



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**May/June 2013**

**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, 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.

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This document consists of **9** printed pages and **3** blank pages.



1 A trader prepares financial statements each year.

What do these assist the trader to do?

- A calculate the amount owing to creditors
- B calculate the cash drawings
- C check the bank statement balance
- D make decisions about the future

2 What is the accounting equation?

- A  $\text{assets} = \text{capital} - \text{liabilities}$
- B  $\text{capital} = \text{assets} + \text{liabilities}$
- C  $\text{capital} = \text{assets} - \text{liabilities}$
- D  $\text{liabilities} = \text{capital} + \text{assets}$

3 Which is recorded in the sales ledger?

- A cash sales
- B cheque paid to a creditor
- C cheque received from a debtor
- D sale of non-current assets

4 A customer received an invoice for \$98 for goods priced at \$88.

Which document will the customer use to inform the supplier of this error?

- A credit note
- B debit note
- C receipt
- D statement of account

5 Where is the total of the purchases journal posted?

- A credit income statement
- B debit income statement
- C credit purchases account
- D debit purchases account

- 6 Sue allowed Jane a discount for prompt payment.

How would this be recorded in Jane's books?

|          | account to be debited | account to be credited |
|----------|-----------------------|------------------------|
| <b>A</b> | discount allowed      | Sue                    |
| <b>B</b> | discount received     | Sue                    |
| <b>C</b> | Sue                   | discount allowed       |
| <b>D</b> | Sue                   | discount received      |

- 7 A business's bank statement showed an overdraft of \$8500. A cheque, \$400, paid to a supplier has not been presented for payment.

What will be the balance on the bank statement after this cheque has been paid by the bank?

- A** \$8100 credit  
**B** \$8100 debit  
**C** \$8900 credit  
**D** \$8900 debit
- 8 The following partly-completed account appeared in Edward's sales ledger.

Ann account

| 2013  |               | debit  | credit | balance |
|-------|---------------|--------|--------|---------|
|       |               | \$     | \$     | \$      |
| Jan 4 | sales         | 21 500 |        |         |
| 11    | sales returns |        | 500    |         |

On 30 January, Ann paid \$10 000 by cheque and was given a cash discount of \$200.

Which is correct on 31 January?

- A** Ann owes Edward \$10 800.  
**B** Ann owes Edward \$11 200.  
**C** Edward owes Ann \$10 800.  
**D** Edward owes Ann \$11 200.

- 9 A business discovers that cash received from Abdul, 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> | Abdul                 | cash                   |
| <b>B</b> | Abdul                 | sales                  |
| <b>C</b> | cash                  | Abdul                  |
| <b>D</b> | sales                 | Abdul                  |

- 10 What is a trial balance?

- A** a list of balances on a business's books on a certain date  
**B** a list of the assets, liabilities and capital of a business on a certain date  
**C** a summary of all a business's transactions for the year  
**D** a summary of the financial position of a business at the year end

- 11 On 1 January 2012 Ahmed's rent receivable account had a credit balance of \$160.  
 On 31 December 2012 he transferred \$1800 from the rent receivable account to the income statement.  
 On 1 January 2013 the rent receivable account had a credit balance of \$90.

How much rent did Ahmed receive in 2012?

- A** \$1550      **B** \$1730      **C** \$1870      **D** \$2050

- 12 Bashir maintains a provision for doubtful debts of 3% of the trade receivables at the end of the year.

On 31 December 2011 trade receivables amounted to \$70 000.

On 31 December 2012 trade receivables amounted to \$73 000.

Which double entry should Bashir make on 31 December 2012?

|          | debit                                | \$   | credit                               | \$   |
|----------|--------------------------------------|------|--------------------------------------|------|
| <b>A</b> | income statement                     | 90   | provision for doubtful debts account | 90   |
| <b>B</b> | income statement                     | 2100 | provision for doubtful debts account | 2100 |
| <b>C</b> | provision for doubtful debts account | 90   | income statement                     | 90   |
| <b>D</b> | provision for doubtful debts account | 2100 | income statement                     | 2100 |

- 13 Candy purchased a motor vehicle. She also paid for the cost of delivering the vehicle, insurance and fuel for the vehicle.

Which would be included in Candy's income statement?

- A delivery cost, fuel, insurance  
 B delivery cost, fuel, insurance, motor vehicle  
 C delivery cost, motor vehicle  
 D fuel, insurance
- 14 A computer network costing \$100 000 is depreciated by the straight line method at 25% per annum.

What will be the net book value at the end of year 3?

- A nil                      B \$25 000                      C \$50 000                      D \$75 000
- 15 James was late paying an invoice issued by Henry.

Henry charged James interest on the overdue amount.

Which entry would be made in Henry's control accounts?

- A credit purchases ledger control account  
 B credit sales ledger control account  
 C debit purchases ledger control account  
 D debit sales ledger control account
- 16 Fatima opened a department store on 1 January 2012. She provided the following information on 31 December 2012.

|                   | department X<br>\$ | department Y<br>\$ |
|-------------------|--------------------|--------------------|
| revenue           | 100 000            | 60 000             |
| sales returns     | 14 000             | 8 000              |
| purchases         | 80 000             | 40 000             |
| carriage outwards | –                  | 1 000              |
| carriage inwards  | 5 000              | –                  |

At 31 December 2012 inventory was valued at \$16 000 of which 75% related to Department X.

What was the gross profit of department Y?

- A \$15 000                      B \$16 000                      C \$23 000                      D \$24 000

17 Which statement describes a non-current asset?

- A It can be turned into cash relatively easily.
- B It is acquired for use rather than re-sale.
- C It is a short-term asset.
- D Its value is frequently changing.

18 Khalid sells two types of goods. He provided the following information at the end of his financial year.

| type of goods | number of units | cost per unit |                        |                  | selling price per unit<br>\$ |
|---------------|-----------------|---------------|------------------------|------------------|------------------------------|
|               |                 | cost<br>\$    | carriage inwards<br>\$ | total cost<br>\$ |                              |
| X             | 10              | 900           | 60                     | 960              | 950                          |
| Y             | 30              | 1400          | 100                    | 1500             | 2100                         |

What was the value of Khalid's inventory?

- A \$51 000      B \$51 600      C \$54 500      D \$54 600

19 Melissa made payments to the following suppliers.

Which suppliers is a service business?

|   | name of business     | reason for payment      |
|---|----------------------|-------------------------|
| A | M1 Insurance Company | cost of motor insurance |
| B | Music & Move Company | purchase of car radio   |
| C | PJ Garages Ltd       | cost of motor vehicle   |
| D | The Petrol Station   | purchase of petrol      |

20 A trader took goods for her own use.

How should this be recorded?

|   | account to be debited | account to be credited |
|---|-----------------------|------------------------|
| A | drawings              | purchases              |
| B | drawings              | sales                  |
| C | purchases             | drawings               |
| D | sales                 | drawings               |

- 21 X and Y are in partnership sharing profits and losses equally. The following information was extracted from their financial records at 31 December.

|                     |     | \$   |
|---------------------|-----|------|
| interest on capital | – X | 1300 |
|                     | – Y | 1100 |
| salary              | – Y | 4000 |

The profit for the year was \$24 200.

What was Y's share of the residual profit?

- A** \$8900      **B** \$10 200      **C** \$12 900      **D** \$14 000
- 22 A social club was formed on 1 January 2012.

During the year ended 31 December 2012 members paid subscriptions totalling \$1800. Subscriptions outstanding at 31 December 2012 amounted to \$300. No subscriptions were paid in advance.

How much was entered for subscriptions in the receipts and payments account and the income and expenditure account for the year ended 31 December 2012?

|          | receipts and<br>payments account<br>\$ | income and<br>expenditure account<br>\$ |
|----------|--|---|
| <b>A</b> | 1500                                   | 1800                                    |
| <b>B</b> | 1800                                   | 1800                                    |
| <b>C</b> | 1800                                   | 2100                                    |
| <b>D</b> | 2100                                   | 2100                                    |

- 23 Karnail does not keep a full set of accounting records.

Which is **not** used to calculate his total credit sales?

- A** debtor's cheque dishonoured  
**B** discount allowed  
**C** provision for doubtful debts  
**D** returns inwards

24 At the end of its first year of trading, Sinola Ltd transferred \$10 000 to a general reserve.

In which of the company's financial statements will this be shown?

|          | income statement | profit and loss appropriation account | balance sheet |
|----------|------------------|---------------------------------------|---------------|
| <b>A</b> | no               | no                                    | yes           |
| <b>B</b> | no               | yes                                   | yes           |
| <b>C</b> | yes              | no                                    | no            |
| <b>D</b> | yes              | yes                                   | no            |

25 Owusu Ltd was formed with an authorised share capital of 1 000 000 ordinary shares of \$0.80 each. It issued 60% of these on 1 April 2013, with half the value being paid immediately and half to be paid a year later.

What was the value of the issued capital and called up capital on 1 April 2013?

|          | issued capital<br>\$ | called up capital<br>\$ |
|----------|----------------------|-------------------------|
| <b>A</b> | 240 000              | 240 000                 |
| <b>B</b> | 480 000              | 240 000                 |
| <b>C</b> | 480 000              | 480 000                 |
| <b>D</b> | 600 000              | 300 000                 |

26 How is the cost of production calculated?

- A** direct material + direct labour + direct expenses + factory overheads
- B** direct material + direct labour + direct expenses + indirect labour
- C** direct material + direct labour + factory overheads
- D** direct material + direct labour + indirect labour



- 27 On 28 February the statutory deductions account had a credit balance of \$2700.

Statutory deductions during March amounted to \$1800. The amount due for statutory deductions was paid on 31 March.

Which entries should be made on 31 March?

|          | account to be debited | \$   | account to be credited | \$   |
|----------|-----------------------|------|------------------------|------|
| <b>A</b> | bank                  | 900  | statutory deductions   | 900  |
| <b>B</b> | bank                  | 4500 | statutory deductions   | 4500 |
| <b>C</b> | statutory deductions  | 900  | bank                   | 900  |
| <b>D</b> | statutory deductions  | 4500 | bank                   | 4500 |

- 28 Which is used to calculate the current ratio but **not** the quick (acid test) ratio?

- A bank overdraft
- B cash at bank
- C inventory
- D trade receivables

- 29 The financial statements of a trader include wages paid to employees. The skill and expertise of the employees is not included.

Which principle is being applied?

- A accounting entity
- B accounting year
- C going concern
- D money measurement

- 30 A business depreciated machinery using the straight line method in year 1 and the diminishing (reducing) balance method in year 2.

Which accounting principle is **not** being applied?

- A consistency
- B dual aspect
- C matching (accruals)
- D prudence





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