



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/12

Paper 1 Multiple Choice

October/November 2013

1 hour

Additional Materials: Multiple Choice Answer Key
 Soft clean eraser
 Soft pencil (type B and HB is recommended)



READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **thirty** 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 separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

Calculators may be used.

This document consists of **10** printed pages and **2** blank pages.



- 1 What is a benefit of using computers in book-keeping and accounting?
- A Anyone with a computer can access the information.
 - B It is cheap to install.
 - C Large quantities of information can be stored.
 - D Staff require special training.

- 2 How is owner's equity calculated?
- A money invested in the business by the owner, plus the net current assets
 - B money invested in the business by the owner, plus the non-current liabilities
 - C total of non-current assets and working capital, less the non-current liabilities
 - D total of non-current assets, long term liabilities and net current assets

- 3 Zafar returned goods bought on credit from Khalid.

How was this recorded in Zafar's books?

	account to be debited	account to be credited
A	Khalid	purchases returns
B	Khalid	sales returns
C	purchases returns	Khalid
D	sales returns	Khalid

- 4 In which book is a credit note from a supplier entered?
- A purchases journal
 - B purchases returns journal
 - C sales journal
 - D sales returns journal

- 5 Ashraf owed Yasmin \$2000 for goods bought on credit.

After deducting cash discount of 2½% Ashraf paid Yasmin the balance owing by cheque.

Which entries record this in Ashraf's books?

	account to be debited		account to be credited	
		\$		\$
A	bank	1950	Yasmin	2000
	discount allowed	50		
B	Yasmin	2000	bank	1950
			discount allowed	50
C	bank	1950	Yasmin	2000
	discount received	50		
D	Yasmin	2000	bank	1950
			discount received	50

- 6 A bank statement showed a balance at bank of \$3200. The value of unpresented cheques was \$1200 and the value of uncredited deposits was \$700.

What was the debit balance in the cash book?

- A** \$1300 **B** \$2700 **C** \$3700 **D** \$5100

- 7 The following account appeared in a trader's ledger.

equipment account				
2013	details	debit \$	credit \$	balance \$
July 31	balance			4000 Dr
August 2	bank	7500		

What was the balance on the account on 2 August?

- A** \$3500 credit
B \$3500 debit
C \$11 500 credit
D \$11 500 debit

8 Why does a business prepare a trial balance?

- A to calculate the profit or loss
- B to check the arithmetical accuracy of the ledger
- C to check the cash and bank balances
- D to show the financial position of the business

9 Ashraf sublets part of his premises for \$100 per month. At the end of the financial year the tenant had paid rent totalling \$1000.

Which journal entry would Ashraf make to record the transfer to the income statement?

		debit \$	credit \$
A	income statement rent	1000	1000
B	income statement rent	1200	1200
C	rent income statement	1000	1000
D	rent income statement	1200	1200

10 In December 2012 Emma paid insurance, \$30, in respect of January 2013.

How would this be shown in the 2012 financial statements and in the insurance account in January 2013?

	financial statements for the year ended 31 December 2012		insurance account on 1 January 2013	
	accrual	prepayment	debit balance	credit balance
A	✓		✓	
B		✓		✓
C	✓			✓
D		✓	✓	

- 11 A motor vehicle, book value \$2400, was sold for \$2750.

How would this transaction be treated by the business?

	capital receipt \$	revenue receipt \$
A	–	2750
B	350	2400
C	2400	350
D	2750	–

- 12 Capital expenditure is treated in error as revenue expenditure.

What effect will this have?

- A** The balance sheet will not balance.
- B** The expenses will be overstated.
- C** The expenses will be understated.
- D** The trial balance will not balance.
- 13 What would occur using the diminishing (reducing) balance method of depreciation?
- A** Depreciation charged in year 2 is greater than depreciation charged in year 1.
- B** Depreciation charged in year 2 is less than depreciation charged in year 1.
- C** Depreciation charged in year 2 is the same as depreciation charged in year 1.
- D** Depreciation charged in year 2 is zero.
- 14 A machine was purchased for \$100 000 and depreciated by 20% per annum using the straight line method. Three years later it was sold for \$25 000.

What was the profit or loss on sale?

- A** \$15 000 loss
- B** \$25 000 profit
- C** \$26 200 loss
- D** \$35 000 profit

15 A trial balance failed to balance. The difference was entered in a suspense account.

It was discovered that the purchases returns journal had been undercast.

Which entry should be made to correct this error?

	account to be debited	account to be credited
A	purchases	suspense
B	purchases returns	suspense
C	suspense	purchases
D	suspense	purchases returns

16 Expenses accrued, \$250, were treated as a prepayment in the income statement.

What effect did this have on the profit for the year?

- A** overstated by \$250
- B** overstated by \$500
- C** understated by \$250
- D** understated by \$500

17 How can purchases be calculated?

- A** cost of goods sold – closing inventory – opening inventory
- B** cost of goods sold – closing inventory + opening inventory
- C** cost of goods sold + closing inventory – opening inventory
- D** cost of goods sold + closing inventory + opening inventory

18 BCD Limited provided the following information.

	\$
ordinary shares	300 000
retained earnings	200 000
debentures	170 000

How much was the equity and the capital employed?

	equity \$	capital employed \$
A	300 000	470 000
B	300 000	670 000
C	500 000	470 000
D	500 000	670 000

19 Alan's inventory consisted of the following.

quantity	goods	cost per unit \$	selling price per unit \$
100	large t-shirts	5	7
20	small t-shirts	5	3

What was the value of the inventory?

- A** \$560 **B** \$600 **C** \$760 **D** \$800

20 A trader takes goods from the business for personal use.

How is this recorded?

	account to be debited	account to be credited
A	drawings	inventory
B	drawings	purchases
C	inventory	drawings
D	purchases	drawings

21 At the end of the financial year, a trader is owed commission.

How will this be treated in the trader's financial statements?

	income statement	balance sheet
A	increase expenses	increase assets
B	increase expenses	increase liabilities
C	increase income	increase assets
D	increase income	increase liabilities

22 At the end of a club's financial year, some members' subscriptions were unpaid.

Where would these unpaid subscriptions appear in the club's financial statements?

	receipts and payments account	income and expenditure account	balance sheet
A		✓	✓
B	✓	✓	✓
C	✓	✓	
D	✓		✓

23 A trader provided the following information.

	\$
opening inventory	10 000
closing inventory	14 000
sales for year	60 000

Goods are sold at a mark up of 25%.

What were the purchases?

A \$41 000 **B** \$44 000 **C** \$49 000 **D** \$52 000

24 Which does **not** appear in the appropriation account of a limited company?

- A** directors' salaries
- B** dividends paid on ordinary shares
- C** proposed ordinary share dividend
- D** retained profits

- 25 A limited company has an issued share capital of 100 000 ordinary shares of \$1 each of which 50 000 are fully paid. There are also debentures of \$2000.

On 1 January 2012 the retained profits were \$2500. Profit retained for the year ended 31 December 2012 was \$1600.

What was the total of the shareholders' funds on 31 December 2012?

- A \$54 100 B \$56 100 C \$104 100 D \$106 100

- 26 A business provided the following information at the end of its first year of trading.

	\$
prime cost	280 000
factory overheads	110 000
closing work in progress	16 000

What was the cost of production?

- A \$154 000 B \$186 000 C \$374 000 D \$406 000

- 27 Mark paid net wages, \$5200, for the month of August after statutory deductions of \$1200.

Which journal entry records this transaction?

		debit \$	credit \$
A	cash statutory deductions wages	4000 1200	5200
B	cash statutory deductions wages	5200 1200	6400
C	wages cash statutory deductions	5200	4000 1200
D	wages cash statutory deductions	6400	5200 1200

28 What is **not** included when calculating the quick (acid test) ratio?

- A balance at bank
- B cash in hand
- C inventory
- D trade receivables

29 A balance sheet included non-current assets at cost less depreciation.

Which principle was being applied?

- A accounting entity
- B going concern
- C materiality
- D money measurement

30 Abdul applies the accounting year principle.

Why does he do this?

- A to be able to compare his results with competitors
- B to ensure that all transactions are recorded
- C to ensure that non-current assets are not overvalued
- D to maintain a full set of accounting records

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