Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

Paper 1 Multiple Choice **May/June 2024**

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 How does a trader use the information provided by financial statements?

A to calculate the amount of cash drawings taken

B to calculate the amount that is owed by trade receivables

C to check the balance shown on a bank statement

D to compare the business performance over a number of years

2 The balances remaining on the books of a business after the preparation of the income statement included the following:

	$
loan from XYY Finance	10 000
wages due	620
rent prepaid	240
trade receivables	3 300
trade payables	4 650
motor vehicles	8 000
provision for depreciation of motor vehicles	2 000

What was the total of the liabilities?

A $13 920 **B** $14 890 **C** $15 270 **D** $17 270

3 Jameel's financial year ends on 31 December. On 1 January 2021 he brought down a debit balance on his stationery account.

What does this balance represent?

A amount owing for stationery on 1 January 2021

B amount paid for stationery during 2020

C cost of stationery used during 2020

D inventory of stationery on 1 January 2021

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4 Alex issued credit notes in August and entered them in the correct book of prime entry.

How was the total of this book of prime entry recorded in the nominal ledger at the end of August?

A credited to the purchases returns account

B debited to the purchases returns account

C credited to the sales returns account

D debited to the sales returns account

5 Which business documents are used as sources of information to make entries in the cash book?

A bank statement, cheque counterfoil, invoice, paying-in slip

B bank statement, cheque counterfoil, invoice, receipt

C bank statement, cheque counterfoil, paying-in slip, receipt

D cheque counterfoil, paying-in slip, petty cash voucher, receipt

6 What is the double entry for recording a cheque payment to a credit supplier?

	debit	credit
A	bank account	purchases ledger account
B	bank account	sales ledger account
C	purchases ledger account	bank account
D	sales ledger account	bank account

7 A book-keeper made two errors which cancelled each other out.

Which type of error did he make?

A compensating

B complete reversal

C original entry

D principle

8 The totals of a trial balance did not agree and $200 was debited to a suspense account. The book-keeper then checked the books and found the following two errors.

1. A sales invoice for $700 had been recorded in the sales journal as $770.

2. The sales journal had been totalled incorrectly.

What error was made when the sales journal was totalled?

A overcast by $130

B overcast by $200

C undercast by $130

D undercast by $200

9 A trader took some goods from the business for his own use. He credited the purchases account with the cost price of the goods, $200, and credited the sales account with the selling price, $300.

Which entries did he make to correct the error?

	debit	$	credit	$
A	drawings income statement	200 100	suspense	300
B	drawings sales	200 300	suspense	500
C	suspense	300	drawings income statement	200 100
D	suspense	500	drawings sales	200 300

10 What would result in the cash book balance being lower than the bank statement balance?

A A cheque received from a customer was not recorded in the bank statement.

B A customer's cheque dishonoured by the bank appeared only on the bank statement.

C Payment by a customer directly into the bank was not recorded in the cash book.

D Payment of insurance by standing order was not recorded in the cash book.

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11 The bank statement of a business showed a credit balance of $280 on 31 December.

At that date there were unpresented cheques of $312.

A standing order of $20 had been incorrectly entered as $22 on the bank statement.

What was the balance in the bank column of the cash book on 31 December?

A $30 credit

B $30 debit

C $34 credit

D $34 debit

12 A business keeps a complete set of books of accounts.

What is **not** used as a source of information for making entries in control accounts?

A cash book

B general journal

C purchases journal

D sales ledger

13 Which item would **not** appear in the purchases ledger control account?

A contra entry

B discounts received

C interest charged

D returns inwards

14 The cost of repairs to machinery was debited to the machinery account.

What was the effect of this error?

	non-current assets	profit for the year
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

15 Elzevir purchased a motor vehicle costing $8000 on 1 January 2018. It is depreciated at 40% on the reducing balance basis.

Which journal entry records the depreciation for the year ended 31 December 2019?

		debit $	credit $
A	income statement provision for depreciation of motor vehicles	1920	 1920
B	income statement provision for depreciation of motor vehicles	3200	 3200
C	provision for depreciation of motor vehicles motor vehicles	1920	 1920
D	provision for depreciation of motor vehicles motor vehicles	3200	 3200

16 A trader sold one of his vehicles.

What is the journal entry to remove the total depreciation on the vehicle sold?

	account debited	account credited
A	disposal of motor vehicles	provision for depreciation of motor vehicles
B	income statement	disposal of motor vehicles
C	provision for depreciation of motor vehicles	motor vehicles
D	provision for depreciation of motor vehicles	disposal of motor vehicles

17 Why is it important to match costs and revenues?

A so that every debit entry has a corresponding credit entry

B so that the business does not incur any losses

C to enable a better comparison of profit from year to year

D to ensure that the bank balance is accurate

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18 Devendra prepared the following journal entry.

	debit $	credit $
irrecoverable debts	714	
Tobias		714

Which statement is correct?

A Devendra has provided for a doubtful debt owed by Tobias.

B Devendra has received the amount due from Tobias.

C Tobias cannot pay the amount due to Devendra.

D Tobias paid an amount previously written off by Devendra.

19 Alex purchased goods costing $1000. She planned to resell the goods at a mark-up rate of 25%. These goods were unsold at the year end and were found to be damaged. Alex estimated that they could be sold for $600.

What value should be shown for these goods in the year-end financial statements?

A $400 **B** $600 **C** $750 **D** $1250

20 'Unlimited liability' is one of the disadvantages of operating as a sole trader.

What is the correct explanation of unlimited liability?

A A sole trader cannot take a bank loan.

B A sole trader has to manage their business alone.

C A sole trader cannot use their private funds to repay business loans.

D A sole trader may lose both their business and personal funds.

21 Which item is a current asset?

A bank overdraft

B loan repayable in 12 months

C prepaid income

D work in progress

22 Where is interest on drawings entered in the accounting records of a partnership business?

	appropriation account	partner's capital account	partner's current account
A	debit	no entry	credit
B	credit	no entry	debit
C	debit	credit	no entry
D	credit	debit	no entry

23 T Limited was formed on 1 April 2019. A total of 220 000 shares of $2 each were issued and shareholders were asked to pay 75% of the share value immediately and 25% on 1 April 2020.

By 1 June 2019 holders of 190 000 shares had paid the amount due.

What was the paid up capital on 1 June 2019?

A $ 285 000 **B** $330 000 **C** $380 000 **D** $440 000

24 Which items would appear in the statement of changes in equity of X Limited for the year ended 30 June 2020?

1. interim dividend paid on 31 March 2020

2. proposed dividend for the year ended 30 June 2020

3. proposed final dividend for the year ended 30 June 2019 paid on 31 October 2019

4. transfer to general reserve on 30 June 2020

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

25 A company's financial year ends on 31 March.

On 31 March 2021 trade receivables were $45 000. On 31 March 2022 trade receivables were $41 000. An irrecoverable debt of $1000 is yet to be written off at 31 March 2022.

The provision for doubtful debts is to be maintained at 5%.

What is the effect of the irrecoverable debt and the adjustment to the provision for doubtful debts on the profit for the year ended 31 March 2022?

A decrease $750

B decrease $800

C decrease $1200

D decrease $1250

26 A club received subscriptions from members totalling $12 600 in the year ended 30 April 2019.

The following information was available.

	at 30 April 2018 $	at 30 April 2019 $
subscriptions paid in advance	1300	–
subscriptions in arrears	800	1100

Which amount appeared in the income and expenditure account for subscriptions for the year ended 30 April 2019?

A $ 11 000 **B** $11 600 **C** $13 600 **D** $14 200

27 Which statements about the accumulated fund of a society are correct?

1. A surplus will increase the accumulated fund and a deficit will reduce it.

2. It includes all monies received and paid during the year.

3. Members cannot make drawings from the accumulated fund.

4. The accumulated fund is shown as an asset in the statement of financial position.

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

28 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

29 Sam's work in progress was $6500 at the start of the year and $11 200 at the end of the year.

When Sam prepared his manufacturing account, he forgot to make the adjustment for work in progress.

How did this omission affect the cost of production and the gross profit?

	cost of production	gross profit
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

30 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

31 Miriam does not maintain a full set of accounting records. Only the purchases for the year and asset and liability values at the year end are known.

Which financial statements can be prepared using this information?

	income statement	statement of affairs
A	✓	✓
B	✓	✗
C	✗	✓
D	✗	✗

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32 Abhinav provided the following information.

	year ended 31 December 2019 $	year ended 31 December 2020 $
purchases	112 500	124 000
cost of sales	115 500	120 000

inventory	$
1 January 2019	7000
31 December 2019	4000
31 December 2020	8000

What was the rate of inventory turnover for the year ended 31 December 2020?

A 15 times **B** 20 times **C** 21 times **D** 30 times

33 Miranda's gross margin fell from 25% in year 1 to 15% in year 2.

What may have caused this?

A Miranda paid less for her purchases in year 2.

B Miranda purchased fewer goods in year 2.

C Miranda reduced her selling prices in year 2.

D Miranda sold fewer goods in year 2.

34 Ralph wants to compare the accounting ratios for his business with the accounting ratios of his brother's business.

What would prevent Ralph from making a meaningful comparison?

A The businesses buy from different suppliers.

B The businesses have different selling prices.

C The businesses present their ledger accounts differently.

D The businesses use different accounting policies.

35 Which statement correctly describes the principle of realisation?

A Profit is earned when a cheque is received from a customer in payment for goods supplied.

B Profit is earned when a cheque received from a customer is paid into the business bank account.

C Profit is earned when the goods are supplied, and ownership passes to the customer.

D Profit is earned when the customer places an order for the goods.

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