Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

Paper 1 Multiple Choice **May/June 2021**

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.
- Any rough working should be done on this question paper.

This document has **12** pages. Any blank pages are indicated.

© UCLES 2021

1 Which statements about book-keeping and accounting are correct?

1 Accounting is performed periodically rather than daily.

2 Accounting relies on having accurate book-keeping records.

3 Book-keeping includes the preparation of financial statements.

4 Book-keeping involves the recording of financial transactions.

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

2 What increases owner's capital?

A bank loan extended from five to ten years

B purchase of inventory on credit

C purchase of machinery by cheque

D transfer of vehicle to business from private use

3 William paid $500 in cash to Sonia for rent.

How did Sonia record this?

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

4 Abdul buys all his machinery on credit. He provided the following information.

	at 30 April 2020 $	at 30 April 2021 $
machinery at cost	30 000	42 000
amounts owing to suppliers of machinery	19 000	?

During the year Abdul paid $25 000 to the suppliers of his machinery.

How much did he owe them on 30 April 2021?

A $6000 **B** $13 000 **C** $17 000 **D** $32 000

© UCLES 2021

5 Shula's financial year ends on 31 March. On 1 April 2021 there was a credit balance of $100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

A Shula had paid $100 to Yasmin.

B Shula owed $100 to Yasmin.

C Yasmin had paid $100 to Shula.

D Yasmin owed $100 to Shula.

6 Hasina buys radios from Nazneen at a list price of $10 each. Hasina bought 12 radios and was offered 20% trade discount and 4% cash discount. Two radios were faulty and were returned to Nazneen.

What was the total of the credit note issued by Nazneen?

A $15.36 **B** $16.00 **C** $19.20 **D** $20.00

7 Jameel sold goods on credit.

Where did he first record the invoice he issued?

A general journal

B general ledger

C sales journal

D sales ledger

8 Which statements about a three-column cash book are correct?

1 It contains ledger accounts for bank and cash.

2 It contains ledger accounts for discounts allowed and received.

3 It records transactions before they are recorded in the ledgers.

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

9 Which statement is **not** true about a trial balance?

A It is a list of ledger account balances at a certain date.

B It can assist in finding arithmetical errors.

C It is part of the double entry system.

D It is useful in preparing financial statements.

10 Which error is an error of original entry?

A sale of surplus office equipment on credit to Janet for $230 entered as $320 in both the disposal account and Janet's account

B sale of surplus office equipment on credit to Janet for $230 entered in the office equipment account and Jason's account

C sale of surplus office equipment on credit to Janet for $230 entered in the sales account and Janet's account

D sale of surplus office equipment on credit to Janet for $230 not entered in any accounts

11 A cheque, $85, received from Shakeel, was credited to the account of Shamz.

Which journal entry corrects this error?

		debit $	credit $
A	bank	85	
	Shakeel		85
B	Shakeel	85	
	Shamz		85
C	Shamz	85	
	bank		85
D	Shamz	85	
	Shakeel		85

12 Jamal's bank statement at 1 May 2021 showed a bank overdraft of $1460.

At that date there were unpresented cheques of $385 and uncredited deposits of $255.

What was the cash book balance on 1 May 2021?

A $1330 credit

B $1330 debit

C $1590 credit

D $1590 debit

13 What is included in a purchases ledger control account?

A cash purchases

B debts written off as irrecoverable

C discount allowed

D goods returned to credit suppliers

© UCLES 2021

14 Javid's sales ledger control account had a debit balance of $12 000. Interest on an overdue account, $40, and discount allowed, $150, had been omitted.

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

A $11 810 **B** $11 890 **C** $12 110 **D** $12 190

15 Which statements about capital expenditure are correct?

1 It is money spent on day-to-day business operations.

2 It is money spent on purchasing non-current assets.

3 It is recorded in the statement of financial position.

4 It includes expenses relating to non-current assets.

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

16 Nia sold equipment with a net book value of $200. The proceeds of the sale, $250, were credited to the sales account and debited in the cash book.

What was the **effect** of this error on Nia's gross profit and profit for the year?

	gross profit	$	profit for the year	$
A	overstated	50	overstated	50
B	overstated	200	understated	250
C	overstated	250	overstated	200
D	understated	250	understated	200

17 Why does a business provide for depreciation on non-current assets?

A to charge the cost of non-current assets against profit in the year of purchase

B to ensure that non-current assets appear at book value in the statement of financial position

C to ensure that the matching principle is applied when preparing financial statements

D to retain cash in the business for replacement of non-current assets

18 A machine with an original cost of $10 000 had been depreciated for two years at the rate of 10% per annum using the straight-line basis. It was then sold for cash with the loss on disposal amounting to $700.

A replacement machine was bought on the same day for $12 400 cash.

What was the net decrease in the cash balance?

A $3700 **B** $5100 **C** $11 700 **D** $13 100

© UCLES 2021

19 Why would a bakery business **not** include a value for inventory of stationery in the statement of financial position?

A It was expected it would be used in the next few months.

B It was purchased regularly and paid for in cash.

C It was not for resale.

D It was of very low value.

20 Shilpa's financial year ends on 30 April. On 31 March 2021 she wrote off a debt owed by Tahir as irrecoverable.

Which entry did Shilpa make on 31 March 2021?

	debit	credit
A	income statement	Tahir
B	irrecoverable debts	income statement
C	irrecoverable debts	Tahir
D	Tahir	irrecoverable debts

21 How should inventory be valued?

A cost

B higher of cost and net realisable value

C lower of cost and net realisable value

D net realisable value

22 James is an accountant and operates as a sole trader.

Which items would **not** appear in his statement of financial position?

1 long-term loan

2 retained earnings

3 trade payables

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

© UCLES 2021

23 Zaha is a consultant who receives fees from clients.

How would Zaha calculate his profit for the year?

A fees received – cost of sales

B fees received – cost of sales + expenses

C fees received + expenses

D fees received – expenses

24 What is added to owner's capital to calculate capital employed?

A current assets

B current liabilities

C non-current assets

D non-current liabilities

25 What is an advantage of forming a partnership?

A Decisions have to be recognised by all partners.

B Each partner is responsible for actions of other partners.

C Profits have to be shared among the partners.

D Responsibilities can be shared between the partners.

26 Ann and Ben are in partnership sharing profits and losses equally.

They provided the following information for the year ended 30 April 2021.

		$
profit for the year		20 000
interest on capital:	Ann	5 000
	Ben	4 000
drawings:	Ann	8 000
	Ben	7 000

What was Ben's share of the residual profit?

A $5500 **B** $10 000 **C** $13 000 **D** $14 500

27 Which statement about a receipts and payments account is **incorrect**?

A It includes amounts prepaid at the end of the year.

B It shows the surplus for the year.

C Non-monetary items are excluded.

D The balance represents cash and bank balances.

28 How does a manufacturer calculate prime cost?

A direct material + direct labour

B direct material + direct labour + direct expenses

C direct material + direct labour + direct expenses + factory overheads

D direct material + direct labour + factory overheads

29 Nula provided the following information for the year ended 31 March 2021.

	$
drawings for the year	3 900
net assets at 1 April 2020	60 500
net assets at 31 March 2021	72 275

What was the profit or loss for the year ended 31 March 2021?

A $7875 loss

B $7875 profit

C $15 675 loss

D $15 675 profit

30 A trader provided the following information.

	$
cost of sales	80 000
expenses	4 000
profit for the year	16 000

What was the profit margin?

A 16% **B** 20% **C** 21.05% **D** 26.67%

© UCLES 2021

31 A trader provided the following information.

	$	$
revenue		3600
opening inventory	100	
purchases	2600	
	2700	
closing inventory	300	2400
gross profit		1200

It was found that the closing inventory should have been $400.

What was the correct rate of inventory turnover?

A 6 times

B 8 times

C 9.2 times

D 14.4 times

32 Sally's business has reached the overdraft limit set by the bank of $1500 and is not able to pay its debts when they fall due.

Sally is considering the following proposals.

1 asking the bank to increase the bank overdraft limit to $2000

2 borrowing $2000 from a relative and paying the money back in six months

3 obtaining a loan from the bank of $2000 repayable in two years

4 paying $2000 from Sally's personal bank account into the business bank account

Which proposals will improve the working capital of the business?

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

© UCLES 2021

33 Company X and Company Y provided the following information.

	Company X	Company Y
gross margin	36.7%	42.6%
profit margin	5.4%	5.4%

Which statement is correct?

A Both companies earned the same amount of profit for the year.

B Company X had a better gross margin than Company Y.

C Company Y had a larger proportion of expenses than Company X.

D The cost of sales of Company X was lower than that of Company Y.

34 The current ratio of X is 2 : 1. The current ratio of Y is 1.3 : 1.

What does a comparison of these ratios show?

A X has fewer liabilities than Y.

B X has more liquidity than Y.

C Y has fewer current assets than X.

D Y has more inventory than X.

35 Which international accounting objectives are described by the following statements?

1 Information in financial statements must be free from material error and bias.

2 Users must be able to identify differences and similarities between information in different financial statements.

	statement 1	statement 2
A	comparability	understandability
B	reliability	comparability
C	reliability	understandability
D	understandability	reliability

© UCLES 2021

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which itself is a department of the University of Cambridge.

© UCLES 2021