

CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

May/June 2003

**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 **12** printed pages.



- 1 Goods for re-sale are bought for cash.

What are the entries in the books of the purchaser?

|          | account debited | account credited |
|----------|-----------------|------------------|
| <b>A</b> | cash            | purchases        |
| <b>B</b> | cash            | supplier         |
| <b>C</b> | purchases       | cash             |
| <b>D</b> | supplier        | cash             |

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

Where will the Sales account appear?

- A** general journal
- B** general ledger
- C** sales journal
- D** sales ledger

- 3 A firm has received the following business documents from X, a supplier.

|            |             | \$  |
|------------|-------------|-----|
| October 5  | invoice     | 650 |
| October 10 | invoice     | 120 |
| October 12 | credit note | 150 |
| October 22 | invoice     | 230 |
| November 4 | invoice     | 790 |

There was no opening balance on X's account and the firm made no payments to X during October.

What was the balance on the supplier's statement of account at 31 October?

- A** \$850                      **B** \$1150                      **C** \$1640                      **D** \$1940

- 4 X buys goods on credit from Y, who issues an invoice. The goods are unsuitable and X returns them to Y without paying for them.

Which document should Y issue to X on receipt of the returned goods?

- A credit note  
 B debit note  
 C purchase invoice  
 D receipt

- 5 A business purchases goods on credit for \$800, less 25% trade discount, with a cash discount of 5% if payment is received in full within 28 days.

How much will the business pay if it settles within 28 days?

- A \$560                      B \$570                      C \$600                      D \$760

- 6 A retailer bought 20 items from a manufacturer at list price of \$20 each, subject to 20% trade discount.

The retailer later returned ten of the items.

How much is entered in the Sales Returns Journal of the manufacturer?

- A \$160                      B \$200                      C \$240                      D \$320

- 7 The totals of the discount columns in a trader's Cash Book were as follows.

\$200 debit  
 \$150 credit

What entry will the trader make in the Discount Allowed account?

- A \$150 credit      B \$200 credit      C \$150 debit      D \$200 debit

- 8 The Bank account balance in the Cash Book was \$150 debit.

The following transactions were then entered in the Bank account.

|                           | \$   |
|---------------------------|------|
| Receipts from sales       | 4210 |
| Dividends banked          | 180  |
| Cheques paid to suppliers | 3270 |

What was the new bank balance in the Cash Book?

- A \$790 credit      B \$910 credit      C \$970 debit      D \$1270 debit

- 9 X Ltd receives a cheque for \$100, records it in the Cash Book and banks it on the same day. A statement sent by the bank that day does not show this \$100.

How is this \$100 shown on the bank reconciliation statement?

- A** as an uncredited deposit added to the bank statement balance  
**B** as an uncredited deposit deducted from the bank statement balance  
**C** as an unpresented cheque added to the bank statement balance  
**D** as an unpresented cheque deducted from the bank statement balance
- 10 Winston decides to write off a debt due to him from Leroy for goods sold on credit.

Which general journal entry records this?

|          | account debited | account credited |
|----------|-----------------|------------------|
| <b>A</b> | bad debts       | sales            |
| <b>B</b> | bad debts       | Leroy            |
| <b>C</b> | sales           | bad debts        |
| <b>D</b> | Leroy           | bad debts        |

- 11 Ben, a trader, started purchasing goods on credit from David on 1 March.

Transactions during March were as follows.

|                   | \$   |
|-------------------|------|
| Purchases         | 1600 |
| Cash paid         | 1200 |
| Purchases returns | 90   |
| Discount received | 18   |

What is the closing balance of David's account in the books of Ben?

- A** \$292 credit    **B** \$328 credit    **C** \$472 credit    **D** \$508 credit
- 12 Which error will be discovered by the preparation of a trial balance?
- A** capital expenditure treated as revenue expenditure  
**B** an incorrect amount entered as both a debit and a credit  
**C** complete omission of a transaction  
**D** an incorrect amount entered twice as a debit

- 13 A motor vehicle cost \$8000 and the price included \$36 for petrol. The total payment of \$8000 was debited in the Motor Vehicles account.

What is the effect of the error on the Profit and Loss Account and the Balance Sheet?

|          | net profit  |      | fixed assets |      |
|----------|-------------|------|--------------|------|
| <b>A</b> | overstated  | \$36 | overstated   | \$36 |
| <b>B</b> | overstated  | \$36 | understated  | \$36 |
| <b>C</b> | understated | \$36 | overstated   | \$36 |
| <b>D</b> | understated | \$36 | understated  | \$36 |

- 14 Which item is capital expenditure for a sole trader?

- A additional capital brought into the business
- B drawings of the proprietor for her own use
- C expenditure on the improvement of fixed assets
- D expenditure to finance day-to-day expenses

- 15 At the beginning of his financial year a trader buys a new machine costing \$20 000. His old machine had a net book value of \$6000 and he part-exchanged it for the new machine at a value of \$5000, the balance being paid in cash. Depreciation is charged at 20 % per annum.

What is the total charge to the Profit and Loss Account for the year?

- A** \$1000      **B** \$3000      **C** \$4000      **D** \$5000

- 16 Why does a business provide for depreciation on fixed assets?

- A to retain cash in the business for replacement of the assets
- B to charge the cost of fixed assets against profits in the year of purchase
- C to ensure that the realisable value of assets is shown in the Balance Sheet
- D to ensure that the matching principle is applied when preparing final accounts

- 17 For which category of fixed assets is the revaluation method of depreciation **most** appropriate?

- A loose tools
- B motor vehicles
- C office equipment
- D plant and machinery

18 Which accounting entry is made to decrease a provision for doubtful debts?

|          | account debited              | account credited             |
|----------|------------------------------|------------------------------|
| <b>A</b> | debtors                      | provision for doubtful debts |
| <b>B</b> | provision for doubtful debts | debtors                      |
| <b>C</b> | Profit and Loss              | provision for doubtful debts |
| <b>D</b> | provision for doubtful debts | Profit and Loss              |

19 A company paid annual insurance premiums as follows.

|             | \$   |
|-------------|------|
| 1 July 2001 | 2400 |
| 1 July 2002 | 3000 |

What amount is transferred from the Insurance account to the Profit and Loss Account for the year ended 31 December 2002?

**A** \$2400      **B** \$2700      **C** \$3000      **D** \$4200

20 An electricity accrual of \$450 is treated as a prepayment when preparing a trader's Profit and Loss Account.

What effect does this have on the trader's net profit?

- A** It is overstated by \$450.
- B** It is understated by \$450.
- C** It is overstated by \$900.
- D** It is understated by \$900.

21 A sole trader's private car repairs bill has been treated as a business expense.

Which general journal entry corrects this error?

|          | account debited | account credited |
|----------|-----------------|------------------|
| <b>A</b> | capital         | motor vehicles   |
| <b>B</b> | drawings        | motor expenses   |
| <b>C</b> | motor expenses  | motor vehicles   |
| <b>D</b> | motor vehicles  | capital          |

22 Discounts received, \$100, were entered on the debit side of the Discounts Allowed account.

A Suspense account was opened.

Which journal entry corrects this error?

|          | account(s) debited |        | account(s) credited |        |
|----------|--------------------|--------|---------------------|--------|
| <b>A</b> | discounts allowed  | \$ 100 | suspense            | \$ 200 |
|          | discounts received | 100    |                     |        |
| <b>B</b> | suspense           | 200    | discounts allowed   | 100    |
|          |                    |        | discounts received  | 100    |
| <b>C</b> | discounts received | 200    | discounts allowed   | 100    |
|          |                    |        | suspense            | 100    |
| <b>D</b> | discounts allowed  | 100    | discounts allowed   | 200    |
|          | suspense           | 100    |                     |        |

23 A Sales Ledger Control account shows the following.

|                       | \$     |
|-----------------------|--------|
| Opening debit balance | 2 000  |
| Sales                 | 10 000 |
| Receipts from debtors | 8 000  |
| Returns inwards       | 100    |
| Discounts allowed     | 200    |

What is the closing balance?

- A** \$3700      **B** \$3900      **C** \$4100      **D** \$4300

24 What is found in a Purchases Ledger Control account?

- A** contra entries to sales ledger accounts  
**B** debts written off as bad  
**C** discounts allowed for prompt payment  
**D** returns inwards of damaged goods

25 The assets and liabilities of Y on 31 March 2003 were as follows.

|                      | \$      |
|----------------------|---------|
| Fixed assets         | 186 000 |
| Cash                 | 12 800  |
| Other current assets | 19 200  |
| Current liabilities  | 27 500  |

On 1 April 2003 Z purchased Y's business for \$195 000. Z took over all the assets and liabilities of Y, except for cash, at the Balance Sheet valuation.

What is the value of Goodwill?

- A** \$4500      **B** \$10 200      **C** \$17 300      **D** \$37 700

26 What is a Balance Sheet?

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

27 How are trade debtors shown in a Balance Sheet?

- A** amount owing less provision for doubtful debts at the start of the year  
**B** amount owing less provision for doubtful debts at the end of the year  
**C** amount owing less provisions for doubtful debts and discounts allowed at the start of the year  
**D** amount owing less provisions for doubtful debts and discounts allowed at the end of the year

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 X and Y are sole traders. They decide to form a partnership and agree to share profits and losses equally. Goodwill is valued at \$2000 for X's business and nil for Y's business.

How is Goodwill recorded in the ledger of the partnership?

|          | account(s) debited |      | account(s) credited |      |
|----------|--------------------|------|---------------------|------|
|          |                    | \$   |                     | \$   |
| <b>A</b> | Goodwill           | 2000 | Capital X           | 1000 |
|          |                    |      | Capital Y           | 1000 |
| <b>B</b> | Capital X          | 1000 | Goodwill            | 2000 |
|          | Capital Y          | 1000 |                     |      |
| <b>C</b> | Capital X          | 2000 | Goodwill            | 2000 |
| <b>D</b> | Goodwill           | 2000 | Capital X           | 2000 |

- 30 A trader takes goods that have a selling price of \$200 from his shop for his own use. The cost price of these goods is \$150.

How is this transaction recorded in his accounting records?

|          | account debited |     | account credited |     |
|----------|-----------------|-----|------------------|-----|
|          |                 | \$  |                  | \$  |
| <b>A</b> | drawings        | 200 | purchases        | 200 |
| <b>B</b> | purchases       | 200 | drawings         | 200 |
| <b>C</b> | drawings        | 150 | purchases        | 150 |
| <b>D</b> | purchases       | 150 | drawings         | 150 |

- 31 Ann and Sue are in partnership, sharing profits and losses equally. The following information relates to the year ended 31 December 2002.

|                      |     | \$           | \$     |
|----------------------|-----|--------------|--------|
| Net profit           |     |              | 10 000 |
| Interest on drawings | Ann | 200          |        |
|                      | Sue | <u>300</u>   | 500    |
| Interest on capital  | Ann | 1 500        |        |
|                      | Sue | <u>1 000</u> | 2 500  |

What is Ann's share of the residual profit?

- A** \$3500      **B** \$4000      **C** \$5000      **D** \$6000

32 Accumulated fund appears in the accounts of a club. What is the corresponding term in the accounts of a business?

- A Balance Sheet
- B bank account
- C capital account
- D net profit

33 At the end of his financial year a sole trader's records show that his capital has decreased by \$5000. His drawings were \$14 000.

What is the amount of his profit or loss for the year?

- A \$5000 loss
- B \$5000 profit
- C \$9000 loss
- D \$9000 profit

34 Abdul does not keep a full set of books. The table shows information for the financial year.

|               | \$     |
|---------------|--------|
| opening stock | 5 000  |
| closing stock | 7 000  |
| purchases     | 58 000 |

Abdul applies a mark up of 20% to obtain the selling price of goods.

What are Abdul's total sales for the year?

- A \$67 200
- B \$70 000
- C \$72 000
- D \$72 500

35 A business provides the following information.

|   |           |
|---|-----------|
| sales for year                                | \$189 000 |
| purchases for year                            | \$125 000 |
| gross profit as a percentage of cost of sales | 25%       |

What is the gross profit for the year?

- A \$31 250
- B \$37 800
- C \$47 250
- D \$64 000

36 Which item appears in the Appropriation Account of a limited company?

- A debenture interest paid
- B directors' salaries
- C dividends paid
- D investment income received

37 What does prime cost include?

- A carriage inwards on raw materials
- B carriage outwards on finished goods
- C factory heat and light
- D forklift truck drivers' wages

38 A manufacturer provides the following information for May.

|                        | \$   |
|------------------------|------|
| Direct material        | 4000 |
| Direct labour          | 2000 |
| Factory overheads      | 500  |
| Work in progress 1 May | 100  |
| 31 May                 | 150  |

What is the factory cost of production?

- A \$6050      B \$6450      C \$6500      D \$6550

39 The books of a business show the following.

|               | \$     |
|---------------|--------|
| Sales         | 90 000 |
| Cost of sales | 50 000 |
| Expenses      | 10 000 |

What is the net profit as a percentage of sales?

- A 20.0%      B 33.3%      C 44.4%      D 66.6%

**40** X Ltd owed its staff one week's wages at the end of its financial year. It added this amount to the wages actually paid during the year to get the total wages expense for the year.

Which accounting principle was being used?

- A** accounting entity
- B** going concern
- C** matching
- D** money measurement