



Cambridge O Level

ACCOUNTING

7707/01

Paper 1 Multiple Choice

For examination from 2020

SPECIMEN PAPER

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 **10** pages. Blank pages are indicated.



1 What is the purpose of book-keeping?

- A to interpret the double entry records
- B to prepare financial statements at regular intervals
- C to record all the financial transactions of the business
- D to summarise the financial position of the business

2 What are assets?

- A items that are bought for long-term use by a business
- B items that are expected to be turned into cash in the near future
- C items that are owned by or owed **by** a business
- D items that are owned by or owed **to** a business

3 Sami returns goods bought on credit from Javed.

How does Javed record this in his books?

	account debited	account credited
A	purchases returns	Sami
B	sales returns	Sami
C	Sami	purchases returns
D	Sami	sales returns

4 At the end of the financial year there was a debit balance brought down on the office expenses account.

In which section of the statement of financial position will this be recorded?

- A capital
- B current assets
- C current liabilities
- D non-current assets

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

Rent account					
		\$			\$
Jan 1	balance b / d	600	Dec 31	income statement	7250
Dec 31	bank	6300			
	balance c / d	<u>350</u>			<u> </u>
		<u>7250</u>			<u>7250</u>

What does the balance on 31 December represent?

- A** rent payable outstanding
- B** rent payable prepaid
- C** rent receivable outstanding
- D** rent receivable prepaid
- 6 Karim issued an invoice, a credit note and a receipt.
- What has happened?
- A** Karim purchased goods and paid the supplier immediately.
- B** Karim purchased goods on credit, made returns to the supplier and paid the balance due.
- C** Karim sold goods and received immediate payment from the customer.
- D** Karim sold goods on credit, received returns from the customer and received the balance due.
- 7 A trader's purchases on credit for April amounted to \$2000. These purchases were subject to a trade discount of 10% and also a cash discount of 5% for accounts paid within 30 days.
- How much was entered in the purchases journal?
- A** \$1700 **B** \$1800 **C** \$1900 **D** \$2000
- 8 Which is part of the double entry system?
- A** cash book
- B** general journal
- C** sales journal
- D** trial balance

- 9 What is a trial balance?
- A a list of balances in a business's books on a certain date
- B a list of the assets, liabilities and capital of a business on a certain date
- C a summary of all a business's transactions for the year
- D a summary of the financial position of a business at the year end
- 10 Which error will be revealed by the preparation of a trial balance?
- A an amount recorded twice as a debit entry
- B a capital expenditure item treated as revenue expenditure
- C a double entry made using an incorrect amount
- D a transaction completely omitted from the books
- 11 Tracey runs a clothing store. She sold a computer with a net book value of \$2000 for \$1800. Cash was received but no entries had been made in any accounts.

What is the effect of correcting this error on the statement of financial position?

	non-current assets	current assets
	\$	\$
A	decrease 1800	increase 1800
B	decrease 1800	increase 2000
C	decrease 2000	increase 1800
D	decrease 2000	increase 2000

- 12 The bank statement of a business showed a bank overdraft of \$1640 on 1 October 2017.

At that date there were uncredited deposits of \$380 and unrepresented cheques of \$460.

What was the cash book balance on 1 October 2017?

- A \$1560 credit
- B \$1560 debit
- C \$1720 credit
- D \$1720 debit

13 What are the sources of information for entries in control accounts?

- A bank statements
- B books of prime entry
- C ledger accounts
- D sales invoices

14 A trader provided the following information.

		\$
1 March	purchases ledger control account balance	4 000
31 March	purchases journal total	53 000
	purchases returns journal total	2 000
	cheques paid to suppliers	47 000
	discounts received	1 000

What was the purchases ledger control account balance on 31 March?

- A \$7 000 B \$9 000 C \$11 000 D \$13 000

15 Ryan bought a computer, cost \$800, and some ink cartridges, cost \$50, for use in the business. Both of these amounts were debited to the purchases account.

What was the effect of this error on the income statement for the year?

	cost of sales		expenses	
		\$		\$
A	overstated	800	understated	850
B	overstated	850	understated	50
C	understated	800	overstated	850
D	understated	850	overstated	50

16 For which non-current assets is the revaluation method of depreciation **most** appropriate?

- A loose tools
- B motor vehicles
- C office equipment
- D plant and machinery

- 17 Amit depreciates his buildings at the rate of 2% per annum using the straight line method.

He bought land for \$200 000. It cost \$120 000 to build a warehouse on it. After five years he sold the warehouse for \$299 000.

What was the profit or loss on disposal?

- A \$9 000 loss
 B \$9 000 profit
 C \$11 000 loss
 D \$11 000 profit
- 18 Why should accrued expenses be shown in the financial statements of a business?
- A so that the correct total of current assets is shown in the statement of financial position
 B so that the total income of a period is matched against the total costs of that period
 C to show how much customers owe the business
 D to show the amount owed to credit suppliers
- 19 A trader sold goods to Zahid on credit. Zahid was unable to pay the amount owing and the balance on his account was written off.

Which entries will the trader make to write off this irrecoverable debt?

	account to be debited	account to be credited
A	irrecoverable debts	sales
B	irrecoverable debts	Zahid
C	sales	irrecoverable debts
D	Zahid	irrecoverable debts

- 20 Sumit maintains a provision for doubtful debts at 5% of the trade receivables at the end of each financial year. On 1 January 2016 the trade receivables amounted to \$3500 and the provision for doubtful debts was \$175.

The income statement for the year ended 31 December 2016 was debited with \$15 for the provision of doubtful debts.

How much did the trade receivables owe on 31 December 2016?

- A \$3040
 B \$3200
 C \$3610
 D \$3800

- 21 Which group contains **only** trading businesses?
- A driving school, motor insurance agency, vehicle repair business
- B driving school, motor insurance agency, petrol station
- C motor parts shop, vehicle repair business, car dealership
- D motor parts shop, petrol station, car dealership

- 22 Which statement is correct?
- A cost of goods sold – gross profit – sales returns = revenue
- B cost of goods sold – gross profit + sales returns = revenue
- C cost of goods sold + gross profit – sales returns = revenue
- D cost of goods sold + gross profit + sales returns = revenue

- 23 How is capital employed calculated?
- A current assets – current liabilities
- B non-current assets + current assets
- C owner's capital + non-current liabilities
- D owner's capital + total liabilities

- 24 Which should be entered in the appropriation account of a partnership?

	interest on partners' capital	interest on partners' loans	partners' drawings
A	✓		
B	✓		✓
C	✓	✓	
D		✓	✓

- 25 Meena and Khan are in partnership, sharing profits and losses equally. Interest on capital account balances is to be allowed at 5%.

The capital account balances at the start of the year were: Meena \$10 000; Khan \$20 000.

The profit for the year was \$28 000.

How much was credited to Meena's current account at the end of the year?

- A** \$13 250 **B** \$13 750 **C** \$14 000 **D** \$14 250

26 Zed Limited provided the following information.

	\$
issued and paid up share capital	200 000
general reserve	30 000
retained earnings	15 000
10% debentures	20 000

What was the value of equity?

- A** \$215 000 **B** \$230 000 **C** \$245 000 **D** \$265 000

27 The issued share capital of DX Limited consists of ordinary shares.

The retained earnings were \$45 000 on 1 September 2016. These had increased to \$75 000 on 31 August 2017. The company earned a profit for the year of \$80 000.

What was the total ordinary share dividend for the year?

- A** \$30 000 **B** \$35 000 **C** \$45 000 **D** \$50 000

28 A club provided the following information for a year.

	\$
Receipts	21 600
Payments	20 000
Depreciation charged for the year	1 250
Accumulated fund at the year end	15 800

There were no accruals and prepayments and there had been no capital expenditure or capital receipts.

What was the accumulated fund at the start of the year?

- A** \$12 950 **B** \$14 200 **C** \$15 450 **D** \$16 150

29 A club provided the following information at the end of its financial year:

rent of premises paid in advance
outstanding subscriptions from members

Where will these items appear in the club's statement of financial position?

	rent paid in advance	outstanding subscriptions
A	current asset	current asset
B	current asset	current liability
C	current liability	current asset
D	current liability	current liability

30 Which is an indirect cost?

- A carriage inwards
- B factory rent
- C production materials
- D production wages

31 A trader provided the following information.

		\$
1 August 2016	capital	25 000
31 July 2017	assets	75 000
	liabilities	36 500
	drawings during the year	7 500

What was the profit for the year ended 31 July 2017?

- A \$6 000 B \$13 500 C \$17 500 D \$21 000

32 A business provided the following information.

revenue for year	\$189 000
purchases for year	\$125 000
gross profit as a percentage of cost of sales	25%

What was the gross profit for the year?

- A \$31 250 B \$37 800 C \$47 250 D \$64 000

33 Donald's rate of inventory turnover was 10 times. The inventory on 1 January 2017 was \$800 and the inventory on 31 December 2017 was \$1 000.

What were his purchases for the year?

- A \$8 800 B \$9 000 C \$9 200 D \$10 800

34 What is the going concern principle?

- A Accounting records are prepared assuming that the business will continue to operate in the foreseeable future.
- B Income and expense should be accounted for in the same way they were accounted for in previous periods.
- C Profit should not be anticipated and losses should be written off as soon as they are known.
- D Revenue and costs should be recognised as they are earned or incurred, not when the money is received or paid.

35 Which accounting objective is being applied when financial information affects business decisions?

- A comparability
- B relevance
- C reliability
- D understandability

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