Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/13**

Paper 1 Multiple Choice **October/November 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 A trader prepares financial statements each year.

What do these assist the trader to do?

A calculate the amount owing to credit suppliers

B calculate the cash drawings

C check the bank statement balance

D make decisions about the future

2 The following balances appeared in Hussein's books.

	$
fixtures	6000
inventory	3300
trade receivables	3000
trade payables	4500
other receivables	500
other payables	300
loan to Imran	1000
bank overdraft	1400

What was the total of the liabilities?

A $4800 **B** $6200 **C** $6400 **D** $7200

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3 The following account appeared in the books of Mary.

Paul account

		$			$
April 1	balance b/d	90	April 21	returns	25
14	sales	150	30	bank	88
				discount	2
				balance c/d	125
		240			240

Which statement is correct?

A On 1 April Paul owed Mary $90.

B On 14 April Paul sold goods, $150, to Mary.

C On 21 April Mary returned goods, $25, to Paul.

D On 30 April Mary owed Paul $125.

4 Which business document is used to update the cash book for standing order payments?

A bank statement

B cheque counterfoil

C paying-in slip

D receipt

5 On 1 March 2020 the bank column of a cash book had a credit balance of $290.

During March cheques totalling $580 were received and cheques totalling $610 were paid to suppliers. Bank charges of $12 incurred in February were also entered in the cash book.

What was the balance of the bank column in the cash book on 1 April 2020?

A $248 credit

B $248 debit

C $332 credit

D $332 debit

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6 Ziningi prepared a trial balance. The total of the debit column was $225 750 and the total of the credit column was $225 250.

What could explain the difference?

A Bank overdraft, $250, was recorded as a debit balance.

B Inventory, $500, was included as a debit balance.

C Purchases returns, $250, were included as a credit balance.

D Sales returns, $250, were included as a debit balance.

7 Rent received from a tenant was debited to the rent receivable account and credited to the cash book.

Which type of error has been made?

A commission

B compensating

C complete reversal

D principle

8 A computer system purchased from Ace Computers for $1430 had been incorrectly recorded as $1340 and was entered in the stationery account instead of the office equipment account.

Which journal entry corrects this error?

		debit $	credit $
A	Ace computers stationery office equipment	90 1340	 1340
B	Ace computers stationery office equipment	90 1340	 1430
C	office equipment Ace computers stationery	1340	 90 1340
D	office equipment Ace computers stationery	1430	 90 1340

9 Kate calculated her draft profit for the year at $28 400.

She later discovered the following errors.

1 Rent prepaid by Kate was understated by $1000.

2 Closing inventory was understated by $1500.

What was the correct profit for the year?

A $25 900 **B** $27 900 **C** $28 900 **D** $30 900

10 What would **not** be included in a sales ledger control account?

A cash sales recorded in the cash book

B cheques received from credit customers recorded in the cash book

C goods sold on credit recorded in the sales journal

D irrecoverable debts written off recorded in the journal

11 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

12 A trader uses the reducing balance method of depreciation.

What effect will this have over the life of the non-current asset?

A depreciation charged evenly over the years

B more depreciation charged in the early years

C more depreciation charged in the later years

D the non-current asset being revalued each year

13 Rashid provided the following information at 31 December.

	$
machinery at cost	52 000
provision for depreciation of machinery	23 000

Depreciation for the year is calculated at 20% on cost.

After the statement of financial position was prepared it was found that the machinery repairs costing $2000 had been debited to the machinery account.

What is the correct balance on the provision for the depreciation of machinery account?

A $21 000 **B** $22 600 **C** $23 400 **D** $25 000

14 At the end of his financial year on 31 August 2020 a trader had prepaid insurance.

How will this appear in the insurance account and the statement of financial position at 31 August 2020?

	insurance account	statement of financial position
A	credit balance carried down	current asset
B	credit balance carried down	current liability
C	debit balance carried down	current asset
D	debit balance carried down	current liability

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15 Hayley's financial year ends on 30 September 2020. She provided the following information.

	$
on 1 October 2019 rent receivable accrued	480
during the year ended 30 September 2020 rent received	6800
On 30 September 2020 rent received in advance	720

Which journal entry would be made on 30 September 2020?

		debit $	credit $
A	income statement rent receivable	5600	5600
B	income statement rent receivable	6560	6560
C	rent receivable income statement	5600	5600
D	rent receivable income statement	6560	6560

16 The balances in the books of Jason on 1 July 2019 included the following.

	$
trade receivables	64 200
provision for doubtful debts	1 284

Trade receivables at 30 June 2020 were $58 500, of which $500 should be written off as irrecoverable.

Jason wants to maintain his provision for doubtful debts at 2% of trade receivables.

What was the change in the provision for doubtful debts at 30 June 2020?

A $114 decrease

B $124 decrease

C $376 increase

D $386 increase

17 Nirmal sells two products, product G and product H.

The following information is available about his inventory at the end of the financial year.

product	number of units	cost price per unit	net realisable value per unit
G	1000	$2.00	$2.50
H	800	$1.50	$1.20

It was found that 100 units of product G were damaged and were unsaleable.

What was the total value of Nirmal's inventory?

A $2760 **B** $3000 **C** $3260 **D** $3460

18 Which items will **not** be shown in an income statement prepared for a service business?

1 cost of sales

2 gross profit

3 profit for the year

4 wages paid to employees

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

19 A trader provided the following information.

	$
capital at 1 October 2019	52 000
motor vehicle given to the business by the trader	3 500
personal expenses paid out of business bank account	1 500
cash drawings made during the year	500

What was the capital at 30 September 2020?

A $46 500 **B** $50 000 **C** $53 500 **D** $55 000

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20 John and Mark are in partnership. Profits and losses are shared in the ratio 3 : 2. John is entitled to an annual salary of $12 000. The profit for the year ended 31 August 2020 was $52 000.

How much would be credited to the partners' current accounts on 31 August 2020?

	John's current account $	Mark's current account $
A	24 000	16 000
B	26 000	26 000
C	31 200	20 800
D	36 000	16 000

21 A partnership maintains both current and capital accounts for each partner. An inexperienced book-keeper prepared the following account which contains errors.

Owen capital account

	$		$
balance c/d	135 000	balance b/d	100 000
		loan made to partnership	30 000
		interest on capital	5 000
	135 000		135 000

What should appear as the closing balance on Owen's capital account?

A $75 000 **B** $100 000 **C** $105 000 **D** $130 000

22 Z Limited provided the following information.

	$
5% debentures	50 000
general reserve	25 000
issued ordinary share capital	300 000
retained earnings	75 000
short-term bank loan	10 000

What was the equity?

A $325 000 **B** $400 000 **C** $450 000 **D** $460 000

23 Which statement about preference shares is **not** correct?

A Preference shareholders do not have voting rights.

B Preference shareholders receive a fixed dividend.

C Preference shareholders have a prior claim before ordinary shareholders in the event of liquidation.

D Preference shareholders receive their dividend after the ordinary shareholders have been paid.

24 A sports club was formed on 1 September 2019.

What may appear in the receipts and payments account for the year ended 31 August 2020?

A closing bank balance

B closing inventory of club shop

C depreciation of sports equipment

D subscriptions in arrears

25 A manufacturing company provided the following information.

	$
cost of raw materials	186 000
direct wages	75 000
machinery depreciation	45 000
factory supervisor's salary	32 000
factory rent	24 000
machinery repairs	18 000

What was the prime cost of manufacturing?

A $186 000 **B** $261 000 **C** $293 000 **D** $380 000

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26 A manufacturer's work in progress at the start of the year was valued at $850. At the end of the year it was valued at $10 200.

What was the effect of this increase on the cost of production and the cost of sales?

	cost of production	cost of sales
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

27 A trader made the following forecasts for the business for the next financial year.

average inventory	$80 000
rate of inventory turnover	6 times
mark-up	25%

What are the forecast sales for the next financial year?

A $360 000 **B** $480 000 **C** $576 000 **D** $600 000

28 Kim's trade payables turnover increased.

What could have caused this?

A Kim's customers took longer to pay their accounts.

B Kim's credit purchases increased.

C Kim's sales revenue increased.

D Kim took longer to pay her credit suppliers.

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29 A company provided the following information about its rate of inventory turnover.

year 1	24 times
year 2	25 times
year 3	27 times

What would explain the changes in the ratio?

A cost of sales is decreasing

B inventory is increasing

C sales volume is increasing

D selling price is increasing

30 A company provided the following information about its current ratio.

year 1	2.3 : 1
year 2	2.4 : 1
year 3	2.5 : 1

What would explain the changes in the ratio?

A Inventory is decreasing.

B Other payables are increasing.

C Other receivables are increasing.

D Trade receivables are decreasing.

31 A trader wants to improve his gross margin.

How can this be done?

A Reduce administrative expenses.

B Reduce depreciation of equipment.

C Reduce rate of cash discount allowed.

D Reduce rate of trade discount allowed.

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32 Zak has depreciated his machinery at the rate of 20% per annum using the straight-line method.

At 31 December 2018 the statement of financial position included:

	$
machinery at cost	30 000
depreciation to date	12 000
	18 000

On 31 December 2019 Zak was considering calculating the annual depreciation at 20% per annum on the net book value of the machinery.

Which statement is correct?

A depreciation would be $3600 applying the consistency principle

B depreciation would be $3600 applying the prudence principle

C depreciation would be $6000 applying the consistency principle

D depreciation would be $6000 applying the prudence principle

33 The financial statements of a business are prepared on the basis that it will continue to operate for many years into the future.

Which accounting principle is being applied?

A business entity

B going concern

C money measurement

D realisation

34 When Marina opened a business she purchased a stapler for the office.

She recorded this as office expenses rather than as office equipment.

Which accounting principle did Marina apply?

A consistency

B historic cost

C materiality

D prudence

35 What is **not** an aim of international accounting standards?

A to ensure accounting standards in different countries agree

B to establish an organisation to set standards in every country

C to make it easier to compare companies' financial statements

D to reduce the variety of accounting practices worldwide

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