Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

Paper 1 Multiple Choice **May/June 2022**

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.

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[Turn over

1 Which task would be carried out by a book-keeper?

A comparison of financial statements between years

B preparation of financial statements

C provision of information for decision-making

D recording financial transactions

2 The following ledger account appeared in the books of Leah, a trader.

Amraz account					
		$			$
April 26	purchases returns	150	April 1	balance b/d	2100
30	bank	1900	20	purchases	3000
	discount	100			
	balance c/d	2950			
		5100			5100

Which statement is correct?

A Amraz allowed Leah $100 trade discount on 30 April.

B Amraz owed Leah $2100 on 1 April.

C Leah owed Amraz $2950 on 30 April.

D Leah's net purchases from Amraz in April were $2900.

3 Sarah sold goods on credit to Zafar.

How was this recorded in Sarah's ledgers?

	general ledger		sales ledger	
A	credit	sales account	debit	Zafar account
B	debit	sales account	credit	Zafar account
C	credit	Zafar account	debit	sales account
D	debit	Zafar account	credit	sales account

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4 Omar sent a credit note to Miriam for goods returned.

How would Miriam record this transaction?

	account to be debited	account to be credited
A	purchases returns	Omar
B	sales returns	Miriam
C	Omar	purchases returns
D	Miriam	sales returns

5 Ben sold goods to David for $900 cash.

In which book of prime entry would David record this transaction?

A cash book

B general journal

C purchases journal

D sales journal

6 A petty cashier received $100 from the chief cashier and $10 from an employee who had made private calls on the business telephone.

How would these amounts be recorded in the petty cash book and the cash book?

	debit petty cash book $	credit petty cash book $	debit cash book $	credit cash book $
A	0	110	100	0
B	10	100	0	100
C	100	10	0	100
D	110	0	0	100

7 What is an example of a compensating error?

A A payment for office equipment repairs was debited to the office equipment account.

B A purchase of goods from C Jones was credited to the account of C Johns.

C The sale of goods, $65, to A Aziz was entered in the books as $56.

D The wages account was undercast by $100 and the rent account was overcast by $100.

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8 After the preparation of Abdul's draft financial statements, two errors were discovered.

The purchase of a machine by bank transfer, $5000, was omitted from the accounts.

The purchase of a motor vehicle, $15 000, was entered in the motor vehicle repair account.

What effect will **correcting** these errors have on the non-current assets and the working capital?

	non-current assets	working capital
	$	$
A	increase 15 000	decrease 5000
B	increase 15 000	no effect
C	increase 20 000	decrease 5000
D	increase 20 000	no effect

9 Why is a sales ledger control account usually prepared by a different member of staff than the person who maintains the sales ledger?

A to deter fraud

B to locate errors

C to provide an instant total of trade receivables

D to speed production of financial statements

10 What would be recorded on the credit side of a sales ledger control account?

A cash refunded to credit customers

B credit sales

C interest charged on overdue accounts

D sales returns

11 Maria's draft income statement for the year ended 31 March 2022 showed a profit for the year of $38 750.

On 31 December 2021, Maria received a 5% bank loan of $4800 which was incorrectly treated as a revenue receipt.

In error, a whole year's interest on the bank loan was included in the draft income statement for the year ended 31 March 2022.

What was the correct profit for the year ended 31 March 2022?

A $33 770 **B** $34 130 **C** $43 370 **D** $43 730

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12 Which statement about the reducing balance method of depreciation is **not** correct?

A A lower amount of depreciation is charged in the early years of the asset's life than in the later years.

B Each year a given percentage is deducted from the cost of the asset less the depreciation to date.

C It is used for assets which give greater benefits in the early years of their life.

D The net book value of the non-current asset will never reach a nil value.

13 The financial year of Yeung ends on 31 March. On 1 April 2021, he purchased a machine for $4000.

He estimated that it would have a useful working life of 3 years and a residual value of $100. Yeung uses the straight-line method of depreciation.

The machine was sold on 1 April 2022 for $1500.

What was the loss on disposal?

A $1100 **B** $1200 **C** $2400 **D** $2500

14 On 1 April 2021, commission receivable, $210, was outstanding. Commission received during the year ended 31 March 2022 amounted to $4850.

Which journal entry should have been made at the end of the financial year on 31 March 2022?

		debit $	credit $
A	commission receivable	4640	
	income statement		4640
B	commission receivable	5060	
	income statement		5060
C	income statement	4640	
	commission receivable		4640
D	income statement	5060	
	commission receivable		5060

15 Nula's financial year ends on 31 December. She maintains a provision for doubtful debts of 5% of trade receivables.

On 1 January 2021, the provision amounted to $800. On 31 December 2021, trade receivables owed $13 400, of which $600 was regarded as irrecoverable.

How much was the provision for doubtful debts on 1 January 2022?

A $600 **B** $640 **C** $660 **D** $670

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16 After the financial statements for the year ended 30 April 2022 had been prepared, a trader discovered that the closing inventory had been over-valued.

What will be the **effect** of this error?

	profit for the year ended 30 April 2022	capital on 30 April 2022	profit for the year ending 30 April 2023
A	overstated	overstated	understated
B	overstated	understated	no effect
C	understated	no effect	no effect
D	understated	understated	overstated

17 Mariam owns a business providing accounting services. She provided the following information for the financial year ended 31 March 2022.

	$
fees owed by clients on 1 April 2021	4 500
fees received from clients during the year ended 31 March 2022	22 500
fees owed by clients on 31 March 2022	1 500

What was the amount of fees shown in the income statement for the year ended 31 March 2022?

A $19 500 **B** $22 500 **C** $25 500 **D** $28 500

18 Which item would **not** appear in the appropriation account of a partnership?

A interest charged on partners' drawings

B interest paid on loans from partners

C interest paid on partners' capital

D salaries paid to partners

19 Carol and Denise are in partnership sharing profits and losses in the ratio 2 : 1.

Denise's current account balances were as follows.

at 1 May 2021 $2000 debit

at 1 May 2022 $7000 credit

She had made no drawings during the year.

What was the total profit made by the partnership in the year ended 30 April 2022?

A $9000 **B** $15 000 **C** $18 000 **D** $27 000

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20 Which statements are correct?

1 A debenture holder of a limited company is liable for the debts of the company.

2 A partner is liable to pay business debts from personal assets.

3 A shareholder of a limited company is responsible for the company's debts.

4 A sole trader is responsible for all the debts of his business.

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

21 The draft financial statements of a limited company showed retained earnings of $31 820. It was then found that no adjustment had been made for the following.

	$
commission receivable accrued	450
insurance prepaid	175

What was the correct amount of the retained earnings?

A $31 195 **B** $31 545 **C** $32 095 **D** $32 445

22 Which statement about club accounts is correct?

A Capital and revenue transactions are recorded in the income and expenditure account.

B Non-cash transactions are recorded in the income and expenditure account.

C Only revenue transactions are recorded in the receipts and payments account.

D The closing balance in the receipts and payments account represents a surplus or deficit.

23 A sports club provided the following information for the financial year ended 31 December 2021.

	$
1 January 2021 subscriptions paid in advance	200
31 December 2021 subscriptions outstanding	450
subscriptions received during the year	8800

What was the total of the subscriptions that related to the year ended 31 December 2021?

A $8150 **B** $8550 **C** $9050 **D** $9450

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24 The work in progress of ZT Manufacturers on 1 January was valued at $6200. At the end of the year it was valued at $5400.

What was the effect on the cost of production for the year?

A decrease $800

B decrease $11 600

C increase $800

D increase $11 600

25 A manufacturing company provided the following information.

	$
cost of production	345 000
finished goods 1 January 2021	42 000
31 December 2021	36 000
purchases of finished goods	15 000

What was the cost of sales?

A $324 000 **B** $336 000 **C** $351 000 **D** $366 000

26 Tahir provided the following information for his first year of trading.

	$
sales	170 000
sales returns	6 000
purchases	129 000

Tahir's gross margin was 25%.

What was the value of closing inventory?

A $1000 **B** $2200 **C** $6000 **D** $7500

27 A business provided the following information.

opening inventory	$6800
closing inventory	$6000
rate of inventory turnover	5 times

What were the purchases for the year?

A $29 200 **B** $31 200 **C** $32 000 **D** $32 800

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28 A trader provided the following information at the end of the financial year.

	$
revenue	80 000
gross profit	20 000
expenses	12 000

What was the profit margin?

A 10% **B** 15% **C** 25% **D** 40%

29 A trader provided the following information.

	$
profit for the year	24 000
working capital	20 000
capital	120 000
non-current liability	30 000

What was the return on capital employed?

A 14.12% **B** 16.00% **C** 17.14% **D** 20.00%

30 Samuel, a trader, decided to issue statements of account each month.

Which ratio does Samuel hope to improve by doing this?

A current ratio

B liquid (acid test) ratio

C trade payables turnover

D trade receivables turnover

31 John's rate of inventory turnover was 10 times in year 1 and 8 times in year 2.

What may have caused the change in the rate of inventory turnover?

A fall in demand

B higher sales

C lower inventory levels

D lower selling price

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32 Maya had annual revenue of $100 000.

In year 1, her gross margin was 45% and her profit margin was 5%.

In year 2, her gross margin was 40% and her profit margin was 3%.

What happened to Maya's cost of sales and expenses in year 2?

	cost of sales	expenses
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

33 Why would a bank manager be interested in the financial statements of a business?

A to calculate and assess the trade payables turnover

B to check that the correct amount of tax is being paid

C to ensure that employees are being paid the correct hourly rate

D to ensure that funds are sufficient to cover loan interest

34 'Revenue should only be regarded as earned when the legal title of goods and services passes from the seller to the buyer.'

To which accounting principle does this statement refer?

A going concern

B matching

C money measurement

D realisation

35 'The information provided in financial statements should be capable of being independently verified.'

To which accounting policy does this statement refer?

A comparability

B relevance

C reliability

D understandability

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