

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/01

Paper 1 Multiple Choice

October/November 2004

1 hour 15 minutes

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, 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 **forty** 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 **12** printed pages.



- 1 Which entry records a cheque paid to a supplier for goods bought on credit?

| | account debited | account credited |
|----------|-----------------|------------------|
| A | bank | creditor |
| B | bank | purchases |
| C | creditor | bank |
| D | purchases | bank |

- 2 Amina sells goods to Yasmin on credit. They are found to be damaged.

Which document will Amina then send to Yasmin?

- A** copy invoice
B credit note
C debit note
D statement of account
- 3 Maurice sends faulty goods back to James.

In which book of prime entry would James record this transaction?

- A** general journal
B purchases returns journal
C sales journal
D sales returns journal
- 4 The trial balance of J. Brown failed to agree.

A cheque for the purchase of a car had been debited to motor expenses.

How would this error be corrected?

| | debit | credit |
|----------|----------------|----------------|
| A | motor expenses | suspense |
| B | motor vehicles | motor expenses |
| C | motor vehicles | suspense |
| D | suspense | motor vehicles |

- 5 A trader provided the following information.

| | | \$ |
|---------|--------------------------------|--------|
| June 1 | Debtors | 9 000 |
| June 30 | cash book – cash from debtors | 7 000 |
| June 30 | total of sales journal | 11 000 |
| June 30 | total of sales returns journal | 1 000 |

What is the total of debtors at the end of June?

- A** \$8000 **B** \$9000 **C** \$10 000 **D** \$12 000
- 6 On 31 July, Jay's bank statement shows a balance at bank of \$2500, but the cash book shows a balance at bank of \$1750.

A cheque for \$750 issued by Jay does not appear on the bank statement.

Which bank balance figure will appear in Jay's Balance Sheet on 31 July?

- A** \$1000 **B** \$1750 **C** \$2500 **D** \$3250
- 7 Which is both a book of prime entry and a ledger account?
- A** cash book
- B** general journal
- C** purchases journal
- D** sales journal

- 8 At the end of the year it was discovered that sales had been overcast by \$70. A suspense account had been opened.

Which entries will correct this error?

| | account debited | | account credited | |
|----------|----------------------|----|----------------------|----|
| | | \$ | | \$ |
| A | sales | 70 | sales ledger control | 70 |
| B | sales | 70 | suspense | 70 |
| C | sales ledger control | 70 | sales | 70 |
| D | suspense | 70 | sales | 70 |

9 How is the cash purchase of goods for resale entered in the ledger?

| | account debited | account credited |
|----------|-----------------|------------------|
| A | cash | purchases |
| B | cash | supplier |
| C | purchases | cash |
| D | supplier | cash |

10 Cee owes Dee \$1000 for goods bought on credit.

Cee pays Dee the amount owed by cheque, less 2½% cash discount.

Which entries in Cee's books record this?

| | account debited | | account credited | |
|----------|-------------------|------|-------------------|------|
| | | \$ | | \$ |
| A | Dee | 1000 | bank | 975 |
| | | | discount received | 25 |
| B | bank | 975 | Dee | 1000 |
| | discount received | 25 | | |
| C | Dee | 1000 | bank | 975 |
| | | | discount allowed | 25 |
| D | bank | 975 | Dee | 1000 |
| | discount allowed | 25 | | |

11 The purchase of a motor vehicle has been debited to the motor vehicle expenses account.

What type of error has been made?

- A** commission
- B** omission
- C** original entry
- D** principle

12 After which error will a trial balance still balance?

- A A rent payment of \$150 was entered correctly in the bank account but debited to the rent account as \$250.
- B Discount received of \$378 was debited to the discount allowed account.
- C Sales of \$230 were entered in the sales journal as \$320.
- D The purchases journal was overcast by \$100.

13 A bookkeeper mistakenly treats a revenue expenditure item as capital expenditure.

What is the effect of this error?

- A Gross profit is overstated.
- B Net profit is understated.
- C Total assets are overstated.
- D Total assets are understated.

14 Jason purchased a computer for \$100. He then purchased a monitor for \$70. He paid \$25 for the monitor to be installed.

At what figure will the computer be shown in the Balance Sheet?

- A \$100 B \$125 C \$170 D \$195

15 A machine was purchased on 1 January 2003 for \$12 000. It has a working life of 8 years when it will be sold for \$2000. Depreciation is calculated using the straight line method.

What was the written down value at 31 December 2003?

- A \$10 000 B \$10 500 C \$10 750 D \$12 000

16 Machinery costing \$25 000 is depreciated at 20% per annum using the diminishing (reducing) balance method.

It is sold at the start of year 3 for \$12 000.

What is the profit or loss on disposal?

- A loss \$3000 B loss \$4000 C profit \$3000 D profit \$4000

- 17 Joyce decides to make a provision for doubtful debts.

What double entry is required?

| | account debited | account credited |
|----------|------------------------------|------------------------------|
| A | bad debts | provision for doubtful debts |
| B | Profit and Loss | provision for doubtful debts |
| C | provision for doubtful debts | bad debts |
| D | provision for doubtful debts | Profit and Loss |

- 18 After a trader's net profit has been calculated, it is discovered that the closing stock was undervalued by \$1000.

What is the effect of correcting this error?

| | gross profit | net profit |
|----------|--------------------|--------------------|
| A | decrease by \$1000 | decrease by \$1000 |
| B | decrease by \$1000 | unchanged |
| C | increase by \$1000 | increase by \$1000 |
| D | increase by \$1000 | unchanged |

- 19 What does the final balance on a sales ledger control account represent?

- A** amount owed by customers
- B** amount owed to customers
- C** total sales
- D** total credit sales

- 20 A purchases ledger control account had an opening balance of \$15 106. During the month the following occurred.

| | \$ |
|-----------------------|-------|
| credit note received | 210 |
| credit purchases | 5 610 |
| payments to suppliers | 8 600 |

What was the closing balance?

- A** \$6716
- B** \$11 906
- C** \$18 096
- D** \$20 716

21 Delbert pays \$210 000 for the following assets and liabilities of Oscar.

| | \$ |
|---------------------|--------|
| goodwill | 60 000 |
| current assets | 50 000 |
| current liabilities | 20 000 |

Fixed assets are also included in the purchase price.

What is the value of the fixed assets?

- A** \$120 000 **B** \$150 000 **C** \$180 000 **D** \$240 000

22 At the end of his first year a trader provides the following information.

| | \$ |
|-------------------|--------|
| sales | 90 000 |
| purchases | 60 000 |
| closing stock | 10 000 |
| carriage inwards | 5 000 |
| carriage outwards | 8 000 |

What is the gross profit?

- A** \$27 000 **B** \$32 000 **C** \$35 000 **D** \$40 000

23 Which group only contains fixed assets?

- A** land, machinery, premises and debtors
B land, machinery, premises and vehicles
C land, premises, loans and debtors
D stock, land, machinery and debtors

24 John Smith purchased a business for \$25 000.

Goodwill was valued at \$7500.

How will this be shown in the final accounts?

- A Balance Sheet as an asset
- B Balance Sheet as a liability
- C Profit and Loss Account as an expense
- D Trading Account as an expense

25 How is owner's capital calculated?

- A fixed assets + current assets – current liabilities – long term loans
- B fixed assets + current assets – current liabilities + long term loans
- C fixed assets – current assets + current liabilities – long term loans
- D fixed assets – current assets + current liabilities + long term loans

26 Mary provides the following information.

| | \$ |
|------------------|--------|
| cash | 5 000 |
| motor vehicles | 7 000 |
| accrued expenses | 2 000 |
| stock | 12 000 |
| creditors | 8 000 |
| debtors | 10 000 |

What is the total of Mary's current assets?

- A \$25 000 B \$27 000 C \$29 000 D \$34 000

27 Which is a current liability?

- A long-term loan
- B owner's capital
- C trade creditors
- D trade debtors

- 28 Anne and Barry are in partnership sharing profits and losses in the ratio 3:2.

Anne is entitled to an annual salary of \$8000. Their net profit for the year is \$32 000.

What amount should be credited to Anne's current account for the year?

- A** \$11 200 **B** \$14 400 **C** \$22 400 **D** \$24 000

- 29 Colin's sales ledger control account has a debit balance of \$12 000. Interest on an overdue account, \$40, and discount allowed, \$150, have been omitted.

What is the correct balance?

- A** \$11 810 **B** \$11 890 **C** \$12 110 **D** \$12 190

- 30 On 1 June 2004 Tang paid an insurance premium of \$1200 for the six months ending 31 December 2004.

What will appear in Tang's Balance Sheet at 30 September 2004?

- A** \$400 accrual
B \$400 prepayment
C \$600 accrual
D \$600 prepayment

- 31 Khaleed and Ahmed are in partnership. Interest is to be charged on partners' drawings.

Which entry will record this?

| | debit | credit |
|----------|----------------------------|----------------------------|
| A | Appropriation Account | partners' current accounts |
| B | partners' current accounts | Appropriation Account |
| C | partners' current accounts | Profit and Loss Account |
| D | Profit and Loss Account | partners' current accounts |

- 32 In the books of a club, which term describes the equivalent of a sole trader's capital?

- A** accumulated fund
B balance on Receipts and Payments Account
C member's subscriptions
D profit on refreshments

- 33 At the end of the financial year, a club's Receipts and Payments Account showed a debit balance of \$970.

What does this mean?

- A bank and cash balances in hand were \$970
- B creditors were owed \$970
- C subscriptions in arrear were \$970
- D surplus for the year was \$970

- 34 The records of a business show

| | \$ |
|----------------------------|---------|
| stock at beginning of year | 23 000 |
| stock at end of year | 27 000 |
| sales for the year | 160 000 |

Goods are sold at cost plus 25%.

What are the purchases for the year?

- A \$120 000
- B \$124 000
- C \$128 000
- D \$132 000

- 35 A's balance sheet showed net assets of \$22 000 on 1 January and \$23 000 on 31 December.

During the year A withdrew \$5000 for personal use.

What was A's profits for the year?

- A \$1000
- B \$4000
- C \$5000
- D \$6000

- 36 Which item will **not** appear in the Appropriation Account of a limited company?

- A debenture interest
- B ordinary share dividend
- C preference share dividend
- D transfer to general reserve

37 A manufacturing business provides the following details.

| | \$ |
|-------------------|---------------|
| office expenses | 14 000 |
| direct expenses | 22 000 |
| direct labour | 18 000 |
| direct materials | 24 000 |
| factory lighting | 2 000 |
| financial charges | 5 000 |
| total | <u>85 000</u> |

What is the prime cost of production?

- A** \$64 000 **B** \$66 000 **C** \$80 000 **D** \$85 000

38 Which ratio is calculated using information from both the Profit and Loss Account and the Balance Sheet?

- A** current
B gross profit/sales
C net profit/capital
D net profit/sales

39 The table gives information for a company's financial year.

| | |
|------------------------|----------------------|
| sales | \$250 000 |
| gross profit margin | 20% on selling price |
| rate of stock turnover | 5 times |

What is the average stock for the year?

- A** \$10 000 **B** \$37 500 **C** \$40 000 **D** \$50 000

- 40** A very large company has prepared final accounts without including very small items of furniture in its fixed assets.

What accounting principle has the company applied?

- A** accounting entity
- B** dual aspect
- C** materiality
- D** prudence