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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**October/November 2014**

**1 hour**

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



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**READ THESE INSTRUCTIONS FIRST**

Write in soft pencil.

Do not use staples, paper clips, 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.

**DO NOT WRITE IN ANY BARCODES.**

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.

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

- 1 Businesses make use of both book-keeping and accounting procedures.

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 Which statement about a computerised accounting system is correct?

- A Anyone with a computer can gain access to the accounting records.
- B Data input can only be used for one specific purpose.
- C Data output can only be understood by computer programmers.
- D Operator error may result in inaccurate information.

- 3 A trader purchased a motor vehicle for his business using a cheque from his personal bank account.

How is this recorded in the books of the business?

	account to be debited	account to be credited
<b>A</b>	bank	motor vehicles
<b>B</b>	capital	motor vehicles
<b>C</b>	motor vehicles	bank
<b>D</b>	motor vehicles	capital

- 4 Arnold's ledgers contain an account for Jim, a credit supplier, and a purchases account.

In which ledgers will these accounts appear?

	Jim account	purchases account
<b>A</b>	general ledger	general ledger
<b>B</b>	general ledger	purchases ledger
<b>C</b>	purchases ledger	general ledger
<b>D</b>	purchases ledger	purchases ledger

- 5 Abdul sells goods to Rekha on credit. The goods are damaged in transit.

Which document will Rekha send to Abdul?

- A credit note
- B debit note
- C invoice
- D statement of account

- 6 Logan records his sales invoices in a sales journal.

What happens at the end of the month?

- A Each customer's account is credited with the total of that customer's invoices for the month.
- B Each customer's account is debited with the total of that customer's invoices for the month.
- C The sales account is credited with the total of the sales invoices.
- D The sales account is debited with the total of the sales invoices.

- 7 On 1 September Wayne sent a cheque to his credit supplier, John. This was correctly entered in John's books. On 10 September the cheque was returned unpaid due to lack of funds.

Which entries will be made in John's books on 10 September?

	account to be debited	account to be credited
<b>A</b>	bad debts	bank
<b>B</b>	bank	bad debts
<b>C</b>	bank	Wayne
<b>D</b>	Wayne	bank

- 8 A business received its bank statement showing the closing balance as \$8500 overdrawn.

It was found that unpresented cheques amounted to \$2000 and uncredited deposits amounted to \$1500.

What was the overdraft shown in the cash book?

- A \$5000
- B \$8000
- C \$9000
- D \$12 000

- 9 Zaffor sold \$300 of goods to Yasmin on credit. Zaffor prepared an invoice but posted it as a credit note.

Which entry will Zaffor make to correct this error?

	account to be debited	\$	account to be credited	\$
<b>A</b>	sales	600	Yasmin sales returns	300 300
<b>B</b>	sales returns sales	300 300	Yasmin	600
<b>C</b>	Yasmin	600	sales returns sales	300 300
<b>D</b>	Yasmin sales returns	300 300	sales	600

- 10 On 15 April, Kalou made the following entries in his accounts.

debit	\$	credit	\$
bank account	228	Droghba account	240
discount allowed account	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.
- 11 What is the purpose of preparing a trial balance?
- A** to calculate the profit for the year  
**B** to check the arithmetical accuracy of the double entry  
**C** to locate any errors made in the ledgers  
**D** to provide a summary of the assets and liabilities

12 After preparing a trial balance the following errors were discovered.

Error 1: Goods returned to Ken Loo had been debited to Ken Lao.

Error 2: Repairs to motor vehicles had been debited to the motor vehicles account.

Which types of error have been made?

	error 1	error 2
<b>A</b>	commission	principle
<b>B</b>	compensating	reversal
<b>C</b>	principle	commission
<b>D</b>	reversal	compensating

13 On 1 January 2013 advertising of \$120 was prepaid. During the year \$1280 was paid for advertising. On 31 December 2013 an amount of \$960 was transferred to the income statement.

What was the balance on the advertising account on 1 January 2014?

- A** \$200 accrued
- B** \$200 prepaid
- C** \$440 accrued
- D** \$440 prepaid

14 Rashid maintains a provision for doubtful debts of 5% of the trade receivables at the end of each year.

Trade receivables owed \$40 000 on 31 December 2012.

Trade receivables owed \$46 000 on 31 December 2013.

Which journal entry should Rashid make on 31 December 2013?

		debit \$	credit \$
<b>A</b>	income statement provision for doubtful debts	300	300
<b>B</b>	income statement provision for doubtful debts	2300	2300
<b>C</b>	provision for doubtful debts income statement	300	300
<b>D</b>	provision for doubtful debts income statement	2300	2300

- 15 An item of capital expenditure has been incorrectly treated as revenue expenditure.

What is the effect of this error?

	assets	profit for the year
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

- 16 The difference on a trial balance was posted to a suspense account. It was later found that a cheque for \$800 paid to Rafiq, a supplier, had been entered correctly in the cash book, but credited in the purchases account.

Which entry will correct this error?

	account to be debited	\$	account to be credited	\$
<b>A</b>	purchases	800	suspense	800
<b>B</b>	purchases Rafiq	800 800	suspense	1600
<b>C</b>	suspense	800	purchases	800
<b>D</b>	suspense	1600	purchases Rafiq	800 800

- 17 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** \$7000      **B** \$9000      **C** \$11 000      **D** \$13 000

18 Which item affects gross profit?

- A carriage outwards
- B discounts allowed
- C discounts received
- D goods taken by owner

19 Which item is an intangible non-current asset?

- A balance at bank
- B goodwill
- C premises
- D trade receivables

20 Nirmal sells two products, product G and product H.

The following information is available about his inventory on 31 December 2013.

product	number of units	cost price per unit	net realisable value per unit
G	1000	\$2.00	\$2.50
H	800	\$1.50	\$1.20

It was found that 100 units of product G were damaged and were unsaleable.

What was the total value of Nirmal's inventory?

- A \$2760      B \$3000      C \$3260      D \$3460

21 Which is a service business?

- A a business which sells computers and printers
- B a business which trains computer operators
- C a stationery supplier
- D a TV and video supplier

- 22 Candy and Abel are in partnership. Abel made a loan to the partnership.

How will the annual interest on the loan be recorded?

	debit	credit
<b>A</b>	Abel current account	appropriation account
<b>B</b>	Abel current account	income statement
<b>C</b>	appropriation account	Abel current account
<b>D</b>	income statement	Abel current account

- 23 On 1 January a sports club's subscriptions account had a debit balance of \$500. During the year subscriptions received amounted to \$6000. Subscriptions due but unpaid on 31 December were \$800.

Which amount will be shown for subscriptions in the income and expenditure account for the year ended 31 December?

- A** \$5700      **B** \$6300      **C** \$6500      **D** \$6800

- 24 Walter provided the following information.

	\$
revenue	150 000
expenses	25 000

The mark-up on cost is 25%.

What is the profit for the year?

- A** \$5000      **B** \$12 500      **C** \$30 000      **D** \$37 500

- 25 The financial year of ABZ Limited ends on 31 March.

Debenture interest is paid annually in arrears on 1 April each year.

Where will debenture interest appear in the financial statements for the year ended 31 March 2014?

	income statement	appropriation account	statement of financial position
<b>A</b>	✓		✓
<b>B</b>	✓		
<b>C</b>		✓	✓
<b>D</b>		✓	



26 How is prime cost calculated?

- A direct materials + direct labour
- B direct materials + direct labour + direct expenses
- C direct materials + direct labour + direct expenses + factory overheads
- D direct materials + direct labour + direct expenses + factory overheads + change in work in progress

27 During a week Ali works 40 hours and produces 240 items. He can choose to be paid \$6 per hour, or \$1.25 for each item he produces with a guaranteed minimum weekly gross pay of \$275.

What is Ali's gross pay if he chooses to be paid on a piecework basis?

- A \$240                      B \$275                      C \$300                      D \$540

28 How is the return on capital employed (ROCE) calculated?

A  $\frac{\text{net profit}}{\text{non-current assets}} \times \frac{100}{1}$

B  $\frac{\text{net profit}}{\text{non-current assets} + \text{current assets}} \times \frac{100}{1}$

C  $\frac{\text{net profit}}{\text{non-current assets} - \text{current liabilities}} \times \frac{100}{1}$

D  $\frac{\text{net profit}}{\text{non-current assets} + \text{current assets} - \text{current liabilities}} \times \frac{100}{1}$

29 A trader provided the following information.

	\$
bank overdraft	1650
trade receivables	2200
trade payables	2900
inventory	4200
short term loan from bank	2000

What was the current ratio?

- A 0.34 : 1                      B 0.98 : 1                      C 1 : 0.34                      D 1 : 0.98

30 'Only the financial transactions of the business are recorded in the business's accounting records.'

Which accounting principle is being described?

- A accounting entity
- B going concern
- C historical cost
- D money measurement



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