Cambridge Assessment International Education

# Cambridge O Level

**ACCOUNTING** **7707/12**

Paper 1 Multiple Choice **October/November 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.

This document has **12** pages. Any blank pages are indicated.


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**1** Which transaction will increase both assets and capital by the same amount?

**A** A credit customer settled his account after deducting a cash discount.

**B** Goods were sold for cash at a price higher than their cost price.

**C** Rent received included an amount prepaid for the next accounting period.

**D** The owner repaid a business loan from his personal bank account.

**2** On 1 June 2021, Sue's capital account had a credit balance of $120 000. During the year ended 31 May 2022 she withdrew goods costing $1800. The loss for the year was $14 200.

What was the credit balance on Sue's capital account on 1 June 2022?

**A** $104 000 **B** $105 800 **C** $107 600 **D** $134 200

**3** Bilal purchased goods on credit from Asim.

Where should Asim record this transaction?

1 cash book

2 nominal (general) ledger

3 purchases ledger

4 sales ledger

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

**4** Abdul sells goods to Rekha on credit. Some goods were damaged in transit.

Which document would Rekha send to Abdul?

**A** credit note

**B** debit note

**C** invoice

**D** statement of account

**5** What is **not** shown on an invoice?

**A** amount of trade discount

**B** date payment made

**C** details of goods supplied

**D** terms of payment

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**6** On 1 September, Peter sent a cheque to his credit supplier, John. This was correctly entered in John's books. On 10 September, the cheque was returned unpaid due to lack of funds.

Which entries should be made in John's books on 10 September?

| | account to be debited | account to be credited |
|---|---|---|
| **A** | bank | irrecoverable debts |
| **B** | bank | Peter |
| **C** | irrecoverable debts | bank |
| **D** | Peter | bank |

**7** Which entries should be made to post the monthly totals of the discount allowed and discount received columns of the cash book?

| | discount allowed | discount received |
|---|---|---|
| **A** | credit discount allowed account | debit discount received account |
| **B** | credit income statement | debit income statement |
| **C** | debit discount allowed account | credit discount received account |
| **D** | debit income statement | credit income statement |

**8** Jasvinder maintains a petty cash book using the imprest system. The monthly imprest of $100 is restored on the first day of each month.

In September the petty cash book showed the following.

| | $ |
|---|---|
| total expenses | 83 |
| total receipts | 7 |

How much cash did Jasvinder need to restore the imprest on 1 October?

**A** $24 **B** $76 **C** $83 **D** $100

**9** Saddique's trial balance failed to balance. The debit column totalled $12 250 and the credit column totalled $12 200.

The following errors were discovered.

No entry had been made for cash sales, $150.

The total of the discount received account, $50, had been omitted from the trial balance.

What were the totals of the trial balance **after** the errors had been corrected?

**A** $12 250 **B** $12 300 **C** $12 350 **D** $12 400

**10** $68 paid by credit transfer for insurance was entered in the accounting records as $86.

Which double entry will correct this error?

| | account debited | $ | account credited | $ |
|---|---|---|---|---|
| **A** | bank | 18 | insurance | 18 |
| **B** | bank | 68 | insurance | 68 |
| **C** | insurance | 18 | bank | 18 |
| **D** | insurance | 68 | bank | 68 |

**11** After the preparation of her income statement, Emma discovered the following errors.

A debt, $1500, should have been written off as irrecoverable.

No adjustment had been made for rent prepaid by Emma of $2800.

The draft profit for the year was $35 000.

What was the corrected profit for the year?

**A** $30 700 **B** $33 700 **C** $36 300 **D** $39 300

**12** Hamid purchased a motor vehicle from an overseas motor manufacturer.

Which expenditure relating to the motor vehicle is capital expenditure?

**A** delivery charge

**B** insurance

**C** petrol

**D** replacement tyres

**13** Wentile purchased a motor vehicle for $35 000. He estimated it would be used for five years and then sold for $5000.

Wentile depreciated the motor vehicle using the straight-line method at a rate of 20% per annum.

What was the accumulated depreciation on this motor vehicle at the end of year 2?

**A** $10 800 **B** $12 000 **C** $12 600 **D** $14 000

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**14** On the first day of his financial year, Jason purchased a new machine costing $20 000.

On that date his old machine had a book value of $6000. Jason was allowed $4500 for the old machine in part exchange. He paid the balance by cheque.

Machinery is depreciated at 20% per annum.

How much should be charged to Jason's income statement for the year?

**A** $1500 **B** $2500 **C** $4000 **D** $5500

**15** Martha rents out part of her business premises.

On 1 September 2021, she was owed rent of $1500 and on 31 August 2022 she was owed $1800 rent.

During the year ended 31 August 2022, Martha received rent of $6000.

How much was transferred to Martha's income statement for the year ended 31 August 2022?

**A** $2700 **B** $5700 **C** $6300 **D** $9300

**16** Parker received cash from Alexi for a debt that had been written off as irrecoverable.

How should Parker record this in his accounts?

| | account to be debited | account to be credited |
|---|---|---|
| **A** | cash | irrecoverable debts |
| **B** | cash | debts recovered |
| **C** | debts recovered | cash |
| **D** | irrecoverable debts | cash |

**17** Why should inventory be valued at the lower of cost and net realisable value?

**A** to avoid undervaluing the inventory

**B** to comply with the historic cost principle

**C** to comply with the principle of materiality

**D** to ensure that profits are not overstated

**18** How would current assets be listed if they are arranged in decreasing order of liquidity?

**A** bank, cash, trade receivables, inventory

**B** cash, bank, trade receivables, inventory

**C** inventory, trade receivables, bank, cash

**D** inventory, trade receivables, cash, bank

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**19** During the year, Sam paid advertising expenses, some of which related to the following financial year. Sam made an adjustment for this when preparing his financial statements for the current year.

What was the effect on Sam's financial statements of making this adjustment?

| | decrease profit for the year | increase profit for the year | increase current assets | increase current liabilities |
|---|---|---|---|---|
| **A** | | ✓ | | ✓ |
| **B** | | ✓ | ✓ | |
| **C** | ✓ | | ✓ | |
| **D** | ✓ | | | ✓ |

**20** Members of a limited company have limited liability for the debts of that company.

What does this mean?

**A** Members are equally liable for the debts of the company.

**B** Members are liable only up to the value of their personal assets.

**C** Members are liable only up to the amount they agree to pay for their shares in the company.

**D** Members are liable only up to the value of the debentures they hold in the company.

**21** A limited company provided the following information.

| | $ |
|---|---|
| non-current assets | 35 000 |
| ordinary share capital | 40 000 |
| 5% debentures | 10 000 |
| net current assets | 30 000 |

What were the retained earnings?

**A** $15 000 **B** $25 000 **C** $55 000 **D** $115 000

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**22** What is included in the equity of a limited company?

| | ordinary share capital | retained earnings | debentures | general reserve |
|---|---|---|---|---|
| **A** | ✓ | ✓ | | ✓ |
| **B** | ✓ | ✓ | | |
| **C** | ✓ | | ✓ | ✓ |
| **D** | ✓ | | ✓ | |

**23** The financial year of a club ends on 30 September. During the year ended 30 September 2022, the club received an interest-free loan from a member.

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

**A** income and expenditure account and statement of financial position

**B** receipts and payments account and income and expenditure account

**C** receipts and payments account and statement of financial position

**D** statement of financial position only

**24** A club had an accumulated fund at the start of the year of $18 000 and at the end of the year of $16 200.

New equipment costing $1100 was bought during the year. Total expenses for the year were $9550. The only income came from subscriptions.

How much were subscriptions for the year?

**A** $7750 **B** $8850 **C** $11 350 **D** $12 450

**25** Dan makes t-shirts which are stamped with a design using fabric paint. He provided the following information.

| | $ |
|---|---|
| fabric for t-shirts | 10 000 |
| factory heating and lighting | 5 000 |
| fabric paint | 4 000 |
| factory rent | 8 000 |
| wages of machine operators | 16 000 |

What was the total of the direct costs?

**A** $19 000 **B** $23 000 **C** $30 000 **D** $31 000

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**26** In a manufacturing account, carriage on raw materials was incorrectly treated as a factory overhead.

How did this error affect the prime cost and the cost of production?

| | prime cost | cost of production |
|---|---|---|
| **A** | overstated | no effect |
| **B** | overstated | overstated |
| **C** | understated | no effect |
| **D** | understated | understated |

**27** Chan provided the following information.

| | 1 October 2021 $ | 30 September 2022 $ |
|---|---|---|
| non-current assets | 10 000 | 12 000 |
| inventory | 2 500 | 2 000 |
| trade receivables | 1 500 | 1 300 |
| bank overdraft | 800 | 900 |
| trade payables | 1 000 | 1 900 |

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

**A** $300 loss

**B** $300 profit

**C** $500 loss

**D** $500 profit

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**28** Aruna does not maintain a full set of double entry records.

She provided the following information.

| | $ |
|---|---|
| trade payables on 1 August 2021 | 23 450 |
| trade payables on 31 July 2022 | 27 290 |
| cash purchases made during the year | 16 000 |
| payments made to credit suppliers | 168 000 |

What was the cost of her purchases for the year ended 31 July 2022?

**A** $164 160 **B** $171 840 **C** $180 160 **D** $187 840

**29** Thabo provided the following information.

| | |
|---|---|
| revenue | $250 000 |
| gross margin | 20% |
| rate of inventory turnover | 5 times |

What was the average inventory for the year?

**A** $10 000 **B** $37 500 **C** $40 000 **D** $50 000

**30** Naeema provided the following information.

| | $ |
|---|---|
| revenue | 28 000 |
| gross profit | 11 900 |
| profit for the year | 3 500 |

What was her profit margin?

**A** 12.5% **B** 29.4% **C** 30.0% **D** 42.5%

**31** When calculating the liquid (acid test) ratio, what is compared to the liquid assets?

**A** current liabilities

**B** intangible assets

**C** non-current assets

**D** non-current liabilities

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**32** A trader provided the following information.

| | year 1 | year 2 |
|---|---|---|
| gross profit | $40 000 | $75 000 |
| gross margin | 35% | 35% |
| profit margin | 11% | 22% |

What would explain these changes?

**A** an increase in selling price and a decrease in sales quantity

**B** an increase in selling price and an increase in expenses

**C** an increase in sales quantity and a decrease in selling price

**D** an increase in sales quantity and a decrease in expenses

**33** A business renewed an insurance policy. The total amount paid was charged as an expense in the income statement for the year even though half related to the next financial year.

Which accounting principle has **not** been applied?

**A** duality

**B** historic cost

**C** matching

**D** money measurement

**34** What is meant by the business entity principle?

**A** All aspects of the business are recorded in money terms.

**B** Goods taken by the owner for personal use are not recorded.

**C** It is assumed that the business will continue to operate indefinitely.

**D** Transactions are recorded from the point of view of the business.

**35** Which statement is **not** correct about reasons for using international accounting standards?

**A** assists when making comparisons between companies

**B** improves the reliability of accounting information

**C** narrows the areas of difference in financial reporting

**D** makes the preparation of financial statements less time-consuming

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