



# Cambridge O Level

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## ACCOUNTING

7707/12

Paper 1 Multiple Choice

October/November 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)

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## 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.

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This document has **16** pages. Any blank pages are indicated.



- 1 A trader prepares financial statements each year.

What do these help 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 A trader bought new fixtures. He paid half the purchase price in cash and agreed to pay the balance at a later date.

How does this purchase affect the accounting equation?

	assets	owner's equity	liabilities
A	decrease	decrease	no effect
B	decrease	no effect	increase
C	increase	decrease	increase
D	increase	no effect	increase

- 3 Which account is **not** kept in the nominal ledger?

- A capital
- B cash
- C inventory
- D purchases

- 4 On 15 February Kalou made the following entries in his accounts.

debit	\$	credit	\$
bank	228	Droghba	240
discount allowed	12		

Which transaction was being recorded?

- A Droghba paid Kalou by cheque after taking a cash discount.
  - B Droghba paid Kalou by cheque after taking a trade discount.
  - C Kalou paid Droghba by cheque after taking a cash discount.
  - D Kalou paid Droghba by cheque after taking a trade discount.
- 5 Ranjit is a credit customer of Balbir. In April the following activities took place.

Balbir sold goods on credit to Ranjit.

Ranjit advised Balbir that some of the goods were damaged.

Balbir advised Ranjit of a reduction in the amount owing.

Which documents were used to record these activities?

- A debit note, credit note and receipt
  - B invoice, credit note and receipt
  - C invoice, credit note and statement of account
  - D invoice, debit note and credit note
- 6 What is an advantage to a business of maintaining books of prime entry?
- A A trial balance can be extracted directly from books of prime entry.
  - B Similar transactions are listed together in date order for reference.
  - C There is no need to make double entries in the ledger.
  - D Trade receivables and trade payables totals are readily available.

7 Which items appear on the debit side of a trial balance?

- 1 amounts owed from credit customers
- 2 discount received from credit suppliers
- 3 drawings made by the owner
- 4 overdrawn balance at the bank

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

8 A trader had prepared her year-end financial statements. She later discovered that an adjustment to reduce the provision for doubtful debts by \$100 had not been made.

How did this error affect the trader's statement of financial position?

	current assets		capital	
		\$		\$
<b>A</b>	overstated	100	overstated	100
<b>B</b>	overstated	100	understated	100
<b>C</b>	understated	100	overstated	100
<b>D</b>	understated	100	understated	100

9 A trader's draft income statement showed a profit for the year of \$24 500.

The following errors were later discovered.

- 1 No adjustment had been made for accrued income of \$8000.
- 2 Carriage inwards of \$250 had been recorded as carriage outwards.
- 3 An increase in provision for doubtful debts of \$120 had been treated as an addition to the gross profit for the year.

What was the corrected profit for the year?

**A** \$32 010      **B** \$32 260      **C** \$32 380      **D** \$32 740

- 10 The bank statement of a business had a credit balance of \$2690 on 31 October. At that date cheques issued which had not been presented totalled \$850.

What was the bank balance in the cash book on 31 October?

- A \$1840 credit
  - B \$1840 debit
  - C \$3540 credit
  - D \$3540 debit
- 11 The bank column of a trader's cash book showed an overdrawn balance of \$1200. When the trader compared the cash book with the bank statement he found the following items were **not** included in the cash book.

	\$
bank charges	100
credit transfer	400
direct debit	60

What was the balance brought down in the bank column of the cash book after it was updated?

- A \$960 credit
  - B \$960 debit
  - C \$1640 credit
  - D \$1640 debit
- 12 What is an advantage of preparing a monthly sales ledger control account?
- A It is necessary to prepare the income statement.
  - B It helps to reduce the possibility of fraud .
  - C It provides a check on the accuracy of trade payables' accounts.
  - D It shows the total of the cash sales and credit sales.

- 13** A summary of Jim's cash book for the year included the following:

	\$
total cheques paid to suppliers	3750
total discount received	65

Which entries are made in his purchases ledger control account?

	debit	\$	credit	\$
<b>A</b>	bank	3750	discount received	65
<b>B</b>	bank discount received	3750 65	—	—
<b>C</b>	—	—	bank discount received	3750 65
<b>D</b>	discount received	65	bank	3750

- 14** Hamid owns a grocery store. He bought a motor vehicle, \$2000, and fuel, \$50. Both of these amounts were incorrectly debited to the purchases account.

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

	gross profit		motor vehicle expenses	
		\$		\$
<b>A</b>	overstated	2000	overstated	2050
<b>B</b>	overstated	2050	overstated	50
<b>C</b>	understated	2000	understated	2050
<b>D</b>	understated	2050	understated	50

- 15** Which statements are correct about depreciation?

- 1 It is a non-cash expense item.
- 2 It is an estimated amount.
- 3 It is the amount of money set aside to replace a non-current asset.
- 4 It is a gradual loss in the value of a current asset.

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

- 16** A machine with an original cost of \$10 000 had been depreciated for two years at the rate of 10% per annum using the straight-line method. It was then sold for cash with the loss on disposal amounting to \$700.

A replacement machine was bought on the same day for \$12 400 cash.

What was the net decrease in the cash balance?

- A** \$3700                      **B** \$5100                      **C** \$11 700                      **D** \$13 100

- 17** Abdul is a trader. He rents out part of his warehouse to other businesses.

Abdul is preparing his financial statements for the year ended 31 December. His rental income account shows that:

rent received during the year totalled \$2750

rental income transferred to the income statement was \$3000

What does the closing balance on the rental income account represent?

- A** accrued income  
**B** an accrued expense  
**C** an expense paid in advance  
**D** income received in advance

- 18** What is the journal entry required to close the irrecoverable debts account at the year end?

	account to be debited	account to be credited
<b>A</b>	income statement	irrecoverable debts
<b>B</b>	irrecoverable debts	income statement
<b>C</b>	irrecoverable debts	trade receivables
<b>D</b>	trade receivables	irrecoverable debts

**19** After preparing draft financial statements at the end of her first year of trading, Lucy discovered two errors.

- 1 Damaged inventory had been valued at its cost price of \$340. It was expected to sell for \$180.
- 2 100 items which had been expected to sell for \$12 each had been valued at their cost price of \$7 each. Carriage inwards of \$1 for each item had not been included in the cost.

What was the effect of these errors on the gross profit?

- A** overstated \$60
- B** overstated \$240
- C** understated \$60
- D** understated \$240

**20** Which items would appear in the income statement for an accountancy business?

	gross profit	profit for the year	surplus
<b>A</b>	✓	✓	✗
<b>B</b>	✓	✗	✓
<b>C</b>	✗	✓	✗
<b>D</b>	✗	✗	✓

**21** A business provided the following information.

	\$
long-term loan	20 000
trade receivables	12 000
trade payables	9 700
bank overdraft	2 000
prepaid insurance	400
accrued wages	1 000
rental income prepaid	500

What was the total of the current liabilities?

- A** \$13 200
- B** \$15 400
- C** \$31 200
- D** \$32 700



**22** What is an advantage to a trader of forming a partnership?

- A** continuity of existence
- B** decision making is quicker
- C** profits are shared
- D** risks are shared

**23** Which items should be entered in the appropriation account of a partnership?

	interest on partners' drawings	interest on partners' loans	partners' drawings
<b>A</b>	✓		
<b>B</b>	✓		✓
<b>C</b>	✓	✓	
<b>D</b>		✓	✓

**24** X Limited provided the following information.

	\$
ordinary share capital	300 000
general reserve	50 000
retained earnings	35 000
8% debenture	60 000

What was the total of the equity?

- A** \$335 000      **B** \$350 000      **C** \$385 000      **D** \$445 000

**25** Which item is shown in the income statement **and** in the statement of changes in equity of a limited company?

- A** accrued interest on debentures
- B** ordinary share dividend paid
- C** profit for the year
- D** transfer to general reserve

- 26** The Daylee Sports Club was formed in January. During its first year the club purchased equipment costing \$5000, paying by cheque.

Which of the club's financial statements are affected by the purchase of this equipment?

	receipts and payments account	income and expenditure account	statement of financial position
<b>A</b>	✓	✓	
<b>B</b>	✓		✓
<b>C</b>		✓	✓
<b>D</b>			✓

- 27** The following ledger account appeared in the books of a club for the year ended 31 December.

Subscriptions account					
		\$			\$
Jan 1	Balance b/d	2 000	Dec 31	Bank	29 000
Dec 31	Income and expenditure	24 000			
	Balance c/d	<u>3 000</u>			<u>      </u>
		<u>29 000</u>			<u>29 000</u>

Which statement is correct?

- A** Subscriptions prepaid on 1 January amounted to \$2000.  
**B** Subscriptions prepaid on 31 December amounted to \$3000.  
**C** Subscriptions received during the year ended 31 December amounted to \$24 000.  
**D** Subscriptions relating to the year ended 31 December amounted to \$29 000.

- 28** After a manufacturing account had been completed it was discovered that wages paid to factory cleaners had not been included.

Which items in the manufacturing account would change **after** this error was corrected?

- 1 direct wages
- 2 indirect wages
- 3 prime cost
- 4 production cost

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

- 29** W Limited manufactures motorbikes. The following information relates to the first year in business.

	\$
purchases of motorbike parts	40 000
wages of factory workers	25 000
production overheads	8 000
inventory of motorbike parts at the year end	3 000
inventory of partly finished motorbikes at the year end	7 000

What was the cost of production of the motorbikes completed during the year?

**A** \$63 000      **B** \$65 000      **C** \$70 000      **D** \$77 000

- 30** Anya did not keep a full set of double entry records but provided the following information.

	\$
At 1 February 2022 capital	10 000
At 31 January 2023 bank overdraft	1 500
equipment	20 000
inventory	2 000
trade receivables	15 000
trade payables	10 500

Anya's drawings during the year ended 31 January 2023 were \$8500.

What was her profit for the year ended 31 January 2023?

- A** \$23 500      **B** \$25 000      **C** \$26 500      **D** \$29 500

- 31** A jewellery retailer marks up his goods by 100%.

He provided the following information.

	\$
revenue	68 200
discount received	1 080
profit for the year	18 395

What was the total of his expenses?

- A** \$14 625      **B** \$16 785      **C** \$48 725      **D** \$50 885

- 32** Omar had an increase in his gross profit margin.

What could have caused this?

- A** a decrease in the selling price of his goods  
**B** an increase in the quantity of goods purchased  
**C** a decrease in the purchase price of his goods  
**D** an increase in the quantity of goods sold

- 33** Who would be interested in the value of non-current assets which a business has available as security?
- A** bank manager
  - B** credit customers
  - C** employees and trade unions
  - D** government departments
- 34** Which accounting principle is the accounting equation based on?
- A** duality
  - B** going concern
  - C** materiality
  - D** realisation
- 35** Which qualitative factor requires that financial information is provided in a timely manner so that it can be used for decision making?
- A** comparability
  - B** relevance
  - C** reliability
  - D** understandability

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