

Cambridge O Level

ACCOUNTING

7707/12

Paper 1 Multiple Choice

May/June 2026

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** question 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 35.
- Each correct answer will score one mark.
- Any rough working should be done on this question paper.

This document has **12** pages.

1 What would **not** be a task performed by a bookkeeper?

- A performing a bank reconciliation
- B preparing a cash book
- C processing source documents
- D recommending an interim dividend

2 The following balances appeared in Hussein's books.

	\$
fixtures	6000
inventory	3300
trade receivables	3000
trade payables	4500
other receivables	500
other payables	300
loan to Imran	1000
bank overdraft	1400

How much were his total liabilities?

- A \$4800
- B \$6200
- C \$6400
- D \$7200

3 Which statements about a ledger account for depreciation expense are correct?

- 1 The balance on the account is shown on the statement of financial position.
- 2 The balance brought down appears on the same side as the balance carried down.
- 3 The balance carried down at the end of the month is the same figure as the balance brought down at the start of the next month.

- A 1 and 2
- B 1 only
- C 2 and 3
- D 3 only

- 4 Wilma bought 55 items from Margot at a list price of \$40 each, subject to a 15% trade discount. Wilma later returned 25 items as they were faulty.

Which document did Margot issue to Wilma for the returned items?

- A credit note for \$850
- B credit note for \$1000
- C debit note for \$850
- D debit note for \$1000

- 5 Anna maintains a full set of accounting records.

Anna has taken some goods from the business for her own use.

Which book of prime entry is this recorded in?

- A cash book
- B general journal
- C general ledger
- D purchases journal

- 6 What is meant by 'restoring the imprest' of a petty cash book?

- A adding up the petty cash vouchers issued during the period
- B replacing the amount of petty cash to a fixed level at regular intervals
- C calculating the petty cash balance at the end of the period
- D calculating the total of all the analysis columns of the petty cash book

- 7 Which statement about a trial balance is correct?

- A It assists in revealing all bookkeeping errors.
- B It shows the totals on all the journals.
- C It proves that the ledger accounts are free from error.
- D It assists in locating arithmetical errors in the bookkeeping records.

- 8 Paula has provided the following trial balance. Some of the account balances have been placed on the wrong side of her trial balance.

	debit \$	credit \$
fixtures and fittings	4 000	
heating	600	
purchases	11 200	
repairs	1 200	
sales		16 500
trade payables		3 500
trade receivables	5 500	
bank overdraft	1 000	
capital		3 500
drawings	_____	<u>2 000</u>
	<u>23 500</u>	<u>25 500</u>

What is the corrected trial balance total?

- A** \$23 500 **B** \$24 500 **C** \$25 500 **D** \$26 500

- 9 Sajid runs a grocery store. His draft profit was \$9000. The following errors were made in his accounting records.

- 1 Capital of \$4000, introduced by Sajid, had been recorded as sales.
- 2 House repairs costing \$400 for Sajid's private home had been included in business expenses.

What is the corrected profit for the year?

- A** \$4600 **B** \$5400 **C** \$12 600 **D** \$13 400

- 10 A suspense account may be used to balance the trial balance.

Sometimes a balance may remain on a suspense account after a number of errors have been found and corrected.

What does this balance indicate?

- A All the errors have been found and corrected.
 - B Any remaining errors would only affect the income statement.
 - C The only errors remaining are those that do **not** affect the trial balance.
 - D There are still some errors in the accounting records.
- 11 When Solomon's bank statement arrived, he updated his cash book and prepared the bank reconciliation statement.
- How did he update his cash book balance?
- A He added back the unpresented cheques.
 - B He added the bank charges.
 - C He subtracted the bank charges.
 - D He subtracted the unpresented cheques.
- 12 Peter's bank statement showed a debit balance of \$600 on 1 April. The transactions that took place in April are shown.

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

What was the balance on Peter's bank statement on 30 April?

- A \$870 credit
- B \$870 debit
- C \$2070 credit
- D \$2070 debit

13 Which item would **not** appear in a sales ledger control account?

- A discount received
- B payments received
- C refunds paid to credit customers
- D returns from credit customers

14 The payments made when a new machine was purchased are shown.

	\$
cost of the machine	32 000
charge for delivering the machine	1 800
insurance of the machine	2 000
wages of employees installing the machine	1 300

How much was the capital expenditure?

- A \$32 000 B \$33 300 C \$35 100 D \$37 100

15 Chanu purchased a motor vehicle.

Why did Chanu charge depreciation on this vehicle in his income statement?

- A to be able to calculate the residual value of the motor vehicle
- B to account for the net realisable value of the motor vehicle
- C to spread the cost of the motor vehicle over the years when it is used
- D to set aside funds to cover the replacement of the motor vehicle

16 A machine costing \$5000 was sold for \$1500 after two years of use.

Depreciation was provided at the rate of 40% per annum, using the reducing balance method in both years.

How much was transferred to the income statement as profit or loss on disposal?

- A \$300 loss
- B \$300 profit
- C \$500 loss
- D \$500 profit

- 17 At the end of the financial year, Mui had prepaid rent of \$1500.

How should she record this?

- A debit \$1500 in the rent account and carry down as a credit balance
 B credit \$1500 in the rent account and carry down as a credit balance
 C debit \$1500 in the rent account and carry down as a debit balance
 D credit \$1500 in the rent account and carry down as a debit balance
- 18 Amit's financial year ends on 31 December. The account shown appeared in his sales ledger.

Dipak account

		\$			\$
Jan 7	sales	3200	Jun 3	bank	1700
			Oct 30	cash	230
		—	Nov 21	?	<u>1270</u>
		<u>3200</u>			<u>3200</u>

What does the entry on 21 November represent?

- A balance brought down
 B discount received
 C irrecoverable debt
 D recovery of a debt previously written off
- 19 Ravi sells paint and paint brushes. He provided the following information about his inventory at the end of the year.

	cost \$	net realisable value \$
paint	1000	875
paint brushes	750	800

Which amount should be included for closing inventory in his income statement?

- A \$1625 B \$1675 C \$1750 D \$1800

20 Which statements about an accountancy business are correct?

- 1 Its gross profit is shown on the income statement.
 - 2 It does **not** purchase goods for resale.
 - 3 It does **not** sell goods on credit.
 - 4 Its revenue income is shown on the income statement.
- A 1, 2, 3 and 4
 B 1 and 4 only
 C 2, 3 and 4 only
 D 2 and 3 only

21 A trader provided the following information.

	\$
opening inventory	20 000
closing inventory	22 000
purchases	86 000
purchases returns	7 000

What was the cost of sales for the year?

- A \$77 000 B \$81 000 C \$91 000 D \$95 000

22 A business had prepaid insurance both at the start and at the end of its financial year. The ending prepaid amount was greater than the starting prepaid amount. The income statement for the year is now being prepared.

Which statement is correct?

- A The insurance expense in the income statement will be equal to the amount paid during the year.
 B The insurance expense in the income statement will be greater than the amount paid during the year.
 C Prepaid insurance at the start of the year will be added to the amount paid during the year.
 D Prepaid insurance at the start of the year will be added to the prepaid insurance at the end of the year.

23 What may appear in the appropriation account of a partnership business?

- 1 capital invested by a partner
- 2 interest on a partner's loan
- 3 interest on partners' drawings
- 4 profit or loss for the year

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

24 Tee and Rex were partners in a business. They provided their figures from their statement of financial position, as shown.

	\$
total assets	120 000
total liabilities	46 000
fixed capital of Tee and Rex	60 000
Tee's current account (credit balance)	18 000

What was the balance on Rex's current account?

- A** \$4000 credit
B \$4000 debit
C \$14 000 credit
D \$14 000 debit

25 The maximum a shareholder can lose is the amount he has agreed to pay for his shares in the company.

What does the statement describe?

- A** fixed dividend
B limited liability
C ownership continuity
D separate legal entity

- 26** The equity of a company increased by \$60 000 during the year. The company had paid **no** dividends.

What could have caused the increase?

- A** a profit of \$60 000 and a transfer of \$20 000 to general reserve
- B** a profit of \$80 000 and a transfer of \$20 000 to general reserve
- C** an issue of new shares for \$60 000 and a profit of \$20 000
- D** an issue of new shares for \$20 000 and a profit of \$80 000

- 27** Which items are included in an income and expenditure account prepared for a sports club?

- 1 cost of new furniture purchased during the year for the clubhouse
- 2 depreciation on furniture and sports equipment
- 3 rates for the clubhouse paid in advance for the next financial year
- 4 the profit on the café provided for the members

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

- 28** A club provided the following information.

	\$
subscriptions outstanding at the start of the year	420
subscriptions received during the year	3000
subscriptions prepaid at the end of the year	280

How much was recorded for subscriptions in the income and expenditure account at the end of the year?

- A** \$2300 **B** \$2860 **C** \$3140 **D** \$3280

- 29** Which item is included in the prime cost in manufacturing accounts?

- A** factory machinery's depreciation
- B** factory operatives' wages
- C** factory rent and rates
- D** factory supervisors' salaries

30 John did **not** keep a full set of double entry records.

He provided the following information for 2025.

	1 January \$	31 December \$
trade receivables	6000	9000
trade payables	4500	7800

During the year ended 31 December 2025, he paid \$28 000 to trade payables and received \$25 000 from trade receivables.

What were his credit sales for the year ended 31 December 2025?

- A \$22 000 B \$24 700 C \$28 000 D \$31 300

31 A business provided the following information.

Inventory at the start of the year was \$10 000.

At the end of the year:

- inventory had increased by 20%
- current liabilities were \$26 000 and total liabilities were \$36 000
- the liquid (acid test) ratio was 0.96 : 1.

What were the current assets at the end of the year?

- A \$34 960 B \$36 960 C \$44 560 D \$46 560

32 What will **not** result, on its own, in an improvement in gross margin?

- A a decrease in purchase price per unit
 B an increase in selling price per unit
 C a decrease in the carriage inwards per unit
 D an increase in the carriage outwards per unit

- 33** The table shows information on two businesses, J and K, which are in the same trade. Neither business has any income other than revenue from sales.

	J	K
gross profit	\$48 000	\$48 000
profit for the year	\$30 000	\$21 000
gross profit margin	10%	12%

Which statement is correct based on the information in the table only?

- A** J controlled expenses better than K did.
B J sold goods at a higher price than K did.
C K bought goods from a more expensive supplier than J did.
D K incurred lower expenses than J.
- 34** A business included all wages due, but unpaid, in its income statement for the year.

Which accounting principle was being followed?

- A** going concern
B matching
C materiality
D realisation
- 35** Which statement describes 'relevance' as an objective when selecting accounting policies?
- A** Accounting information must be accurate.
B Accounting information must be free from bias.
C Accounting information must influence users' decisions.
D Accounting information must stay consistent over time.

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