

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

May/June 2005

**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 What is the correct entry for office furniture bought on credit from X?

	account to be debited	account to be credited
<b>A</b>	bank	office furniture
<b>B</b>	office furniture	bank
<b>C</b>	office furniture	X
<b>D</b>	X	office furniture

2 What is the purpose of a credit note?

- A** to allow for cash discount
- B** to ask for payment in advance
- C** to increase the amount due on an invoice
- D** to reduce the amount payable on an invoice

3 Which is part of the double entry system?

- A** cash book
- B** general journal
- C** sales journal
- D** trial balance

4 A business maintains a full set of books of prime entry.

Which book is written up from credit notes received?

- A** purchases journal
- B** purchases returns journal
- C** sales journal
- D** sales returns journal

- 5 Shah disposes of a motor vehicle. It is bought by Khan with a cheque for \$8000.

How will this be recorded in the books of Shah?

	account to be debited	account to be credited
<b>A</b>	bank	disposal of motor vehicle
<b>B</b>	disposal of motor vehicle	bank
<b>C</b>	bank	Khan
<b>D</b>	Khan	bank

- 6 A business keeps a three column cash book.

How is the total of the discount column on the debit side posted?

- A** credit discount allowed account  
**B** credit discount received account  
**C** debit discount allowed account  
**D** debit discount received account
- 7 A trader draws up a bank reconciliation statement and starts with the debit balance shown in his cash book.

How are un-presented cheques and uncredited deposits shown in the bank reconciliation statement?

	unpresented cheques	uncredited deposits
<b>A</b>	added	deducted
<b>B</b>	deducted	added
<b>C</b>	added	added
<b>D</b>	deducted	deducted

- 8 A business discovers that cash received from X, a credit customer, has been recorded as a cash sale.

How can this be corrected?

	account to be debited	account to be credited
<b>A</b>	cash	X
<b>B</b>	sales	X
<b>C</b>	X	cash
<b>D</b>	X	sales

- 9 The following balances were extracted from Majid's purchases and sales ledgers.

Walid account – \$1500 debit

Xian account – \$1700 debit

Yu account – \$2300 credit

Zaid account – \$2700 credit

How much does Majid owe?

- A** \$1800      **B** \$3200      **C** \$5000      **D** \$8200
- 10 Which is a personal account?
- A** debtor
- B** office computers
- C** plant and machinery
- D** wages
- 11 What is a statement of ledger balances on a particular date?
- A** Balance Sheet
- B** Profit and Loss Account
- C** Trading Account
- D** Trial Balance

- 12** After which error will a trial balance still balance?
- A** an error in adding up a debtor's account  
**B** an error in entering an item on a sales invoice  
**C** an error in extracting the balance of a fixed asset account  
**D** an error in recording cash received in the cash book
- 13** The purchase of a motor vehicle has been wrongly recorded as motor expenses in a business's books.
- What is the effect of this error?
- A** gross profit is understated  
**B** net profit is overstated  
**C** total assets are overstated  
**D** total assets are understated
- 14** Which item is capital income?
- A** cash received from the sale of office equipment  
**B** cheque received from the sale of stock  
**C** discounts received from trade creditors  
**D** rent received from tenants
- 15** X's financial year ends on 31 December.

On 31 December 2003 the following accounts appeared in her ledger.

	debit \$	credit \$
Equipment at cost	18 000	
Provision for depreciation of equipment		7 000

On 1 January 2004 she purchased equipment for \$12 000. Equipment is depreciated at 25% per annum using the straight line method.

What will be the total provision for depreciation of equipment on 31 December 2004?

- A** \$3000      **B** \$7500      **C** \$14 500      **D** \$18 500

- 16 How is the balance on the provision for depreciation of motors account shown in the final accounts?
- A** It is added to the current liabilities in the Balance Sheet.  
**B** It is deducted from the fixed assets in the Balance Sheet.  
**C** It is credited in the Profit and Loss Account.  
**D** It is debited in the Profit and Loss Account.

- 17 A business has a provision for doubtful debts of \$30 and debtors of \$360. The provision is to be made equal to 5% of debtors.

What is the entry in the Profit and Loss Account?

- A** credit \$12      **B** credit \$18      **C** debit \$12      **D** debit \$18
- 18 A trader provides the following information relating to insurance.

	\$
prepayment brought forward at 1 January 2004	600
cheques paid for insurance in the year 2004	7 200
insurance prepaid at 31 December 2004	950

Which amount should be shown in the trader's Profit and Loss Account for insurance for 2004?

- A** \$6250      **B** \$6850      **C** \$7550      **D** \$7800
- 19 A debt of \$500 owed by K Graham is written off as a bad debt.

What is the journal entry to record this transaction?

	detail	debit \$	credit \$
<b>A</b>	bad debt K Graham	500	500
<b>B</b>	K Graham bad debt	500	500
<b>C</b>	provision for doubtful debts K Graham	500	500
<b>D</b>	K Graham provision for doubtful debts	500	500

20 Which error will affect the profit calculation?

- A a payment to a creditor for \$260 entered as \$200
- B a payment of \$260 for a fixed asset entered as \$200
- C a payment of rent for \$260 entered as \$200
- D a loan repayment of \$260 entered as \$200

21 Discount received was credited to the Trading Account.

What is the effect of this error on the gross and net profits?

	gross profit	net profit
<b>A</b>	overstated	understated
<b>B</b>	overstated	no effect
<b>C</b>	understated	no effect
<b>D</b>	understated	overstated

22 Yip prepares a purchases ledger control account and a sales ledger control account at the end of each month. He wrote off a debt as bad in May 2005.

How will this bad debt be recorded in the control accounts prepared on 31 May 2005?

	purchases ledger control account	sales ledger control account
<b>A</b>	credit	no effect
<b>B</b>	debit	no effect
<b>C</b>	no effect	credit
<b>D</b>	no effect	debit

23 X provides the following information at the end of the first year of trading.

	\$
credit sales	200 000
sales returns	10 600
receipts from debtors	160 000
discounts allowed	1 400
provision for doubtful debts	1 000

What is the debit balance on X's sales ledger control account?

- A \$27 000
- B \$28 000
- C \$29 000
- D \$30 000

- 24** Raymond purchased the business of Susan on 1 March 2005, taking over the assets, except the bank balance, and the liabilities. He agreed to pay \$8000 for Goodwill.

On 1 March 2005 Susan's assets and liabilities were as follows.

	\$
fixed assets	70 000
current assets (including bank \$5000)	35 000
current liabilities	15 000

How much did Raymond pay for the business?

- A** \$93 000      **B** \$98 000      **C** \$108 000      **D** \$123 000
- 25** A Bryan provides the following information for the year ended 31 December.

	\$
sales	14 000
purchases	6 000
closing stock	900
opening stock	1 400

What is the gross profit?

- A** \$5700      **B** \$7500      **C** \$8500      **D** \$10 300
- 26** The balance on the bank account in a cash book is \$1200 credit.

How is this shown in the Balance Sheet?

- A** as a current asset  
**B** as a current liability  
**C** as a long-term liability  
**D** as owner's drawings
- 27** A trader has a capital of \$24 400. His fixed assets are \$16 100 and his current liabilities are \$4500. There are no long-term liabilities.

What is the amount of his current assets?

- A** \$8300      **B** \$11 600      **C** \$12 800      **D** \$28 900



28 A trader provides the following information.

	\$
fixed assets	30 000
cash	500
bank overdraft	2 000
debtors	4 000
creditors	3 500
stock	5 000

What is the working capital?

- A** \$4000      **B** \$8000      **C** \$34 000      **D** \$39 500

29 Laura and Mary are partners sharing profits and losses in the ratio 1 : 2.

Prior to admitting a new partner their goodwill was valued at \$60 000 and their capitals were Laura \$20 000 and Mary \$30 000.

Which entries would be made in their capital accounts to record goodwill?

	Laura	Mary
	\$	\$
<b>A</b>	20 000 credit	40 000 credit
<b>B</b>	24 000 credit	36 000 credit
<b>C</b>	20 000 debit	40 000 debit
<b>D</b>	24 000 debit	36 000 debit

30 X takes from the business goods costing \$100 for her own use.

Which double entry is made in the books of the business?

	account to be debited	account to be credited
<b>A</b>	drawings	purchases
<b>B</b>	drawings	sales
<b>C</b>	stock	drawings
<b>D</b>	purchases	drawings

31 A sole trader's rent account showed a debit balance of \$2000 on 1 January 2004.

Rent paid during the year ended 31 December 2004 was \$12 000.

Rent prepaid at 31 December 2004 amounted to \$3000.

What was the charge for rent in the Profit and Loss Account for the year ended 31 December 2004?

- A** \$11 000      **B** \$12 000      **C** \$14 000      **D** \$15 000

32 Which item appears in the Profit and Loss Account of a partnership?

- A** interest on capital  
**B** interest on drawings  
**C** interest on partner's loan  
**D** partner's salary

33 When the final accounts for a tennis club are being prepared it is found that some members' subscriptions have been received for the following year.

Where will these subscriptions appear in the Balance Sheet?

- A** current asset  
**B** current liability  
**C** added to the accumulated fund  
**D** deducted from the accumulated fund

34 A club provides the following information relating to members' subscriptions.

	\$
accrued at 1 January 2004	200
prepaid at 1 January 2004	300
received during 2004	10 000
outstanding at 31 December 2004	500

What amount for subscriptions will be entered in the Income and Expenditure Account for the year ended 31 December 2004?

- A** \$9400      **B** \$9600      **C** \$10 400      **D** \$10 600

35 The following information relates to a business.

	\$
Capital at 1 January	20 000
Capital at 31 December	32 000
Drawings during the year	10 000
Additional capital brought in during the year	7 000

What is the net profit for the year?

- A** \$9000      **B** \$12 000      **C** \$15 000      **D** \$22 000

36 What are included in the Capital and Reserves section of a company's Balance Sheet?

- A** authorised share capital, debentures  
**B** authorised share capital, preference share capital  
**C** reserves, debentures  
**D** reserves, preference share capital

37 Which is an indirect cost?

- A** carriage inward  
**B** factory rent  
**C** production materials  
**D** production wages

38 A business provides the following information.

sales	\$20 000
gross profit	25 % of sales
net profit	10 % of sales

How much were expenses?

- A** \$2000      **B** \$2250      **C** \$3000      **D** \$5000

39 A business provides the following information.

	\$
stock: 1 January	10 000
31 December	30 000
purchases	140 000
sales	250 000

What is the rate of stock turnover for the year?

- A** 5.5 times      **B** 6 times      **C** 7 times      **D** 12.5 times

40 A business values its stock at the lower of cost or net realisable value.

Which accounting principle is being applied?

- A** going concern  
**B** materiality  
**C** money measurement  
**D** prudence