

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/01

Paper 1 Multiple Choice

October/November 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 **11** printed pages and **1** blank page.



- 1 X keeps a full set of books of account.

Where will the purchases account appear?

- A general journal
- B general ledger
- C purchases journal
- D purchases ledger

- 2 Which source document is used to make an entry in the purchases returns journal?

- A credit note issued by the business
- B credit note issued by the supplier
- C invoice issued by the business
- D invoice issued by the supplier

- 3 What is true about cash discounts received?

	they are recorded in cash book	they increase net profit
A	✓	✓
B	✓	x
C	x	✓
D	x	x

- 4 Which is entered in the purchases journal?

- A invoices from suppliers
- B invoices to customers
- C payments from customers
- D payments to suppliers

- 5 What is a cash book?

	a book of prime entry	a ledger account
A	yes	no
B	no	yes
C	yes	yes
D	no	no

- 6 A cash book has separate columns for bank and cash transactions. On 1 August the balance on the bank account was \$1000. Transactions during August were as follows.

	\$
Cash paid into bank	200
Cheque drawn for office cash	50

What was the balance on the bank account at 31 August?

- A** \$750 **B** \$850 **C** \$1150 **D** \$1250
- 7 Which will be entered in the general journal?
- A** correction of an error
B discount received
C goods returned to supplier
D sales on credit
- 8 Bob returns goods bought on credit from Tariq.

Which ledger account entries record this in Tariq's books?

	debit	credit
A	Bob	sales returns
B	Bob	purchases returns
C	sales returns	Bob
D	purchases returns	Bob

- 9 Leech owes Smith \$50. He pays by cheque after deducting a 10% cash discount.

What is the entry in Smith's books?

	account to be debited	\$	account to be credited	\$
A	bank	50	Leech	50
B	Leech	50	bank	50
C	bank	45	Leech	50
	discount	5		
D	Leech	50	bank	45
			discount	5

- 10 Which error will **not** affect the balancing of the trial balance?
- A An electricity payment of \$420 was entered correctly in the bank account but debited to the electricity account.
 - B A purchase invoice for \$200 had not been entered in the purchases journal.
 - C A rent payment of \$600 had been entered correctly in the bank account but omitted from the rent account.
 - D The sales account was overcast by \$90.
- 11 Which will appear as a credit balance in a trial balance?
- A balance at bank
 - B balance in cash
 - C discounts allowed
 - D discounts received
- 12 Which group contains only capital expenditure?
- A computers, repairs to computers and machinery
 - B furniture, computers and machinery
 - C furniture, repairs to computers and buildings
 - D machinery, motor expenses and computers
- 13 What is the effect on the final accounts of treating expenditure on motor expenses as capital expenditure?

	decrease	increase
A	fixed assets net profit	
B		fixed assets net profit
C	fixed assets	net profit
D	net profit	fixed assets

- 14 A business owns a machine.

cost of machine	\$10 000
estimated life	4 years
residual value	\$3000

Depreciation is charged at 20% each year, using the diminishing (reducing) balance method.

What is the depreciation charge in year 2 of the life of the asset?

- A** \$1120 **B** \$1600 **C** \$1750 **D** \$2500
- 15 A business fails to provide for depreciation when preparing its final accounts.
- What is the effect of this omission?
- A** profit is overstated
B profit is understated
C resale value of assets is overstated
D resale value of assets is understated
- 16 A company buys a motor vehicle for \$12 600 and sells it four years later for \$3750 when the provision for depreciation is \$7400.

What is the entry in the Profit and Loss Account in the year of sale?

- A** \$1450 debit
B \$5200 debit
C \$1450 credit
D \$5200 credit
- 17 Susan owes a business \$100. The business is not sure if Susan will pay.

Which entries should the business make?

	account to be debited	account to be credited
A	bad debts	Susan
B	Profit and Loss	bad debts
C	Profit and Loss	provision for doubtful debts
D	provision for doubtful debts	Susan

18 How is year end rent receivable shown in the final accounts?

- A current asset
- B current liability
- C fixed asset
- D long term liability

19 A trader rents premises.

How is the rent accrued at the end of the financial year shown?

- A credit balance brought down on the rent account
- B debit balance brought down on the rent account
- C current asset in the Balance Sheet
- D long-term liability in the Balance Sheet

20 The Profit and Loss Account of a business revealed a loss of \$16 000. A check of the books for the period revealed the following errors.

Insurance premium paid in advance, \$480, had been treated as an expense for the year.

Bank charges, \$620, had been overlooked.

What is the correct net loss for the year?

- A \$14 900 B \$15 860 C \$16 140 D \$17 100

21 Credit sales, \$300, have been posted to the account of Tan instead of to the account of Yen.

Which entries are required to correct this error?

	account to be debited	account to be credited
A	Tan	Sales
B	Tan	Yen
C	Yen	Sales
D	Yen	Tan

22 The sales ledger control account had a balance of \$125 000 at the beginning of the month, and a balance of \$105 000 at the end of the month. The credit sales were \$75 000.

How much was paid by the debtors?

- A \$50 000 B \$75 000 C \$95 000 D \$155 000

23 A purchases ledger control account has a credit balance of \$3950.

What is the balance after entering discount received, \$15, and interest charged on the account, \$19?

- A \$3916 B \$3946 C \$3954 D \$3984

24 The business of S. Trader is bought by A. Spender for \$6500.

S. Trader provides the following information.

	\$
motor vehicle	5 000
debtors	500
stock	500
creditors	1 050

What is the amount of Goodwill?

- A \$500 B \$550 C \$1550 D \$4950

25 On 1 January 2004 Kim's net assets totalled \$70 000. On 31 December 2004 they totalled \$55 000. During the year he had withdrawn \$4000 for personal use.

What is the trading result for the year?

- A \$11 000 loss
 B \$11 000 profit
 C \$19 000 loss
 D \$19 000 profit

26 Which is a fixed asset of an engineering company?

- A factory premises
 B long term loan
 C trade debtors
 D stock

27 What is capital employed?

- A capital
- B capital plus drawings minus net profit
- C capital plus net profit
- D capital plus net profit minus drawings

28 A sole trader writes off a bad debt.

What will be the effect of this on her Balance Sheet?

- A capital reduced and assets reduced
- B liabilities increased and assets reduced
- C liabilities reduced and assets increased
- D no effect on assets or liabilities

29 Which equals a sole trader's capital?

- A fixed assets
- B fixed assets plus current assets
- C total assets minus total liabilities
- D working capital plus long term liabilities

30 Cindy and Carl are sole traders. They agree to amalgamate their businesses on 1 January 2004. Profits and losses are to be shared equally. On 1 January 2004 Cindy's Goodwill was valued at \$6000 and Carl's Goodwill was valued at \$4000. On 31 December 2004 they decided to write off the Goodwill.

What entries are required in the ledger of the partnership on 31 December 2004?

	account(s) to be debited	\$	account(s) to be credited	\$
A	Capital Cindy Capital Carl	6 000 4 000	Goodwill	10 000
B	Goodwill	10 000	Capital Cindy Capital Carl	6 000 4 000
C	Capital Cindy Capital Carl	5 000 5 000	Goodwill	10 000
D	Goodwill	10 000	Capital Cindy Capital Carl	5 000 5 000

31 How is prepaid insurance at the end of the financial year shown in the Balance Sheet?

- A current asset
- B current liability
- C fixed asset
- D long-term liability

32 What is included in the Appropriation Account of a partnership?

- A cash withdrawn by a partner
- B goods taken by a partner
- C interest paid on loan from a partner
- D partner's salary

33 What appears in a sports club's Receipts and Payments Account?

- A accumulated fund
- B bank balance
- C expenses owing
- D subscriptions in arrears

34 A club provides the following information for 2004.

	\$
January 1 – subscriptions paid in advance	525
December 31 – subscriptions owing	435
subscriptions received during 2004	7 520

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

- A \$6560 B \$7430 C \$7610 D \$8480

35 Some of the accounting records of X have been partially destroyed by fire. The remaining records show sales for the year of \$85 240. X has a gross profit margin of 20%.

What is the cost of sales for the year?

- A \$17 048 B \$21 310 C \$63 930 D \$68 192

- 36 The directors of a limited company agreed the following ordinary share dividend payments:

Interim	\$0.05 per share
Final	\$0.15 per share

The company's authorised capital was 1 000 000 \$1 ordinary shares, of which 800 000 shares have been issued as fully paid.

What is the total amount of ordinary dividend to be entered in the Appropriation Account?

- A** \$120 000 **B** \$150 000 **C** \$160 000 **D** \$200 000
- 37 What will be included in a manufacturing account?
- A** bank charges and commission on sales
B depreciation of plant and salesmen's salaries
C direct labour and factory overheads
D direct labour and office expenses
- 38 In preparing his final accounts, X has overvalued the closing stock by \$400.

What is the effect of this?

	profit	assets
A	\$400 too high	\$400 too high
B	\$400 too low	\$400 too low
C	no effect	\$400 too high
D	no effect	\$400 too low

39 The Trading Account of a small business is as follows.

	\$	\$
sales		250 000
opening stock	10 000	
purchases	155 000	
	<u>165 000</u>	
closing stock	<u>5 000</u>	
cost of goods sold		<u>160 000</u>
gross profit		<u>90 000</u>

What is the rate of stock turnover?

- A 10.66 times per year
 - B 20.66 times per year
 - C 21.33 times per year
 - D 33.33 times per year
- 40 Which accounting principle is a business following when it includes a provision for doubtful debts in its annual accounts?
- A consistency
 - B matching
 - C prudence
 - D realisation

