
PRINCIPLES OF ACCOUNTS

7110/12

Paper 1 Multiple Choice

May/June 2014

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, 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.

This document consists of **10** printed pages and **2** blank pages.

- 1 Which statement about a computerised accounting system is correct?
- A The general ledger does not include non-current asset accounts.
 - B The income statement always shows a profit.
 - C The statement of financial position does not include non-current asset accounts.
 - D The trial balance always balances.
- 2 Which is a liability of a business?
- A amount owing by credit customers
 - B amount owing to credit suppliers
 - C long term loan to employee
 - D property tax paid in advance
- 3 A business bought a computer for office use and paid by cheque.

How will the business record the transaction?

	account to be debited	account to be credited
A	bank	office equipment
B	office equipment	bank
C	bank	purchases
D	purchases	bank

- 4 A trader divides his ledger into sales, purchases and general ledgers.
- Which statement is **not** correct?
- A It is easier to locate and refer to ledger accounts.
 - B Maintaining the ledger can be divided between several people.
 - C The same type of accounts can be kept together.
 - D There are fewer entries in the sales and purchases accounts.

- 5 On 1 April Jane sold goods on credit to Martha subject to a trade discount of 25%. Martha returned goods, list price \$200, to Jane on 7 April.

How will Martha record the transaction of 7 April?

	book of prime (original) entry	account to be debited		account to be credited	
			\$		\$
A	purchases returns journal	Jane	150	purchases returns	150
B	purchases returns journal	Jane	200	purchases returns	200
C	sales returns journal	sales returns	150	Martha	150
D	sales returns journal	sales returns	200	Martha	200

- 6 The cash book has a credit balance of \$1500. There are unrepresented cheques of \$350 and uncredited deposits of \$150.

What is the balance on the bank statement?

- A** \$1300
B \$1300 overdrawn
C \$1700
D \$1700 overdrawn
- 7 Melissa transferred \$5000 from the bank deposit account to the bank current account on 1 May.

On the same day she received a bank loan, \$10000, which she paid into the bank current account.

How will Melissa record these transactions?

	bank loan account		bank deposit account		bank current account	
	debit	credit	debit	credit	debit	credit
A	✓		✓			✓
B	✓			✓		✓
C		✓	✓		✓	
D		✓		✓	✓	

8 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.
- 9 Which error would cause the trial balance totals to disagree?
- A** Business stationery purchased by cheque had not been recorded.
- B** Goods purchased on credit had been debited to the supplier's account.
- C** Goods sold on credit had been debited to the account of the wrong customer.
- D** The purchase of a new machine had been debited to the purchases account.
- 10 Wilmer rents property to a tenant at a monthly rent of \$300.
- On 1 April 2013 the tenant owed one month's rent.
- During the year ended 31 March 2014 the tenant paid \$4800 for the period 1 March 2013 to 30 June 2014.
- How much rent will Wilmer transfer to the income statement for the year ended 31 March 2014?
- A** \$3600 **B** \$3900 **C** \$4200 **D** \$4500
- 11 Amina is a wholesaler selling shoes to retailers.
- Which is a revenue receipt?
- A** capital introduced
- B** long-term bank loan
- C** proceeds of sale of shelving at book value
- D** proceeds of sale of shoes at list price

12 The following account appeared in a trader's ledger.

Provision for depreciation of machinery account					
		\$			\$
31 Dec 2011	balance c/d	<u>3000</u>	31 Dec 2011	income statement	<u>3000</u>
		<u>3000</u>			<u>3000</u>
31 Dec 2012	balance c/d	5100	1 Jan 2012	balance b/d	3000
		_____	31 Dec 2012	income statement	<u>2100</u>
		<u>5100</u>			<u>5100</u>
			1 Jan 2013	balance b/d	5100

There were no sales or purchases of machinery during the two year period.

What does the \$5100 on 1 January 2013 represent?

- A accumulated depreciation of machinery using the diminishing (reducing) balance method
- B accumulated depreciation of machinery using the straight line method
- C net book value of machinery using the diminishing (reducing) balance method
- D net book value of machinery using the straight line method

13 Machinery is depreciated at 20% per annum using the diminishing (reducing) balance method.

A machine, cost \$20 000, is sold after two years at book value.

What was the sale price of the machine?

- A \$7200 B \$12 000 C \$12 800 D \$16 000

14 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.

Where will these items appear in the purchases ledger control account?

	interest charged on overdue account		contra entry to sales ledger control account	
	debit	credit	debit	credit
A	✓		✓	
B	✓			✓
C		✓	✓	
D		✓		✓

15 What is prepared to show the trading results for a financial year?

- A capital account
- B income statement
- C statement of financial position
- D trial balance

16 Janet's debtor pays the amount owing in cash, after deducting 2% cash discount.

How does this affect Janet's financial statements?

	income statement	statement of financial position
A	increase expenses	decrease current assets
B	increase expenses	increase current assets
C	increase revenue	decrease current assets
D	increase revenue	increase current assets

17 A trader maintains a provision for doubtful debts of 2½%.

The provision on 1 January 2013 was \$250.

Trade receivables on 31 December 2013 were \$28 000.

At what value were trade receivables shown in the statement of financial position on 31 December 2013?

- A** \$27 050 **B** \$27 300 **C** \$27 750 **D** \$28 700

18 Which group contains **only** trading businesses?

- A driving school, motor insurance agency, vehicle repair business
- B driving school, motor insurance agency, petrol station
- C motor parts shop, vehicle repair business, car dealership
- D motor parts shop, petrol station, car dealership

- 19 The owner of a business takes goods for his own use.

How is this recorded?

	account to be debited	account to be credited
A	drawings	inventory
B	drawings	purchases
C	inventory	drawings
D	purchases	drawings

- 20 X and Y are sole traders. They decide to form a partnership and agree to share profits and losses equally. Goodwill is valued as follows.

X's business	\$2000
Y's business	\$0

How is goodwill recorded in the ledger of the partnership?

	account(s) to be debited		account(s) to be credited	
		\$		\$
A	goodwill	2000	capital X	1000
			capital Y	1000
B	capital X	1000	goodwill	2000
	capital Y	1000		
C	capital X	2000	goodwill	2000
D	goodwill	2000	capital X	2000

- 21 The members of a sports club pay an annual subscription of \$60. At the beginning of the year subscriptions were accrued from 15 members.

During the year subscriptions received amounted to \$7500. This included subscriptions of \$240 for the following year.

What will be entered in the income and expenditure account for the year?

- A** \$6360 **B** \$6840 **C** \$8160 **D** \$8640

22 What is the formula for calculating mark-up?

- A $\frac{\text{gross profit}}{\text{cost of sales}}$
- B $\frac{\text{gross profit}}{\text{sales}}$
- C $\frac{\text{profit for the year}}{\text{cost of sales}}$
- D $\frac{\text{profit for the year}}{\text{sales}}$

23 Sara does not keep a full set of accounting records.

Which information is needed to calculate her total net purchases?

- A cash discount allowed
- B goods returned by customers
- C goods returned to suppliers
- D trade discount allowed

24 RST Limited provided the following information.

	\$
retained profits at 1 January 2013	200 000
general reserve at 1 January 2013	48 000
profit for the year ended 31 December 2013	102 000
ordinary share dividends paid	24 000
transfer to general reserve	20 000

What was the value of retained profits at 31 December 2013?

- A \$58 000 B \$142 000 C \$258 000 D \$306 000

25 The work in progress of ZT Manufacturers on 1 January was valued at \$6200. At the end of the year it was valued at \$5400.

What was the effect on the cost of production for the year?

- A decrease \$800
- B decrease \$11 600
- C increase \$800
- D increase \$11 600

26 Majid's payslip shows that the following deductions were taken from his gross pay.

	\$
donation to a charity	5
income tax	25
contribution to company pension scheme	15
social security	10
subscription to social club	2

What is the total of the voluntary deductions taken from Majid's gross pay?

- A** \$7 **B** \$17 **C** \$20 **D** \$22

27 LS Limited provided the following information.

	\$
sales	470 000
cost of sales	240 000
expenses	90 000

What was the profit for the year as a percentage of sales?

- A** 29.79% **B** 48.94% **C** 68.09% **D** 80.85%

28 What is the formula for calculating the quick ratio (acid test ratio)?

- A** current assets – closing inventory ÷ current liabilities
B current assets – opening inventory ÷ current liabilities
C current assets + closing inventory ÷ current liabilities
D current assets + opening inventory ÷ current liabilities

29 What is the meaning of the money measurement principle?

- A** Assets are normally shown at cost price.
B Only items with a monetary value are included in the accounts.
C Profits are calculated after allowing for accruals and prepayments.
D Profits are calculated on the basis of cash received less cash paid.

30 A trader writes off an amount owed by Mustafa by debiting the bad debts account and crediting Mustafa's account.

Which accounting principle is the trader applying?

- A accounting entity
- B consistency
- C dual aspect
- D money measurement

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