  - C \$2500 loss
  - D \$2500 profit
- 4 Why do businesses charge depreciation on their non-current assets?
- A to ensure that sufficient cash is available to replace the assets
  - B to show the realisable value of the assets in the statement of financial position
  - C to spread the cost of the assets over their estimated useful life
  - D to show when the assets must be replaced

- 5 A trader's trial balance did not agree at the end of the financial period and a suspense account was opened.

The following errors were discovered.

- 1 No entry had been made in the books of account for a purchase of inventory, \$650.
- 2 Purchase of a vehicle by cheque had been credited to bank but debited to motor expenses.
- 3 The discount received of \$300 had been correctly recorded in the purchases ledger control account and was debited to discount allowed account.
- 4 The purchases account for the year had been incorrectly totalled.

Which errors would affect the suspense account?

- A** 1, 2 and 3  
**B** 1 and 3 only  
**C** 2 and 4 only  
**D** 3 and 4 only
- 6 The following financial information is available for a business.

	\$
draft profit for the year	12 650
closing capital	52 780

The following error has been discovered.

Private fuel costs, \$1930, had been charged in the business motor expenses account.

What are the correct figures for the year?

	profit for the year \$	closing capital \$
<b>A</b>	10 720	50 850
<b>B</b>	10 720	54 710
<b>C</b>	14 580	52 780
<b>D</b>	14 580	54 710



- 7 A sales ledger control account has a closing balance of \$21 000.

It was discovered that a contra entry with the purchases ledger control account for \$700 had been incorrectly entered on the wrong side of the sales ledger control account.

What was the correct sales ledger control account balance?

- A** \$19 600      **B** \$20 300      **C** \$21 700      **D** \$22 400

- 8 A sole trader does not keep a complete set of books of account. He believes a staff member has stolen some cash.

Which items will **not** be needed to calculate the amount missing?

- 1 cash in hand at the beginning and end of the year
- 2 owner's drawings taken from the bank
- 3 cheques received from customers
- 4 totals of cash sales and cash purchases

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

- 9 A business provides the following information.

	trade receivables \$	provision for doubtful debts \$
31 December 2018	46 200	1386
31 December 2019	48 100	1924

Which statement must be correct?

- A** The rate of provision for doubtful debts has decreased.  
**B** The rate of provision for doubtful debts has increased.  
**C** The value of irrecoverable debts incurred has decreased.  
**D** The value of irrecoverable debts incurred has increased.

- 10 On 1 March a company has prepaid \$3600 for 12 months' travel costs. It also has an outstanding hotel bill of \$180.

During March it pays the outstanding hotel bill and a further \$700 for airline tickets for the month.

At 31 March it has an outstanding hotel bill of \$220.

What is the correct cost of travel in the income statement for March?

- A** \$920      **B** \$1220      **C** \$1400      **D** \$4520

11 A business owner provided the following information at the end of his first year of trading.

	\$
closing inventory	15 000
total payments to suppliers	60 000
amount owing to suppliers	5 000
total receipts from customers	85 000
amount owed by customers	10 000

What was the gross profit for the year?

- A \$10 000      B \$15 000      C \$25 000      D \$45 000

12 How should interest charged on a partner's drawings account be treated?

- A credited to the appropriation account  
B credited to the income statement  
C debited to the appropriation account  
D debited to the income statement

13 X, Y and Z were in partnership, sharing profits equally. When Z retired from the business the assets were revalued. Goodwill was also valued but was not retained in the books of accounts.

Which statement about Z's retirement is correct?

- A Only X and Y's capital accounts will be adjusted for the revaluation.  
B Only X and Y's capital accounts will be adjusted for goodwill.  
C The balance on Z's current account will form part of her retirement settlement.  
D Z may only be paid in cash for her share on retirement.

- 14 L and M are in partnership, sharing profits and losses in the ratio of 3:2. They have the following current account balances.

	L \$	M \$
31 March 2019	3 000 credit	4 500 debit
31 March 2020	14 200 credit	6 200 debit

The balances at 31 March 2020 are after taking into account the following.

	L \$	M \$
interest on drawings	1 000	1 500
interest on capital	3 000	2 000
drawings	10 000	15 000

What was the residual profit to be shared between L and M for the year ended 31 March 2020?

- A** \$24 000      **B** \$27 000      **C** \$29 000      **D** \$32 000

- 15 How is unpaid debenture interest recorded in the financial statements of a company at the year end?

- 1 a current liability in the statement of financial position
- 2 a non-current liability in the statement of financial position
- 3 an expense in the income statement
- 4 an item in the statement of changes in equity

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



16 On 1 December 2019 a company's statement of financial position included the following.

	\$
ordinary shares of \$5 each	2 500 000
share premium	850 000
retained earnings	710 000

2019	
15 December	paid an ordinary share interim dividend of \$0.15 per share
23 December	made a bonus issue of 25 000 ordinary shares

Reserves were kept in their most flexible form.

What were the balances on the revenue reserves and capital reserves accounts after these transactions?

	revenue reserves \$	capital reserves \$
<b>A</b>	335 000	725 000
<b>B</b>	335 000	825 000
<b>C</b>	635 000	725 000
<b>D</b>	635 000	825 000

17 A business sells goods at a uniform mark-up of 25%.

The following information is available.

	\$
sales revenue	120 000
opening inventory	18 000
purchases	95 000
returns outwards	2 000

What is the value of closing inventory?

- A** \$15 000      **B** \$19 000      **C** \$21 000      **D** \$25 000

18 The rate of inventory turnover of a company has been calculated for two successive periods.

current period 5.6 times

previous period 4.8 times

The following statements have been made about the change.

- 1 Inventory is moving more slowly in the current period.
- 2 Inventory is moving more quickly in the current period.
- 3 Management of inventory has been more efficient in the current period.

Which statements may explain the change?

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

19 The following items appear on a statement of financial position.

	\$
inventory	20 000
cash and cash equivalents	3 500
trade payables	11 000
provision for doubtful debts	500

The current ratio is 3:1.

How much do the trade receivables owe?

- A** \$9500      **B** \$10000      **C** \$12000      **D** \$12500

20 Which costs are indirect?

- 1 bought-in components used in a finished product
- 2 materials used for factory maintenance
- 3 raw materials used in a finished product
- 4 spare parts bought for factory machinery

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

21 A business provided the following information.

budgeted overheads	\$20 000
budgeted direct labour hours	2000
direct labour rate	\$20 per hour

A job used materials costing \$45 and 6 hours of direct labour.

Overheads are charged on the basis of direct labour hours used.

What was the cost of the job before adding any profit?

- A \$105      B \$165      C \$180      D \$225

22 A business has produced the following estimates of labour costs for next month.

units produced	600	800	1100
total labour cost	\$5690	\$6170	\$6890

What was the monthly fixed labour cost?

- A \$480      B \$1200      C \$2640      D \$4250

23 Why are service centre costs apportioned to production departments?

- A to act as a check on service centre managers  
 B to ascertain whether service centres are cost effective  
 C to ensure the service centre costs are included in selling prices  
 D to minimise the total costs of service centres



24 The following data were available for a department for July.

	budget	actual
direct labour hours	40 000	41 950
machine hours	60 000	60 900
overheads	\$480 000	\$499 200

What was the over or under absorption of overheads for July?

- A \$4200 over absorbed
- B \$4200 under absorbed
- C \$12 000 over absorbed
- D \$12 000 under absorbed

25 Which statements about marginal costing are correct?

- 1 It cannot be used as a basis to calculate contribution.
- 2 It is useful for decision-making.
- 3 It recognises the importance of fixed costs.

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

26 A company with fixed costs of \$50 000 and a contribution to sales ratio of 40% makes a profit of \$30 000.

What are the total costs?

- A \$130 000      B \$170 000      C \$175 000      D \$200 000

27 What is **not** an assumption made in cost–volume–profit analysis?

- A Unit fixed cost is constant.
- B Unit selling price is constant.
- C Unit variable cost is constant.
- D Units produced are all sold.

28 The actual output for a business is lower than that forecast.

Which costs would normally still be the same as forecast?

- 1 fixed cost per unit
- 2 total fixed cost
- 3 total variable cost
- 4 variable cost per unit

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

29 A manufacturer produces a single product. The following information is available.

	\$
selling price per unit	14
variable costs per unit	8
fixed costs per annum	96 000

There are plans to reduce the selling price by \$3 per unit and to reduce variable costs by \$1 per unit. Fixed costs will remain unchanged.

What will be the new break-even point?

- A** 9600 units
- B** 12 000 units
- C** 24 000 units
- D** 48 000 units

30 A company has recently introduced a system of budgetary control.

Workers have given the following reasons for failing to achieve the budget targets.

- 1 'We need more training.'
- 2 'The budget is unrealistic.'
- 3 'The budget needs to be changed to reflect actual conditions.'

Which reasons should be considered when evaluating a worker's performance?

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



# Answers

EXPLAINED



## June 2020 Paper 1

### Multiple Choice

1. A business depreciates its non-current assets. It then includes them in the statement of financial position at the net book value.

Which concept is the business following?

- A duality
- B prudence
- C realisation
- D substance over form

Prudence requires that revenues and profits are only included in the accounts when they are realised or their realisation is reasonably certain. This prevents profits from being overstated.

*Answer: B*

2. Which item is capital income?

- A bank interest received
- B proceeds from sale of business premises
- C rental income from property
- D sale of inventory to a customer

Capital income is income received from the sale of non-current assets of the business, such as the proceeds received from selling a motor vehicle

*Answer: B*

3. A company purchased a machine on 1 April 2017 for \$25 000. It was depreciated at 20% per annum using the straight-line method. A full year's depreciation is charged in the year of purchase but none in the year of sale. On 30 June 2019 the machine was sold for \$12 500. The company year-end is 31 December.

What was the profit or loss on the disposal of the machine?

- A \$1250 loss
- B \$1250 profit
- C \$2500 loss
- D \$2500 profit

#### Accumulated depreciation

$$(\$25,000 \times 20\% \times 2) = \$10,000$$

#### Net book value

$$\text{Cost } (\$25,000) - \text{Accumulated depreciation } (\$10,000)$$

#### Loss

$$\text{Net book value } (\$15,000) - \text{Sale value } (\$12,500) = \$2,500$$

*Answer: C*

4. Why do businesses charge depreciation on their non-current assets?

- A to ensure that sufficient cash is available to replace the assets
- B to show the realisable value of the assets in the statement of financial position
- C to spread the cost of the assets over their estimated useful life
- D to show when the assets must be replaced

Depreciation is the apportioning of the cost of a non-current asset over its useful economic life.

*Answer: C*

5. A trader's trial balance did not agree at the end of the financial period and a suspense account was opened. The following errors were discovered.

- 1 No entry had been made in the books of account for a purchase of inventory, \$650.
- 2 Purchase of a vehicle by cheque had been credited to bank but debited to motor expenses.
- 3 The discount received of \$300 had been correctly recorded in the purchases ledger control account and was debited to discount allowed account.
- 4 The purchases account for the year had been incorrectly totalled.

Which errors would affect the suspense account?

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

Error 1 is error of omission, error 2 is error of principle, and both are errors do not affect the suspense account

*Answer: D*

6. The following financial information is available for a business.

	\$
draft profit for the year	12650
closing capital	52 780

14 The following error has been discovered.

Private fuel costs, \$1930, had been charged in the business motor expenses account.

What are the correct figures for the year?

	profit for the year \$	closing capital \$
A	10720	50850
B	10720	54 710
C	14 580	52 780
D	14 580	54710

Private fuel cost treated as expenses

Business expenses : overstated

Profit : understated.

Private fuel costs are treated as drawings. Profit is understated but capital is not affected.

Answer- C

7. A sales ledger control account has a closing balance of \$21 000.

It was discovered that a contra entry with the purchases ledger control account for \$700 had been incorrectly entered on the wrong side of the sales ledger control account.

What was the correct sales ledger control account balance?

- A \$19 600                      B \$20 300  
C \$21 700                      D \$22 400

Because receivables is wrongly increased it should be decreased by double amount. (\$21000 - \$[2x700])

Answer: A

8. A sole trader does not keep a complete set of books of account. He believes a staff member has stolen some cash.

Which items will not be needed to calculate the amount missing?

- 1 cash in hand at the beginning and end of the year
- 2 owner's drawings taken from the bank
- 3 cheques received from customers
- 4 totals of cash sales and cash purchases

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

Transactions 2 & 3 relate to bank account instead of cash.

Answer: B

9. A business provides the following information.

	trade receivables \$	provision for doubtful debts \$
31 December 2018	46200	1386
31 December 2019	48100	1924

Which statement must be correct?

- A The rate of provision for doubtful debts has decreased.
- B The rate of provision for doubtful debts has increased.
- C The value of irrecoverable debts incurred has decreased.
- D The value of irrecoverable debts incurred has increased.

Rate of provision at 31 December

$$2018 (\$1386/\$46200) \times 100 = 3\%$$

Rate of provision at 31 December 2019

$$\$1924/\$48100 = 4\%$$

Answer B

10. On 1 March a company has prepaid \$3600 for 12 months' travel costs. It also has an outstanding hotel bill of \$180.

During March it pays the outstanding hotel bill and a further \$700 for airline tickets for the month. At 31 March it has an outstanding hotel bill of \$220.

What is the correct cost of travel in the income statement for March?

- A \$920                              B \$1220  
C \$1400                            D \$4520

Outstanding bill of \$180 on 1 March represents February's expense

$$\text{Travel cost} = (\$3600/12) + \$700 + \$220 = \$1220$$

Answer B

11. A business owner provided the following information at the end of his first year of trading.

	\$
closing inventory	15000
total payments to suppliers	60 000
amount owing to suppliers	5000
total receipts from customers	85 000
amount owed by customers	10000

What was the gross profit for the year?

- A \$10 000                      B \$15 000  
C \$25 000                      D \$45 000

Sales (\$85,000 + \$10,000) - purchases (\$60,000 + \$ 5000) + closing inventory (\$15,000) = Gross profit

Answer: D

12. How should interest charged on a partner's drawings account be treated ?

- A credited to the appropriation account  
B credited to the income statement  
C debited to the appropriation account  
D debited to the income statement

Interest on drawings is added to profit by crediting the appropriation account and then debited in the current account.

Answer: A

13. X, Y and Z were in partnership, sharing profits equally. When Z retired from the business the assets were revalued. Goodwill was also valued but was not retained in the books of accounts.

Which statement about Z's retirement is correct

- A Only X and Y's capital accounts will be adjusted for the revaluation.  
B Only X and Y's capital accounts will be adjusted for goodwill.  
C The balance on Z's current account will form part of her retirement settlement.  
D Z may only be paid in cash for her share on retirement.

Retiring partner's total investment i.e. capital + current + loan, must be settled at the time of retirement. Z's capital account should also be adjusted for revaluation & goodwill.

Answer: C

14. L and M are in partnership, sharing profits and losses in the ratio of 3 :2. They have the following current account balances.

	L \$	M \$
31 March 2019	3000 credit	4500 debit
31 March 2020	14200 credit	6200 debit

The balances at 31 March 2020 are after taking into account the following.

	L \$	M \$
interest on drawings	1000	1500
interest on capital	3000	2000
drawings	10000	15000

What was the residual profit to be shared between L and M for the year ended 31 March 2020?

- A \$24 000                      B \$27 000  
C \$29 000                      D \$32 000

#### Current account

	L	M		L	M
Balance b/d		4500	Balance b/d	3000	
Interest on drawings	1000	1500	Interest on capital	3000	2000
Drawing	10,000	15,000	Share of profit	19,200	12,800
Balance c/d	14,200		Balance c/d		6200

Residual profit = \$19,200 + \$12,800 = \$32,000

Answer: D

15. How is unpaid debenture interest recorded in the financial statements of a company at the year end?

- 1 a current liability in the statement of financial position
- 2 a non-current liability in the statement of financial position
- 3 an expense in the Income statement
- 4 an item in the statement of changes in equity

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

Unpaid interest on debentures is an accrued expense. It is recorded as follows.

Income statement: expense  
Statement of financial position: current liabilities

Answer: A

16. On 1 December 2019 a company's statement of financial position included the following.

	\$
ordinary shares of \$5 each	2 500000
share premium	850000
retained earnings	710000

2019	
15 December	paid an ordinary share interim dividend of \$0.15 per share
23 December	made a bonus issue of 25000 ordinary shares

Reserves were kept in their most flexible form.

What were the balances on the revenue reserves and capital reserves accounts after these transactions?

	revenue reserves \$	capital reserves \$
A	335 000	725 000
B	335 000	825 000
C	635 000	725 000
D	635 000	825 000

Interim dividends of \$75,000 (500,000 shares x \$0.15) is paid from retained earnings, so the remaining retained earnings is \$635,000

The bonus issue of \$125,000 (25,000 shares X \$5) is financed from share premium. The remaining share premium is \$725,000

Answer: C

17. A business sells goods at a uniform mark-up of 25%.

The following information is available.

	\$
sales revenue	120000
opening inventory	18000
purchases	95000
returns outwards	2000

What is the value of closing inventory?

- A \$15 000                      B \$19 000  
C \$21 000                      D \$25 000

A 25% markup rate produces a gross margin percentage of only 20%.

$$\begin{aligned} \text{Margin} &= \text{Markup} / (1 + \text{Markup}) \\ &= 0.25 / (1 + 0.25) \\ &= 0.20 \end{aligned}$$

$$\begin{aligned} \text{Cost of sales} &= 20\% \text{ Sales } (\$120,000) \times 80\% \\ \text{Cost of sales} &= \$96,000 \end{aligned}$$

$$\begin{aligned} \text{Opening inventory } (\$18,000) + \text{Purchases } (\$95,000) - \\ \text{return outwards } (\$2,000) - \text{closing inventory (to be} \\ \text{determined)} = \text{Cost of sales } (\$96,000) \end{aligned}$$

Answer: A

18. The rate of inventory turnover of a company has been calculated for two successive periods,

current period	5.6 times
previous period	4.8 times

The following statements have been made about the change.

- 1 Inventory is moving more slowly in the current period.
- 2 Inventory is moving more quickly in the current period.
- 3 Management of inventory has been more efficient in the current period.

Which statements may explain the change?

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

Increase in rate of inventory turnover indicates that the business is able to sell more often & more quickly. Management of inventory has been more efficient in the current period. Answer: C

19. The following items appear on a statement of financial position.

	\$
inventory	20000
cash and cash equivalents	3500
trade payables	11 000
provision for doubtful debts	500

The current ratio is 3 : 1.

How much do the trade receivables owe?

- A \$9500                      B \$10 000  
C \$12 000                      D \$12 500

$$\text{Current assets } (\$11,000 \times 3) = \$33,000$$

$$\begin{aligned} \text{Total Current assets } (\$33,000) - \text{Inventory } (\$20,000) \\ - \text{Cash } (\$3500) = \$9500 \end{aligned}$$

$$\begin{aligned} \$9500 + \text{Provision for doubtful debts } (\$500) = \\ \text{Trade receivables } (\$10,000) \end{aligned}$$

Answer: B

20. Which costs are indirect?

- 1 bought-in components used in a finished product
- 2 materials used for factory maintenance
- 3 raw materials used in a finished product
- 4 spare parts bought for factory machinery

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

Indirect costs are items of expenditure that cannot easily be identified with a specific saleable cost unit.

Answer: C

21. A business provided the following information.

budgeted overheads	\$20000
budgeted direct labour hours	2000
direct labour rate	\$20 per hour

A job used materials costing \$45 and 6 hours of direct labour.

Overheads are charged on the basis of direct labour hours used.

What was the cost of the job before adding any profit?

- A \$105
- B \$165
- C \$180
- D \$225

**Overhead absorption rate**

$$= \frac{\text{Budgeted overheads } (\$20,000)}{\text{Budgeted labour hours } (2000)} = \$10 \text{ per labour hour}$$

**Cost of the job** = Material (\$45) + labour (6 hours X \$20) + overheads (6 hours X \$10) = \$225

Answer: D

22. A business has produced the following estimates of labour costs for next month.

units produced	600	800	1100
total labour cost	\$5690	\$6170	\$6890

What was the monthly fixed labour cost?

- A \$480
- B \$1200
- C \$2640
- D \$4250

**Variable cost per unit**

$$\frac{\text{Change in total cost } (\$6170 - \$5690)}{\text{Change in activity } (\$800 - \$600)}$$

$$= \frac{\$480}{200} = \$2.4 \text{ per unit}$$

**Fixed cost**

Total cost (\$5690) - Total variable cost (600 X \$2.4) = \$4250

Answer: D

23. Why are service centre costs apportioned to production departments?

- A to act as a check on service centre managers
- B to ascertain whether service centres are cost effective

C to ensure the service centre costs are included in selling prices

D to minimise the total costs of service centres

Selling price must be based on total cost of business

Answer: C

24. The following data were available for a department for July.

	budget	actual
direct labour hours	40000	41 950
machine hours	60000	60900
overheads	\$480000	\$499 200

What was the over or under absorption of overheads for July?

- A \$4200 over absorbed
- B \$4200 under absorbed
- C \$12 000 over absorbed
- D \$12 000 under absorbed

Production is capital intensive, machine hours > labour hours, so overheads absorption rate should be based on machine hours.

**Overheads absorption rate**

$$\frac{\text{Budgeted overheads } (\$480,000)}{\text{Budgeted machine hours } (60,000)}$$

$$= \$8 \text{ per machine hour}$$

**Absorbed Overheads** (60,900 hours x \$8) = \$487,200

Actual overheads (\$499,200) > Absorbed Overheads (\$487,200) = **under absorption of \$12,000**

Answer: D

25. Which statements about marginal costing are correct?
- 1 It cannot be used as a basis to calculate contribution.
  - 2 It is useful for decision-making.
  - 3 It recognises the importance of fixed costs

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

Marginal costing is a decision-making technique used by management accountants. It is based on the extra costs incurred and the extra revenue generated by the production and sale of an additional unit of output.

Marginal costing makes a clear distinction between fixed and variable costs. When using marginal costing, no attempt is made to allocate or apportion any fixed costs incurred by cost centres or cost units.

Answer: C



26. A company with fixed costs of \$50 000 and a contribution to sales ratio of 40% makes a profit of \$30 000.

What are the total costs?

- A \$130 000                      B \$170 000  
C \$175 000                      D \$200 000

### Calculate contribution

Profit (\$30,000) + fixed costs (\$50,000) = Total contribution (\$80,000)

### Calculate sales

Total contribution (\$80,000) = 40% of sales

Sales = \$200,000

### Calculate total cost

Total cost = Sales (\$200,000) - Total profit (\$30,000) = \$170 000

**Answer B**

27. What is not an assumption made in cost-volume-profit analysis?

- A Unit fixed cost is constant.  
B Unit selling price is constant.  
C Unit variable cost is constant.  
D Units produced are all sold.

Unit fixed cost is assumed to be constant.

**Answer A**

28. The actual output for a business is lower than that forecast.

Which costs would normally still be the same as forecast?

- 1 fixed cost per unit  
2 total fixed cost  
3 total variable cost  
4 variable cost per unit

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

Total fixed cost and Variable cost **per unit** remain same at different activity levels  
Fixed cost per unit increases with a decrease in activity. Total variable costs decreases with a decrease in activity

**Answer C**

29. A manufacturer produces a single product. The following information is available.

	\$
selling price per unit	14
variable costs per unit	8
fixed costs per annum	96 000

There are plans to reduce the selling price by \$3 per unit and to reduce variable costs by \$1 per unit. Fixed costs will remain unchanged.

What will be the new break-even point?

- A 9600 units                      B 12 000 units  
C 24 000 units                      D 48 000 units

New selling price (\$14 - \$3) = \$11

New variable cost (\$8 - \$1) = \$7

New unit contribution (\$11 - \$7) = \$4

New Break even =  $\frac{\$96\,000}{\$4} = 24,000$  units

**Answer C**

30. A company has recently introduced a system of budgetary control.

Workers have given the following reasons for failing to achieve the budget targets.

- 1 'We need more training.'
- 2 The budget is unrealistic.'
- 3 The budget needs to be changed to reflect actual conditions.

Which reasons should be considered when evaluating a worker's performance?

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

The ability to achieve targets is associated with training.

**Answer A**



# Accounting Multiple choice Past Paper **June 2019**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 Which concept is identified by the accounting equation  $\text{assets} = \text{capital} + \text{liabilities}$ ?
- A business entity  
 B duality  
 C going concern  
 D realisation
- 2 What are causes of depreciation on non-current assets?
- 1 change in its cost of repair  
 2 change in its market value  
 3 changes in technology
- A 1 and 2      B 1 only      C 2 and 3      D 3 only
- 3 June purchased a new machine. She depreciated it at a rate of 40% per annum using the reducing balance method. After two years its net book value was \$3600.

What was the purchase price of the machine?

- A \$7056      B \$9216      C \$10 000      D \$22 500
- 4 The following information relates to the motor vehicles of a business.

	1 January 2018 \$	31 December 2018 \$
net book value	398 000	480 000

During 2018 the following occurred.

- 1 Additional motor vehicles costing \$195 000 were purchased.  
 2 A motor vehicle (original cost \$80 000) was sold for \$24 000 at a profit of \$2000.

What was the depreciation charge for 2018?

- A \$87 000      B \$89 000      C \$91 000      D \$113 000

- 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 unrepresented 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 On 31 December 2018, a business had the following balances.

	\$
sales ledger	12 800
sales ledger control account	15 200

Which error explains the difference between the two figures?

- A A credit balance of \$1200 was brought forward as a debit balance in the sales ledger control account.
  - B An irrecoverable debt of \$2400 was omitted in a customer's personal account in the sales ledger.
  - C Purchases returns, \$1200, were wrongly entered on the debit side of the sales ledger control account.
  - D Sales returns, \$1200, were entered twice in a customer's personal account in the sales ledger.
- 7 The provision for doubtful debts at 1 January 2018 was \$1580.

Trade receivables at 31 December 2018 were \$44 750. This included a debt of \$12 500, considered irrecoverable.

The provision for doubtful debts was to be maintained at a rate of 5%.

Which entry for doubtful debts was included in the income statement for the year ended 31 December 2018?

- A \$32.50 expense
- B \$32.50 income
- C \$657.50 expense
- D \$657.50 income

8 Which statements about valuing inventory are correct?

- 1 Any charges for carriage inwards should be included in its cost.
- 2 Cost should always be compared with the net realisable value.
- 3 Cost should always be compared with replacement price.

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

9 A sole trader calculated a draft profit for the year of \$56 750.

He then discovered that discounts received of \$580 and discounts allowed of \$665 had been recorded on the wrong sides of their respective accounts.

What is the correct profit for the year?

A \$56 580    B \$56 665    C \$56 835    D \$56 920

10 Which item will **not** appear in the income statement of a sole trader?

- A accounting charges
- B bank loan interest
- C director's fee
- D rental charge for machinery

11 X and Y are in partnership sharing profits and losses in the ratio 2 : 1.

Z will be admitted with the following new arrangements.

Profit and loss sharing ratio will be 2 : 1 : 2 respectively.

Goodwill is valued at \$90 000. Z will pay the partners for his share of the goodwill.

How much will Z pay X?

A \$18 000    B \$24 000    C \$45 000    D \$60 000

12 D, E and F are in partnership, sharing profits in the ratio 2 : 2 : 1.

D is allowed an annual salary of \$10 000.

E has made a loan to the partnership on which the partnership pays interest of \$5000 each year.

Profit for the year before appropriation was \$150 000.

What was F's total share of profit for the year?

A \$27 000    B \$28 000    C \$29 000    D \$30 000

- 13 L and M had been in partnership sharing profits and losses equally. P was admitted to the partnership and the partners continued to share profits and losses equally. Goodwill was valued at \$48 000 but the partners agreed that no goodwill account would be retained in the books of account.

What were the accounting entries to record the goodwill?

- A** debit L capital account \$16 000, debit M capital account \$16 000, credit P capital account \$32 000
- B** debit P capital account \$32 000, credit L capital account \$16 000, credit M capital account \$16 000
- C** debit L capital account \$8000, debit M capital account \$8000, credit P capital account \$16 000
- D** debit P capital account \$16 000, credit L capital account \$8000, credit M capital account \$8000
- 14 Which items do **not** appear in a statement of changes in equity?
- 1 dividend paid
  - 2 dividend proposed
  - 3 loan interest
- A** 1 and 2 only    **B** 1, 2 and 3    **C** 1 only    **D** 2 and 3 only

- 15 On 1 January a company's equity included 100 000 \$1 ordinary shares.

The directors of the company then did the following:

- 1 March Made a rights issue of 20 000 ordinary shares at \$1.25 each. The rights issue was fully subscribed.
- 1 June Made a bonus issue of 5000 ordinary shares.
- 1 July Paid an interim dividend of \$0.10 on all of the shares in issue at that date.

By how much did the bank account increase as a result of these transactions?

- A** \$12 500    **B** \$17 500    **C** \$30 000    **D** \$37 000

16 The following balances are extracted from the books of J Limited.

	30 April 2019 \$	30 April 2018 \$
ordinary shares of \$0.50 each	700 000	500 000
share premium	90 000	50 000

How many ordinary shares have been issued during the year ended 30 April 2019?

- A 200 000      B 240 000      C 400 000      D 480 000

17 Which action will increase a company's current ratio?

- A making an issue of bonus shares  
B making a rights issue of shares  
C increasing the provision for doubtful debts  
D reducing the rate of depreciation on non-current assets

18 A trader wishes to set a selling price.

How does he use a mark-up?

- A by adding a percentage to the cost  
B by adding a percentage to the selling price  
C by deducting a percentage from the cost  
D by deducting a percentage from the selling price





19 The following information is available for the year ended 31 December 2018.

	\$
revenue	800 000
cost of sales	(175 000)
gross profit	625 000
distribution costs	(95 000)
administrative expenses	(35 000)
profit from operations	495 000
finance costs	(5 000)
profit for the year	490 000

What was the operating expenses to revenue ratio?

- A** 16.25%      **B** 16.88%      **C** 21.88%      **D** 38.13%

20 On 1 January 2018 a business expected to have sales for the year ended 31 December 2018 of \$450 000.

Its non-current assets at that date were \$306 000.

On 1 July 2018 it purchased new machinery at a cost of \$180 000, in order to increase its sales by an extra \$20 000 each month.

What was the rate of non-current asset turnover in 2018? (Ignore depreciation.)

- A** 1.17 times  
**B** 1.42 times  
**C** 1.44 times  
**D** 1.74 times

- 21 A business uses the First In First Out (FIFO) method to value its inventory.

The following inventory transactions took place during a month. There was no opening balance.

date	receipts		issues
	units	\$ per unit	units
1 July	100	15.50	
6 July	100	15.60	
10 July			80
20 July	50	15.80	
25 July			100

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

- A \$1085      B \$1092      C \$1102      D \$1106
- 22 A business has two production departments: assembly and machinery. The following budgeted information is available.

	assembly	machinery
labour hours	5600	1350
machine hours	1200	6900
overheads	\$75 000	\$80 000

What is the overhead absorption rate for the assembly department?

- A \$13.39 per labour hour  
 B \$19.14 per machine hour  
 C \$22.30 per labour hour  
 D \$62.50 per machine hour
- 23 A shortage caused a business to pay more for its purchases of raw materials.

What is the effect of this?

	break-even point	marginal cost	contribution
A	decrease	decrease	increase
B	decrease	decrease	decrease
C	increase	decrease	increase
D	increase	increase	decrease

24 Which statement **best** describes a stepped fixed cost?

- A It changes in direct proportion to changes in output.
- B It changes in proportion to changes in prime cost.
- C It remains at a constant amount until output changes significantly.
- D It represents a constant amount of total cost.

25 A company produces less than it sells in a particular period.

Which statement is correct?

- A Reported profit is the same whether absorption or marginal costing is used.
- B Reported profit is the difference between absorption and marginal costing closing inventories.
- C Reported profit is lower using absorption costing.
- D Reported profit is lower using marginal costing.

26 Which statements are true about the preparation of a break-even chart?

- 1 Costs are easily classified into fixed and variable.
- 2 Fixed costs always change as output changes.
- 3 The break-even point is clearly seen.

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

27 When a company had sales revenue of \$600 000, its variable costs were \$300 000.

At the break-even point, its sales were \$400 000.

How much profit did it make when sales were \$600 000?

- A \$100 000    B \$200 000    C \$300 000    D \$400 000

28 A company provided the following information.

total sales	\$400 000
production and sales (units)	10 000
total costs	\$250 000
total fixed costs	\$60 000

What was the contribution to sales ratio?

- A 37.5%    B 47.5%    C 52.5%    D 62.5%

- 29** Last year a company sold 2000 units and made a contribution of \$50 per unit. Profit, after deducting total fixed costs, was \$60 000.

This year:

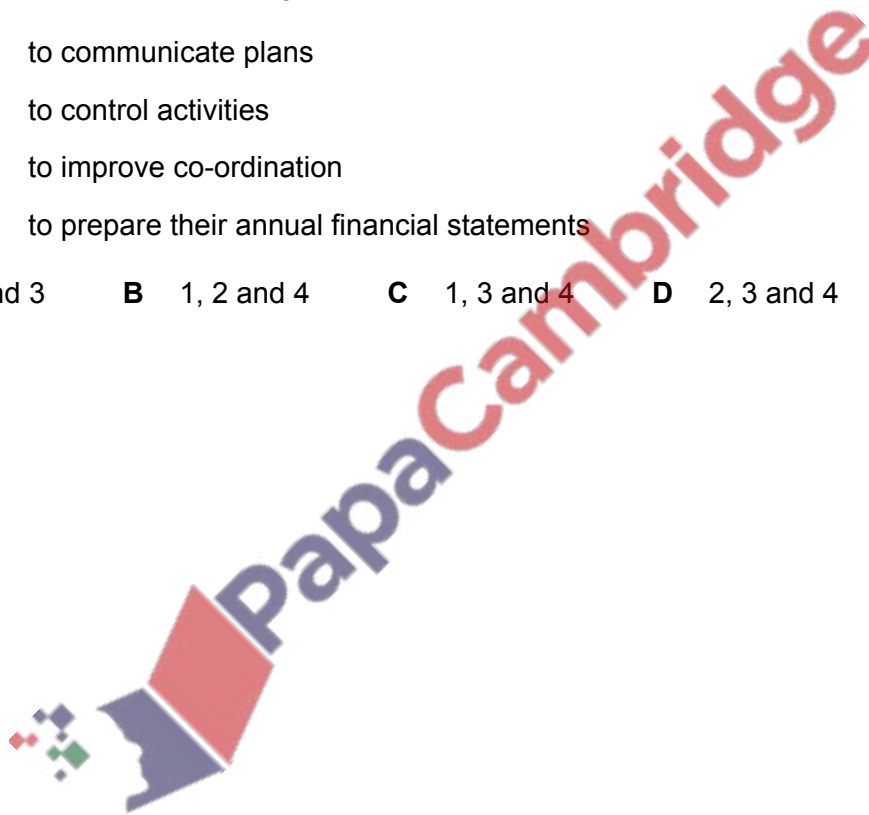
sales volume increased by 10%

contribution per unit decreased by 5%

total fixed costs increased by 25%.

What was the company's profit this year?

- A** \$45 000      **B** \$54 500      **C** \$60 000      **D** \$64 500
- 30** Why do businesses prepare budgets?
- 1 to communicate plans
  - 2 to control activities
  - 3 to improve co-ordination
  - 4 to prepare their annual financial statements
- A** 1, 2 and 3      **B** 1, 2 and 4      **C** 1, 3 and 4      **D** 2, 3 and 4



# Answers

EXPLAINED



## June 2019 Paper 1

### Multiple Choice

1. Which concept is identified by the accounting equation  $\text{assets} = \text{capital} + \text{liabilities}$ ?

- A** business entity                      **B** duality  
**C** going concern                        **D** realisation

Left side of equation shows resources of a business and right side shows who provided them.

*Answer: B*

2. What are causes of depreciation on non-current assets?

- 1 change in its cost of repair
- 2 change in its market value
- 3 changes in technology

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

Repair is another expense due to asset usage, market value may increase. Depreciation is a process of allocation of cost not valuation.

*Answer: D*

3. June purchased a new machine. She depreciated it at a rate of 40% per annum using the reducing balance method. After two years its net book value was \$3600.

What was the purchase price of the machine?

- A** \$7056                                        **B** \$9216  
**C** \$10 000                                    **D** \$22 500

If rate of depreciation is 40% then net book value is 60% of cost.

$$\text{Cost} \times 60\% \times 60\% = \$3600$$

*Answer: C*

4. The following information relates to the motor vehicles of a business.

	1 January 2018 \$	31 December 2018 \$
net book value	398 000	480000

During 2018 the following occurred.

- 1 Additional motor vehicles costing \$195 000 were purchased.
- 2 A motor vehicle (original cost \$80 000) was sold for \$24 000 at a profit of \$2000.

What was the depreciation charge for 2018?

- A** \$87 000                                      **B** \$89 000  
**C** \$91 000                                      **D** \$113 000

$$\begin{aligned} &\text{Net book value at start } (\$398,000) + \text{additions} \\ &(\$195,000) - \text{disposal at NBV } (\$22,000) - \text{depreciation} \\ &(\text{??}) = \text{Net book value at end } (\$480,000) \end{aligned}$$

*Answer: C*

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 unpresented 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

Bank reconciliation statement is prepared to explain the difference between updated cash book and bank statement balance.

*Answer: C*

6. On 31 December 2018, a business had the following balances.

	\$
sales ledger	12 800
sales ledger control account	15200

Which error explains the difference between the two figures?

- A A credit balance of \$1200 was brought forward as a debit balance in the sales ledger control account.  
 B An irrecoverable debt of \$2400 was omitted in a customer's personal account in the sales ledger.  
 C Purchases returns, \$1200, were wrongly entered on the debit side of the sales ledger control account.  
 D Sales returns, \$1200, were entered twice in a customer's personal account in the sales ledger.

By treating credit balance of \$1200 as debit balance, Sales ledger control account balance is overstated by \$2400.

Answer: A

7. The provision for doubtful debts at 1 January 2018 was \$1580.  
 Trade receivables at 31 December 2018 were \$44 750. This included a debt of \$12 500, considered irrecoverable.  
 The provision for doubtful debts was to be maintained at a rate of 5%.  
 Which entry for doubtful debts was included in the income statement for the year ended 31 December 2018?  
 A \$32.50 expense B \$32.50 income C \$657.50 expense D \$657.50 income

Outstanding receivables  $(\$44,750 - \$12,500) = \$32,250$   
 Provision to be maintained  $(\$32,250 \times 5\%) = \$1612.5$  Increase in Provision  $(\$1612.5 - \$1580) = \$32.50$  to be shown as expense in income statement.

Answer: A

8. Which statements about valuing inventory are correct?
- 1 Any charges for carriage inwards should be included in its cost.
  - 2 Cost should always be compared with the net realisable value.
  - 3 Cost should always be compared with replacement price.
- A 1,2 and 3                      B 1 and 2 only  
 C 1 and 3 only                    D 2 and 3 only

Cost is the sum of expenditures incurred to bring goods into saleable condition, including carriage inwards. Inventory is valued at the lower of cost and net realisable value

Answer: B

9. A sole trader calculated a draft profit for the year Of \$56 750.  
 He then discovered that discounts received of \$580 and discounts allowed of \$665 had been recorded on the wrong sides of their respective accounts.  
 What is the correct profit for the year?

- A \$56 580                      B \$56 665  
 C \$56 835                      D \$56 920

$\$56,750 + (\$580 \times 2) - (\$665 \times 2) = \$56,580$

Answer: A

10. Which item will **not** appear in the income statement of a sole trader?  
 A accounting charges  
 B bank loan interest  
 C director's fee  
 D rental charge for machinery

Director's fee is an expense of limited company

Answer: C

11. X and Y are in partnership sharing profits and losses in the ratio 2:1.  
 Z will be admitted with the following new arrangements.

Profit and loss sharing ratio will be 2 : 1 : 2 respectively.

Goodwill is valued at \$90 000. Z will pay the partners for his share of the goodwill.

How much will Z pay X?

- A \$18 000                      B \$24 000  
 C \$45 000                      D \$60 000

X's share of goodwill when recorded :

$\$90,000 \times \frac{2}{3} = \$60,000$

X's share of goodwill when written off :

$\$90,000 \times \frac{2}{5} = \$36,000$

Net difference to be paid by Z to X :

$(\$60,000 - \$36,000) = \$24,000$

Alternatively, X's sacrifice ratio (old ratio - new ratio)

is  $\frac{4}{15} \times$  will receive  $\$90,000 \times \frac{4}{15} = \$24,000$

Answer: B



12. D, E and F are in partnership, sharing profits in the ratio 2:2:1.

D is allowed an annual salary of \$10 000.

E has made a loan to the partnership on which the partnership pays interest of \$5000 each year.

Profit for the year before appropriation was \$150 000.

What was F's total share of profit for the year?

- A \$27 000
- B \$28 000
- C \$29 000
- D \$30 000

---

Residual Profit (\$150,000 - \$10,000) = \$140,000

Share of residual profit(\$140,000 x 1/5) = \$28,000

Note: loan interest is already deducted in income statement

*Answer: B*

13. L and M had been in partnership sharing profits and losses equally . P was admitted to the partner - ship and the partners continued to share profits and losses equally . Goodwill was valued at \$48 000 but the partners agreed that no goodwill account would be retained in the books of account.

What were the accounting entries to record the goodwill?

- A debit L capital account \$16 000, debit M capital account \$16 000, credit P capital account \$32 000
- B debit P capital account \$32 000, credit L capital account \$16 000, credit M capital account \$16 000
- C debit L capital account \$8000, debit M capital account \$8000, credit P capital account \$16 000
- D debit P capital account \$16 000, credit L capital account \$8000, credit M capital account \$8000

**Capital account**

	L	M	P		L	M	P
Goodwill	16,000	16,000	16,000	Goodwill	24,000	24,000	

L & M's capital accounts are net credited by \$8000

P's capital is debited by \$16,000

*Answer: D*

14. Which items do **not** appear in a statement of changes in equity?

- 1 dividend paid
- 2 dividend proposed
- 3 loan interest

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

---

Proposed dividends , awaiting approval , do not appear in any financial statements. Loan interest appears in income statement

*Answer: D*

15. On 1 January a company's equity included 100 000 \$1 ordinary shares.

The directors of the company then did the follow - ing:

- 1 March Made a rights issue of 20 000 ordinary shares at \$1.25 each. The rights issue was fully sub- scribed.
- 1 June Made a bonus issue of 5000 ordinary shares.
- 1 July Paid an interim dividend of \$0.10 on all of the shares in issue at that date.

By how much did the bank account increase as a result of these transactions?

- A \$12 500
- B \$17 500
- C \$30 000
- D \$37 000

---

Rights issue increased Bank by (20,000 X \$1.25) = \$25,000

Interim dividends decreased bank by, (100,000 + 20,000 + 5000) = 125,000 shares X \$0.10 = \$12,500

Overall bank increase by (\$25,000- \$12,500) = \$12,500

*Answer: A*

16. The following balances are extracted from the books of J Limited.

	30 April 2019 \$	30 April 2018 \$
ordinary shares of \$0.50 each	700000	500000
share premium	90000	50000

How many ordinary shares have been issued during the year ended 30 April 2019?

- A 200 000                      B 240 000  
C 400 000                      D 480 000

Change in share capital \$200,000 represent face value of shares issued

No. of shares  $\times$  \$0.50 = \$200,000

No. of shares

= \$200,000 / \$0.50 = 400,000

Answer: C

17. Which action will increase a company's current ratio?

- A making an issue of bonus shares  
B making a rights issue of shares  
C increasing the provision for doubtful debts  
D reducing the rate of depreciation on non-current assets

A, C and D are non cash items. Rights issue means issue of shares for cash.

Answer: B

18. A trader wishes to set a selling price. How does he use a mark-up?

- A by adding a percentage to the cost  
B by adding a percentage to the selling price  
C by deducting a percentage from the cost  
D by deducting a percentage from the selling price

Mark up is profit as a percentage of cost price.

Answer: A

19. The following information is available for the year ended 31 December 2018.

	\$
revenue	800000
cost of sales	(175 000)
gross profit	625 000
distribution costs	(95 000)
administrative expenses	(35 000)
profit from operations	495 000
finance costs	(5000)
profit for the year	490000

What was the operating expenses to revenue ratio?

- A 16.25%                      B 16.88%  
C 21.88%                      D 38.13%

Operating expense  $(\$95,000 + \$35,000)$   
Revenue  $(\$800,000)$

Answer: A

20. On 1 January 2018 a business expected to have sales for the year ended 31 December 2018 of \$450 000.

Its non-current assets at that date were \$306 000.

On 1 July 2018 it purchased new machinery at a cost of \$180 000, in order to increase its sales by an extra \$20 000 each month.

What was the rate of non-current asset turnover in 2018? (Ignore depreciation.)

- A 1.17 times                      B 1.42 times  
C 1.44 times                      D 1.74 times

Total sales  $\$450,000 + (\$20,000 \times 6) = \$570,000$

Total Non current assets  $\$306,000 + \$180,000 =$

$\$486,000$

Answer: A

21. A business uses the First In First Out (FIFO) method to value its inventory.

The following inventory transactions took place during a month. There was no opening balance.

date	receipts		issues
	units	\$ per unit	units
1 July	100	15.50	
6 July	100	15.60	
10 July			80
20 July	50	15.80	
25 July			100

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

- A** \$1085                      **B** \$1092  
**C** \$1102                      **D** \$1106

Total purchases 250 units

Total issued 180 units

Inventory 70 units consisting of 20 units @\$15.60 and 50 units @\$15.80

*Answer: C*

**22.** A business has two production departments: assembly and machinery. The following budgeted information is available.

	assembly	machinery
labour hours	5600	1350
machine hours	1200	6900
overheads	\$75000	\$80 000

What is the overhead absorption rate for the assembly department?

- A** \$13.39 per labour hour  
**B** \$19.14 per machine hour  
**C** \$22.30 per labour hour  
**D** \$62.50 per machine hour

Assembly is labour intensive

So OAR is calculated on the basis of labour hours

$$\text{OAR} = \frac{\$75,000}{5600} = \$13.39$$

*Answer: A*

**23.** A shortage caused a business to pay more for its purchases of raw materials.

What is the effect of this?

	break-even point	marginal cost	contribution
<b>A</b>	decrease	decrease	increase
<b>B</b>	decrease	decrease	decrease
<b>C</b>	increase	decrease	increase
<b>D</b>	increase	increase	decrease

Increase in material cost increases marginal (variable) cost

Increase in variable cost decreases contribution per unit

Decrease in contribution per unit increases break-even point

*Answer: D*

**24.** Which statement **best** describes a stepped fixed cost?

- A** It changes in direct proportion to changes in output.  
**B** It changes in proportion to changes in prime cost.  
**C** It remains at a constant amount until output changes significantly.  
**D** It represents a constant amount of total cost.

Stepped cost is a fixed cost which increases due to increase in capacity

*Answer: C*

**25.** A company produces less than it sells in a particular period.

Which statement is correct?

- A** Reported profit is the same whether absorption or marginal costing is used.  
**B** Reported profit is the difference between absorption and marginal costing closing inventories.  
**C** Reported profit is lower using absorption costing.  
**D** Reported profit is lower using marginal costing.

If production is less than sales, it means there was opening inventory.

Inventory valuation using Absorption costing is more than marginal costing.

Higher opening inventory using Absorption will result in lower profit.

*Answer: C*

**26.** Which statements are true about the preparation of a break-even chart?

- Costs are easily classified into fixed and variable.
- Fixed costs always change as output changes.
- The break-even point is clearly seen.

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

Its difficult to split fixed costs and variable cost.

Fixed costs are assumed to remain same at different activity levels

*Answer: D*

27. When a company had sales revenue of \$600 000, its variable costs were \$300 000.

At the break-even point, its sales were \$400 000.

How much profit did it make when sales were \$600 000?

- A \$100 000                      B \$200 000  
C \$300 000                      D \$400 000

contribution (\$600,000 - \$300,000) = \$300,000  
contribution to sales ratio = \$300,000/\$600,000 = 50%  
total fixed costs = \$200,000  
profit = (\$600,000 x 50%) - \$200,000 = \$100,000

Answer: A

28. A company provided the following information.

total sales	\$400 000
production and sales (units)	10 000
total costs	\$250 000
total fixed costs	\$60 000

What was the contribution to sales ratio?

- A 37.5%                      B 47.5%  
C 52.5%                      D 62.5%

Total variable costs (\$250,000 - \$60,000) = \$190,000  
Total contribution (\$400,000 - \$190,000) = \$210,000

Contribution to sales ratio =  $\frac{\$210,000}{\$400,000} \times 100 = 52.5\%$

Answer: C

29. Last year a company sold 2000 units and made a contribution of \$50 per unit. Profit, after deducting total fixed costs, was \$60 000.

This year:

- sales volume increased by 10%  
contribution per unit decreased by 5%  
total fixed costs increased by 25%.

What was the company's profit this year?

- A \$45 000                      B \$54 500  
C \$60 000                      D \$64 500

Last year's Total contribution (2000 units x \$50) = \$100,000  
Last year's Total fixed costs (\$100,000 - \$60,000) = \$40,000  
This year's total contribution (2200 units X \$47.5) = \$104,500  
This year's profit (\$104,500 - \$50,000) = \$54,500

Answer: B

30. Why do businesses prepare budgets?

- 1 to communicate plans
- 2 to control activities
- 3 to improve co-ordination
- 4 to prepare their annual financial statements

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

Financial statements are based on historical (actual) information

Answer: A

# Accounting Multiple choice Past Paper **June 2018**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 The owner of a business has been told that work completed for a customer should be recorded in the books of account although the invoice has not yet been sent to the customer.

Which accounting concepts are being applied?

- 1 matching
- 2 materiality
- 3 realisation

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

- 2 Adam's financial year ends on 31 December 2017.

On 1 January 2017 the net book value of machinery was \$20 000.

On 30 June 2017 he purchased a new machine for \$6000. He paid 50% of the cost in cash and the balance by part exchange of an old machine, which had a net book value of \$2500 **on that date**.

He depreciates his machinery by 20% per annum on the net book value calculated on a time basis.

What is the net book value of the machinery shown in the statement of financial position on 31 December 2017?

**A** \$18 400      **B** \$18 800      **C** \$19 150      **D** \$20 800

- 3 A business has an accounting year-end of 31 March. It purchased a car on 1 April 2014 for \$15 000. The car was sold on 30 September 2017 for \$5000.

Depreciation is charged at 20% per annum. A full year's depreciation is charged in the year of purchase. No depreciation is charged in the year of sale.

What was the profit or loss on disposal?

- A** loss of \$500
- B** loss of \$1000
- C** profit of \$500
- D** profit of \$1000



- 4 The accounting year-end for a company is 31 October.

The table shows the company's telephone invoice received on 2 December for the **three months** ended 30 November.

	\$
telephone calls to 30 November	1041
rental of equipment for the period from 1 September to 30 November	156

Which accrual should the company make in the financial statements for the year ended 31 October?

- A \$399                      B \$798                      C \$1093                      D \$1197
- 5 A business created a provision for doubtful debts at 31 December 2016. The provision was calculated as a percentage of the trade receivables at each year end as follows.

year ended	trade receivables \$	provision for doubtful debts %
31 December 2016	32 500	10
31 December 2017	34 300	5

Which entry in the provision for doubtful debts account for the year ended 31 December 2017 was required?

- A \$1535 credit  
 B \$1535 debit  
 C \$1715 credit  
 D \$1715 debit
- 6 Errors can exist in the preparation of both the sales ledger and the sales ledger control account. Which error would require an adjustment in the sales ledger control account **only** to correct it?
- A sales journal being overcast  
 B sales transaction amount originally entered incorrectly  
 C sales transaction omitted completely  
 D sales transaction recorded in wrong customer account

- 7 The trial balance of a business did not balance. The following errors were found.
- 1 The total of the purchases journal of \$33 030 had been posted to the purchases account in the general ledger as \$33 000.
  - 2 Discount received of \$50 had been entered on the debit side of the discount received account.

What was the original balance on the suspense account?

- A \$20 credit
  - B \$20 debit
  - C \$70 credit
  - D \$70 debit
- 8 The bank column of a cash book showed a credit balance of \$5000. There were unpresented cheques amounting to \$1500. The bank statement showed bank charges, \$700, which were not recorded in the cash book.

What is the balance on the bank statement?

- A \$4200 credit
  - B \$4200 debit
  - C \$5800 credit
  - D \$5800 debit
- 9 During the financial year a business paid \$295 000 to its trade payables, after taking a cash discount of \$15 000.

At the start of the year the trade payables balance was \$25 000. At the end of the year \$32 000 was owed to trade payables.

What was the amount of credit purchases made during the year?

- A \$288 000
  - B \$302 000
  - C \$303 000
  - D \$317 000
- 10 What would **not** result in goodwill?
- A good reputation of a business
  - B selling high quality products
  - C selling products above market value
  - D skill of the workforce

- 11 At the beginning of the financial year inventory was valued at \$15 000. During the year, sales of \$21 000 and purchases of \$18 000 were made. Unfortunately, all inventory was stolen on the last day of the financial year.

Goods are marked up by 50% to calculate selling price.

What is the cost of the stolen inventory?

- A \$7500            B \$11 000            C \$19 000            D \$22 500
- 12 A business does not keep complete accounting records. All transactions are in cash.
- Which item will **not** be required in order to calculate the owner's cash drawings?
- A non-current assets purchased  
B opening capital account  
C purchases  
D sales
- 13 The following summarised information has been taken from the statement of financial position of a partnership.

	\$
non-current assets	42 000
capital accounts	36 000
current accounts (debit)	6 000
current liabilities	8 000
non-current liabilities	15 000

What is the value of current assets?

- A \$5000            B \$6000            C \$11 000            D \$23 000

- 14** X and Y had been in partnership for some years when Z was admitted as a partner. On that date the premises account was debited with \$120 000 following a revaluation. Profits were shared equally both before and after Z's admission.

What were the credit entries recording the revaluation?

- A** capital accounts X \$40 000, Y \$40 000, Z \$40 000  
**B** capital accounts X \$60 000, Y \$60 000  
**C** current accounts X \$40 000, Y \$40 000, Z \$40 000  
**D** current accounts X \$60 000, Y \$60 000
- 15** Which company reserves may **not** be used to pay dividends?
- 1 general reserve
  - 2 retained earnings
  - 3 revaluation reserves
  - 4 share premium
- A** 1, 2 and 3    **B** 1 and 2 only    **C** 2 and 3 only    **D** 3 and 4
- 16** A company issued 50 000 ordinary shares of \$0.50 each at a price of \$0.60 each.

What were the accounting entries for the issue?

	debit	\$	credit	\$
<b>A</b>	bank	30 000	share capital	25 000
			share premium	5 000
<b>B</b>	bank	25 000	share capital	30 000
	share premium	5 000		
<b>C</b>	share capital	30 000	bank	30 000
<b>D</b>	share capital	25 000	bank	30 000
	share premium	5 000		

17 What could be used to fund a bonus issue of shares?

- 1 general reserve
- 2 retained earnings
- 3 share premium

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

18 The following is an extract from an income statement.

	\$
revenue	180 000
costs of goods sold	(75 000)
distribution costs	(8 000)
administrative expenses	<u>(22 000)</u>
profit from operations	75 000
debenture interest	<u>(2 500)</u>
profit for the year	72 500

What was the operating expenses to revenue ratio?

- A** 16.7%      **B** 18.1%      **C** 58.3%      **D** 59.7%

19 The following information is available for the year ended 31 December 2017.

	\$000
revenue	640
cost of sales	350
machinery at net book value	120
land and buildings at net book value	90
motor vehicles at net book value	20
current assets	50
equity	210

What was the non-current assets turnover?

- A 1.26 times
- B 2.29 times
- C 2.78 times
- D 3.05 times

20 A baker receives one order for 350 loaves of bread.

Which costing method will the baker use?

- A absorption costing
- B batch costing
- C job costing
- D unit costing

21 A business pays a salesman a basic salary, plus commission based on how much he sells.

Which type of cost is the salesman's total earnings?

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

22 Which cost is treated as variable cost of a motor transport company?

- A advertising
- B driver insurance
- C fuel
- D vehicle licence

23 Adam is paid \$4 per hour and his expected output is 500 units per week. He is also paid a bonus \$1 for every 20 perfect units made above the total of 500.

In one week he worked for 40 hours and made 880 units, but 40 were faulty and were scrapped.

How much was Adam paid for the week?

- A \$177
- B \$179
- C \$202
- D \$204

24 A business values their inventory using the AVCO method. The inventory on 1 June 2017 was 100 units valued at \$2.40 each.

The following took place.

June 5 purchased 40 units at \$2.50 per unit  
 7 sold 60 units at \$3.50 per unit

What was the value of the inventory on 8 June 2017 to the nearest dollar?

- A \$194
- B \$196
- C \$200
- D \$224

25 The following budgeted information is available for a hotel for the next financial year.

fixed overheads	\$192 000
direct costs	\$240 000
number of guests	2400
average guest stay	4 nights

What is the overhead absorption rate per guest night?

- A \$20
- B \$45
- C \$80
- D \$180



- 26 The costs of producing 1000 units of a product are as follows.

	\$
direct materials	20 000
direct labour	10 500
direct expenses	1 600
variable overheads	11 300
fixed overheads	7 500

The selling price is \$60 per unit and 1000 units are sold.

What is the contribution to sales ratio?

- A** 15.17%      **B** 27.67%      **C** 30.33%      **D** 46.50%
- 27 A business produces a single product. The following information is available for a month.

budgeted sales quantity	200 units
selling price per unit	\$40
variable cost per unit	\$24
budgeted monthly fixed costs	\$800

The business plans to rent a machine which will increase monthly fixed costs by \$1200 to \$2000 and reduce variable costs to \$20 per unit.

What would be the effect of this on the margin of safety?

- A** decrease by 50 units  
**B** decrease by 90 units  
**C** increase by 50 units  
**D** increase by 90 units
- 28 A business hires machinery at a cost of \$700 per machine per month. Each machine can produce 1000 units a month. A maximum of 10 machines can fit into the factory. The factory rent is \$4900 per month. Other costs amount to \$2 per unit.

What is the unit cost if 8500 units are produced in a month?

- A** \$3.19      **B** \$3.23      **C** \$3.28      **D** \$3.32

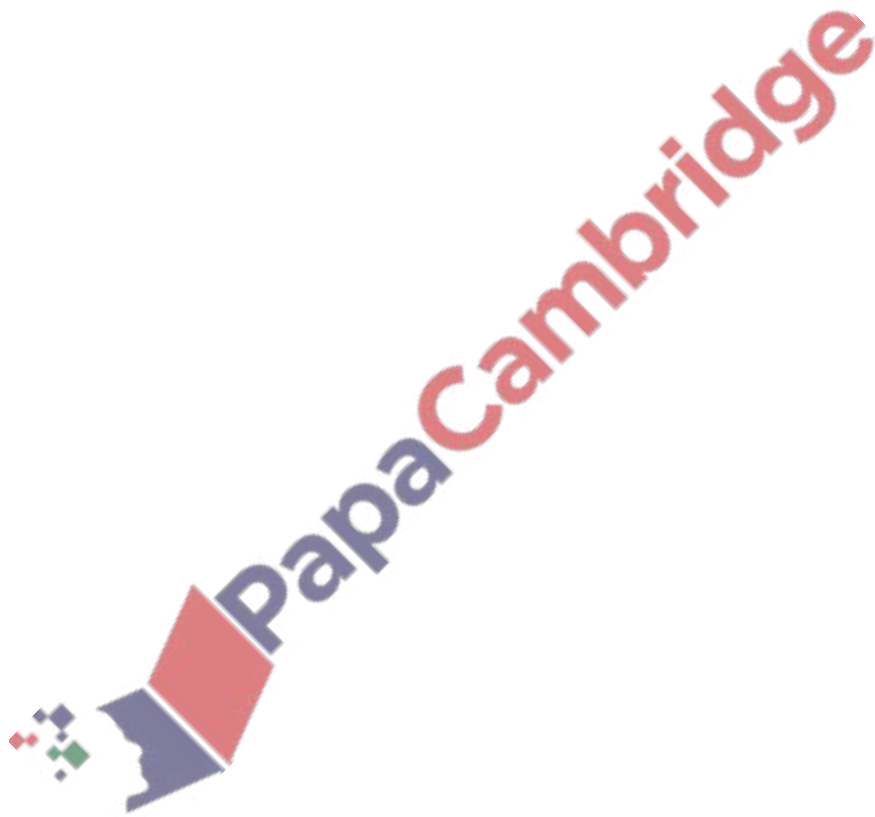
- 29** The direct material cost of 20 000 units is \$8000. 400 direct labour hours are required at a cost of \$6000. Overheads are absorbed at 150% of the cost of direct labour.

What is the cost per unit?

- A** \$0.40            **B** \$0.70            **C** \$0.85            **D** \$1.15

- 30** Why might a business prepare a budget?

- A** to determine the amount of bank loan it needs  
**B** to determine the skills of labour force  
**C** to identify its market share  
**D** to identify the quality of its products



# Answers

EXPLAINED



1. The owner of a business has been told that work completed for a customer should be recorded in the books of account although the invoice has not yet been sent to the customer.

Which accounting concepts are being applied?

- 1 matching  
2 materiality  
3 realisation

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

**EXPLANATION**

Goods have been manufactured as per order of a certain customer, not general sale purpose, so its confirmed sales and can be recorded as Revenue and receivables. Furthermore question doesn't state how would it be recorded. It may be recorded as inventory etc.

*Answer: B*

2. Adam's financial year ends on 31 December 2017.

On 1 January 2017 the net book value of machinery was \$20 000.

On 30 June 2017 he purchased a new machine for \$6000. He paid 50% of the cost in cash and the balance by part exchange of an old machine, which had a net book value of \$2500 on that date.

He depreciates his machinery by 20% per annum on the net book value calculated on a time basis.

What is the net book value of the machinery shown in the statement of financial position on 31 December 2017?

- A \$18 400                      B \$18 800  
C \$19 150                      D \$20 800

**EXPLANATION**

None of the options are correct

*Answer: C*

3. A business has an accounting year-end of 31 March. It purchased a car on 1 April 2014 for \$15 000. The car was sold on 30 September 2017 for \$5000.

Depreciation is charged at 20% per annum. A full year's depreciation is charged in the year of purchase. No depreciation is charged in the year of sale.

What was the profit or loss on disposal?

- A loss of \$500                      B loss of \$1000  
C profit of \$500                      D profit of \$1000

**EXPLANATION**

Accumulated depreciation (\$15,000 × 20% × 3)

NBV = (\$15,000 - \$9,000)

Loss = NBV (\$6,000) - Sale price (\$5,000)

Note: question does not state which method to use and using diminishing balance method none of options is possible.

*Answer: B*

4. The accounting year-end for a company is 31 October.

The table shows the company's telephone invoice received on 2 December for the three months ended 30 November.

	\$
telephone calls to 30 November	1041
rental of equipment for the period from 1 September to 30 November	156

Which accrual should the company make in the financial statements for the year ended 31 October?

- A \$399                              B \$798  
C \$1093                              D \$1197

**EXPLANATION**

Total cost (\$1041 + \$156) = \$1197

Two months (September + October) 's expenses

$$\left(1197 \times \frac{2}{3}\right) = \$798$$

*Answer: B*

5. A business created a provision for doubtful debts at 31 December 2016. The provision was calculated as a percentage of the trade receivables at each year end as follows.

year ended	trade receivables \$	provision for doubtful debts %
31 December 2016	32 500	10
31 December 2017	34 300	5

Which entry in the provision for doubtful debts account for the year ended 31 December 2017 was required?

- A \$1535 credit                      B \$1535 debit  
C \$1715 credit                      D \$1715 debit

**EXPLANATION**

Provision for doubtful debts balance at 31 December 2016 ( $\$32,500 \times 10\%$ ) = \$3250

Provision for doubtful debts balance at 31 December 2017 ( $\$34,300 \times 5\%$ ) = \$1715

Decrease in provision ( $\$3250 - \$1715 = \$1535$ ) debited in provision for doubtful debts.

*Answer: B*

6. Errors can exist in the preparation of both the sales ledger and the sales ledger control account. Which error would require an adjustment in the sales ledger control account **only** to correct it?

- A sales journal being overcast  
B sales transaction amount originally entered incorrectly  
C sales transaction omitted completely  
D sales transaction recorded in wrong customer account

**EXPLANATION**

If sales journal is overcast then Total of sales, to be used in control account, would be incorrect.

*Answer: A*

7. The trial balance of a business did not balance. The following errors were found.

- 1 The total of the purchases journal of \$33 030 had been posted to the purchases account in the general ledger as \$33 000.
- 2 Discount received of \$50 had been entered on the debit side of the discount received account.

What was the original balance on the suspense account?

- A \$20 credit                      B \$20 debit  
C \$70 credit                      D \$70 debit

**EXPLANATION**

Error 1 - Debit column is understated due to understated purchases by \$30.

Error 2 - Discount received is missing from credit column (credit column is understated by \$50) and recorded in debit column (debit column is overstated by \$50) so debit column exceeds credit column by \$100.

Overall debit column exceeds credit column by \$70.

*Answer: C*

8. The bank column of a cash book showed a credit balance of \$5000. There were unrepresented cheques amounting to \$1500. The bank statement showed bank charges, \$700, which were not recorded in the cash book.

What is the balance on the bank statement?

- A \$4200 credit                      B \$4200 debit  
C \$5800 credit                      D \$5800 debit

**EXPLANATION**

Balance as per updated cash book ( $\$5000 + \$700$ ) \$5700 credit

Balance as per bank statement [  $(\$5700) + \$1500$  ] \$4200 debit

*Answer: B*

9. During the financial year a business paid \$295 000 to its trade payables, after taking a cash discount of \$15 000.

At the start of the year the trade payables balance was \$25 000. At the end of the year \$32 000 was owed to trade payables.

What was the amount of credit purchases made during the year?

- A \$288 000                      B \$302 000  
C \$303 000                      D \$317 000

**EXPLANATION**

Payments ( \$295,000 ) + closing payables ( \$32,000 ) + discount received ( \$15,000 ) - opening payables ( \$25,000 ) = Purchases ( \$317,000 )

*Answer: D*

10. What would **not** result in goodwill?

- A good reputation of a business  
B selling high quality products  
C selling products above market value  
D skill of the workforce

**EXPLANATION**

Higher selling price may result in loss of price conscious customers instead of increase in customers or customer satisfaction / loyalty etc.

*Answer: C*

11. At the beginning of the financial year inventory was valued at \$15 000. During the year, sales of \$21 000 and purchases of \$18 000 were made. Unfortunately, all inventory was stolen on the last day of the financial year.

Goods are marked up by 50% to calculate selling price.



What is the cost of the stolen inventory?

- A \$7500                      B \$11 000  
C \$19 000                    D \$22 500

## EXPLANATION

Opening inventory (\$15000) + Purchases (\$18,000) -

$$\text{Sales at cost } \left( \$21000 \times \frac{100}{150} \right)$$

= Stolen inventory (\$19,000)

Answer: C

12. A business does not keep complete accounting records. All transactions are in cash.

Which item will **not** be required in order to calculate the owner's cash drawings?

- A non-current assets purchased  
B opening capital account  
C purchases  
D sales

## EXPLANATION

Opening capital wasn't introduced in current year but at the start of business.

Answer: B

13. The following summarised information has been taken from the statement of financial position of a partnership.

	\$
non-current assets	42 000
capital accounts	36 000
current accounts (debit)	6 000
current liabilities	8 000
non-current liabilities	15 000

What is the value of current assets?

- A \$5000                      B \$6000  
C \$11 000                    D \$23 000

## EXPLANATION

Equity (\$30000) = Capital accounts (\$36,000) - Current account debit balances (\$6,000)

Total liabilities (\$23,000) = \$8,000 + \$15,000

Total assets (\$53,000) = Equity (\$30,000) + Liabilities (\$23,000)

Current assets = total assets (\$53,000) - non-current assets (\$42,000) = \$11,000

Answer: C

14. A and B had been in partnership for some years when Z was admitted as a partner.

On that date the premises account was debited with \$120 000 following a revaluation.

Profits were shared equally both before and after Z's admission.

What were the credit entries recording the revaluation?

- A capital accounts X \$40 000, Y \$40 000, Z \$40 000  
B capital accounts X \$60 000, Y \$60 000  
C current accounts X \$40 000, Y \$40 000, Z \$40 000  
D current accounts X \$60 000, Y \$60 000

## EXPLANATION

Profit on revaluation is to be credited in pre-change partners as per pre-change profit/loss sharing ratio.

Answer: B

15. Which company reserves may **not** be used to pay dividends?

- 1 general reserve  
2 retained earnings  
3 revaluation reserves  
4 share premium

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

## EXPLANATION

Share premium and revaluation reserves are capital reserves, which cannot be used to pay dividends but can only be distributed in the form of bonus issue.

Answer: D

16. A company issued 50 000 ordinary shares of \$0.50 each at a price of \$0.60 each.

What were the accounting entries for the issue?

	debit	\$	credit	\$
A	bank	30 000	share capital	25 000
			share premium	5 000
B	bank	25 000	share capital	30 000
	share premium	5 000		
C	share capital	30 000	bank	30 000
D	share capital	25 000	bank	30 000
	share premium	5 000		

## EXPLANATION

Increase in bank (asset) is debited using,  
issue price  $\times$  no. of shares

Increase in share capital (capital) is credited using,  
face value  $\times$  no. of shares

Increase in share premium (profit) is credited using,  
premium  $\times$  no. of shares

(premium is issue price  $>$  face value)

Answer: A

17. What could be used to fund a bonus issue of shares?

- 1 general reserve
- 2 retained earnings
- 3 share premium

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

## EXPLANATION

All reserves can be distributed in the form of bonus issue.

Answer: A

18. The following is an extract from an income statement.

	\$
revenue	180 000
costs of goods sold	(75 000)
distribution costs	(8 000)
administrative expenses	(22 000)
profit from operations	75 000
debenture interest	(2 500)
profit for the year	72 500

What was the operating expenses to revenue ratio?

- A 16.7%                      B 18.1%  
C 58.3%                      D 59.7%

## EXPLANATION

Operating expenses (\$8,000) + (\$22,000) = \$30,000

Operating expenses to revenue ratio

$$= \left( \frac{\text{operating expenses}}{\text{revenue}} \times 100 \right)$$

$$= \frac{\$30,000}{\$180,000} = 16.67\%$$

Answer: A

19. The following information is available for the year ended 31 December 2017.

	\$000
revenue	640
cost of sales	350
machinery at net book value	120
land and buildings at net book value	90
motor vehicles at net book value	20
current assets	50
equity	210

What was the non-current assets turnover?

- A 1.26 times                      B 2.29 times  
C 2.78 times                      D 3.05 times

## EXPLANATION

Non-current assets at NBV (\$120,000 + \$90,000 + \$20,000) = \$230,000.

Non-current assets Turnover

$$= \frac{\text{Revenue}}{\text{Non-current assets at NBV}}$$

Answer: C

20. A baker receives one order for 350 loaves of bread.

Which costing method will the baker use?

- A absorption costing            B batch costing  
C job costing                      D unit costing

## EXPLANATION

Batch costing is used when a certain quantity of identical items are produced

Answer: B

21. A business pays a salesman a basic salary, plus commission based on how much he sells.

Which type of cost is the salesman's total earnings?

- A fixed                              B semi-variable  
C stepped                          D variable

## EXPLANATION

Basic salary is fixed cost

Sales based commission is variable cost

Total earnings is semi-variable.

Answer: B

22. Which cost is treated as variable cost of a motor transport company?

- A advertising                      B driver insurance  
C fuel                                  D vehicle licence

**EXPLANATION**

Fuel depends on usage (activity).

*Answer: C*

23. Adam is paid \$4 per hour and his expected output is 500 units per week. He is also paid a bonus \$1 for every 20 perfect units made above the total of 500.

In one week he worked for 40 hours and made 880 units, but 40 were faulty and were scrapped. How much was Adam paid for the week?

- A \$177                      B \$179  
C \$202                      D \$204

**EXPLANATION**

40 hours × \$4 per hour = \$160

Units eligible for bonus (880 - 40 - 500) = 340

Bonus  $\left(\frac{340}{20} \times \$1\right) = \$17$

Total payment (\$160 + \$17) = \$177

*Answer: A*

24. A business values their inventory using the AVCO method. The inventory on 1 June 2017 was 100 units valued at \$2.40 each.

The following took place.

June 5 purchased 40 units at \$2.50 per unit

7 sold 60 units at \$3.50 per unit

What was the value of the inventory on 8 June 2017 to the nearest dollar?

- A \$194                      B \$196  
C \$200                      D \$224

**EXPLANATION**

Opening inventory (100 units × \$2.40) \$240

Purchases (40 units × \$2.50) \$100

Average costing  $\left(\frac{(\$240 + \$100)}{140}\right) = \$2.43$

Sales 60 units

Remaining inventory (80 units × \$2.43) = \$194

*Answer: A*

25. The following budgeted information is available for a hotel for the next financial year.

fixed overheads	\$192 000
direct costs	\$240 000
number of guests	2400
average guest stay	4 nights

What is the overhead absorption rate per guest night?

- A \$20                      B \$45  
C \$80                      D \$180

**EXPLANATION**

Total guest nights (2,400 × 4) 9,600 nights

OAR =  $\frac{\$192,000}{9,600}$

OAR = \$20 per guest night

*Answer: A*

26. The costs of producing 1000 units of a product are as follows.

	\$
direct materials	20 000
direct labour	10 500
direct expenses	1 600
variable overheads	11 300
fixed overheads	7 500

The selling price is \$60 per unit and 1000 units are sold.

What is the contribution to sales ratio?

- A 15.17%                      B 27.67%  
C 30.33%                      D 46.50%

**EXPLANATION**

Variable cost per unit

=  $\left(\frac{(\$20,000 + \$10,500 + \$1,600 + \$11,300)}{1000}\right)$

Contribution = Sale price (\$60) - Variable cost (\$43.40) = \$16.60

Contribution to sales ratio =  $\frac{\$16.60}{\$60} \times 100 = 27.67\%$

*Answer: B*

27. A business produces a single product. The following information is available for a month.

budgeted sales quantity	200 units
selling price per unit	\$40
variable cost per unit	\$24
budgeted monthly fixed costs	\$800

The business plans to rent a machine which will increase monthly fixed costs by \$1200 to \$2000 and reduce variable costs to \$20 per unit.



What would be the effect of this on the margin of safety?

- A decrease by 50 units
- B decrease by 90 units
- C increase by 50 units
- D increase by 90 units

**EXPLANATION**

Original unit contribution (\$40 - \$24) = \$16

Original Break even point  $\left(\frac{800}{16}\right) = 50$  units

Original margin of safety (200 - 50) = 150 units

Revised unit contribution (\$40 - \$20) = \$20

Revised Break even point  $\left(\frac{\$2000}{20}\right) = 100$  units

Revised margin of safety (200 - 100) = 100

Decrease in margin of safety by 50 units

**Answer: A**

28. A business hires machinery at a cost of \$700 per machine per month. Each machine can produce 1000 units a month. A maximum of 10 machines can fit into the factory. The factory rent is \$4900 per month. Other costs amount to \$2 per unit.

What is the unit cost if 8500 units are produced in a month?

- A \$3.19
- B \$3.23
- C \$3.28
- D \$3.32

**EXPLANATION**

Factory rent \$4900

9 machines  $\times$  \$700 = \$6300

Other costs (8500  $\times$  \$2) = \$17,000

Units costs =  $\frac{(\$17,000 + \$6,300 + \$4,900)}{8,500} = \$3.32$

**Answer: D**

29. The direct material cost of 20 000 units is \$8000. 400 direct labour hours are required at a cost of \$6000. Overheads are absorbed at 150% of the cost of direct labour.

What is the cost per unit?

- A \$0.40
- B \$0.70
- C \$0.85
- D \$1.15

**EXPLANATION**

Total cost (\$8,000 + \$6,000 + \$9,000) \$23,000

Cost per unit =  $\frac{\$23,000}{20,000} = \$1.15$

**Answer: D**

30. Why might a business prepare a budget?

- A to determine the amount of bank loan it needs
- B to determine the skills of labour force
- C to identify its market share
- D to identify the quality of its products

**EXPLANATION**

Budgeting identify future problems in advance

**Answer: A**

# Accounting Multiple choice Past Paper **June 2017**

Cambridge A LEVEL



Questions and Answers

**EXPLAINED**

# Time: 1 hour

# Questions

Cambridge A LEVEL



There are thirty questions on this paper. Answer all questions.

- 1 When a businessman introduces capital into his business, the transaction is debited in the cash book and credited to his capital account.

Of which accounting concept is this an example?

- A business entity
- B going concern
- C matching
- D prudence

- 2 Which are examples of the accounting equation?

- 1 capital + assets = liabilities
- 2 capital = assets + liabilities
- 3 capital = assets – liabilities

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

- 3 Amitav purchased a van costing \$20 000. He provided an old van with a net book value of \$8000 in part exchange. There was a profit on disposal of \$1500.

What was the cash outflow arising from the purchase?

- A \$9500      B \$10 500      C \$12 000      D \$13 500

- 4 The net book value of a company's non-current assets was as follows.

	\$
at 1 January 2016	100 000
at 31 December 2016	80 000

During 2016 assets were sold for \$20 000, realising a profit on disposal of \$5000.

Depreciation charged for 2016 was \$8000.

What was the expenditure on new assets in 2016?

- A \$3000      B \$5000      C \$8000      D \$15 000

- 5 The following errors were found after a suspense account was opened.
- 1 Motor repairs of \$400 were credited to the motor vehicle at cost account.
  - 2 A payment for electricity was debited in the electricity account as \$2500 instead of \$5200.
  - 3 A \$450 cash purchase of goods for resale had been completely omitted from the books.
  - 4 Discount allowed of \$50 had been debited to the discounts received account.

Which items would be entered in the suspense account?

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

- 6 Which items appear in a sales ledger control account?

- 1 cash discount allowed
- 2 credit sales
- 3 payments to trade payables
- 4 returns inwards

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

- 7 The following information is extracted from the statement of financial position of a business at 31 December 2016.

	\$
bank loan (repayable 2025)	16 200
other payables	1 880
bank overdraft	11 600
capital	20 710
drawings	19 100
inventory	14 610
other receivables	1 420
trade payables	14 110
trade receivables	9 050

What is the value of the net current liabilities?

- A** \$1590      **B** \$2510      **C** \$18710      **D** \$20320

- 8 The following items are recorded in the cash book of a business but not yet recorded in its bank statement.

	\$
cheques drawn	3000
amounts banked	250

The cash book shows a bank balance of \$2600 credit.

What is the balance on the bank statement?

- A \$150 credit  
 B \$150 debit  
 C \$400 credit  
 D \$400 debit
- 9 Finn provides 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

10 A business provides the following information.

	year 1 \$	year 2 \$
profit for the year	30 000	40 000
cost of goods sold	240 000	320 000

The owner then discovers that at the end of year 1 the value of inventory was overstated by \$2000.

What are the correct profits for the year and cost of goods sold figures?

	year 1		year 2	
	profit for the year \$	cost of goods sold \$	profit for the year \$	cost of goods sold \$
<b>A</b>	28 000	238 000	42 000	322 000
<b>B</b>	28 000	242 000	40 000	320 000
<b>C</b>	28 000	242 000	42 000	318 000
<b>D</b>	32 000	238 000	38 000	318 000

11 Sam was unable to conduct a physical count of inventory at 31 December 2016.

On 3 January 2017 inventory had been sold to Abdul for \$11 950. The cost price of this inventory had been \$9560.

On 4 January 2017 inventory had been returned by Sita. It had been sold for \$2390. The cost price of this inventory was \$1912.

Sam valued his inventory at 5 January 2017 at cost, \$59 750.

What was the value of inventory at 31 December 2016?

- A** \$50 190      **B** \$52 012      **C** \$67 398      **D** \$69 310

12 Which item is **not** taken into account when a partner joins a partnership?

- A** balances on the partners' current accounts  
**B** capital introduced by the new partner  
**C** changes in the profit sharing ratio  
**D** goodwill



- 13 Ali, Bharti and Chan were in partnership sharing profit and losses in the ratio 3:2:1. Bharti retired from the partnership on 30 June 2016.

The following were the balances available at 30 June 2016.

	Ali (\$)	Bharti (\$)	Chan (\$)
capital accounts	60 000 Cr	40 000 Cr	20 000 Cr
current accounts	18 650 Cr	6 100 Dr	8 950 Cr

On her retirement, Bharti retained a partnership motor vehicle at an agreed valuation of \$4000.

Goodwill was valued at \$39 000.

How much was payable to Bharti on her retirement?

- A \$33 900      B \$42 900      C \$46 900      D \$50 900

- 14 A partnership maintains both capital and current accounts for its partners.

What is the correct accounting entry for recording interest on capital for partner X?

	account to be debited	account to be credited
A	appropriation	X's capital
B	appropriation	X's current
C	X's capital	appropriation
D	X's current	appropriation

- 15 Which statement describes the treatment of purchased goodwill for a limited company?

- A a tangible non-current asset that can be amortised  
 B a tangible non-current asset that can be depreciated  
 C an intangible non-current asset that can be amortised  
 D an intangible non-current asset that can be depreciated

16 A company's equity is made up as shown.

	\$
100 000 ordinary shares of \$0.25 each	25 000
share premium	3 000
retained earnings	8 000

The following took place.

- 1 A bonus issue of one ordinary share for every five held was made.
- 2 Six months later a rights issue of one ordinary share for every four held was made. The shares were issued at \$0.30 each.

By how much did the company's equity increase as a result of these transactions?

- A** \$5000      **B** \$6000      **C** \$7500      **D** \$9000

17 Which statement about ordinary shares is correct?

- A** dividends on ordinary shares are an appropriation of profit  
**B** dividends on ordinary shares are paid at the same rate each year  
**C** ordinary shares are never issued at a premium  
**D** the holders of ordinary shares are creditors of a company

18 Who are internal users of accounting information?

- A** customers  
**B** directors  
**C** lenders  
**D** shareholders

19 A company provides the following information.

	\$
profit from operations	16 000
finance costs	4 000
ordinary share capital (\$1 shares)	50 000
non-current liabilities	4 000
retained earnings	20 000

What is the return on capital employed?

- A 16.22%      B 17.14%      C 21.62%      D 22.86%

20 The following financial information is available for a business. All purchases and sales are made on credit.

	\$
purchases	121 980
revenue	209 980
trade payables	45 448
trade receivables	28 765

What is the average collection period?

- A 50 days      B 79 days      C 86 days      D 136 days

21 How are stepped costs best described?

- A costs that are always variable  
 B costs that have both a fixed and variable element  
 C fixed costs that are always the same amount at any level of output  
 D fixed costs which increase in total once a certain level of output is reached

22 Jamal uses the AVCO system to value his inventory. He provides the following information:

March 1	no opening inventory
6	60 units were purchased at \$120 per unit
17	100 units were purchased at \$116 per unit
23	110 units were sold for \$150 per unit

What was the cost of sales for March?

- A \$5875      B \$12925      C \$13000      D \$18800

23 A business makes wedding dresses. Each machinist is paid \$30 a day and each supervisor \$40 a day. Each supervisor can work with up to 10 machinists and each machinist can produce one wedding dress a day.

If 95 wedding dresses a day are produced, what is the daily labour cost?

- A \$2850      B \$3210      C \$3230      D \$3250

24 Which statement best describes variable costs?

- A costs that are the same in total up to a certain level then increase with output  
 B costs that are the same in total over any output level  
 C costs that are constant per unit as output increases  
 D costs that increase per unit as output increases

25 A company manufactures and sells chairs. The following per unit information is available.

	\$
selling price	25
direct material and labour	12
other variable production costs	3
variable selling costs	2
fixed costs	4

The company has the option of buying in the chairs for resale instead of making them.

At which purchase price would the company's profit be unchanged?

- A \$15      B \$17      C \$19      D \$21

26 The budgeted income statement of J Limited shows the following.

	\$
sales	400 000
variable costs	240 000
fixed costs	132 000
profit for the year	28 000

What is the margin of safety in dollars?

- A** \$70 000      **B** \$160 000      **C** \$268 000      **D** \$330 000

27 The following details are supplied by a company for the month of August.

budgeted machine hours	36 000
budgeted overheads	\$162 000
actual machine hours	36 500
actual overheads	\$155 000

What is the under or over absorption of the overheads?

- A** \$2250 over absorbed  
**B** \$2250 under absorbed  
**C** \$9250 over absorbed  
**D** \$9250 under absorbed

28 A company has fixed costs of \$40 000 per month. It provided the following information.

	March units	April units
production	30 000	15 000

Total production costs for March were \$90 000.

What were the total production costs for April?

- A** \$45 000      **B** \$65 000      **C** \$70 000      **D** \$110 000

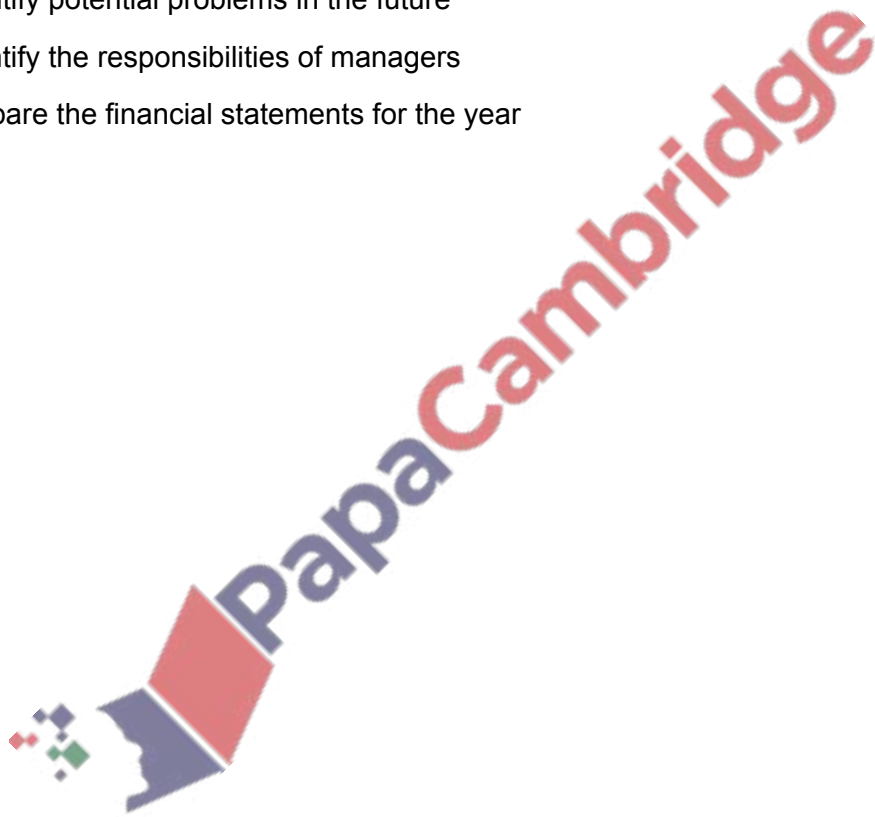
29 A company's profits using marginal costing and absorption costing principles were identical.

Which statement is true about the company's production units?

- A they were greater than break-even units
- B they were greater than the sales units
- C they were the same as the break-even units
- D they were the same as the sales units

30 Which statement is **not** a reason why a business prepares budgets?

- A to ensure coordination of the business activities
- B to identify potential problems in the future
- C to identify the responsibilities of managers
- D to prepare the financial statements for the year



# Answers

EXPLAINED





## Multiple Choice Answers

### CAMBRIDGE A LEVEL ACCOUNTING June 2017 Paper 1

1. When a businessman introduces capital into his business, the transaction is debited in the cash book and credited to his capital account.

Of which accounting concept is this an example?

A business entity

B going

concern

C matching

D prudence

**Business entity concept is one of the accounting concepts that states that business and the owner are two separate entities and therefore, should be considered separate from each other.**

**Answer A**

2. Which are examples of the accounting equation?

1 capital + assets = liabilities

2 capital = assets + liabilities

3 capital = assets - liabilities

A 1 and 3

B 1 only

C 2 and 3

D 3 only

**The accounting formula is  
assets - liabilities = capital (equity)**

**Answer: D**

3. Amitav purchased a van costing \$20000. He provided an old van with a net book value of \$8000 in part exchange. There was a profit on disposal of \$1500.

What was the cash outflow arising from the purchase?

A \$9500

B \$10 500

C \$12 000

D \$13 500

**Step 1: calculate price of the van**

**Net book value + Profit**

**= NBV (\$8000) + Profit (\$ 1500)**

**Step 2: calculate the cash outflow**

**Cost of new van (\$20,000) - part exchange (\$9500)**

**= \$10,500**

**Answer B**

4. The net book value of a company's non-current assets was as follows.

	\$
at 1 January 2016	100000
at 31 December 2016	80000

During 2016 assets were sold for \$20 000, realising a profit on disposal of \$5000.

Depreciation charged for 2016 was \$8000.

What was the expenditure on new assets in 2016?

A \$3000

B \$5000

C \$8000

D \$15 000

**Step 1 : Calculate the Net book value (NBV) of the disposed off van**

**= Sale price (\$20,000) - Profit (\$5000) = \$15000**

**Step 2: Calculate expenditure on new assets**

**NBV at start (\$100,000) + Additions (to be determined) - Disposal at NBV (\$15,000) - Depreciation for the year (\$8000) = NBV at year end (\$80,000)**

**Answer- A**

5. The following errors were found after a suspense account was opened.

1 Motor repairs of \$400 were credited to the motor vehicle at cost account.

2 A payment for electricity was debited in the electricity account as \$2500 instead of \$5200.

3 A \$450 cash purchase of goods for re- sale had been completely omitted from the books.

4 Discount allowed of \$50 had been deb-ited to the discounts received account.

Which items would be entered in the suspense account?

A 1 and 2

B 2 and 3

C 2 and 4

D 3 and 4

**Error 1**

**Correct: Motor repairs should have been debited**

**Incorrect: Motor vehicle has been credited .**

**Effect: The total of credit column exceeds Total of debit column by \$800**

**Error 2**

**Incorrect: Electricity account has been debited as \$ 2500**

**Correct: It should have been \$5200**

**Effect: The total of debit column is understated by \$2700.**

**Error 3 & 4**

**They do not affect trial balance agreement.**

**Answer A**

6. Which items appear in a sales ledger control account?
- 1 cash discount allowed
  - 2 credit sales
  - 3 payments to trade payables
  - 4 returns inwards
- A 1,2 and 3                      B 1,2 and 4  
 C 1, 3 and 4                      D 2, 3 and 4

The sales ledger control account is used to monitor the amounts owed by customers to a business.

Answer B

7. The following information is extracted from the statement of financial position of a business at 31 December 2016.

	\$
bank loan (repayable 2025)	16200
other payables	1 880
bank overdraft	11600
capital	20710
drawings	19100
inventory	14610
other receivables	1420
trade payables	14110
trade receivables	9050

What is the value of the net current liabilities?

- A \$1590                              B \$2510  
 C \$18 710                            D \$20 320

Step 1: Calculate current

liabilities (1880 + 11,600 + 14,110)

Step 2: Calculate current

assets (14,610 + 1420 + 9050)

Step 3: Calculate net current liabilities

Net current liabilities = Current Liabilities - Current

Assets Answer B

8. The following items are recorded in the cash book of a business but not yet recorded in its bank statement.

	\$
cheques drawn	3000
amounts banked	250

The cash book shows a bank balance of \$2600 credit.

What is the balance on the bank statement?

- A \$150 credit                      B \$150 debit  
 C \$400 credit                      D \$400 debit

Balance as per Cash book (Credit)	\$2600
Add deposit not credited	\$250
<b>Less, not presented cheques</b>	<b>\$3000</b>
Balance as per bank statement (Credit)	\$150

Note; Because \$150 is a negative figure, the bank statement balance is a credit.

Answer: A

9. Finn provides the following information.

	\$
capital at the start of the year	19800
profit for the year	24 000
drawings (cash)	19500
drawings (goods for own use)	1 100
private vehicle transferred to business use	6 000

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

- A \$23 200                              B \$24 300  
 C \$29 200                              D \$31 400

Capital at start	\$19,800
Profit for the year	\$24,000
<b>Less Drawings</b>	<b>(\$19,500 + \$1100)</b>
Additional capital	\$6000
Capital at end	\$29,200

Answer C

10. A business provides the following information.

	year 1 \$	year 2 \$
profit for the year	30 000	40000
cost of goods sold	240000	320000

The owner then discovers that at the end of year 1 the value of inventory was overstated by \$2000.

What are the correct profits for the year and cost of goods sold figures?

	year 1		year 2	
	profit for the year \$	cost of goods sold \$	profit for the year \$	cost of goods sold \$
A	28000	238 000	42000	322 000
B	28000	242000	40 000	320000
C	28000	242 000	42 000	318000
D	32000	238000	38 000	318000

**Useful formulas:**

Gross profit = Sales - Cost of sales  
 Cost of sales = Opening inventory + purchases - Closing inventory

**YEAR 1: Before rectification:**

Closing inventory : overstated  
 Cost of sales (\$240000): understated  
 Profits (\$30 000): overstated .

**YEAR 1: After rectification**

Cost of sales will increase to \$242,000  
 Profits will decrease to \$28,000.

**YEAR 2: Before rectification**

Opening inventory : overstated  
 Cost of sales (\$320000) : overstated  
 Profits (\$40000): understated .

**YEAR 2 : After rectification**

Cost of sales will decrease to \$318,000  
 Profits will increase to \$42, 000.

Answer: C

11. Sam was unable to conduct a physical count of inventory at 31 December 2016.

On 3 January 2017 inventory had been sold to Abdul for \$11 950 . The cost price of this inventory had been \$ 9560.

On 4 January 2017 inventory had been returned by Sita. It had been sold for \$2390 . The cost price of this inventory was \$1912.

Sam valued his inventory at 5 January 2017 at cost, \$59 750.

What was the value of inventory at 31 December 2016?

- A \$50 190                      B \$52 012  
 C \$67 398                      D \$69 310

Inventory at 5 Jan 17	\$59,750
Less Sales return at cost price	(\$1912)
Plus sales at cost	\$9560
Value of inventory at 31 Dec16	\$67,398

Answer C

12. Which item is not taken into account when a partner joins a partnership?

- A balances on the partners current accounts  
 B capital introduced by the new partner  
 C changes in the profit sharing ratio  
 D goodwill

A partnership is an arrangement between two or more people to oversee business operations and share its profits and liabilities . Revaluation , goodwill , capital introduction and capital withdrawal relate to capital accounts.

Answer A

13. Ali, Bharti and Chan were in partnership sharing profit and losses in the ratio 3:2:1. Bharti retired from the partnership on 30 June 2016.

The following were the balances available at 30 June 2016.

	Ali (\$)	Bharti (\$)	Chan (\$)
capital accounts	60 000 Cr	40 000 Cr	20 000Cr
current accounts	18 650 Cr	6100 Dr	8950 Cr

On her retirement, Bharti retained a partnership motor vehicle at an agreed valuation of \$4000.

Goodwill was valued at \$39 000.

How much was payable to Bharti on her retirement?

- A \$33 900                      B \$42 900  
 C \$46 900                      D \$50 900

Capital account (\$40,000) - current account (\$6100) - Motor vehicle (\$4000) + share of goodwill (\$39000x2)/6

Answer B

14. A partnership maintains both capital and current accounts for its partners.

What is the correct accounting entry for recording interest on capital for partner X?

	account to be debited	account to be credited
A	appropriation	X's capital
B	appropriation	X's current
C	X's capital	appropriation
D	X's current	appropriation

Interest on capital is payable to partners in a partnership. It is treated as a liability and appears on the credit side of the current account.

Answer: B

15. Which statement describes the treatment of purchased goodwill for a limited company?

- A a tangible non-current asset that can be amortised  
 B a tangible non-current asset that can be depreciated  
 C an intangible non-current asset that can be amortised  
 D an intangible non-current asset that can be depreciated

An intangible asset is an asset that is not physical in nature. Goodwill is an example of an intangible asset. It is an intangible non-current asset that can be amortised

Answer: C

Dividend is appropriation of profit which is arrived after providing for all expenses including interest.

Answer: A

16. A company's equity is made up as shown.

	S
100000 ordinary shares of \$0.25 each	25000
share premium	3000
retained earnings	8000

The following took place.

- 1 A bonus issue of one ordinary share for every five held was made.
- 2 Six months later a rights issue of one ordinary share for every four held was made. The shares were issued at \$0.30 each.

By how much did the company's equity increase as a result of these transactions?

- A \$5000                      B \$6000  
C \$7500                      D \$9000

**Effect of bonus issue**

Equity: No effect

Share Capital: increase

Reserves: decreases

**Effect of rights issue**

Equity: Increase

Share capital and Share premium : Increase

Original share = 100,000 shares

Bonus issue =  $(100,000 \times 1/5) = 20,000$  shares

Right issue =  $(120,000 \times 1/4) = 30,000$  shares

Ordinary share capital increases by \$7500  $(30,000 \times \$0.25)$

Share Premium increase by \$1500  $(30,000 \times \$0.05)$

Answer: D

17. Which statement about ordinary shares is correct?

- A dividends on ordinary shares are an appropriation of profit
- B dividends on ordinary shares are paid at the same rate each year
- C ordinary shares are never issued at a premium
- D the holders of ordinary shares are creditors of a company

18. Who are internal users of accounting information?

- A customers                      B directors
- C lenders                        D shareholders

Internal users are people within a business organization who use financial information. Internal users includes management of the company and directors.

Answer: B

19. A company provides the following information.

	\$
profit from operations	16000
finance costs	4 000
ordinary share capital (\$1 shares)	50000
non-current liabilities	4 000
retained earnings	20 000

What is the return on capital employed?

- A 16.22%                      B 17.14%
- C 21.62%                      D 22.86%

Capital Employed = \$50,000 + \$4000 + \$20,000 = \$74,000

ROCE =  $(\$16,000 / \$74,000) \times 100 = 21.62\%$

Answer: C

20. The following financial information is available for a business . All purchases and sales are made on credit.

	S
purchases	121 980
revenue	209980
trade payables	45448
trade receivables	28 765

What is the average collection period?

- A 50 days                      B 79 days
- C 86 days                      D 136 days

$$\frac{\$28\,765}{\$209\,980} \times 365 = 50 \text{ days}$$

Answer: A

21. How are stepped costs best described?
- A costs that are always variable
  - B costs that have both a fixed and variable element
  - C fixed costs that are always the same amount at any level of output
  - D fixed costs which increase in total once a certain level of output is reached

Step costs are expenses that are constant for a given level of activity, but increase or decrease once a threshold is crossed.

Answer: D

22. Jamal uses the AVCO system to value his inventory. He provides the following information:

March 1	no opening inventory
6	60 units were purchased at \$120 per unit
17	100 units were purchased at \$116 per unit
23	110 units were sold for \$150 per unit

What was the cost of sales for March?

- A \$5875
- B \$12 925
- C \$13 000
- D \$18 800

$$\text{Average cost} = \frac{(60 \times \$120) + (100 \times \$116)}{160}$$

Average cost 160 units @ \$117.5

Units sold 110

$$\text{Cost of 110 sold units } (110 \times \$117.5) = \$12,925$$

Answer: B

23. A business makes wedding dresses. Each machinist is paid \$30 a day and each supervisor \$40 a day. Each supervisor can work with up to 10 machinists and each machinist can produce one wedding dress a day.

If 95 wedding dresses a day are produced, what is the daily labour cost?

- A \$2850
- B \$3210
- C \$3230
- D \$3250

To produce 95 dresses, 95 machinists and 10 supervisors are needed. Note: there cannot be 9.5 supervisors!

**Calculate direct labour cost**

$$(95 \times \$30) + (10 \times \$40) = \$3250$$

Answer: D

24. Which statement best describes variable costs?
- A costs that are the same in total up to a certain level then increase with output
  - B costs that are the same in total over any output level
  - C costs that are constant per unit as output increases
  - D costs that increase per unit as output increases

The variable cost of production is a constant amount per unit produced. As the volume of production and output increases, variable costs will also increase.

Answer: C

25. A company manufactures and sells chairs. The following per unit information is available.

	\$
selling price	25
direct material and labour	12
other variable production costs	3
variable selling costs	2
fixed costs	4

The company has the option of buying in the chairs for resale instead of making them.

At which purchase price would the company's profit be unchanged?

- A \$15
- B \$17
- C \$19
- D \$21

**Costs incurred regardless whether the chairs are bought or produced:**

Total fixed costs  
Variable selling costs

If the purchase price equals to the variable cost of production (\$12 + \$3), the company's profit would be same the profit in both cases.

Answer: A

26. The budgeted income statement of J Limited shows the following.

	S
sales	400000
variable costs	240 000
fixed costs	132000
profit for the year	28 000

What is the margin of safety in dollars?

- A \$ 70 000
- B \$160 000
- C \$268 000
- D \$330 000

**Step 1: Calculate C/S ratio**

= 160,000/400,000 = 0.4

**Step 2: Calculate Break even point in dollars (\$)**

Total fixed costs (\$132,000)

C/S ratio (0.4)

**Step 3: Calculate Margin of safety (Dollars)**

= Sales (\$400,000) - BEP (\$330,000)

*Answer A*

27. The following details are supplied by a company for the month of August.

budgeted machine hours	36000
budgeted overheads	\$162000
actual machine hours	36500
actual overheads	\$155000

What is the under or over absorption of the overheads?

- A \$2250 over absorbed
- B \$2250 under absorbed
- C \$9250 over absorbed
- D \$9250 under absorbed

**Step 1: Calculate Overheads**

absorption rate

Budgeted overheads (\$162,000)

Budgeted machine hours (36,000)

**Step 2: Calculate Absorbed overheads**

= OAR (\$4.50) x Actual machine hours (36,500)

**Step 3: Determine over absorption**

Absorbed overheads (\$164,250) > Actual overheads (\$155,000),

The Over absorption is \$9250.

*Answer: C*

28. A company has fixed costs of \$40 000 per month. It provided the following information.

	March units	April units
production	30 000	15000

Total production costs for March were \$90 000.

What were the total production costs for April?

- A \$45 000
- B \$65 000
- C \$70 000
- D \$110 000

**Step 1: Calculate Total variable costs in March**

= Total costs (\$90,000) - Fixed costs (\$40,000)

**Step 2: Calculate Variable cost per unit**

Variable costs per unit =  $\frac{\$50,000}{30,000}$

**Step 3: Calculate total production cost**

Total costs (April) = Fixed costs (\$40,000) + Total variable costs (\$1.66667 x 15,000)

*Answer: B*

29. A company's profits using marginal costing and absorption costing principles were identical. Which statement is true about the company's production units?

- A they were greater than break-even units
- B they were greater than the sales units
- C they were the same as the break-even units
- D they were the same as the sales units

Marginal and absorption profits differ due to different inventory valuation.

If production units and sales units equal, there will be no inventory. Marginal and absorption profits would be equal

*Answer D*

30. Which statement is not a reason why a business prepares budgets?

- A to ensure coordination of the business activities
- B to identify potential problems in the future
- C to identify the responsibilities of managers
- D to prepare the financial statements for the year

Budgets are typically forward-looking in nature.

Income is based on projections and estimates for the periods they cover, as are expenses. Financial statements are prepared at year end using historical data.

*Answer D*