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**PRINCIPLES OF ACCOUNTS**

**7110/13**

Paper 1 Multiple Choice

**May/June 2018**

**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 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 assets.
- D** The trial balance always balances.
- 2 Which item is a liability?
- A** accrued interest on loan to employee
- B** insurance premium paid in advance
- C** rent receivable paid in advance
- D** short-term loan to employee
- 3 What is the accounting equation?
- A** assets – liabilities = capital
- B** assets + liabilities = capital
- C** liabilities – assets = capital
- D** liabilities – capital = assets
- 4 A retailer received a credit note from his wholesaler.
- Where would the wholesaler record this?
- A** cash book
- B** general journal
- C** purchases returns journal
- D** sales returns journal
- 5 A cheque received from Kate, a credit customer, was dishonoured.
- How was this recorded?

	account debited	account credited
<b>A</b>	bank	Kate
<b>B</b>	Kate	bank
<b>C</b>	Kate	sales
<b>D</b>	sales	Kate

- 6 The balance of the bank column in a trader's cash book was \$520 debit.

The trader discovered the following did not appear on the bank statement.

A cheque, \$80, paid to a supplier

A cheque, \$470, paid into the bank

What was the balance on the trader's bank statement?

- A** \$130 credit    **B** \$130 debit    **C** \$910 credit    **D** \$910 debit
- 7 Joe buys and sells motor vehicles. He bought a new van on credit from JD Motors. The van's list price was \$15 000, subject to a trade discount of 20% and a cash discount of 5% if paid for within 30 days.

Which entries record the purchase of the van in Joe's books?

	account debited	\$	account credited	\$
<b>A</b>	purchases	11 250	JD Motors	11 250
<b>B</b>	purchases	11 400	JD Motors	11 400
<b>C</b>	purchases	12 000	JD Motors	12 000
<b>D</b>	purchases	15 000	JD Motors	15 000

- 8 The following partly-completed account appeared in Edward's sales ledger.

Ann account

2018		debit	credit	balance
		\$	\$	\$
April 4	sales	21 500		
11	sales returns		500	

On 29 April, Ann paid \$10 000 by cheque and was given a cash discount of \$200.

Which statement is correct on 30 April?

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

- 9 Which error is an error of principle?
- A** A cheque for \$100 received from X was credited to Y's account.
- B** A purchase invoice of \$400 had not been entered in the ledger accounts.
- C** A purchase of a delivery vehicle, \$12 000, was debited to the purchases account.
- D** Rent paid, \$200, was debited to the bank account and credited to the rent account.
- 10 At the end of the financial year a rent account shows that three payments of \$750 had been made.

\$750 was still owed to the landlord.

Which double entry would be made at the end of the financial year?

	debit		credit	
		\$		\$
<b>A</b>	income statement	2250	rent account	2250
<b>B</b>	income statement	3000	rent account	3000
<b>C</b>	rent account	2250	income statement	2250
<b>D</b>	rent account	3000	income statement	3000

- 11 Rashid maintains a provision for doubtful debts of 5% of the trade receivables at the end of each year.

Trade receivables owed \$40 000 on 31 March 2017.

Trade receivables owed \$46 000 on 31 March 2018.

Which journal entry should Rashid make on 31 March 2018?

		debit \$	credit \$
<b>A</b>	income statement provision for doubtful debts	300	300
<b>B</b>	income statement provision for doubtful debts	2300	2300
<b>C</b>	provision for doubtful debts income statement	300	300
<b>D</b>	provision for doubtful debts income statement	2300	2300

- 12 After the preparation of a trial balance it was found that both sales and purchases accounts were overcast by \$700.

Which journal entry corrects this error?

		debit \$	credit \$
<b>A</b>	trade payables trade receivables	700	700
<b>B</b>	trade receivables trade payables	700	700
<b>C</b>	purchases sales	700	700
<b>D</b>	sales purchases	700	700

- 13 Which type of error is corrected using a suspense account?

- A** commission
- B** compensating
- C** original entry
- D** single entry

- 14 Jason provided the following information.

	\$
March 1 sales ledger control account balance	400 debit
31 credit sales	520
cheques received from trade receivables	300
bad debts written off	45
cheque received from a credit customer dishonoured	10

What was the balance on the sales ledger control account on 31 March?

- A** \$565
- B** \$585
- C** \$620
- D** \$655

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 Which is an intangible asset?

- A buildings
- B goodwill
- C inventory
- D trade receivables

17 A business has no non-current liabilities.

What is added to the non-current assets in order to calculate the capital employed?

- A current assets
- B current liabilities
- C owner's capital
- D working capital

18 Alan's inventory consisted of the following.

quantity	goods	cost per unit \$	selling price per unit \$
100	large t-shirts	5	7
20	small t-shirts	5	3

What was the value of the inventory?

- A \$560
- B \$600
- C \$760
- D \$800

- 19 Which is a service business?
- A a bakery  
 B a car showroom  
 C a hairdresser  
 D a newsagent
- 20 At the end of Carol's financial year on 30 April 2018, a tenant had paid rent in advance. What was the effect of adjusting for this prepaid rent?
- A increase profit for the year, increase current assets  
 B increase profit for the year, increase current liabilities  
 C reduce profit for the year, increase current assets  
 D reduce profit for the year, increase current liabilities
- 21 What would **not** appear in the receipts and payments account of a sports club?
- A cost of repairing equipment  
 B depreciation of equipment  
 C proceeds of sale of old equipment  
 D purchase of new equipment
- 22 A club provided the following information for the year ended 31 December 2017.

	\$
subscriptions in arrears on 1 January 2017	560
subscriptions received during the year	22 700
subscriptions in arrears at 31 December 2017	870
subscriptions received in advance at 31 December 2017	600

How much will be shown for subscriptions in the income and expenditure account for year ended 31 December 2017?

- A \$22 410      B \$22 430      C \$22 970      D \$23 530

- 23** Which item would be entered in a statement of changes in equity?
- A** debenture interest accrued
  - B** debenture interest paid
  - C** ordinary dividend paid for current year
  - D** ordinary dividend proposed for current year
- 24** On 1 January NH Limited was formed with the issue of 200 000 ordinary shares of \$0.50 each. During the first year it made a profit of \$21 000. A dividend of \$0.02 per share was paid and \$10 000 was transferred to general reserve.
- What was the total of reserves on 31 December?
- A** \$7000      **B** \$9000      **C** \$17 000      **D** \$19 000
- 25** What is included in prime cost in a manufacturing account?
- A** carriage outwards
  - B** depreciation of factory machinery
  - C** factory manager's salary
  - D** royalties
- 26** Where is work-in-progress shown in the statement of financial position of a manufacturing business?
- A** current assets
  - B** current liabilities
  - C** non-current assets
  - D** non-current liabilities



27 A trader provided the following information.

	\$	\$
revenue		3600
opening inventory	200	
purchases	<u>2600</u>	
	2800	
closing inventory	<u>300</u>	<u>2500</u>
gross profit		<u>1100</u>

It was found that the closing inventory should have been \$400.

What is the correct rate of turnover of inventory?

- A 6.25 times
- B 8 times
- C 8.33 times
- D 12 times

28 A company provided the following information about its working capital ratio (current ratio).

Year 1	2 : 1
Year 2	1.8 : 1
Year 3	1.6 : 1

What would explain the changes in the ratio?

- A Cash at bank is increasing.
- B Inventory is increasing.
- C Trade payables are increasing.
- D Trade receivables are increasing.

29 What will **not** be included in the accounting records of a business?

- A cash received from sales
- B cost of goods sold
- C quality of product produced
- D value of inventory held

30 Which international accounting objectives are described by the following statements?

- 1 Information in financial statements must be free from material error and bias.
- 2 Users must be able to identify differences and similarities between information in different financial statements.

	statement 1	statement 2
<b>A</b>	comparability	understandability
<b>B</b>	reliability	comparability
<b>C</b>	reliability	understandability
<b>D</b>	understandability	reliability



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