Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/13**

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 Why does a trader calculate the profit of his business?

A to calculate the interest payable on a loan

B to calculate the provision for doubtful debts

C to know the total expenses of the business

D to know whether drawings are at a reasonable level

2 Hassan is a trader. During the financial year he took goods from the business for his own use.

How should he record this?

	debit	credit
A	drawings	inventory
B	drawings	purchases
C	income statement	inventory
D	income statement	purchases

3 Where are the accounts of credit suppliers maintained?

A purchases journal

B purchases ledger

C sales journal

D sales ledger

4 Which document does a trader issue to remind a credit customer that payment is due?

A credit note

B debit note

C receipt

D statement of account

5 What is a cheque counterfoil used for?

A to pay a cheque into the bank account

B to pay for goods purchased by cheque

C to record a cheque payment in the cash book

D to record a cheque received in the cash book

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6 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

7 Tumelo sells on credit. The terms of trade are listed.

list price: $200 per unit

credit period: 60 days

trade discount 15% if 10 units or more are purchased

cash discount 3% if the debt is paid within one month

A credit customer purchased 20 units and paid the debt within 15 days.

What was the total of the invoice?

A $3298 **B** $3400 **C** $3880 **D** $4000

8 Jane purchased goods and paid by credit transfer.

How should this be recorded in Jane's accounting records?

	account to be debited	account to be credited
A	bank	purchases
B	purchases	bank
C	purchases	trade payable
D	trade payable	purchases

9 What is shown in a trial balance?

A capital and profit on a particular date

B financial transactions for a particular period

C ledger balances on a particular date

D receipts and payments for a particular period

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10 At the end of each year, PT Limited transfers 20% of the profit for the year to the general reserve.

Draft financial statements were prepared for the year ended 30 September 2021. It was then discovered that the inventory at 30 September 2021 had been overstated by $1500.

Which effects did the **correction** of this error have on retained earnings and general reserve at 30 September 2021?

	retained earnings	$	general reserve	$
A	decrease	300	increase	300
B	decrease	1200	decrease	300
C	increase	300	increase	1200
D	increase	1500	no effect	

11 The bank columns in a trader's cash book and the bank statement both showed positive balances. A comparison revealed the following differences.

	$
uncredited cheque	200
bank charges not included in cash book	10

What was the difference between the balance shown in the bank column of the cash book and that shown on the bank statement?

A The cash book balance was $190 higher than the bank statement balance.

B The cash book balance was $190 lower than the bank statement balance.

C The cash book balance was $210 higher than the bank statement balance.

D The cash book balance was $210 lower than the bank statement balance.

12 What is a reason for preparing a sales ledger control account?

A to calculate total sales revenue

B to ensure trade receivables pay on time

C to help prepare the income statement

D to summarise the accounts of the trade receivables

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13 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

14 Amit's financial year ends on 31 December. The following account appeared in his sales ledger.

Dipak account					
2020		$	2020		$
Jan 7	sales	3200	Jun 3	bank	1700
			Oct 30	cash	230
			Nov 21	?	1270
		3200			3200

What does the entry on 21 November represent?

A an irrecoverable debt

B discount allowed

C the balance carried down

D the recovery of a debt previously written off

15 Sally wished to increase the balance on the provision for doubtful debts account at the end of the financial year.

How should this increase be recorded?

	debit	credit
A	income statement	provision for doubtful debts account
B	irrecoverable debts account	provision for doubtful debts account
C	provision for doubtful debts account	income statement
D	provision for doubtful debts account	irrecoverable debts account

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16 The following errors were found after a statement of financial position had been prepared.

1 A loan repayable in two year's time had been included as a current liability.

2 A provision for doubtful debts should have been created.

What is the effect of **correcting** these errors?

	current assets	current liabilities	non-current liabilities	owner's equity
A	decrease	decrease	increase	decrease
B	decrease	increase	decrease	increase
C	increase	decrease	decrease	increase
D	increase	increase	decrease	decrease

17 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

18 What are advantages of operating as a sole trader?

1 The owner can keep all the profit.

2 The owner can raise finance by issuing debentures.

3 The owner can make decisions independently.

4 The owner is protected by limited liability.

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

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19 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

20 Kasi and Ravi are in partnership. The financial statements for the year ended 31 August 2021 showed that Ravi was entitled to interest on capital and interest on loan and was charged interest on drawings.

Which entries would be made in Ravi's current account?

	interest on capital		interest on loan		interest on drawings	
	debit	credit	debit	credit	debit	credit
A	✓		✓			✓
B	✓					✓
C		✓		✓	✓	
D		✓			✓	

21 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

22 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

23 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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24 What is **not** part of the prime cost of a manufacturing business?

A raw material

B royalties

C wages of factory supervisors

D wages of production workers

25 The value of Thato's work in progress increased during the year. This was recorded in his financial statements.

How did this affect the cost of production and the cost of sales?

	cost of production	cost of sales
A	decreased	decreased
B	decreased	no effect
C	increased	increased
D	increased	no effect

26 What are advantages of keeping a full set of accounting records?

1 Financial statements will be free from errors.

2 It is impossible to make fraudulent entries.

3 More informed decision-making is possible.

4 The calculation of profit is more accurate.

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

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

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 trader provided the following information for the year ended 31 May 2021.

	$
trade payables on 1 June 2020	12 250
trade payables on 31 May 2021	42 000
credit purchases for the year	319 375

What was the trade payables turnover (days) for the year ended 31 May 2021?

A 31 days **B** 34 days **C** 48 days **D** 62 days

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32 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.

33 What is **not** a limitation of inter-firm comparison?

A Accounting records do not include the skills of the workforce.

B Businesses may have different accounting policies.

C Businesses may have different sales prices.

D The available information may not relate to a typical year.

34 Why would a supplier be interested in the financial statements of a credit customer?

A to know if the customer can pay what he owes

B to know the amount owed by trade receivables

C to know the profit for the year

D to know the value of the inventory

35 What does the objective of understandability assume users of financial statements will possess?

A a reasonable knowledge of accounting

B full knowledge of accounting

C knowledge of book-keeping but not accounting

D no knowledge of book-keeping or accounting

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