Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/11**

Paper 1 Multiple Choice **May/June 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.

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[Turn over

1 Which statement is correct?

A Accounting involves measuring profits and losses.

B Accounting is the recording of financial transactions.

C Book-keeping involves communicating financial data.

D Book-keeping requires the use of ratio analysis.

2 The balances remaining on the books of a business after the preparation of the income statement included the following.

	$
loan from XY Finance	10 000
wages due	620
rent prepaid	240
trade receivables	3 300
trade payables	4 650
motor vehicles	8 000
provision for depreciation of motor vehicles	2 000

What was the total of the liabilities?

A $13 920 **B** $14 890 **C** $15 270 **D** $17 270

3 On 2 April Nina received a cheque from Zaffar, a credit customer. On 12 April the cheque was returned unpaid by the bank.

What entry would Nina make on 12 April?

	account to be debited	account to be credited
A	irrecoverable debts	bank
B	irrecoverable debts	Zaffar
C	provision for doubtful debts	Zaffar
D	Zaffar	bank

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4 Ann is a trader. On 1 April Cindy's account in Ann's ledger showed a credit balance of $520. The following transactions took place during April.

April 2 Ann returned goods, $30, to Cindy.

14 Ann bought goods, $210, from Cindy, and paid in cash.

Which statement about the balance on Cindy's account in Ann's ledger on 30 April is correct?

A Ann owes Cindy $490.

B Ann owes Cindy $700.

C Cindy owes Ann $490.

D Cindy owes Ann $700.

5 Goods bought on credit by Tumelo from Tebogo are returned before they are paid for. Tumelo keeps a full double entry system.

Where will Tumelo record the return of goods?

A cash book and sales ledger

B general ledger only

C general ledger and purchases ledger

D purchases ledger only

6 Dave supplies goods to Peter on credit. On 1 April, Peter owed Dave $440. Dave sent or received the following documents in April.

		$
April 7	invoice	360
12	cheque (after deducting $11 cash discount)	429
13	debit note	50
15	credit note	50

What was the closing balance on the statement of account on 30 April?

A $260 **B** $310 **C** $321 **D** $421

7 What is recorded in the sales journal?

A all money received from sales

B all sales transactions

C cash sales transactions

D credit sales transactions

8 Which statement about a two-column cash book is correct?

A It is a ledger account for bank transactions only.

B It is a ledger account for cash transactions only.

C It is a book of prime entry.

D It records cash discounts.

9 Which statements about trade discount are correct?

1 It is debited to the supplier's account.

2 It is only given if the invoice is paid within the period allowed by the supplier.

3 It is shown as a deduction from the price of the goods on an invoice.

4 It is used to encourage bulk buying.

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

10 Why is a trial balance prepared?

A to analyse the financial information

B to assist preparation of financial statements

C to control the costs of the business

D to evaluate the performance of the business

11 The income statement of a business showed a loss for the year of $16 000. On checking the books the following errors were discovered.

1 No adjustment had been made for insurance prepaid, $480.

2 No entry had been made for bank charges, $620.

What was the correct loss for the year?

A $14 900 **B** $15 860 **C** $16 140 **D** $17 100

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12 Peter's bank statement showed a debit balance of $600 on 1 April. The following transactions took place in April.

	$
total cheque deposits	7400
total cheque payments	6200
direct debit for insurance premium	180
credit transfer from customer	450

What was the bank statement balance on 30 April?

A $870 credit

B $870 debit

C $2070 credit

D $2070 debit

13 A sales ledger control account had a debit balance of $10 000.

It was found that a $2000 contra entry to the purchases ledger control account had been entered on the wrong side of the sales ledger control account.

What was the correct debit balance on the sales ledger control account?

A $6000 **B** $8000 **C** $12 000 **D** $14 000

14 A business had a new extension to its workshop premises. It incurred the following expenditure.

	$
building cost	65 000
legal fees	1 800
air conditioning system for the original workshop	2 300
air conditioning system for the new workshop extension	1 100
decorating the original workshop	1 400
decorating the new workshop extension	800

What was the total capital expenditure of the business?

A $67 900 **B** $70 200 **C** $71 000 **D** $72 400

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15 A non-current asset was depreciated at the end of the first year of ownership using the straight-line method based on the following information.

cost	$20 000
working life	4 years
residual value	$4000

It was then found that the reducing balance method at 30% per annum should have been used.

What was the effect on the profit for the year of **correcting** this error?

A decrease by $2000

B increase by $2000

C decrease by $6000

D increase by $6000

16 A company's financial year ended on 31 December 2019. On 1 December 2019 it paid rent, $8000, for the four months ending 31 March 2020.

What was the opening balance on the rent account on 1 January 2020?

A $2000 credit

B $2000 debit

C $6000 credit

D $6000 debit

17 Alice's financial year ends on 31 December.

The balances on her books on 1 January 2020 included the following.

	$
commission receivable	250 debit
rent receivable	500 credit

What do these balances represent?

	commission receivable	rent receivable
A	income outstanding	income outstanding
B	income outstanding	income prepaid
C	income prepaid	income outstanding
D	income prepaid	income prepaid

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18 Joseph sells goods on credit and maintains a provision for doubtful debts. He wants to increase his provision for doubtful debts by $250.

Which journal entry records an increase in the provision for doubtful debts?

		debit $	credit $
A	credit customer	250	
	income statement		250
B	income statement	250	
	credit customer		250
C	income statement	250	
	provision for doubtful debts		250
D	provision for doubtful debts	250	
	income statement		250

19 Which items are deducted from the gross profit when calculating the profit for the year?

1 balance on the provision for doubtful debts account

2 carriage paid on goods supplied to customers

3 drawings made by the owner during the year

4 wages paid to employees during the year

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

20 On 31 December 2019 John had net assets of $2000 and capital of $2000.

On 1 January 2020, goods costing $140 were sold on credit for $220.

What was the effect of this transaction on the statement of financial position?

	net assets	capital
	$	$
A	80 decrease	80 decrease
B	80 increase	80 increase
C	220 decrease	220 decrease
D	220 increase	220 increase

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21 At the end of his financial year, Raminder made an adjustment for rent owed by a tenant.

How did this affect Raminder's financial statements?

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

22 The owner of a business took goods for his own use but forgot to make an entry in the accounts.

What was the **effect** of this error?

	profit for the year	capital employed
A	overstated	no effect
B	overstated	understated
C	understated	no effect
D	understated	overstated

23 Rajid and Sunil formed a partnership on 1 January 2019 but did not prepare a partnership agreement.

They provided the following information.

	Rajid	Sunil
capital introduced 1 January 2019	$40 000	$20 000
during the year ended 31 December 2019		
drawings	$5 000	$3 500
share of work	50%	50%

They decided to draw up a partnership agreement for future years.

Which item would be most beneficial to Rajid in 2020?

A interest on capital

B interest on drawings

C limit on annual drawings

D partnership salaries

24 Harry and Jane are in partnership. The following information relates to Harry for the financial year.

	$
salary	8000
drawings	2800
share of profit	4600

The opening credit balance on Harry's current account was $28 200.

What was the closing balance on his current account?

A $30 000 **B** $38 000 **C** $40 800 **D** $43 600

25 Which item is shown in the income statement of a company **and** statement of changes in equity?

A interest on debentures accrued

B ordinary share dividend paid

C profit for the year

D transfer to general reserve

26 Hassan's capital decreased by $200 over the year, even though he made a profit of $7000.

Which transactions caused this?

	capital introduced $	drawings $
A	1000	8200
B	1200	6000
C	2000	8800
D	2200	4600

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27 Ahmed provided the following information.

	$
trade receivables at 1 January 2019	15 000
for the year ended 31 December 2019:	
credit sales	85 000
cash sales	12 000
cheques received from trade receivables	65 000
irrecoverable debts	2 000

By how much had the trade receivables **increased** by the end of the financial year?

A $18 000 **B** $30 000 **C** $33 000 **D** $45 000

28 Gordon provided the following information for the year.

revenue	$90 000
opening inventory	$8 000
closing inventory	$2 000
mark up	50%

Gordon took goods, $7000, for his own use.

What were the purchases?

A $43 000 **B** $47 000 **C** $54 000 **D** $61 000

29 A trader provided the following information.

	$
for the year ended 31 March 2020	
revenue	250 000
purchases: cash	125 000
credit	115 000
at March 2020	
trade payables	9 765

What was the trade payables turnover?

A 14 days **B** 15 days **C** 29 days **D** 31 days

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30 On 1 January 2019 current assets totalled $16 000 and the current ratio was 2 : 1.

On 31 December 2019 the current liabilities had increased by 50% and the current ratio was 1.5 : 1.

What was the value of the current assets on 31 December 2019?

A $16 000 **B** $18 000 **C** $32 000 **D** $36 000

31 A company provided the following information about its liquid (acid test) ratio.

Year 1 1.2 : 1

Year 2 1.4 : 1

Year 3 1.6 : 1

Which would explain the changes in the ratio?

A Inventory is increasing.

B Other payables are decreasing.

C Trade payables are increasing.

D Trade receivables are decreasing.

32 Which user of accounting statements is interested in past performance and taking remedial action where necessary?

A government

B investors

C managers

D suppliers

33 Rashid's financial year ends on 31 December. He paid rent on 1 February, 1 May, 1 August and 1 November.

An adjustment was made in the income statement for rent prepaid.

Which accounting principle was applied?

A duality

B matching

C money measurement

D prudence

34 Which statement describes the going concern principle?

A Accounting methods must be used consistently from one accounting period to the next.

B It is assumed that the business will continue to operate for the foreseeable future.

C Revenue is earned when legal title to goods passes from the seller to the buyer.

D The business is treated as being completely separate from the owner of the business.

35 Brad purchased a machine for $1000 on 1 January 2019. The machine was expected to last for four years and have no residual value. On 31 December 2019 the same machine cost $1200 to purchase.

At which value should the machine be included in the statement of financial position on 31 December 2019?

A current cost with no depreciation

B current cost with one year's depreciation

C original purchase price with no depreciation

D original purchase price with one year's depreciation

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