Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

Paper 1 Multiple Choice **October/November 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.

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[Turn over

1 Which statement is correct?

A The accountant prepares the trial balance and the book-keeper prepares the financial statements.

B The accountant writes up the journals and the book-keeper writes up the ledger accounts.

C The book-keeper writes up the journals and the accountant prepares the trial balance.

D The book-keeper writes up the ledger accounts and the accountant prepares the financial statements.

2 Which formulas may be used for the accounting equation?

1 assets = owner's equity minus liabilities

2 liabilities = assets minus owner's equity

3 owner's equity = assets plus liabilities

4 owner's equity plus liabilities = assets

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

3 Goods purchased on credit from Zamir were returned by Ashwin.

Which entries should Zamir make to record this?

	account debited	account credited
A	Ashwin	purchase returns
B	purchase returns	Zamir
C	sales returns	Ashwin
D	Zamir	sales returns

4 During her first financial year, a trader paid $1800 for insurance and $3200 for rent.

At the end of the financial year, she transferred insurance of $1500 and rent of $3600 to the income statement.

What do the balances remaining on the accounts at the end of the financial year represent?

	insurance account	rent account
A	accrued expense	accrued expense
B	accrued expense	prepaid expense
C	prepaid expense	accrued expense
D	prepaid expense	prepaid expense

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5 Leah bought goods, $8000, less 15% trade discount. She later returned half of these goods as they were faulty.

Which document did Leah issue to the supplier for the returned goods?

A credit note for $3400

B debit note for $3400

C credit note for $4000

D debit note for $4000

6 What is a cheque counterfoil used for?

A to make a credit entry in the bank column of a cash book

B to make a debit entry in the bank column of a cash book

C to send a payment to a supplier

D to send proof of payment to a customer

7 Farouk sells goods on credit. A cheque from Khalid, a credit customer, was dishonoured by the bank.

How should Farouk record this?

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

8 Why does a supplier offer trade discount?

A to avoid irrecoverable debts

B to encourage bulk buying

C to encourage payment in cash

D to reward prompt payment

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9 Ann maintains a petty cash book using the imprest system.

Which statement is **not** correct?

A A petty cash book can be maintained by a junior member of staff.

B At any time petty cash vouchers plus the petty cash balance are equal to the imprest amount.

C The chief cashier is not asked continually for small sums of money.

D The number of entries in the cash book increases because of the large number of small cash payments.

10 A sales invoice for $800 was incorrectly recorded in the sales journal as $1800.

How did this error affect the trial balance?

A The trial balance balanced but both totals were overstated by $1000.

B The trial balance balanced but both totals were understated by $1000.

C The trial balance did not balance because the credits were overstated by $1000.

D The trial balance did not balance because the debits were understated by $1000.

11 A standing order paid for rent has not been entered into the accounting records of a business.

Which statement is correct?

A Because the payment was made automatically, no additional entries are required in the accounting records.

B Because the payment was made automatically, only an entry in the rent account is required.

C Entries are required in the cash book and in the bank reconciliation statement.

D Entries are required in the cash book and in the nominal (general) ledger.

12 The bank statement of a business had a credit balance of $2690 on 1 October 2021. At that date cheques totalling $850 had not yet been presented for payment.

What was the bank balance in the cash book on 1 October 2021?

A $1840 credit

B $1840 debit

C $3540 credit

D $3540 debit

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13 A trader has purchased new business premises.

What are examples of capital expenditure?

1 cost of heating and lighting the new premises

2 cost of purchasing the new premises

3 legal costs of purchasing the new premises

4 office furniture purchased for use in the new premises

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

14 Two companies each purchased a motor vehicle for $10 000 at the beginning of year 1. Company G used the straight-line method of depreciation at a rate of 15% per annum, while Company H used the reducing balance method at a rate of 20% per annum.

What was the difference in the depreciation charge between the two companies for year 2?

A $100 greater for G

B $100 greater for H

C $500 greater for G

D $500 greater for H

15 At the end of the financial year Mui had prepaid rent of $1500.

How should she record this?

A credit $1500 in the rent account and carry down as a credit balance

B credit $1500 in the rent account and carry down as a debit balance

C debit $1500 in the rent account and carry down as a credit balance

D debit $1500 in the rent account and carry down as a debit balance

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16 After preparing draft financial statements at the end of her first year of trading, Lucy discovered two errors.

1 Damaged inventory had been valued at cost price, $340. It was expected to sell for $180.

2 100 items which had been expected to sell for $12 each had been valued at their cost price of $7 each. Carriage inwards of $1 for each item had not been included in the cost.

What was the **effect** of these errors on the gross profit?

A overstated $60

B overstated $240

C understated $60

D understated $240

17 Which is an advantage and a disadvantage of operating as a sole trader?

	advantage	disadvantage
A	gains all the profit	bears all the risk
B	gains all the profit	controls the decision-making
C	provides all the capital	bears all the risk
D	provides all the capital	controls the decision-making

18 What is shown in the capital and liabilities section of a statement of financial position of a business?

A how the resources are being used by the business

B the working capital of the business

C total amounts owed by and to the business

D where the resources of the business have come from

19 John maintains a full set of accounting records.

Why does he also prepare a statement of financial position?

A to calculate the profit for the year

B to check if assets equal capital plus liabilities

C to show the transactions which took place during the year

D to summarise what the business owns and what it owes

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20 A sole trader paid off the business's overdraft using his own personal funds.

How did this affect the statement of financial position?

	liabilities	capital	assets
A	no effect	increase	increase
B	decrease	increase	increase
C	decrease	increase	no effect
D	decrease	no effect	increase

21 Hassin found that he needed help to run his business. He decided to take a partner rather than employ an assistant.

Why did he decide to take a partner?

1 An assistant would not interfere with how the shop was run.

2 An assistant would not share risk.

3 A partner would introduce some additional capital.

4 A partner would take a share of the profit.

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

22 Anwar is a sole trader making annual profits of $24 000. He decides to admit Dilip as a partner. They agree that Anwar would receive a salary, and profits and losses would be shared equally.

The forecast appropriation account for the partnership's first year of trading is:

	$
profit for the year	50 000
salary Anwar	10 000
profit available for distribution	40 000

By how much will Anwar's total income increase?

A $1000 **B** $6000 **C** $16 000 **D** $26 000

23 BCD Limited provided the following information.

	$
ordinary shares	300 000
retained earnings	200 000
debentures	170 000

How much was the equity and the capital employed?

	equity $	capital employed $
A	300 000	470 000
B	300 000	670 000
C	500 000	470 000
D	500 000	670 000

24 The issued share capital of CD Limited consists of ordinary shares.

Retained earnings were $86 000 on 1 September 2020 and $88 500 on 31 August 2021.

The company made a profit during the year of $26 000 and made a transfer to general reserve of $5000.

What was the total ordinary share dividend paid during the year?

A $18 500 **B** $23 500 **C** $28 500 **D** $33 500

25 A sports club was formed on 1 August 2020. During the year ended 31 July 2021 the club purchased equipment costing $5000, paying by cheque.

In which of the club's financial statements did this appear?

	receipts and payments account	income and expenditure account	statement of financial position
A	✓	✓	
B	✓		✓
C		✓	✓
D			✓

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26 A sports club has 100 members and the annual subscription is $60.

During the year ended 31 August 2021:

12 members paid their outstanding subscription from the previous financial year

10 members paid their subscription in advance for the following financial year.

On 31 August 2021, subscriptions for the current financial year were still outstanding from 8 members.

What was the total amount received from members during the year ended 31 August 2021?

A $5160 **B** $5640 **C** $6600 **D** $6840

27 Beth provided the following information.

	1 January	31 December
net assets	$28 000	$24 000

Her drawings during the year amounted to $3000.

What was Beth's profit or loss for the year?

A $1000 loss

B $1000 profit

C $7000 loss

D $7000 profit

28 Roshan's sales for his first year of trading were $55 000. His gross profit margin was 20%. The closing inventory was $3200.

What were the purchases for the year?

A $41 250 **B** $44 000 **C** $44 450 **D** $47 200

29 Which information is required to calculate the return on capital employed for a sole trader?

A gross profit, non-current liabilities, owner's capital

B gross profit, non-current liabilities, working capital

C operating profit for the year, non-current liabilities, owner's capital

D operating profit for the year, non-current liabilities, working capital

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30 What is the best indicator of the liquidity of a business?

A current ratio

B liquid (acid test) ratio

C return on capital employed

D working capital

31 A business provided the following information about its gross margin.

Year 1 40%

Year 2 38%

Year 3 35%

What could explain the changes in the gross margin?

A Cost of sales is decreasing.

B Expenses are decreasing.

C Quantity of goods sold is decreasing.

D Selling price is decreasing.

32 Sam and Rob each own a trading business. The income of each business is solely from the sale of goods. They provided the following information for the year ended 30 June 2020.

	Sam	Rob
return on capital employed	12%	10%
gross margin	25%	30%
profit margin	14%	12%
current ratio	2.8 : 1	1.2 : 1

Which statement is correct?

A Rob will find it easy to pay his current liabilities.

B Rob's expenses are a higher proportion of his sales.

C Sam is not employing his capital effectively.

D Sam's goods are sold at a higher price.

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33 Why would the owner of a business want to see his financial statements at the end of the year?

1 to assess the performance and progress of the business

2 to determine the market value of the non-current assets

3 to make informed decisions for the following years

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

34 Charlie is a car dealer. Joe wanted a new car and went to Charlie's car showroom.

On Monday Joe took a car for a test drive and decided to buy it.

On Tuesday Joe arranged to pay for the car by cheque.

On Wednesday Joe collected the car and received an invoice.

On Thursday Joe's cheque was cleared by the bank.

On which day was Charlie able to account for the profit on the sale?

A Monday

B Tuesday

C Wednesday

D Thursday

35 Which accounting objective requires that financial information is provided in time for a decision to be made?

A comparability

B relevance

C reliability

D understandability

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