Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

Paper 1 Multiple Choice **May/June 2023**

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.

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1 What is the main function of book-keeping?

A communicating information

B interpreting information

C recording information

D summarising information

2 Which components of a statement of financial position do descriptions 1, 2 and 3 relate to?

1 finance and other resources that have been provided by the owner

2 money owed for goods supplied, unpaid expenses and loans made to the business

3 property owned by the business, amounts owed by customers, unsold goods and money in the bank

	1	2	3
A	assets	capital	liabilities
B	assets	liabilities	capital
C	capital	assets	liabilities
D	capital	liabilities	assets

3 A cheque received from Kate, a credit customer, was dishonoured.

How was this dishonoured cheque recorded?

	account debited	account credited
A	bank	Kate
B	Kate	bank
C	Kate	sales
D	sales	Kate

4 What does the sales ledger of a business contain?

A accounts of trade payables

B accounts of trade receivables

C sales account

D sales ledger control account

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5 Which action is an example of double entry book-keeping?

A making a journal entry to record the correction of an error made in the ledger

B making entries in the sales journal and the sales ledger to record goods sold on credit

C recording a cheque paid to a trade payable in the cash book and purchases ledger

D recording the purchase of goods on credit in the purchases journal and purchases account

6 What is true about cash discounts received?

	they are recorded in the cash book	they increase profit for the year
A	✓	✓
B	✓	✗
C	✗	✓
D	✗	✗

7 Tahir prepared a trial balance. He entered both the balance on the discount allowed account, $900, and the bank overdraft, $750, in the wrong column.

Which total of the trial balance was higher and what was the amount of the difference between the debit total and the credit total?

	total that was higher	amount of difference $
A	credit column	300
B	credit column	1650
C	debit column	150
D	debit column	3300

8 Goods sold on credit to J Sharp were debited in error to the account of T Sharpe.

Which type of error has been made?

A commission

B complete reversal

C original entry

D principle

9 Khalid made entries in a suspense account to correct two errors found in his ledger accounts. Once the errors were corrected, the suspense account was closed.

error 1 $700 sales had been omitted from the sales account.

error 2 The purchases journal had been overcast by $550.

Which entry was made in the suspense account to balance the trial balance?

A credit $150

B credit $1250

C debit $150

D debit $1250

10 Maya depreciates her motor vehicle at 25% per annum using the straight-line method.

The motor vehicle cost $15 000.

The depreciation for the current financial year was incorrectly calculated at 15% per annum.

How will correcting the error affect the profit for the year?

A decrease $1500

B decrease $2250

C increase $1500

D increase $2250

11 Waseem received a bank statement. He found that the bank had charged interest twice in error and that a dividend had been received on an investment.

Waseem then updated the cash book and prepared a bank reconciliation statement.

Where did he record these two items?

	bank error	dividend
A	bank reconciliation statement	bank reconciliation statement
B	bank reconciliation statement	updated cash book
C	updated cash book	bank reconciliation statement
D	updated cash book	updated cash book

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12 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

13 On 1 August, the sales ledger control account had a debit balance of $1800.

During August, a debt of $200 was written off as irrecoverable and $10 000 was received from credit customers. On 31 August, the credit customers owed $3000.

What was the total of credit sales in August?

A $7200 **B** $11 200 **C** $11 400 **D** $11 600

14 A wholesaler had the following transactions.

sold goods, $30 000, on credit

received cheque, $12 000, from sale of old fixtures at book value

How would these amounts be classified?

	revenue receipt $	capital receipt $
A	nil	42 000
B	12 000	30 000
C	30 000	12 000
D	42 000	nil

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 A business bought two assets, X and Y, on 1 January 2022, for $2000 each.

It depreciates asset X by 10% per annum using the straight-line method, and asset Y by 10% per annum using the reducing balance method.

Which statements are correct?

	asset X will be fully depreciated before asset Y	in 2022 the depreciation charge is lower for asset X than for asset Y
A	incorrect	incorrect
B	incorrect	correct
C	correct	incorrect
D	correct	correct

17 Ravi's financial year ends on 30 April.

Ravi bought a motor vehicle for $8000 on 1 May 2020 and sold it for $4050 on 1 May 2022.

He uses the reducing balance method of depreciation at 20% per annum.

What would be recorded in the income statement for the year ended 30 April 2023 for the disposal of the motor vehicle?

A $750 loss

B $750 profit

C $1070 loss

D $1070 profit

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18 On 2 January, Razia wrote off $450 owed to her by Annette, a credit customer, as irrecoverable.

On 2 October, Annette paid $100 by cheque in part settlement of that debt.

Which entries would Razia make on 2 October?

	account to be debited	account to be credited
A	bank	debts recovered
B	bank	irrecoverable debts
C	debts recovered	bank
D	irrecoverable debts	bank

19 Asha provided the following information about her inventory at the end of the financial year.

product	number of units	cost price per unit $	selling price per unit $
P	200	2.50	2.00
J	300	3.00	3.50

What was the total value of Asha's inventory?

A $1300 **B** $1400 **C** $1450 **D** $1550

20 Which group contains **only** service businesses?

A book shop, language school, newsagent

B jewellery repairer, taxi firm, food store

C language school, taxi firm, jewellery repairer

D taxi firm, newsagent, food store

21 What does the statement of financial position of a business show?

A assets and liabilities at a certain date

B calculation of the annual profit or loss

C changes in equity during the financial year

D income and expenditure for the financial year

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22 A trader pays her insurance premium on 1 January each year for the following 12 months.

She made the following payments for insurance.

	$
1 January 2022	1680
1 January 2023	1920

How much did the trader include for insurance in her income statement for the year ended 31 March 2023?

A $1680 **B** $1740 **C** $1920 **D** $2160

23 Which item is added to the profit for the year in a partnership appropriation account?

A interest on capital

B interest on drawings

C partners' drawings

D partners' salaries

24 Abi and Erni are in partnership. Erni is entitled to an annual partnership salary of $3000. They share residual profits and losses equally. The profit for the year ended 31 August 2022 was $12 600.

On 1 September 2021, the partners' current account balances were as follows.

	$
Abi	2500 credit
Erni	1400 debit

What was the credit balance on Erni's current account on 1 September 2022?

A $400 **B** $3200 **C** $6400 **D** $9200

25 What is meant by the term *equity*?

A dividend paid to ordinary shareholders

B funds raised through borrowing

C interest paid to debenture holders

D total funds provided by shareholders

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26 During the financial year, AB Limited paid debenture interest of $1400 relating to that financial year. At the end of the year, debenture interest of $700 was accrued.

How was debenture interest shown in the financial statements for the year?

	income statement $	statement of changes in equity $
A	1400	no entry
B	2100	no entry
C	no entry	1400
D	no entry	2100

27 Which items are included in an income and expenditure account prepared for a sports club?

1 cost of new furniture purchased during the year for the clubhouse

2 depreciation on furniture and sports equipment

3 rates for the clubhouse paid in advance for the next financial year

4 subscriptions that remain unpaid by club members at the end of the financial year

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

28 Melody is a music club. The club holds a music concert once every year. Prizes are awarded to musicians selected by a judge.

The club provided the following information related to the latest music concert.

	$
sale of concert tickets	1 500
purchases of concert prizes	450
sale of concert programmes	150
payment of fee to the concert judge	250

What was the profit from the concert?

A $950 **B** $1050 **C** $1450 **D** $2100

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29 A business provided the following information.

	$
opening inventory of raw material	50 000
closing inventory of raw material	60 000
purchases of raw material	80 000
carriage inwards on raw material	2 000

What was the cost of raw material consumed?

A $70 000 **B** $72 000 **C** $90 000 **D** $92 000

30 Ashwin started a business as a taxi driver on 1 January 2022. His taxi cost $5000 and he paid $100 into a business bank account.

He did not keep any accounting records. On 31 December 2022, he had $1750 in the business bank account, his taxi was valued at $4000 and he owed $50 to the garage for repairs. During the year, he took $1600 out of the business bank account as drawings.

What was the profit for the year?

A $1650 **B** $2200 **C** $2250 **D** $3250

31 A trader did not keep a complete set of accounts. He provided the following information for the year.

	$
opening trade payables	5 000
closing trade payables	9 800
payments to credit suppliers	35 000
cash discounts received	3 000

What were the purchases for the year?

A $30 200 **B** $36 800 **C** $39 800 **D** $42 800

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32 T Limited provided the following information.

	$
net profit before interest	29 200
profit for the year	28 000
equity at the year-end	192 000
6% debentures	20 000

What was T Limited's return on capital employed?

A 13.21% **B** 13.77% **C** 14.58% **D** 15.21%

33 Sabelo's liquid (acid test) ratio was higher on 1 January 2022 than it was on 31 December 2022.

What could have caused this?

A bank overdraft decreased

B inventory decreased

C other payables decreased

D trade receivables decreased

34 The following ratios relate to the businesses of Ewa and Max.

	Ewa	Max
current ratio	2.2 : 1	2.4 : 1
liquid (acid test) ratio	1.4 : 1	1.0 : 1

An accounting student made the following statements.

1 Ewa can meet her current liabilities from her current assets more easily than Max.

2 Ewa can meet her current liabilities from her liquid assets more easily than Max.

3 Max has insufficient current assets to meet his current liabilities.

4 Max has sufficient liquid assets to meet his current liabilities.

Which statements are correct?

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

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35 A café owner made no entry in her accounts for increased competition when another café opened nearby.

Which accounting principle was applied?

A historic cost

B materiality

C money measurement

D prudence

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