

Cambridge O Level

ACCOUNTING

7707/01

Paper 1 Multiple Choice

For examination from 2027

SPECIMEN PAPER

1 hour 30 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 **forty** 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 or tape.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 40.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **14** pages. Any blank pages are indicated.



- 1 Ava is a trader who uses an accounting software package and employs a book-keeper.

Why should Ava also use an accountant?

- A to check the totals of the invoices input by the book-keeper
- B to extract a trial balance and prepare the financial statements
- C to provide advice on improving profits and cash flow
- D to record and manage online and manual payments

- 2 What are assets?

- A amounts that the business must repay within 12 months
- B items that are owned by or owed to the business
- C monies owed by the business to the owner
- D outflows of cash in return for goods and services

- 3 Stephanie returns goods bought on credit from Javed.

How does Javed record this in his books?

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

- 4 The following ledger account appeared in the book-keeping records of a trader.

rent account					
		\$			\$
Jan 1	balance b/d	600	Dec 31	statement of profit or loss	7250
Dec 31	bank	6300			
	balance c/d	<u>350</u>			
		<u>7250</u>			<u>7250</u>

What does the balance on 31 December represent?

- A** rent expense outstanding
- B** rent expense prepaid
- C** rent income outstanding
- D** rent income prepaid
- 5 What are features of ledger accounts which use the three-column running balance format?
- 1 often used in accounting software
 - 2 often used on bank statements
 - 3 show the balance after each transaction
 - 4 show totals after each transaction
- A** 1, 2, 3 and 4
- B** 1, 2 and 3 only
- C** 1, 3 and 4 only
- D** 2 and 3 only
- 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 What is a trial balance?
- A** a list of balances in the ledger accounts at a certain date
B a list of sales ledger and purchases ledger balances at the month end
C a summary of income and expenses for the year
D a summary of assets, liabilities and capital at the year end
- 9 Which error will be revealed by the preparation of a trial balance?
- A** an amount recorded as a debit entry twice
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
- 10 Maya has prepared the following suspense account.

suspense account			
	\$		\$
difference on the trial balance	400	purchases	270
sales	190	motor expenses	320
	<u>590</u>		<u>590</u>

Which statement is true?

- A** A purchase invoice for \$270 had been omitted from the accounting records.
B The balance on the motor expenses account had been over-stated by \$320.
C The balance on the sales account had been under-stated by \$190.
D The debit total of the trial balance had been \$400 higher than the credit total.

- 11 Robin runs a clothing store. He sold a computer with a net book value of \$2000 for \$1800. The cash was transferred immediately into Robin's bank account. Robin has not made any entries in his accounting records for this sale.

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 Every day Darius checks his bank statement online and updates his cash book. At the end of the month, Darius's bank statement balance is less than his cash book balance.

What has caused this difference?

- A** an uncredited deposit
- B** an unrepresented cheque
- C** bank charges
- D** direct debits
- 13 What are sources of information for the 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
	payments to credit suppliers	47 000
	discounts received	1 000

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

- A** \$7000 **B** \$9000 **C** \$11 000 **D** \$13 000

- 15 Ryan bought a computer which cost \$800 and some ink cartridges which 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 statement of profit or loss for the year?

	cost of sales		expenses	
		\$		\$
A	over-stated	800	under-stated	850
B	over-stated	850	under-stated	50
C	under-stated	800	over-stated	850
D	under-stated	850	over-stated	50

- 16 Jane does not charge depreciation on her office equipment. She shows the cost of the office equipment in her statement of financial position each year.

Which statement is **correct**?

- A** Jane's non-current assets are over-stated.
B Jane's office expenses are under-stated.
C Jane's profit for each year is under-stated.
D Jane's revenue expenditure is over-stated.
- 17 Amit uses the straight-line method to depreciate his buildings at the rate of 2% per annum. He bought land for \$200 000. It cost \$120 000 to build a warehouse on it. After five years he sold the land and warehouse for \$299 000.

What was the profit or loss on disposal of the land and warehouse?

- A** \$9000 loss
B \$9000 profit
C \$11 000 loss
D \$11 000 profit
- 18 Joe has paid insurance for three months of the next financial period.

Why does Joe make an adjustment for this amount in his statement of profit or loss?

- A** so that his profit is not over-stated by under-stating expenses
B so that only costs relating to the relevant year are included
C to show how much he owes for his expenses
D to show the correct total for current liabilities

- 19** Sumit maintains an allowance for irrecoverable debts at 5% of the trade receivables at the end of each financial year. On 1 January 2026, the trade receivables amounted to \$3500 and the allowance for irrecoverable debts was \$175.

The statement of profit or loss for the year ended 31 December 2026 was debited with \$15 for the allowance for irrecoverable debts.

How much did the trade receivables owe on 31 December 2026?

- A** \$3040
 - B** \$3200
 - C** \$3610
 - D** \$3800
- 20** Anita opens a hairdressing salon. The salon also sells hairdressing products and tools. She buys 35 hair dryers for \$18 each. Five of these hair dryers are for use in the salon. Anita sells 20 hair dryers for \$30 each. She expects to sell the other hair dryers for \$15 each as they now seem old fashioned.

How much profit does Anita make on hair dryers, at the year end?

- A** \$60
 - B** \$195
 - C** \$210
 - D** \$240
- 21** Which statement is correct?
- A** cost of sales – gross profit – sales returns = revenue
 - B** cost of sales – gross profit + sales returns = revenue
 - C** cost of sales + gross profit – sales returns = revenue
 - D** cost of sales + gross profit + sales returns = revenue

22 Ahmed has provided the following figures from his statement of financial position.

	\$
non-current assets	46 200
current assets	32 400
current liabilities	24 600
capital	35 000
non-current liabilities	19 000

What is Ahmed's capital employed?

- A \$7800
- B \$35 000
- C \$54 000
- D \$78 600

23 Paul provided the following information for his first year of trading.

A total of \$7000 was transferred from the business bank account to Paul's private bank account.

Rent of \$24 000 was paid from the business bank account. Half of this amount was for Paul's own private accommodation.

Paul took a vehicle from the business for his own use. It had originally cost \$15 000 and its net book value at the end of the year was \$12 500.

What was the total amount of Paul's drawings for his first year of trading?

- A \$31 500
- B \$34 000
- C \$43 500
- D \$46 000

24 Holly runs a catering business. She keeps her book-keeping records manually. Holly is considering asking Joan to become a business partner. Joan would take over the book-keeping and would use an accounting software package.

What is **not** an advantage to Holly?

- A It would be easier to obtain additional finance for the business.
- B Joan would be more committed to the business if she was a partner.
- C Joan would need to pay in the same amount of capital as Holly.
- D More of Holly's time would be available for catering work.

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

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

26 Meena and Khalid 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

Khalid \$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

27 Z 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 Z Limited's equity?

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

28 Which is an indirect cost?

- A** carriage inwards
- B** factory cleaning
- C** production materials
- D** production wages

29 A sports 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

30 A business provided the following information.

		\$
1 January	capital	25 000
31 December	assets	75 000
	liabilities	36 500
	drawings during the year	7 500

What was the profit for the year ended 31 December?

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

31 A trader provided the following information.

revenue \$60 000
gross profit \$25 000
other income \$5 000
profit margin 15%

How much were expenses?

- A** \$9 000
B \$16 000
C \$21 000
D \$26 000

- 32 Ronald's rate of inventory turnover was 10 times. The inventory at the start of the year was \$800 and the inventory at the end of the year was \$1000.

What were his purchases for the year?

- A \$8800 B \$9000 C \$9200 D \$10800

- 33 The accountant of P Limited has supplied the following figures.

	\$
profit for the year before interest	30 000
interest expense for the year	6 000
debentures	20 000
share capital	80 000
retained earnings	20 000

What is the return on capital employed (ROCE) for P Limited?

- A 20%
B 24%
C 25%
D 30%

- 34 Wilma has been trading for a year. She has made a profit of \$26 000 but her bank balance has only increased by \$17 400.

What explains this difference?

- A She has charged depreciation for the year.
B She has inventory at the end of the year.
C She has taken out a bank loan.
D She sells on a cash basis only.

- 35 Mo's acid test (liquid) ratio has fallen from 1.2 : 1 to 0.8 : 1.

What has caused this fall?

- A Mo has reduced his drawings.
B Mo has repaid a long-term bank loan.
C Mo has sold non-current assets.
D Mo has under-stated his inventory.

- 36** Mark and Martha each run their own consultancy business. Mark has a profit margin of 12% and Martha has a profit margin of 18%.

What explains this difference?

- A** Mark charges a higher rate than Martha for consultancy services.
 - B** Mark has less drawings than Martha.
 - C** Martha has controlled her office expenses better than Mark.
 - D** Martha uses a higher mark-up on cost of sales than Mark.
- 37** Priti uses accounting software which posts a debit and credit entry for each transaction she enters.

Which accounting concept is this complying with?

- A** business entity
 - B** duality
 - C** matching
 - D** materiality
- 38** Which statement describes the fundamental principle of integrity?
- A** Accountants must behave in a way which is honest and straightforward.
 - B** Accounting statements should be straightforward and complete.
 - C** Professional judgement should not be affected by conflict of interest.
 - D** Technical knowledge should be sufficient to meet the needs of clients.

- 39** Which of the following actions will help a trader to store her business data sustainably?

- 1 making sure that all storage devices are password protected
- 2 only storing information which the business needs
- 3 storing all accounting data as hard copies and on the cloud
- 4 using efficient storage methods to minimise power consumption

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

40 Which statement is **not** true?

- A Accounting software packages require access to a personal computer, laptop or mobile phone.
- B An accounting package can carry out analysis of accounting data.
- C Business documents can be prepared manually or digitally.
- D Manual accounting records automatically generate digital financial statements.

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (Cambridge University Press & Assessment) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

Cambridge International Education is the name of our awarding body and a part of Cambridge University Press & Assessment, which is a department of the University of Cambridge.