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**PRINCIPLES OF ACCOUNTS**

**7110/11**

Paper 1 Multiple Choice

**October/November 2017**

**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 What would be the most useful way of monitoring the progress of a retail business?
- A comparing the financial statements of one year with those of previous years
  - B comparing the financial statements with those of a business in another country
  - C comparing the financial statements with those of a business of a different size
  - D comparing the financial statements with those of a manufacturing business
- 2 Which statement about a computerised accounting system is correct?
- A Anyone with a computer can gain access to the accounting records.
  - B Data input can only be used for one specific purpose.
  - C Data output can only be understood by computer programmers.
  - D Operator error may result in inaccurate information.
- 3 What increases owner's capital?
- A bank loan extended from five to ten years
  - B purchase of inventory on credit
  - C purchase of machinery by cheque
  - D transfer of vehicle to business from private use
- 4 Which account always has a credit balance?
- A capital account
  - B cash account
  - C drawings account
  - D premises account
- 5 Kamal purchases and sells goods on credit.
- Where does he maintain the accounts of his credit suppliers?
- A purchases journal
  - B purchases ledger
  - C sales journal
  - D sales ledger

- 6 Ali sold goods, \$600, on credit to Malik on 19 October.

The terms of the sale were  $2\frac{1}{2}\%$  cash discount if payment was received within 14 days.

Payment was received on 25 October.

How would Ali record this discount?

|          | debit             | credit            |
|----------|-------------------|-------------------|
| <b>A</b> | discount allowed  | Malik             |
| <b>B</b> | discount received | Malik             |
| <b>C</b> | Malik             | discount allowed  |
| <b>D</b> | Malik             | discount received |

- 7 What is correct about a bank reconciliation statement?

|          | prepared by<br>the bank | prepared by<br>the trader | part of double entry<br>book-keeping |
|----------|-------------------------|---------------------------|--------------------------------------|
| <b>A</b> | no                      | yes                       | no                                   |
| <b>B</b> | no                      | yes                       | yes                                  |
| <b>C</b> | yes                     | no                        | no                                   |
| <b>D</b> | yes                     | no                        | yes                                  |

- 8 Which transaction of a manufacturer would be entered in the general journal?

- A** payment of wages by cash
- B** purchase of raw materials on credit
- C** sales of finished goods on credit
- D** writing off a bad debt

9 The following account appeared in Sue's ledger.

| Tony account |             |            |                |            |
|--------------|-------------|------------|----------------|------------|
|              |             | \$         | \$             |            |
| May 1        | balance b/d | 400        | May 16 returns | 21         |
| 12           | sales       | 590        | 28 bank        | 284        |
|              |             |            | discount       | 6          |
|              |             |            | 31 balance c/d | 679        |
|              |             | <u>990</u> |                | <u>990</u> |

Which statement is correct?

- A On 12 May Tony sold goods, \$590, to Sue.
- B On 16 May Sue returned goods, \$21, to Tony.
- C On 28 May Tony received discount, \$6, from Sue.
- D On 31 May Sue owed \$679 to Tony.

10 The totals of a trial balance agreed.

What does this mean?

- A All the arithmetic in the ledger is correct.
- B All transactions have been entered in the correct ledger accounts.
- C All transactions have been entered on the correct sides of the ledger.
- D Total debit balances equal total credit balances in the ledger.

- 11 Gary rents his business premises. His financial year ends on 30 September. On 1 October 2016 rent prepaid amounted to \$3000. During the year ended 30 September 2017 a total of \$7000 rent was paid. On 30 September 2017 rent outstanding amounted to \$2000.

Which journal entry shows the transfer of the rent to the income statement on 30 September 2017?

|          |                          | debit<br>\$ | credit<br>\$ |
|----------|--------------------------|-------------|--------------|
| <b>A</b> | income statement<br>rent | 8 000       | 8 000        |
| <b>B</b> | income statement<br>rent | 12 000      | 12 000       |
| <b>C</b> | rent<br>income statement | 8 000       | 8 000        |
| <b>D</b> | rent<br>income statement | 12 000      | 12 000       |

- 12 Ann's financial year ends on 31 August. The annual rates on her shop are \$3000. On 1 September 2016 rates prepaid amounted to \$750. Rates paid during the year ended 31 August 2017 amounted to \$2750.

What was the balance brought down on the rates account on 1 September 2017?

- A** \$250 credit  
**B** \$250 debit  
**C** \$500 credit  
**D** \$500 debit

- 13 Ajay maintains a provision for doubtful debts of 3% of trade receivables.

On 1 January 2016, the balance on the provision for doubtful debts account was \$70. The trade receivables amounted to \$3500 on 31 December 2016.

Which entry did Ajay make on 31 December 2016?

|          | debit                                | credit                               |
|----------|--------------------------------------|--------------------------------------|
| <b>A</b> | bad debts account                    | provision for doubtful debts account |
| <b>B</b> | income statement                     | provision for doubtful debts account |
| <b>C</b> | provision for doubtful debts account | income statement                     |
| <b>D</b> | provision for doubtful debts account | trade receivables account            |

- 14 Mona paid \$32 000 for a new motor vehicle. This included \$100 for fuel and \$250 for road tax. She debited the purchases account and credited the cash book with \$32 000.

Which journal entry corrects this error?

|          |   | debit<br>\$   | credit<br>\$  |
|----------|---|---------------|---------------|
| <b>A</b> | motor vehicle<br>purchases                            | 32 000        | 32 000        |
| <b>B</b> | purchases<br>motor vehicles                           | 32 000        | 32 000        |
| <b>C</b> | motor vehicles<br>motor vehicle expenses<br>purchases | 31 650<br>350 | 32 000        |
| <b>D</b> | purchases<br>motor vehicles<br>motor vehicle expenses | 32 000        | 31 650<br>350 |

- 15 A trader incorrectly posted sales returns of \$100 to the credit of purchases returns account.

What was the effect on the gross profit?

- A** overstated \$100  
**B** overstated \$200  
**C** understated \$100  
**D** understated \$200
- 16 A purchases ledger control account includes interest charged by a supplier on an overdue account and a contra entry to a sales ledger control account.

How will these items be recorded in a purchases ledger control account?

|          | interest charged on<br>overdue account |        | contra entry to sales<br>ledger control account |        |
|----------|--|--------|---|--------|
|          | debit                                  | credit | debit   | credit |
| <b>A</b> | ✓                                      |        | ✓   |        |
| <b>B</b> | ✓                                      |        |   | ✓      |
| <b>C</b> |  | ✓      | ✓   |        |
| <b>D</b> |  | ✓      |   | ✓      |

- 17 The owner of a business paid \$5000 into the business bank account.

A loan for \$10 000 repayable in 2020 was also obtained and the money used to purchase a motor vehicle.

Which changes would take place in the statement of financial position as a result of these transactions?

|          | non-current assets | owner's equity | non-current liabilities |
|----------|--------------------|----------------|-------------------------|
|          | \$                 | \$             | \$                      |
| <b>A</b> | +5 000             | +10 000        | +5 000                  |
| <b>B</b> | +10 000            | -5 000         | +10 000                 |
| <b>C</b> | +10 000            | +5 000         | +10 000                 |
| <b>D</b> | +15 000            | +15 000        | -10 000                 |

- 18 Tareq started a business on 1 October 2016. He provided the following information.

On 28 November 2016 he paid an insurance premium, \$1800, for the year starting 1 December 2016.

On 31 December 2017 he paid advertising costs for 1 July to 31 December 2017 totalling \$2400.

What was shown in the statement of financial position at 30 September 2017?

|          |             | other receivables<br>\$ |             | other payables<br>\$ |
|----------|-------------|-------------------------|-------------|----------------------|
| <b>A</b> | advertising | 400                     | insurance   | 300                  |
| <b>B</b> | advertising | 1200                    | insurance   | 300                  |
| <b>C</b> | insurance   | 300                     | advertising | 400                  |
| <b>D</b> | insurance   | 300                     | advertising | 1200                 |

- 19 Which business is **not** a service business?

- A** accountant's practice
- B** computer repair shop
- C** flower shop
- D** hairdressing salon

20 What is a disadvantage of forming a partnership?

- A additional skills are available
- B profits are shared
- C responsibilities are shared
- D risks are shared

21 Abi and Erni are in partnership. They share profits and losses equally. Erni is entitled to an annual partnership salary of \$3000. The profit for the year ended 31 August 2017 was \$12600.

On 1 September 2016 the partners' current account balances were as follows.

|      | \$          |
|------|-------------|
| Abi  | 2500 credit |
| Erni | 1400 debit  |

What was the credit balance on Erni's current account on 1 September 2017?

- A \$400                      B \$3200                      C \$6400                      D \$9200

22 A golf club has 230 members. The annual subscription is \$100.

At the beginning of the year subscriptions prepaid amounted to \$1000 and at the end of the year subscriptions in arrears amounted to \$1500.

How much did the club receive for subscriptions during the year?

- A \$20 500                      B \$22 500                      C \$23 500                      D \$25 500

23 What would **not** appear in the income and expenditure account of a sports club?

- A cost of sports equipment
- B depreciation of sports equipment
- C insurance of sports equipment
- D repairs to sports equipment

24 Karim did not keep proper accounting records, but was able to provide the following information.

|                                | \$     |
|--------------------------------|--------|
| capital at 1 January           | 58 000 |
| drawings during the year       | 8 500  |
| capital introduced in the year | 15 000 |
| capital at 31 December         | 82 500 |

What was the profit for the year?

- A** \$16 000      **B** \$18 000      **C** \$33 000      **D** \$48 000

25 Sumit does not maintain a full set of accounting records.

What does Sumit **not** need to calculate his credit sales?

- A** customer's dishonoured cheque  
**B** discounts allowed  
**C** discounts received  
**D** returns inwards

26 Which is shown as loan capital in the statement of financial position of a limited company?

- A** bank overdraft  
**B** debentures  
**C** ordinary shares  
**D** preference shares

27 The financial year of AB Limited ends on 30 September.

Debenture interest is paid annually in arrears on 1 October each year.

Where did debenture interest appear in the financial statements for the year ended 30 September 2017?

|          | income<br>statement | statement of<br>changes in equity | statement of<br>financial position |
|----------|---------------------|-----------------------------------|------------------------------------|
| <b>A</b> | ✓                   |                                   | ✓                                  |
| <b>B</b> | ✓                   |                                   |                                    |
| <b>C</b> |                     | ✓                                 | ✓                                  |
| <b>D</b> |                     | ✓                                 |                                    |

28 In year 1, Sam's gross profit was calculated as follows.

|                   | \$             | \$             |
|-------------------|----------------|----------------|
| revenue           |                | 180 000        |
| opening inventory | 6 000          |                |
| purchases         | <u>118 000</u> |                |
|                   | 124 000        |                |
| closing inventory | <u>(4 000)</u> | <u>120 000</u> |
| gross profit      |                | 60 000         |

In year 2, the amount of revenue and gross profit was the same as in year 1 but the purchases increased to \$124 000.

What was the rate of turnover of inventory in year 2?

- A** 20 times      **B** 21 times      **C** 24 times      **D** 30 times

29 Stephan's major competitor has invested in a new machine for making goods more cheaply. Stephan knows this will affect his sales but did not record this in his accounting records.

Which accounting principle is Stephan applying?

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

30 At the end of the financial year Omar's inventory was 100 units of which 10 units were damaged and could not be sold.

The selling price per unit is \$5 and the cost price per unit is \$3.50.

Which value should Omar place on his inventory?

- A** \$315      **B** \$350      **C** \$450      **D** \$500



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