



Cambridge IGCSE™ (9–1)

ACCOUNTING

0985/12

Paper 1 Multiple Choice

October/November 2020

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- There are **thirty-five** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A, B, C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 35.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **12** pages. Blank pages are indicated.



1 A trader prepares financial statements each year.

What do these assist the trader to do?

- A calculate the amount owing to credit suppliers
- B calculate the cash drawings
- C check the bank statement balance
- D make decisions about the future

2 What is **not** an example of a book-keeping entry?

- A an entry made in the bank column of the cash book for a cheque received
- B cost of goods purchased on credit entered in the supplier's account
- C expenses paid during the year entered in the income statement
- D goods returned by a customer entered in the sales returns journal

3 The following balances appeared in Hussein's books.

| | \$ |
|-------------------|------|
| fixtures | 6000 |
| inventory | 3300 |
| trade receivables | 3000 |
| trade payables | 4500 |
| other receivables | 500 |
| other payables | 300 |
| loan to Imran | 1000 |
| bank overdraft | 1400 |

What was the total of the liabilities?

- A \$4800 B \$6200 C \$6400 D \$7200

4 What does the owner's equity consist of?

- A the amount of money in the business bank account
- B the amount owed by the business to the owner
- C the total of the assets owned by the business
- D the total of the current assets less the current liabilities

5 Which entries did Sally make to record the following transaction?

Rashid, a credit customer, returned damaged goods.

| | account to be debited | account to be credited |
|----------|-----------------------|------------------------|
| A | purchase returns | Rashid |
| B | Rashid | purchase returns |
| C | sales returns | Rashid |
| D | Rashid | sales returns |

6 The following account appeared in the books of Mary.

Paul account

| | \$ | | \$ |
|---------------------|------------|------------------|------------|
| April 1 balance b/d | 90 | April 21 returns | 25 |
| 14 sales | 150 | 30 bank | 88 |
| | | discount | 2 |
| | | balance c/d | 125 |
| | <u>240</u> | | <u>240</u> |

Which statement is correct?

- A** On 1 April Paul owed Mary \$90.
- B** On 14 April Paul sold goods, \$150, to Mary.
- C** On 21 April Mary returned goods, \$25, to Paul.
- D** On 30 April Mary owed Paul \$125.

7 In which sections of Zamir's ledger would the following accounts be maintained?

- 1 the sales account
- 2 the account of Harjit, a trade receivable

| | sales account | Harjit account |
|----------|--------------------------|------------------|
| A | nominal (general) ledger | purchases ledger |
| B | nominal (general) ledger | sales ledger |
| C | purchases ledger | sales ledger |
| D | sales ledger | purchases ledger |

- 8 Sue allows 2% cash discount to credit customers who settle their account within 28 days. Jane purchased goods, list price \$200, on 10 September. She returned these goods on 15 September.

Which entry would Sue make on 15 September?

- A purchases returns journal \$196
 B purchases returns journal \$200
 C sales returns journal \$196
 D sales returns journal \$200
- 9 A transaction was posted to the wrong account of the same class.

Which type of error was made?

- A commission
 B original entry
 C principle
 D reversal
- 10 Motor vehicle expenses, \$50, were incorrectly debited to the motor vehicles account.

Which journal entry corrects this error?

| | | debit \$ | credit \$ |
|----------|---|-------------|--------------|
| A | motor vehicle expenses motor vehicles | 50 | 50 |
| B | motor vehicles motor vehicle expenses | 50 | 50 |
| C | motor vehicles expenses motor vehicles suspense | 50 50 | 100 |
| D | suspense motor vehicles expenses motor vehicles | 100 | 50 50 |

11 Kate calculated her draft profit for the year at \$28 400.

She later discovered the following errors.

- 1 Rent prepaid by Kate was understated by \$1000.
- 2 Closing inventory was understated by \$1500.

What was the correct profit for the year?

- A** \$25 900 **B** \$27 900 **C** \$28 900 **D** \$30 900

12 A trader's bank statement showed a credit balance of \$2940. The following items had not been entered in the cash book.

| | \$ |
|------------------------|-----|
| bank interest received | 70 |
| credit transfer | 280 |

What was the debit balance in the cash book before it was updated?

- A** \$2590 **B** \$2730 **C** \$3150 **D** \$3290

13 What is a purpose of preparing a sales ledger control account?

- A** to identify irrecoverable debts
B to make fraud more difficult
C to provide the total owed to trade payables
D to show the total of cash and credit sales

14 George is preparing his purchases ledger control account.

Which information would he obtain from his general journal?

- A** contra entries with the sales ledger
B goods returned to credit suppliers
C irrecoverable debts written off
D refunds received from credit suppliers

- 15 A trader debited the cost of repairing office equipment to the office equipment account.

How did this error affect the financial statements?

| | profit for the year | non-current assets |
|----------|---------------------|--------------------|
| A | overstated | overstated |
| B | overstated | understated |
| C | understated | overstated |
| D | understated | understated |

- 16 Rashid provided the following information at 31 December.

| | \$ |
|---|--------|
| machinery at cost | 52 000 |
| provision for depreciation of machinery | 23 000 |

Depreciation for the year is calculated at 20% on cost.

After the statement of financial position was prepared it was found that the machinery repairs costing \$2000 had been debited to the machinery account.

What is the correct balance on the provision for the depreciation of machinery account?

- A** \$21000 **B** \$22600 **C** \$23400 **D** \$25000
- 17 A machine which cost \$32 000 was sold for \$14 000. The total depreciation at the date of disposal was \$15 000.

What was the profit or loss on disposal?

- A** \$3000 profit
B \$3000 loss
C \$18 000 profit
D \$18 000 loss

- 18 Beena maintains a provision for doubtful debts of 3% of the trade receivables at the end of each financial year.

On 1 September 2019 the provision for doubtful debts was \$900.

On 31 August 2020 the trade receivables amounted to \$42 800.

Which journal entry did Beena make on 31 August 2020?

| | | debit \$ | credit \$ |
|----------|--|-------------|--------------|
| A | income statement provision for doubtful debts | 384 | 384 |
| B | income statement provision for doubtful debts | 1284 | 1284 |
| C | provision for doubtful debts income statement | 384 | 384 |
| D | provision for doubtful debts income statement | 1284 | 1284 |

- 19 Nirmal sells two products, product G and product H.

The following information is available about his inventory at the end of the financial year.

| product | number of units | cost price per unit | net realisable value per unit |
|---------|-----------------|---------------------|-------------------------------|
| G | 1000 | \$2.00 | \$2.50 |
| H | 800 | \$1.50 | \$1.20 |

It was found that 100 units of product G were damaged and were unsaleable.

What was the total value of Nirmal's inventory?

- A** \$2760 **B** \$3000 **C** \$3260 **D** \$3460

- 20 What is **not** a service business?

- A** hairdressing salon
B accountant's practice
C supermarket
D computer repair shop

- 21 The financial year of Peter ends on 30 September. On 1 August 2020 Peter received rent \$1000. This covered the period from 1 July to 30 November 2020.

Which entry will be made in Peter's statement of financial position on 30 September 2020?

- A current asset \$400
- B current asset \$500
- C current liability \$400
- D current liability \$500

- 22 In addition to a share of the profit a partner receives interest on capital, a salary and is charged interest on drawings.

How are these recorded in the ledger accounts of the partner?

| | interest on capital | salary | interest on drawings |
|----------|------------------------|------------------------|------------------------|
| A | credit capital account | credit current account | debit capital account |
| B | credit current account | debit capital account | credit current account |
| C | credit current account | credit current account | debit current account |
| D | debit current account | debit current account | credit current account |

- 23 A sports club provided the following information.

| | \$ |
|--------------------------------|--------|
| subscriptions for the year | 26 800 |
| profit on sale of refreshments | 4 200 |
| depreciation | 1 500 |
| rent and insurance | 12 600 |
| wages | 3 200 |

What was the total income for the year?

- A \$15 800
- B \$17 300
- C \$22 600
- D \$31 000

24 A club was formed on 1 July 2019.

During the year ended 30 June 2020 subscriptions received from members totalled \$2500.

This included \$120 paid in advance for the next financial year. Subscriptions outstanding on 30 June 2020 amounted to \$280.

How much was recorded for subscriptions in the income and expenditure account for the year ended 30 June 2020?

- A \$2100 B \$2500 C \$2660 D \$2780

25 Anthony does not keep a full set of accounting records. He knows his opening and closing cash balances and wishes to calculate his cash sales.

Which item does Anthony **not** need in order to calculate his cash sales?

- A cash banked
B cash discount
C cash drawings
D cash expenses

26 A trader has not maintained a full set of accounting records.

How can she calculate the credit sales for the year?

- A receipts from credit customers + closing trade receivables – discount allowed – opening trade receivables
B receipts from credit customers – closing trade receivables + discount allowed + opening trade receivables
C receipts from credit customers – closing trade receivables – discount allowed + opening trade receivables
D receipts from credit customers + closing trade receivables + discount allowed – opening trade receivables

27 A trader made the following forecasts for the business for the next financial year.

| | |
|----------------------------|----------|
| average inventory | \$80 000 |
| rate of inventory turnover | 6 times |
| mark-up | 25% |

What are the forecast sales for the next financial year?

- A \$360 000 B \$480 000 C \$576 000 D \$600 000

28 A company provided the following information about its current ratio.

| | |
|--------|---------|
| year 1 | 2.3 : 1 |
| year 2 | 2.4 : 1 |
| year 3 | 2.5 : 1 |

What would explain the changes in the ratio?

- A Inventory is decreasing.
- B Other payables are increasing.
- C Other receivables are increasing.
- D Trade receivables are decreasing.

29 A trader wants to improve his gross margin.

How can this be done?

- A Reduce administrative expenses.
- B Reduce depreciation of equipment.
- C Reduce rate of cash discount allowed.
- D Reduce rate of trade discount allowed.

30 Meesha provided the following information for her first year of trading.

| | \$ |
|---|--------|
| sales (1000 units at \$10 each) | 10 000 |
| cost of sales (1000 units at \$4.50 each) | 4 500 |
| gross profit | 5 500 |

In her second year of trading, Meesha reduced the selling price and sold 1500 units. Her gross profit decreased by \$250. There was no change in the cost per unit.

What was the total value of sales in the second year of trading?

- A \$9750
- B \$10250
- C \$12000
- D \$12500

- 31 AB Limited and CD Limited both started business on 1 January 2019 with an ordinary share capital of \$100 000. Neither company had any debentures or loans.

Both companies had the same profit in 2019.

Only AB Limited paid a dividend.

The return on capital employed (ROCE) was calculated using closing capital employed.

Which statement about AB Limited's ROCE is correct when compared to that of CD Limited?

- A It is higher because the dividend reduced retained earnings.
- B It is lower because the dividend reduced capital employed.
- C It is lower because the dividend reduced the profit for the year.
- D It is the same as that of CD Limited.

- 32 Which interested party uses the financial statements of a business to assess current performance and plan for future activities?

- A banks
- B employees
- C government
- D managers

- 33 The special skills of the employees are not recorded in the financial statements of a business.

Which accounting principle is being applied?

- A historic cost
- B materiality
- C money measurement
- D realisation

- 34 How can a business comply with the accounting principle of prudence?

| | assets | losses |
|---|--------------------|--------------------|
| A | avoid overstating | avoid overstating |
| B | avoid overstating | avoid understating |
| C | avoid understating | avoid overstating |
| D | avoid understating | avoid understating |

- 35 What is **not** an aim of international accounting standards?
- A to ensure accounting standards in different countries agree
 - B to establish an organisation to set standards in every country
 - C to make it easier to compare companies' financial statements
 - D to reduce the variety of accounting practices worldwide

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