Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

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 are examples of book-keeping?

1 entering details of a cheque received from a customer in a cash book

2 entering details of goods purchased on credit in a purchases journal

3 producing an income statement to calculate the profit for the year

4 recording details of credit sales in the account of a credit customer

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

2 How does a trader use the information provided by financial statements?

A to calculate the amount of cash drawings taken

B to calculate the amount that is owed by trade receivables

C to check the balance shown on a bank statement

D to compare the business performance over a number of years

3 A trader bought new fixtures. He paid half of the purchase price in cash and agreed to pay the balance in two months' time.

How does this purchase affect the accounting equation?

	assets	owner's equity	liabilities
A	decrease	decrease	no effect
B	decrease	no effect	increase
C	increase	decrease	increase
D	increase	no effect	increase

4 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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5 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.

6 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

7 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

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8 A business sold goods with a list price of $50 each.

The terms of trade were:

trade discount for more than 20 items bought	10%
cash discount if customer pays within 30 days	4%

How much was received in full settlement from a customer who bought 25 items and paid after 35 days?

A $900 **B** $1075 **C** $1125 **D** $1200

9 Paul rents premises from John and pays the rent by credit transfer.

How would John record this?

	account debited	account credited
A	bank	rent receivable
B	cash	rent receivable
C	rent receivable	bank
D	rent receivable	cash

10 Sita discovers that $1000 received from the sale of fixtures had been entered in the sales account.

Which journal entry corrected this error?

		debit $	credit $
A	bank	1000	
	disposal of fixtures		1000
B	bank	1000	
	fixtures		1000
C	sales	1000	
	disposal of fixtures		1000
D	sales	1000	
	fixtures		1000

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11 The totals of a trial balance did not agree and $200 was debited to a suspense account. On checking the books it was found that two errors had been made.

1 A sales invoice for $700 had been recorded in the sales journal as $770.

2 The sales journal had been totalled incorrectly.

What was the error made in totalling the sales journal?

A overcast by $130

B overcast by $200

C undercast by $130

D undercast by $200

12 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

13 What would result in a cash book balance being lower than the balance showing on a bank statement?

A A cheque received from a customer was not recorded in the bank statement.

B A customer's cheque dishonoured by the bank appeared only on the bank statement.

C Payment by a customer directly into the bank was not recorded in the cash book.

D Payment of insurance by standing order was not recorded in the cash book.

14 Thembi is preparing her sales ledger control account. She needs to know:

1 The total for goods which have been returned by credit customers.

2 The amount owed by credit customers which have been written off as irrecoverable.

Where can she obtain this information?

	goods returned	irrecoverable debts
A	purchase returns account	irrecoverable debts account
B	purchase returns journal	general journal
C	sales returns account	irrecoverable debts account
D	sales returns journal	general journal

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15 The following payments were made when a new machine was purchased.

	$
cost of the machine	32 000
charge for delivering the machine	1 800
insurance of the machine	2 000
wages of employees installing the machine	1 300

How much was the capital expenditure?

A $32 000 **B** $33 300 **C** $35 100 **D** $37 100

16 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

17 Elzevir purchased a motor vehicle costing $8000 on 1 January 2018. It is depreciated at 40% on the reducing balance basis.

Which journal entry records the depreciation for the year ended 31 December 2019?

		debit	credit
A	income statement provision for depreciation of motor vehicles	1920	1920
B	income statement provision for depreciation of motor vehicles	3200	3200
C	provision for depreciation of motor vehicles motor vehicles	1920	1920
D	provision for depreciation of motor vehicles motor vehicles	3200	3200

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18 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

19 Annual rental income due from Kumar, a tenant, is $3600. At the start of the year Kumar had prepaid rent of $900. At the end of the year he owed two months' rent.

How much rent was received from Kumar during the year?

A $2100 **B** $3300 **C** $3900 **D** $5100

20 Joel's inventory on 31 December 2019 was valued at $4800. It was discovered that:

1 Goods, cost $100, had not been included.

2 Goods, cost $170, had been included at net realisable value $210.

What was the **effect** of the **incorrect** inventory valuation on Joel's financial statements at 31 December 2019?

	profit for the year	$	inventory	$	equity	$
A	overstated	40	understated	40	nil	
B	overstated	60	understated	60	nil	
C	understated	40	understated	40	understated	40
D	understated	60	understated	60	understated	60

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21 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

22 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

23 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

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24 The statement of financial position of X Limited at 31 December 2018 included the following:

	$
ordinary share capital	40 000
general reserve	8 000
retained earnings	65 000
8% debentures (repayable 2025)	30 000

Profit for the year ended 31 December 2019 was $42 000 and dividends paid totalled $10 000.

What was the total equity on 31 December 2019?

A $137 000 **B** $145 000 **C** $155 000 **D** $175 000

25 Which is a feature of debentures?

A are a long-term liability of a company

B carry a fixed rate of dividend

C carry voting rights

D on liquidation are paid back after shareholders

26 Which cost is part of the prime cost for a manufacturing business?

A carriage inwards

B carriage outwards

C factory rent

D factory supervisor's salary

27 A manufacturing business provided the following information.

	$
prime cost	236 000
factory overheads	42 000
opening work in progress	8 000
closing work in progress	6 000

What was the factory cost of production?

A $234 000 **B** $238 000 **C** $276 000 **D** $280 000

28 A trader provided the following information.

	$
trade receivables at start of the year	5 000
trade receivables at end of the year	8 500
cash received from trade receivables	34 700
irrecoverable debts written off	200
discount allowed	185

What was the amount of the credit sales?

A $38 200 **B** $38 385 **C** $38 400 **D** $38 585

29 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

30 Sabelo's liquid (acid test) ratio was higher on 1 January 2019 than it was on 31 December 2019.

What could have caused this?

A bank overdraft decreased

B inventory decreased

C other payables decreased

D trade receivables decreased

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31 The following ratios have been calculated for a trader.

	year 1	year 2
profit margin	15%	20%
return on capital employed (ROCE)	9%	6%

What explains these changes?

A Drawings have increased by more than profit for the year.

B Gross profit has increased but profit for the year has decreased.

C Profit for the year has increased and capital has been introduced.

D Profit for the year has increased and a long-term loan has been repaid.

32 Which external parties would be interested in the accounting ratios of a business?

A government

B investors

C managers

D tax authorities

33 At the end of the financial year, a company did not account for the unused stationary valued at $50.

Which accounting principle did the company apply?

A matching

B materiality

C money measurement

D prudence

34 A trader wrote off the balance on a credit customer's account as irrecoverable.

Which accounting principle was applied?

A business entity

B consistency

C money measurement

D prudence

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35 A limited company applied the accounting objective of comparability in preparing its financial statements.

What is the effect of this on the interested parties?

A They can be sure that information in the financial statements is up to date.

B They can identify similarities with the financial statements of other businesses.

C They can understand the financial statements easily.

D They can use the financial statements in decision-making.

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