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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**October/November 2019**

**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 Which task would be carried out by a book-keeper?
- A** comparison of financial statements between years  
**B** preparation of financial statements  
**C** provision of information for decision-making  
**D** recording financial transactions
- 2 Why does the owner of a business calculate profit?
- A** to find the return on capital  
**B** to find the total expenses  
**C** to know how much he can borrow from the bank  
**D** to know the loan interest he can afford to pay
- 3 Which transaction will increase both assets and capital by the same amount?
- A** A credit customer settled his account after deducting a cash discount.  
**B** Goods were sold at a price higher than their cost price.  
**C** Rent received included an amount prepaid for the next accounting period.  
**D** The owner repaid a business loan from his personal bank account.
- 4 A trader purchased a motor vehicle for his business using a cheque from his personal bank account.

How was 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                |

- 5 On 1 May Waheed issued an invoice for a credit sale of ten chairs to Yasser at a list price of \$40 each. Trade discount of 10% was deducted. Yasser returned five chairs to Waheed on 15 May.

What was the value of the invoice issued to Yasser?

- A** \$180                      **B** \$200                      **C** \$360                      **D** \$400

- 6 Which document will a customer issue to inform a supplier of an overcharge?
- A credit note
  - B debit note
  - C invoice
  - D statement of account
- 7 On 1 October the bank column of Kim's cash book showed an overdraft of \$120. She was then notified that a cheque, \$80, received from a customer in September had been dishonoured.
- What was the balance of the bank column in Kim's cash book after recording this dishonoured cheque?
- A credit \$40
  - B credit \$200
  - C debit \$40
  - D debit \$200
- 8 Which statement about a bank reconciliation statement is correct?
- A It is part of the double entry system.
  - B It is prepared by the bank to compare the cash book balance with the bank statement balance.
  - C It is prepared by the trader to compare the cash book balance with the bank statement balance.
  - D It is only prepared when the bank account is overdrawn.

- 9 At the end of Leroy's financial year it was decided that the balance on the telephone expenses account, \$340, should be split 90% for business use and 10% for personal use.

Which journal entry records the closing of the telephone expenses account at the end of the financial year?

|          |  | debit<br>\$ | credit<br>\$ |
|----------|--|-------------|--------------|
| <b>A</b> | drawings<br>income statement<br>telephone expenses | 34<br>306   | 340          |
| <b>B</b> | drawings<br>telephone expenses<br>income statement | 34<br>306   | 340          |
| <b>C</b> | income statement<br>drawings<br>telephone expenses | 340         | 34<br>306    |
| <b>D</b> | telephone expenses<br>drawings<br>income statement | 340         | 34<br>306    |

- 10 The following account appeared in Amna's ledger.

| Syed account |             |             |              |               |
|--------------|-------------|-------------|--------------|---------------|
| date         | details     | debit<br>\$ | credit<br>\$ | balance<br>\$ |
| Sept 1       | balance b/d |             |              | 400 dr        |
| 14           | sales       | 600         |              | 1000 dr       |
| 26           | bank        |             | 390          | 610 dr        |
| 26           | discount    |             | 10           | 600 dr        |

Which statement is correct?

- A** On 1 September Amna owed Syed \$400.  
**B** On 14 September Syed purchased goods, \$600, on credit from Amna.  
**C** On 26 September Amna paid Syed \$390 by cheque.  
**D** On 26 September Syed allowed \$10 cash discount to Amna.

- 11 A supplier's account in Shilpa's ledger showed a balance owing on 1 October of \$3400. In October Shilpa purchased goods, \$860, and returned goods, \$55. During the month she made a payment of \$2000.

What was the balance on the supplier's account in Shilpa's ledger on 1 November?

- A \$2205 credit  
 B \$2205 debit  
 C \$6205 credit  
 D \$6205 debit
- 12 A flat above a trader's shop was rented out at \$90 a month from 1 July 2018. At 30 June 2019 the rent receivable account showed entries for rent received from the tenant totalling \$900.

What was the balance of the rent receivable account on 1 July 2019?

- A credit \$90  
 B credit \$180  
 C debit \$90  
 D debit \$180
- 13 Hanna owed Alan \$1800. On 1 June Hanna paid \$1300 and the remaining balance was written off.

What entries did Alan make on 1 June?

|          | bank account |              | bad debts account |              | Hanna account |              |
|----------|--------------|--------------|-------------------|--------------|---------------|--------------|
|          | debit<br>\$  | credit<br>\$ | debit<br>\$       | credit<br>\$ | debit<br>\$   | credit<br>\$ |
| <b>A</b> | 1300         |              | 500               |              |               | 1800         |
| <b>B</b> | 1300         |              |                   | 1800         | 500           |              |
| <b>C</b> |              | 1300         | 1800              |              |               | 500          |
| <b>D</b> |              | 1300         |                   | 500          | 1800          |              |

14 At the end of her financial year Ling reduced the provision for doubtful debts by \$500.

Which journal entry records this?

|          |   | debit<br>\$ | credit<br>\$ |
|----------|---|-------------|--------------|
| <b>A</b> | income statement<br>provision for doubtful debts  | 500         | 500          |
| <b>B</b> | provision for doubtful debts<br>income statement  | 500         | 500          |
| <b>C</b> | provision for doubtful debts<br>trade receivables | 500         | 500          |
| <b>D</b> | trade receivables<br>provision for doubtful debts | 500         | 500          |

15 What will be treated as capital expenditure?

- A** the annual depreciation on office premises
- B** the cost of building an office extension
- C** the cost of repairing office equipment
- D** the purchase of a new computer for resale

16 Which methods of depreciation are used for these non-current assets?

- 1 a non-current asset consisting of a number of small items
- 2 a non-current asset which gives the same benefit in each year of use
- 3 a non-current asset which gives more benefit in the early years of its use

|          | diminishing (reducing)<br>balance method | revaluation<br>method | straight-line<br>method |
|----------|--|-----------------------|-------------------------|
| <b>A</b> | 1  | 3                     | 2                       |
| <b>B</b> | 2  | 1                     | 3                       |
| <b>C</b> | 2  | 3                     | 1                       |
| <b>D</b> | 3  | 1                     | 2                       |

- 17 Machinery, \$20 000, was purchased on 1 January 2017.

The provision for depreciation of machinery account at 31 December 2018 showed the following entries.

| provision for depreciation of machinery account |  |    |        |                  |      |
|---|--|----|--------|------------------|------|
| 2018  |  | \$ | 2018   |                  | \$   |
|   |  |    | Jan 1  | balance b/d      | 4000 |
|   |  |    | Dec 31 | income statement | 3200 |

Which statement is **not** correct?

- A** The annual depreciation on machinery is calculated at the rate of 20%.
- B** The balance of the provision for depreciation of machinery account is transferred to the machinery account.
- C** The diminishing (reducing) balance method of depreciation has been used to calculate the annual depreciation on the machinery.
- D** The net book value of the machinery on 1 January 2019 was \$12 800.
- 18 Joseph depreciates his fixtures by 20% per annum using the straight-line method.

A full year's depreciation is charged in the year of purchase.

During the year, repairs to fixtures of \$400 were debited to the fixtures account.

What was the effect of **correcting** this error?

|          | effect on book value of fixtures | effect on profit for the year |
|----------|----------------------------------|-------------------------------|
| <b>A</b> | decrease \$320                   | decrease \$320                |
| <b>B</b> | decrease \$320                   | increase \$320                |
| <b>C</b> | decrease \$400                   | decrease \$80                 |
| <b>D</b> | decrease \$400                   | increase \$80                 |

- 19 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

20 Carlos is preparing his sales ledger control account.

Where will he obtain information about contra entries?

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

21 After preparing her income statement Emma found that:

- 1 a bad debt, \$1500, should have been written off
- 2 no adjustment had been made for rent prepaid by her of \$2800.

The draft profit for the year was \$35 000.

What was the profit for the year after these adjustments?

- A \$30 700
- B \$33 700
- C \$36 300
- D \$39 300

22 The following balances were extracted from Sabeena's books on 31 December.

|                         | \$     |
|-------------------------|--------|
| non-current assets      | 65 000 |
| current assets          | 13 000 |
| current liabilities     | 9 000  |
| non-current liabilities | 7 000  |

What was the capital employed?

- A \$62 000
- B \$68 000
- C \$69 000
- D \$76 000

23 Sara and Fatima are in partnership. Sara is entitled to a partnership salary of \$30 000 per annum and the balance of the profit is shared equally.

The profit for the year was \$180 000.

What was Sara's total income from the business?

- A \$75 000
- B \$90 000
- C \$105 000
- D \$120 000



24 A sports club provided the following information.

|  | \$     |
|--|--------|
| subscriptions received during the year       | 12 000 |
| subscriptions owing at the start of the year | 1 200  |
| subscriptions owing at the end of the year   | 800    |

What was the amount of subscriptions shown in the income and expenditure account?

- A** \$11 600      **B** \$12 400      **C** \$12 800      **D** \$13 200

25 The statement of financial position of a sports club included the following.

|                            | \$        |
|----------------------------|-----------|
| subscriptions in advance   | 100       |
| subscriptions in arrears   | 130       |
| bank                       | 790 debit |
| inventory of refreshments  | 320       |
| amounts owing to suppliers | 200       |

What was the total of current liabilities?

- A** \$300      **B** \$330      **C** \$1090      **D** \$1240

26 A trader's sales were \$300 000. The mark-up was 25%.

What was the cost of sales?

- A** \$60 000      **B** \$75 000      **C** \$225 000      **D** \$240 000

27 What is **not** a voluntary deduction from gross wages?

- A** donation to charity  
**B** income tax  
**C** pension contribution  
**D** social club subscription

28 How is the current ratio calculated?

- A assets minus liabilities
- B assets divided by liabilities
- C current assets divided by current liabilities
- D current assets minus current liabilities

29 Which ratio measures liquidity?

- A gross profit/ sales
- B net profit/ sales
- C quick ratio (acid test ratio)
- D return on capital employed

30 Which accounting principle is referred to in the following statement?

'An accountant should not overstate profit and should provide for all possible losses.'

- A consistency
- B dual aspect
- C matching/ accruals
- D prudence



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