



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

**May/June 2009**

**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, 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 **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 **10** printed pages and **2** blank pages.



- 1 Which **best** describes the assets of a business?
- A cash and items that should turn into cash in the near future
  - B cash invested by the owner of the business
  - C items bought for long term use by the business
  - D items owing to or owned by the business
- 2 What is true of a computerised accounting system?
- A The computer will automatically correct inaccurate input.
  - B The data can be used for a number of different uses.
  - C The design of the system cannot be modified.
  - D The possibility of financial fraud is eliminated.
- 3 A trader started business on 1 January 2007. He prepared accounting statements for the first two years of trading.

For which purpose will these accounting statements **not** be used?

- A to calculate the change in the business's goodwill
  - B to evaluate the past performance of the business
  - C to make decisions about the business's future
  - D to measure the progress of the business
- 4 The balance on a trader's capital account was \$150 000.

He then had the following transactions.

    Took \$2000 in cash from the shop for personal use.

    Paid \$4000 for a private motor car from the business bank account.

    Introduced \$10 000 new capital into the business.

What was the balance on his capital account after these transactions?

- A \$138 000      B \$154 000      C \$158 000      D \$160 000
- 5 Which is recorded in the purchases ledger?
- A cash paid to a creditor
  - B cash purchases
  - C cheque received from a debtor
  - D purchase of fixed assets

- 6 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
- 7 Khan bought goods for \$220, less 20 % trade discount, on credit from Aziz. Khan later returned half of these goods. Aziz entered the returns in his sales returns journal.

How will Aziz post this transaction to Khan's ledger account?

- A credit \$88      B debit \$88      C credit \$110      D debit \$110
- 8 Paula's trial balance includes the following.

	dr \$	cr \$
bank current account		290
bank deposit account	4000	

The bank applies interest to both of these accounts.

How will this affect Paula?

	bank current account		bank deposit account	
	interest payable by Paula	interest receivable by Paula	interest payable by Paula	interest receivable by Paula
<b>A</b>	✓		✓	
<b>B</b>		✓		✓
<b>C</b>	✓			✓
<b>D</b>		✓	✓	

- 9 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
- 10 Jane began trading on 1 May. On 31 May her cash book showed a bank overdraft of \$700. On that date, unpresented cheques were \$250 and uncredited deposits were \$180.

What was the balance shown on Jane's bank statement on 31 May?

- A \$270 dr      B \$630 dr      C \$770 dr      D \$1130 dr
- 11 Li, a trader, discovered an error in her accounting records. She made the following entry in her general journal to correct this error.

2009		dr \$	cr \$
March 31	Stationery	20	
	Purchases		20

Which error made this entry necessary?

- A Goods purchased for re-sale had been credited to the stationery account.  
 B Goods purchased for re-sale had been debited to the stationery account.  
 C Stationery purchased for office use had been credited to the purchases account.  
 D Stationery purchased for office use had been debited to the purchases account.

12 The following account appears in the ledger of Melissa.

Julia account

2008		\$	2008		\$
Jan 1	sales	100	Jan 14	bank	95
19	sales	50		discount	5
			Dec 31	bad debts	50
		<u>150</u>			<u>150</u>

Which statement is correct?

- A** On 14 January Julia allowed Melissa trade discount.  
**B** On 14 January Melissa allowed Julia trade discount.  
**C** On 31 December Julia wrote off Melissa's account.  
**D** On 31 December Melissa wrote off Julia's account.
- 13 What is a trial balance?
- A** a list of balances remaining on the books of a business on a certain date  
**B** a statement of the assets, liabilities and capital of a business on a certain date  
**C** a statement showing the profit made by a business for a financial period  
**D** a summary of the trading transactions of a business for a financial period
- 14 John's financial year ends on 31 March. Wages paid during the year ended 31 March 2009 amounted to \$94 000.

On 31 March 2009 wages outstanding amounted to \$3000.

Which journal entry shows the transfer to the profit and loss account for the year ended 31 March 2009?

		dr \$	cr \$
<b>A</b>	profit and loss wages	91 000	91 000
<b>B</b>	wages profit and loss	91 000	91 000
<b>C</b>	profit and loss wages	97 000	97 000
<b>D</b>	wages profit and loss	97 000	97 000

15 Which accounting entry is made to increase a provision for doubtful debts?

	account to be debited	account to be credited
<b>A</b>	debtors	provision for doubtful debts
<b>B</b>	profit and loss account	provision for doubtful debts
<b>C</b>	provision for doubtful debts	debtors
<b>D</b>	provision for doubtful debts	profit and loss account

16 New shop fittings costing \$5000 were debited in the purchases account in error.

How does this affect the gross and net profits?

	gross profit		net profit	
	overstated	understated	overstated	understated
<b>A</b>		✓		✓
<b>B</b>	✓		✓	
<b>C</b>		✓	✓	
<b>D</b>	✓			✓

17 What is the main purpose of charging depreciation on fixed assets?

- A** to provide funds for the replacement of assets
- B** to record the assets at their market value
- C** to reduce the cost of repairing assets
- D** to spread the cost of assets over their useful lives

18 Discounts received, \$100, were entered on the debit side of the discounts allowed account.

A suspense account was opened.

Which entry corrects this error?

	account(s) debited	\$	account(s) credited	\$
<b>A</b>	discounts allowed discounts received	100 100	suspense	200
<b>B</b>	suspense	200	discounts allowed discounts received	100 100
<b>C</b>	discounts received	200	discounts allowed suspense	100 100
<b>D</b>	discounts allowed suspense	100 100	discounts received	200

19 Which does **not** appear in a purchases ledger control account?

- A bad debts
- B discount received
- C goods returned to creditors
- D interest charged by suppliers

20 The value of Wayne's net assets on 31 December 2008 is less than their value on 1 January 2008.

Which term describes the difference in Wayne's net assets?

- A gross loss
- B gross profit
- C net loss
- D net profit

21 A trader provides the following information.

	\$
fixed assets	12 000
current assets	6 000
current liabilities	4 000

What is her capital employed?

- A** \$2000      **B** \$10 000      **C** \$14 000      **D** \$22 000

22 The closing stock of a business had a selling price of \$30 000 and a cost price of \$20 000.

Stock costing \$4000 was then found to be unsaleable.

At what amount will the closing stock be shown in the business's balance sheet?

- A** \$14 000      **B** \$16 000      **C** \$24 000      **D** \$26 000

23 Which businessman is operating a trading business?

- A** accountant
- B** computer software developer
- C** hairdresser
- D** second hand car dealer

24 Winston is a sole trader. He is considering admitting Dexter as a partner.

What would be a disadvantage to Winston if a partnership is formed?

- A** Business losses will be shared.
- B** Business profits will be shared.
- C** More capital may be available.
- D** More skills and experience may be available.



25 A trader provided the following information.

	\$
capital at the end of the year	21 000
capital at the beginning of the year	10 000
drawings during the year	3 000
capital introduced during the year	8 000

What was the trader's net profit for the year?

- A** nil                      **B** \$6000                      **C** \$11 000                      **D** \$16 000

26 Helmuth provided the following information.

	\$
opening stock	10 000
purchases for year	32 500
closing stock	9 500

All goods are sold at a profit margin of  $33\frac{1}{3}\%$ .

What were the sales for the year?

- A** \$40 000                      **B** \$44 000                      **C** \$48 000                      **D** \$49 500

27 Which group contains only items that appear in the appropriation account of a limited company?

- A** ordinary share dividend, debenture interest, directors' salaries  
**B** ordinary share dividend, preference share dividend, directors' salaries  
**C** ordinary share dividend, preference share dividend, transfer to general reserve  
**D** ordinary share dividend, transfer to general reserve, debenture interest

28 A manufacturer had the following costs.

	\$
raw material	8000
wages: factory workers	4000
factory supervisor	1000
office workers	2000
fixed overheads: factory	4500
office	1500

What was the factory cost of production?

- A** \$12 000      **B** \$16 500      **C** \$17 500      **D** \$21 000

29 What does the money measurement principle state?

- A** Items are valued at the lower of cost or net realisable value.
- B** Only information which can be expressed in monetary terms is recorded.
- C** Profit is only recorded when it has actually been earned.
- D** The business will continue to operate for an indefinite period of time.

30 Which principle is applied when a business maintains a provision for doubtful debts?

- A** consistency
- B** going concern
- C** matching
- D** materiality



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