Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/11**

Paper 1 Multiple Choice **May/June 2021**

1 hour 15 minutes

You must answer on the multiple choice answer sheet.

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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.

1 Which statements about book-keeping and accounting are correct?

1 Accounting is performed periodically rather than daily.

2 Accounting relies on having accurate book-keeping records.

3 Book-keeping includes the preparation of financial statements.

4 Book-keeping involves the recording of financial transactions.

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

2 What increases owner's capital?

A bank loan extended from five to ten years

B purchase of inventory on credit

C purchase of machinery by cheque

D transfer of vehicle to business from private use

3 Carl, a trader, took goods from the business for his own use. These goods had cost $100, and $8 carriage had been paid for them to be delivered to the business.

How would this be recorded in Carl's accounts in the books of the business?

A debit Carl's capital account $100

B debit Carl's capital account $108

C debit Carl's drawings account $100

D debit Carl's drawings account $108

4 Shula's financial year ends on 31 March. On 1 April 2021 there was a credit balance of $100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

A Shula had paid $100 to Yasmin.

B Shula owed $100 to Yasmin.

C Yasmin had paid $100 to Shula.

D Yasmin owed $100 to Shula.

5 Hasina buys radios from Nazneen at a list price of $10 each. Hasina bought 12 radios and was offered 20% trade discount and 4% cash discount. Two radios were faulty and were returned to Nazneen.

What was the total of the credit note issued by Nazneen?

A $15.36 **B** $16.00 **C** $19.20 **D** $20.00

6 Which items would be recorded in the general journal of a bakery?

1 correction of an error of principle relating to an oven repair

2 purchase of a delivery vehicle on credit

3 purchase of flour on credit

4 return by a customer of a faulty batch of bread

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

7 Alisha entered the credit notes she received in March in the correct returns journal.

How was the total of this journal recorded in the ledger at the end of the month?

A credit purchases returns account

B credit sales returns account

C debit purchases returns account

D debit sales returns account

8 Which item would **not** be shown on a bank statement?

A a cheque returned by the bank marked as 'refer to drawer'

B a monthly payment made for electricity by direct debit

C bank charges

D unpresented cheques

9 Which statement about a purchases ledger control account is **not** correct?

A It acts as a check on the balance of the purchases account.

B It includes transactions relating to all the credit suppliers.

C It is prepared using information from the books of prime entry.

D It provides proof of the arithmetical accuracy of the purchases ledger.

10 Javid's sales ledger control account had a debit balance of $12 000. Interest on an overdue account, $40, and discount allowed, $150, had been omitted.

What was the correct balance on the sales ledger control account?

A $11 810 **B** $11 890 **C** $12 110 **D** $12 190

11 What is the effect of treating an item of capital expenditure as revenue expenditure?

1 Cost of non-current assets is overstated.

2 Cost of non-current assets is understated.

3 Depreciation for the year is overstated.

4 Depreciation for the year is understated.

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

12 Why does a business provide for depreciation on non-current assets?

A to charge the cost of non-current assets against profit in the year of purchase

B to ensure that non-current assets appear at book value in the statement of financial position

C to ensure that the matching principle is applied when preparing financial statements

D to retain cash in the business for replacement of non-current assets

13 Machinery which had cost $6290 was sold for $3100. The disposal account showed a profit on disposal of $584.

How much was the depreciation up to the date of disposal and on which side of the disposal account was it recorded?

A $2606 on the credit side

B $2606 on the debit side

C $3774 on the credit side

D $3774 on the debit side

14 The following ledger account appeared in the books of a trader.

Rent receivable account					
		$			$
2020			2020		
Dec 31	balance c/d	600	Jan 1	balance b/d	400
			Dec 31	bank	3600

Which entry was made in the income statement for the year ended 31 December 2020 for rent receivable?

A $3400 credit

B $3400 debit

C $3800 credit

D $3800 debit

15 Why does a business maintain a provision for doubtful debts account?

A to apply the accounting principle of prudence

B to avoid profit for the year being understated

C to have an accurate forecast of debts which will be uncollectible

D to reduce the expense of irrecoverable debts in the future

16 How should inventory be valued?

A cost

B higher of cost and net realisable value

C lower of cost and net realisable value

D net realisable value

17 What are the advantages of being a sole trader?

	easy to raise finance	entitled to all profit	has total control	has unlimited liability
A	✓			✓
B			✓	✓
C	✓	✓	✓	
D		✓	✓	

18 Which items would appear in the income statement of a service business?

	gross profit	profit for the year	surplus
A	✓	✓	✗
B	✓	✗	✓
C	✗	✓	✗
D	✗	✗	✓

19 A business provided the following information.

	$
long-term loan	20000
trade receivables	12000
trade payables	9700
bank overdraft	2000
prepaid insurance	400
accrued wages	1000
rent receivable prepaid	500

What was the total of the current liabilities?

A $13200 **B** $15400 **C** $31200 **D** $32700

20 What is added to owner's capital to calculate capital employed?

A current assets

B current liabilities

C non-current assets

D non-current liabilities

21 On 1 April 2020 Ahmed had a provision for doubtful debts of $290. The following journal entry was made on 31 March 2021.

	debit $	credit $
provision for doubtful debts	25	
income statement		25

What was the provision for doubtful debts deducted from trade receivables in Ahmed's statement of financial position on 31 March 2021?

A $25 **B** $265 **C** $290 **D** $315

22 X Limited started the year with an ordinary share capital of $100 000.

An ordinary share dividend of $3000 was paid during the year.

Later a further $10 000 of ordinary shares were issued.

The profit for the year was $8000.

By how much had equity increased at the end of the year?

A $7000 **B** $10 000 **C** $15 000 **D** $18 000

23 Which providers of funds to a limited liability company receive a fixed rate of return on their investment?

	ordinary shareholders	preference shareholders	debenture holders
A	✓	✓	✓
B	✓	✗	✓
C	✗	✓	✓
D	✗	✓	✗

24 Every member of a sports club is required to pay an annual subscription of $50. The subscriptions account showed the following.

Subscriptions account					
		$			$
2020			2020		
Jan 1	Balance b/d	350	Dec 31	Bank	10 950
Dec 31	Income and expenditure account	10 900		Balance c/d	750
	Balance c/d	450			
		11 700			11 700
2021			2021		
Jan 1	Balance b/d	750	Jan 1	Balance b/d	450

What was the **increase** in the number of members in arrears between 1 January and 31 December 2020?

A 2 members

B 6 members

C 8 members

D 17 members

25 Which term is used to describe the surpluses which have been earned by a club over its lifetime?

A accumulated fund

B capital

C retained earnings

D subscriptions

26 Nula provided the following information for the year ended 31 March 2021.

	$
drawings for the year	3 900
net assets at 1 April 2020	60 500
net assets at 31 March 2021	72 275

What was the profit or loss for the year ended 31 March 2021?

A $7875 loss

B $7875 profit

C $15 675 loss

D $15 675 profit

27 A trader who does not keep full accounting records was able to supply the following information.

	$
amount owed by trade receivables at 1 April 2020	3 000
cheques received from trade receivables during the year	28 000
cash discounts given to trade receivables	1 500
amount owed by trade receivables at 31 March 2021	4 200

How much were the credit sales for the year ended 31 March 2021?

A $25 300 **B** $27 700 **C** $28 300 **D** $30 700

28 A trader provided the following information.

	$
revenue	120 000
inventory at the start of the year	9 600
inventory at the end of the year	10 200

A mark-up of 25% is applied.

What were the purchases for the year?

A $89 400 **B** $90 600 **C** $95 400 **D** $96 600

29 George provided the following information.

	$
non-current assets	15 000
inventory	12 000
trade receivables	18 000
trade payables	8 000

His liquid (acid test) ratio was 1.2 : 1.

What was his bank overdraft?

A $7000 **B** $15 000 **C** $17 000 **D** $29 500

30 A trader provided the following information.

	$	$
revenue		3600
opening inventory	100	
purchases	2600	
	2700	
closing inventory	300	2400
gross profit		1200

It was found that the closing inventory should have been $400.

What was the correct rate of inventory turnover?

A 6 times

B 8 times

C 9.2 times

D 14.4 times

31 The current ratio of X is 2 : 1. The current ratio of Y is 1.3 : 1.

What does a comparison of these ratios show?

A X has fewer liabilities than Y.

B X has more liquidity than Y.

C Y has fewer current assets than X.

D Y has more inventory than X.

32 Which external parties would be interested in the financial statements of a trader?

1 a bank manager considering a request by the trader for a loan

2 a trade union seeking a wage increase for the employees

3 the business manager making decisions about how to increase profits

4 the trader deciding if drawings could be increased

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

33 Sabeena runs a retail business. She plans to close her business in a few weeks' time.

How should her fixtures and fittings be valued in the statement of financial position?

A at book value

B at expected sales value

C at original cost

D at replacement cost

34 Why should a trader match his costs for a financial year with the revenues for the same period?

A to account for all liabilities

B to account for money that has been paid in advance

C to make sure outstanding income is included

D to show the correct profit figure

35 Which international accounting objectives are described by the following statements?

1 Information in financial statements must be free from material error and bias.

2 Users must be able to identify differences and similarities between information in different financial statements.

	statement 1	statement 2
A	comparability	understandability
B	reliability	comparability
C	reliability	understandability
D	understandability	reliability

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