
PRINCIPLES OF ACCOUNTS

7110/12

Paper 1 Multiple Choice

October/November 2017

1 hour

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



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.

This document consists of **11** printed pages and **1** blank page.

- 1 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.
- 2 What increases owner's capital?
- A** bank loan extended from five to ten years
- B** purchase of inventory on credit
- C** purchase of machinery by cheque
- D** transfer of vehicle to business from private use
- 3 A trader provided the following extract from his sales journal.

sales journal			
2017		\$	\$
October 7	J Sango		
	goods	100	
	trade discount	<u>20</u>	80

Which entry was made in the account of J Sango in the sales ledger?

- A** credit \$80
- B** credit \$100
- C** debit \$80
- D** debit \$100
- 4 What is correct about a bank reconciliation statement?

	prepared by the bank	prepared by the trader	part of double entry book-keeping
A	no	yes	no
B	no	yes	yes
C	yes	no	no
D	yes	no	yes

5 Which transaction is recorded in the general journal?

- A payment of cash into a business bank account
- B purchase of a motor vehicle on credit
- C receipt of a cheque from a customer
- D sale of goods on credit

6 The following account appeared in Sue's ledger.

Tony account				
		\$	\$	
May 1	balance b/d	400	May 16 returns	21
12	sales	590	28 bank	284
			discount	6
			31 balance c/d	679
		<u>990</u>		<u>990</u>

Which statement is correct?

- A On 12 May Tony sold goods, \$590, to Sue.
- B On 16 May Sue returned goods, \$21, to Tony.
- C On 28 May Tony received discount, \$6, from Sue.
- D On 31 May Sue owed \$679 to Tony.

7 Mark sold goods on credit to Paul for \$5000. Paul returned goods costing \$200 to Mark.

What were the balances in Paul's ledger accounts after these transactions?

	purchases account \$	purchases returns account \$	Mark account \$
A	4800 credit	200 credit	5000 debit
B	4800 debit	200 debit	5000 credit
C	5000 credit	200 debit	4800 debit
D	5000 debit	200 credit	4800 credit

- 8 The totals of a trial balance agreed.

What does this mean?

- A** All the arithmetic in the ledger is correct.
- B** All transactions have been entered in the correct ledger accounts.
- C** All transactions have been entered on the correct sides of the ledger.
- D** Total debit balances equal total credit balances in the ledger.
- 9 Gary rents his business premises. His financial year ends on 30 September. On 1 October 2016 rent prepaid amounted to \$3000. During the year ended 30 September 2017 a total of \$7000 rent was paid. On 30 September 2017 rent outstanding amounted to \$2000.

Which journal entry shows the transfer of the rent to the income statement on 30 September 2017?

		debit \$	credit \$
A	income statement rent	8 000	8 000
B	income statement rent	12 000	12 000
C	rent income statement	8 000	8 000
D	rent income statement	12 000	12 000

- 10 Elizabeth issued an invoice to Jane for \$500 on 1 February. On 30 April Elizabeth received \$300 from Jane. She wrote off the remaining balance on 28 October.

Which entries did Elizabeth make on 28 October?

	account debited	\$	account credited	\$
A	bad debts	200	Jane	200
B	Jane	200	bad debts	200
C	bad debts	200	income statement	200
D	income statement	200	bad debts	200

11 Ajay maintains a provision for doubtful debts of 3% of trade receivables.

On 1 January 2016, the balance on the provision for doubtful debts account was \$70. The trade receivables amounted to \$3500 on 31 December 2016.

Which entry did Ajay make on 31 December 2016?

	debit	credit
A	bad debts account	provision for doubtful debts account
B	income statement	provision for doubtful debts account
C	provision for doubtful debts account	income statement
D	provision for doubtful debts account	trade receivables account

12 Which are examples of capital receipts?

- 1 a loan received from a bank, repayable in three years' time
- 2 a profit made on the sale of a non-current asset
- 3 cash received from the sale of a non-current asset at book value
- 4 rent received from letting part of the business premises to a tenant

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

13 A business purchased a motor vehicle and included it as a business expense in the income statement.

How did this affect the financial statements?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

- 14** A café owner decided to use the revaluation method to calculate depreciation on the kitchen equipment.

Kitchen equipment costing \$3200 was purchased on 1 January 2016. This was expected to have a useful life of 4 years.

Additional kitchen equipment was purchased during the year for \$400. The total kitchen equipment was valued at \$2900 on 31 December 2016.

What was the depreciation charge for the year ended 31 December 2016?

- A** \$300 **B** \$700 **C** \$800 **D** \$900

- 15** Imran's financial year ends on 31 December. A machine purchased on 1 January 2015 for \$20 000 was sold on 30 June 2017 for \$8500. The machine had been depreciated using the straight-line method at 25% per annum on a month by month basis.

What was the profit or loss on the disposal of the machine?

- A** loss \$1000
B loss \$1500
C profit \$1000
D profit \$1500

- 16** A purchases ledger control account includes interest charged by a supplier on an overdue account and a contra entry to a sales ledger control account.

How will these items be recorded in a purchases ledger control account?

	interest charged on overdue account		contra entry to sales ledger control account	
	debit	credit	debit	credit
A	✓		✓	
B	✓			✓
C		✓	✓	
D		✓		✓

- 17 Anita's business has two departments, X and Y. She provided the following information for department X.

	\$
expenses	28 000
profit for the year	9 000

Total revenue for the year was \$180 000 of which one-third related to department X.

What was the gross profit of department X?

- A \$19 000 B \$32 000 C \$37 000 D \$51 000
- 18 How is owner's equity calculated?
- A non-current assets + current assets – current liabilities – non-current liabilities
 B non-current assets + current assets + current liabilities + non-current liabilities
 C non-current assets – current assets – current liabilities – non-current liabilities
 D non-current assets – current assets + current liabilities + non-current liabilities

- 19 David provided the following information.

	\$
capital employed	435 000
non-current assets	200 000
current liabilities	124 000

What was the total of his current assets?

- A \$235 000 B \$359 000 C \$559 000 D \$759 000

- 20** Gurpreet is a broker and receives a commission from an insurance company when a client purchases a car insurance policy.

The following information is available for the year ended 31 March 2017.

	\$
commission received from insurance company	15 000
commission on policies arranged in March 2017 not yet received	1 200
office rent	2 500
depreciation of non-current assets	900
heating and lighting	520

What was the profit for the year?

- A** \$10 780 **B** \$11 080 **C** \$11 980 **D** \$12 280
- 21** What is the disadvantage to a sole trader of bringing in a partner?
- A** The business will benefit from the knowledge of the new partner.
- B** The new partner may bring additional capital into the business.
- C** The profits made by the business will have to be shared with the new partner.
- D** The responsibility for running the business may be shared with the new partner.
- 22** A club had an accumulated fund at the start of the year of \$18 000 and at the end of the year of \$16 200.

Total running costs for the year were \$9 550. New equipment costing \$1 100 was bought during the year. The only income came from subscriptions.

How much were subscriptions for the year?

- A** \$7 750 **B** \$8 850 **C** \$11 350 **D** \$12 450

23 Karim did not keep proper accounting records, but was able to provide the following information.

	\$
capital at 1 January	58 000
drawings during the year	8 500
capital introduced in the year	15 000
capital at 31 December	82 500

What was the profit for the year?

- A** \$16 000 **B** \$18 000 **C** \$33 000 **D** \$48 000

24 A trader has not kept proper accounting records for his business.

What will he use when calculating trade payables at the end of the year?

- A** bad debt written off
B discount allowed
C returns inwards
D returns outwards

25 The financial year of AB Limited ends on 30 September.

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

Where did debenture interest appear in the financial statements for the year ended 30 September 2017?

	income statement	statement of changes in equity	statement of financial position
A	✓		✓
B	✓		
C		✓	✓
D		✓	

26 The issued share capital of CD Limited consists of ordinary shares.

Retained earnings were \$86 000 on 1 September 2016 and \$88 500 on 31 August 2017.

The company made a profit during the year of \$26 000 and made a transfer to general reserve of \$5000.

What was the total ordinary share dividend paid during the year?

- A** \$18 500 **B** \$23 500 **C** \$28 500 **D** \$33 500

27 A manufacturer provided the following information at the end of his financial year.

	\$
prime cost	98 400
factory overheads	17 800
work in progress at start of year	6 300
work in progress at end of year	7 600

What was the cost of production for the year?

- A** \$79 300 **B** \$81 900 **C** \$114 900 **D** \$117 500

28 Which document shows employees the details of deductions made from their wages?

- A** clock card
B payslip
C time sheet
D wages sheet

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

- A** bank overdraft
B inventory
C short-term bank loan
D trade receivables

- 30** Manvinder started a business and paid a cheque for \$1000 into a business bank account. He recorded this in the books of the business by debiting the bank account and crediting the capital account.

Which accounting principles did he apply?

- A** accounting entity and dual aspect
- B** accounting entity and going concern
- C** going concern and matching / accruals
- D** matching / accruals and dual aspect

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 (UCLES) 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.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.