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Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/12**

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.

This document has **12** pages. Blank pages are indicated.

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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 What is **not** an example of a book-keeping entry?

A an entry made in the bank column of the cash book for a cheque received

B cost of goods purchased on credit entered in the supplier's account

C expenses paid during the year entered in the income statement

D goods returned by a customer entered in the sales returns journal

3 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

4 What does the owner's equity consist of?

A the amount of money in the business bank account

B the amount owed by the business to the owner

C the total of the assets owned by the business

D the total of the current assets less the current liabilities

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5 Which entries did Sally make to record the following transaction?

Rashid, a credit customer, returned damaged goods.

	account to be debited	account to be credited
A	purchase returns	Rashid
B	Rashid	purchase returns
C	sales returns	Rashid
D	Rashid	sales returns

6 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.

7 In which sections of Zamir's ledger would the following accounts be maintained?

1 the sales account

2 the account of Harjit, a trade receivable

	sales account	Harjit account
A	nominal (general) ledger	purchases ledger
B	nominal (general) ledger	sales ledger
C	purchases ledger	sales ledger
D	sales ledger	purchases ledger

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8 Sue allows 2% cash discount to credit customers who settle their account within 28 days. Jane purchased goods, list price $200, on 10 September. She returned these goods on 15 September.

Which entry would Sue make on 15 September?

A purchases returns journal $196

B purchases returns journal $200

C sales returns journal $196

D sales returns journal $200

9 A transaction was posted to the wrong account of the same class.

Which type of error was made?

A commission

B original entry

C principle

D reversal

10 Motor vehicle expenses, $50, were incorrectly debited to the motor vehicles account.

Which journal entry corrects this error?

		debit $	credit $
A	motor vehicle expenses	50	
	motor vehicles		50
B	motor vehicles	50	
	motor vehicle expenses		50
C	motor vehicles expenses	50	
	motor vehicles	50	
	suspense		100
D	suspense	100	
	motor vehicles expenses		50
	motor vehicles		50

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11 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

12 A trader's bank statement showed a credit balance of $2940. The following items had not been entered in the cash book.

	$
bank interest received	70
credit transfer	280

What was the debit balance in the cash book before it was updated?

A $2590 **B** $2730 **C** $3150 **D** $3290

13 What is a purpose of preparing a sales ledger control account?

A to identify irrecoverable debts

B to make fraud more difficult

C to provide the total owed to trade payables

D to show the total of cash and credit sales

14 George is preparing his purchases ledger control account.

Which information would he obtain from his general journal?

A contra entries with the sales ledger

B goods returned to credit suppliers

C irrecoverable debts written off

D refunds received from credit suppliers

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15 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

16 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

17 A machine which cost $32 000 was sold for $14 000. The total depreciation at the date of disposal was $15 000.

What was the profit or loss on disposal?

A $3000 profit

B $3000 loss

C $18 000 profit

D $18 000 loss

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18 Beena maintains a provision for doubtful debts of 3% of the trade receivables at the end of each financial year.

On 1 September 2019 the provision for doubtful debts was $900.

On 31 August 2020 the trade receivables amounted to $42 800.

Which journal entry did Beena make on 31 August 2020?

		debit $	credit $
A	income statement	384	
	provision for doubtful debts		384
B	income statement	1284	
	provision for doubtful debts		1284
C	provision for doubtful debts	384	
	income statement		384
D	provision for doubtful debts	1284	
	income statement		1284

19 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

20 What is **not** a service business?

A hairdressing salon

B accountant's practice

C supermarket

D computer repair shop

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21 The financial year of Peter ends on 30 September. On 1 August 2020 Peter received rent $1000. This covered the period from 1 July to 30 November 2020.

Which entry will be made in Peter's statement of financial position on 30 September 2020?

A current asset $400

B current asset $500

C current liability $400

D current liability $500

22 In addition to a share of the profit a partner receives interest on capital, a salary and is charged interest on drawings.

How are these recorded in the ledger accounts of the partner?

	interest on capital	salary	interest on drawings
A	credit capital account	credit current account	debit capital account
B	credit current account	debit capital account	credit current account
C	credit current account	credit current account	debit current account
D	debit current account	debit current account	credit current account

23 A sports club provided the following information.

	$
subscriptions for the year	26 800
profit on sale of refreshments	4 200
depreciation	1 500
rent and insurance	12 600
wages	3 200

What was the total income for the year?

A $15 800 **B** $17 300 **C** $22 600 **D** $31 000

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24 A club was formed on 1 July 2019.

During the year ended 30 June 2020 subscriptions received from members totalled $2500.

This included $120 paid in advance for the next financial year. Subscriptions outstanding on 30 June 2020 amounted to $280.

How much was recorded for subscriptions in the income and expenditure account for the year ended 30 June 2020?

A $2100 **B** $2500 **C** $2660 **D** $2780

25 Anthony does not keep a full set of accounting records. He knows his opening and closing cash balances and wishes to calculate his cash sales.

Which item does Anthony **not** need in order to calculate his cash sales?

A cash banked

B cash discount

C cash drawings

D cash expenses

26 A trader has not maintained a full set of accounting records.

How can she calculate the credit sales for the year?

A receipts from credit customers + closing trade receivables – discount allowed – opening trade receivables

B receipts from credit customers – closing trade receivables + discount allowed + opening trade receivables

C receipts from credit customers – closing trade receivables – discount allowed + opening trade receivables

D receipts from credit customers + closing trade receivables + discount allowed – opening trade receivables

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

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28 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.

29 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.

30 Meesha provided the following information for her first year of trading.

	$
sales (1000 units at $10 each)	10 000
cost of sales (1000 units at $4.50 each)	4 500
gross profit	5 500

In her second year of trading, Meesha reduced the selling price and sold 1500 units. Her gross profit decreased by $250. There was no change in the cost per unit.

What was the total value of sales in the second year of trading?

A $9750 **B** $10 250 **C** $12 000 **D** $12 500

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31 AB Limited and CD Limited both started business on 1 January 2019 with an ordinary share capital of $100 000. Neither company had any debentures or loans.

Both companies had the same profit in 2019.

Only AB Limited paid a dividend.

The return on capital employed (ROCE) was calculated using closing capital employed.

Which statement about AB Limited's ROCE is correct when compared to that of CD Limited?

A It is higher because the dividend reduced retained earnings.

B It is lower because the dividend reduced capital employed.

C It is lower because the dividend reduced the profit for the year.

D It is the same as that of CD Limited.

32 Which interested party uses the financial statements of a business to assess current performance and plan for future activities?

A banks

B employees

C government

D managers

33 The special skills of the employees are not recorded in the financial statements of a business.

Which accounting principle is being applied?

A historic cost

B materiality

C money measurement

D realisation

34 How can a business comply with the accounting principle of prudence?

	assets	losses
A	avoid overstating	avoid overstating
B	avoid overstating	avoid understating
C	avoid understating	avoid overstating
D	avoid understating	avoid understating

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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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