



Cambridge O Level

ACCOUNTING

7707/11

Paper 1 Multiple Choice

May/June 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.



1 Which statement is correct?

- A** Accounting involves measuring profits and losses.
- B** Accounting is the recording of financial transactions.
- C** Book-keeping involves communicating financial data.
- D** Book-keeping requires the use of ratio analysis.

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

	\$
loan from XY 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 On 2 April Nina received a cheque from Zaffar, a credit customer. On 12 April the cheque was returned unpaid by the bank.

What entry would Nina make on 12 April?

	account to be debited	account to be credited
A	irrecoverable debts	bank
B	irrecoverable debts	Zaffar
C	provision for doubtful debts	Zaffar
D	Zaffar	bank

- 4 Ann is a trader. On 1 April Cindy's account in Ann's ledger showed a credit balance of \$520. The following transactions took place during April.

April 2 Ann returned goods, \$30, to Cindy.

14 Ann bought goods, \$210, from Cindy, and paid in cash.

Which statement about the balance on Cindy's account in Ann's ledger on 30 April is correct?

- A Ann owes Cindy \$490.
 B Ann owes Cindy \$700.
 C Cindy owes Ann \$490.
 D Cindy owes Ann \$700.
- 5 Goods bought on credit by Tumelo from Tebogo are returned before they are paid for. Tumelo keeps a full double entry system.

Where will Tumelo record the return of goods?

- A cash book and sales ledger
 B general ledger only
 C general ledger and purchases ledger
 D purchases ledger only
- 6 Dave supplies goods to Peter on credit. On 1 April, Peter owed Dave \$440. Dave sent or received the following documents in April.

	\$
April 7 invoice	360
12 cheque (after deducting \$11 cash discount)	429
13 debit note	50
15 credit note	50

What was the closing balance on the statement of account on 30 April?

- A \$260 B \$310 C \$321 D \$421
- 7 What is recorded in the sales journal?
- A all money received from sales
 B all sales transactions
 C cash sales transactions
 D credit sales transactions

- 8 Which statement about a two-column cash book is correct?
- A It is a ledger account for bank transactions only.
 - B It is a ledger account for cash transactions only.
 - C It is a book of prime entry.
 - D It records cash discounts.
- 9 Which statements about trade discount are correct?
- 1 It is debited to the supplier's account.
 - 2 It is only given if the invoice is paid within the period allowed by the supplier.
 - 3 It is shown as a deduction from the price of the goods on an invoice.
 - 4 It is used to encourage bulk buying.
- A 1 and 2 B 1 and 3 C 2 and 4 D 3 and 4
- 10 Why is a trial balance prepared?
- A to analyse the financial information
 - B to assist preparation of financial statements
 - C to control the costs of the business
 - D to evaluate the performance of the business
- 11 The income statement of a business showed a loss for the year of \$16 000. On checking the books the following errors were discovered.
- 1 No adjustment had been made for insurance prepaid, \$480.
 - 2 No entry had been made for bank charges, \$620.

What was the correct loss for the year?

- A \$14 900 B \$15 860 C \$16 140 D \$17 100

- 12** Peter's bank statement showed a debit balance of \$600 on 1 April. The following transactions took place in April.

	\$
total cheque deposits	7400
total cheque payments	6200
direct debit for insurance premium	180
credit transfer from customer	450

What was the bank statement balance on 30 April?

- A** \$870 credit
B \$870 debit
C \$2070 credit
D \$2070 debit
- 13** A sales ledger control account had a debit balance of \$10 000.
- It was found that a \$2000 contra entry to the purchases ledger control account had been entered on the wrong side of the sales ledger control account.
- What was the correct debit balance on the sales ledger control account?
- A** \$6000 **B** \$8000 **C** \$12 000 **D** \$14 000
- 14** A business had a new extension to its workshop premises. It incurred the following expenditure.

	\$
building cost	65 000
legal fees	1 800
air conditioning system for the original workshop	2 300
air conditioning system for the new workshop extension	1 100
decorating the original workshop	1 400
decorating the new workshop extension	800

What was the total capital expenditure of the business?

- A** \$67 900 **B** \$70 200 **C** \$71 000 **D** \$72 400

- 15 A non-current asset was depreciated at the end of the first year of ownership using the straight-line method based on the following information.

cost	\$20 000
working life	4 years
residual value	\$4000

It was then found that the reducing balance method at 30% per annum should have been used.

What was the effect on the profit for the year of **correcting** this error?

- A decrease by \$2000
 B increase by \$2000
 C decrease by \$6000
 D increase by \$6000
- 16 A company's financial year ended on 31 December 2019. On 1 December 2019 it paid rent, \$8000, for the four months ending 31 March 2020.

What was the opening balance on the rent account on 1 January 2020?

- A \$2000 credit
 B \$2000 debit
 C \$6000 credit
 D \$6000 debit

- 17 Alice's financial year ends on 31 December.

The balances on her books on 1 January 2020 included the following.

	\$
commission receivable	250 debit
rent receivable	500 credit

What do these balances represent?

	commission receivable	rent receivable
A	income outstanding	income outstanding
B	income outstanding	income prepaid
C	income prepaid	income outstanding
D	income prepaid	income prepaid

- 18** Joseph sells goods on credit and maintains a provision for doubtful debts. He wants to increase his provision for doubtful debts by \$250.

Which journal entry records an increase in the provision for doubtful debts?

		debit \$	credit \$
A	credit customer income statement	250	250
B	income statement credit customer	250	250
C	income statement provision for doubtful debts	250	250
D	provision for doubtful debts income statement	250	250

- 19** Which items are deducted from the gross profit when calculating the profit for the year?

- 1 balance on the provision for doubtful debts account
- 2 carriage paid on goods supplied to customers
- 3 drawings made by the owner during the year
- 4 wages paid to employees during the year

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

- 20** On 31 December 2019 John had net assets of \$2000 and capital of \$2000.

On 1 January 2020, goods costing \$140 were sold on credit for \$220.

What was the effect of this transaction on the statement of financial position?

	net assets	capital
	\$	\$
A	80 decrease	80 decrease
B	80 increase	80 increase
C	220 decrease	220 decrease
D	220 increase	220 increase

- 21 At the end of his financial year, Raminder made an adjustment for rent owed by a tenant.

How did this affect Raminder's financial statements?

	profit for the year	current assets
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 22 The owner of a business took goods for his own use but forgot to make an entry in the accounts.

What was the **effect** of this error?

	profit for the year	capital employed
A	overstated	no effect
B	overstated	understated
C	understated	no effect
D	understated	overstated

- 23 Rajid and Sunil formed a partnership on 1 January 2019 but did not prepare a partnership agreement.

They provided the following information.

	Rajid	Sunil
capital introduced 1 January 2019	\$40 000	\$20 000
during the year ended 31 December 2019		
drawings	\$5 000	\$3 500
share of work	50%	50%

They decided to draw up a partnership agreement for future years.

Which item would be most beneficial to Rajid in 2020?

- A** interest on capital
- B** interest on drawings
- C** limit on annual drawings
- D** partnership salaries

- 24** Harry and Jane are in partnership. The following information relates to Harry for the financial year.

	\$
salary	8000
drawings	2800
share of profit	4600

The opening credit balance on Harry's current account was \$28 200.

What was the closing balance on his current account?

- A** \$30 000 **B** \$38 000 **C** \$40 800 **D** \$43 600
- 25** Which item is shown in the income statement of a company **and** statement of changes in equity?
- A** interest on debentures accrued
- B** ordinary share dividend paid
- C** profit for the year
- D** transfer to general reserve
- 26** Hassan's capital decreased by \$200 over the year, even though he made a profit of \$7000.

Which transactions caused this?

	capital introduced \$	drawings \$
A	1000	8200
B	1200	6000
C	2000	8800
D	2200	4600

27 Ahmed provided the following information.

	\$
trade receivables at 1 January 2019	15 000
for the year ended 31 December 2019:	
credit sales	85 000
cash sales	12 000
cheques received from trade receivables	65 000
irrecoverable debts	2 000

By how much had the trade receivables **increased** by the end of the financial year?

- A** \$18 000 **B** \$30 000 **C** \$33 000 **D** \$45 000

28 Gordon provided the following information for the year.

revenue	\$90 000
opening inventory	\$8 000
closing inventory	\$2 000
mark up	50%

Gordon took goods, \$7000, for his own use.

What were the purchases?

- A** \$43 000 **B** \$47 000 **C** \$54 000 **D** \$61 000

29 A trader provided the following information.

	\$
for the year ended 31 March 2020	
revenue	250 000
purchases: cash	125 000
credit	115 000
at March 2020	
trade payables	9 765

What was the trade payables turnover?

- A** 14 days **B** 15 days **C** 29 days **D** 31 days

- 30** On 1 January 2019 current assets totalled \$16 000 and the current ratio was 2 : 1.

On 31 December 2019 the current liabilities had increased by 50% and the current ratio was 1.5 : 1.

What was the value of the current assets on 31 December 2019?

- A** \$16 000 **B** \$18 000 **C** \$32 000 **D** \$36 000

- 31** A company provided the following information about its liquid (acid test) ratio.

Year 1 1.2 : 1

Year 2 1.4 : 1

Year 3 1.6 : 1

Which would explain the changes in the ratio?

- A** Inventory is increasing.
B Other payables are decreasing.
C Trade payables are increasing.
D Trade receivables are decreasing.

- 32** Which user of accounting statements is interested in past performance and taking remedial action where necessary?

- A** government
B investors
C managers
D suppliers

- 33** Rashid's financial year ends on 31 December. He paid rent on 1 February, 1 May, 1 August and 1 November.

An adjustment was made in the income statement for rent prepaid.

Which accounting principle was applied?

- A** duality
B matching
C money measurement
D prudence

34 Which statement describes the going concern principle?

- A** Accounting methods must be used consistently from one accounting period to the next.
- B** It is assumed that the business will continue to operate for the foreseeable future.
- C** Revenue is earned when legal title to goods passes from the seller to the buyer.
- D** The business is treated as being completely separate from the owner of the business.

35 Brad purchased a machine for \$1000 on 1 January 2019. The machine was expected to last for four years and have no residual value. On 31 December 2019 the same machine cost \$1200 to purchase.

At which value should the machine be included in the statement of financial position on 31 December 2019?

- A** current cost with no depreciation
- B** current cost with one year's depreciation
- C** original purchase price with no depreciation
- D** original purchase price with one year's depreciation

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