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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**May/June 2015**

**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 How should the owner of a business use his financial statements?

- A to calculate the cash drawings for the year
- B to determine the amount due to trade payables
- C to measure the change in the bank balance
- D to monitor the progress of the business

2 Sarah sells goods on credit to Zafar.

How is this recorded in Sarah's ledgers?

|          | general ledger |               | sales ledger |               |
|----------|----------------|---------------|--------------|---------------|
| <b>A</b> | credit         | sales account | debit        | Zafar account |
| <b>B</b> | debit          | sales account | credit       | Zafar account |
| <b>C</b> | credit         | Zafar account | debit        | sales account |
| <b>D</b> | debit          | Zafar account | credit       | sales account |

3 Gail's statement of financial position included the following.

|                     | \$      |
|---------------------|---------|
| non-current assets  | 100 000 |
| current assets      | 50 000  |
| current liabilities | 2 000   |

What was Gail's capital?

- A** \$100 000      **B** \$148 000      **C** \$150 000      **D** \$152 000

- 4 Hassan maintains a sales journal, purchases journal, sales returns journal and a purchases returns journal.

At the end of each month, Hassan transfers the totals of these journals to the ledger.

Which entries will Hassan make in his ledger to record these totals?

|          | account to be debited              | account to be credited             |
|----------|------------------------------------|------------------------------------|
| <b>A</b> | purchases returns<br>sales         | purchases<br>sales returns         |
| <b>B</b> | purchases returns<br>sales returns | purchases<br>sales                 |
| <b>C</b> | purchases<br>sales                 | purchases returns<br>sales returns |
| <b>D</b> | purchases<br>sales returns         | purchases returns<br>sales         |

- 5 Which statement about a debit note is correct?
- A** It is sent to a customer to request payment of an account.
- B** It is sent to a customer when his order cannot be supplied in full.
- C** It is sent to a supplier to order additional goods.
- D** It is sent to a supplier when damaged goods are received.
- 6 A trader received his monthly bank statement.

Which item(s) may have appeared on this statement?

- 1 bank charges
- 2 credit transfers
- 3 unpresented cheques
- A** 1 and 2
- B** 1 only
- C** 2 and 3
- D** 3 only

7 The following account appeared in the books of Mary.

|         |          | Paul account |        |         |
|---------|----------|--------------|--------|---------|
|         |          | Debit        | Credit | Balance |
|         |          | \$           | \$     | \$      |
| 2015    |          |              |        |         |
| April 1 | Balance  | 90           |        | 90 Dr   |
| 14      | Sales    | 150          |        | 240 Dr  |
| 21      | Returns  |              | 25     | 215 Dr  |
| 30      | Bank     |              | 88     | 127 Dr  |
|         | Discount |              | 2      | 125 Dr  |

Which statement is correct?

- A** On 1 April Paul owed Mary \$90.
- B** On 14 April Paul sold goods, \$150, to Mary.
- C** On 21 April Mary returned goods, \$25, to Paul.
- D** On 30 April Mary owed Paul \$125.
- 8 Which error would be revealed by a trial balance?
- A** a cheque for \$78 entered on the correct sides in both W's account and the cash book as \$87
- B** goods returned by a customer, \$300, not entered in the books
- C** goods sold to Y for \$650 correctly entered in the sales account and credited to Y's account
- D** the purchase of a machine, \$3500, debited to the purchases account
- 9 Ali's financial year ends on 31 March. During the year ended 31 March 2015 Ali paid wages of \$42500. On 31 March 2015 \$1400 wages were accrued.

Which journal entry records the transfer from the wages account to the income statement on 31 March 2015?

|          |                           | debit<br>\$ | credit<br>\$ |
|----------|---------------------------|-------------|--------------|
| <b>A</b> | income statement<br>wages | 42 500      | 42 500       |
| <b>B</b> | income statement<br>wages | 43 900      | 43 900       |
| <b>C</b> | wages<br>income statement | 42 500      | 42 500       |
| <b>D</b> | wages<br>income statement | 43 900      | 43 900       |

10 At the end of the financial year, Ryan had accrued motor expenses of \$200.

How will this appear in Ryan's ledger and statement of financial position?

|          | motor expenses account<br>in the ledger | statement of<br>financial position |
|----------|---|------------------------------------|
| <b>A</b> | credit balance brought down             | current asset                      |
| <b>B</b> | credit balance brought down             | current liability                  |
| <b>C</b> | debit balance brought down              | current asset                      |
| <b>D</b> | debit balance brought down              | current liability                  |

11 At the end of her financial year Annie decided to reduce her provision for doubtful debts.

Which entry recorded this?

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

12 Which transaction is a capital receipt?

- A** cash received from sale of goods
- B** interest received from bank
- C** proceeds of sale of equipment
- D** rent received from tenant

13 Repairs to a motor vehicle were debited in error to the motor vehicles account.

How does this affect the profit for the year and the non-current assets in the statement of financial position?

|          | profit for the year | non-current assets |
|----------|---------------------|--------------------|
| <b>A</b> | overstated          | overstated         |
| <b>B</b> | overstated          | understated        |
| <b>C</b> | understated         | overstated         |
| <b>D</b> | understated         | understated        |

- 14** Sara started a business on 1 January 2013 and purchased equipment costing \$10 000. She depreciated the equipment by 20% per annum using the straight-line method. The equipment was sold for \$5 200 on 1 January 2015.

What was the profit or loss on the sale of the equipment?

- A** \$800 loss      **B** \$800 profit      **C** \$1 200 loss      **D** \$1 200 profit

- 15** The totals of a trial balance failed to agree by \$680 and the difference was entered in a suspense account. It was then found that rent received had been correctly entered in the cash book but treated as rent paid in the ledger.

Which entry will correct this?

|          | account to<br>be debited | \$  | account to<br>be credited | \$  |
|----------|--------------------------|-----|---------------------------|-----|
| <b>A</b> | rent received            | 340 | suspense                  | 680 |
|          | rent paid                | 340 |                           |     |
| <b>B</b> | suspense                 | 680 | rent received             | 340 |
|          |                          |     | rent paid                 | 340 |
| <b>C</b> | suspense                 | 340 | rent paid                 | 680 |
|          | rent received            | 340 |                           |     |
| <b>D</b> | suspense                 | 340 | rent paid                 | 340 |

- 16** Why does a trader prepare a sales ledger control account?

- A** to determine when interest should be charged on overdue accounts  
**B** to identify bad debts which should be written off  
**C** to locate incorrect postings in the sales ledger  
**D** to obtain totals to enter in the books of prime (original) entry

- 17** On 1 January 2014 Kim's net assets totalled \$70 000. On 31 December 2014 they totalled \$55 000. During the year Kim withdrew \$4 000 for personal use.

What was the profit or loss for the year?

- A** \$11 000 loss  
**B** \$11 000 profit  
**C** \$19 000 loss  
**D** \$19 000 profit

18 How should inventory be valued?

- A cost
- B higher of cost and net realisable value
- C lower of cost and net realisable value
- D net realisable value

19 The owner of a business took goods for his own use but failed to make an entry in the accounts.

What was the effect of this error?

|          | profit for the year | capital employed |
|----------|---------------------|------------------|
| <b>A</b> | overstated          | no effect        |
| <b>B</b> | overstated          | understated      |
| <b>C</b> | understated         | no effect        |
| <b>D</b> | understated         | overstated       |

20 The financial year of Tony and Paul ends on 30 April.

On 1 May 2015 Tony had a debit balance of \$5000 on his current account.

What does this mean?

- A He had invested \$5000 in the business.
- B He had withdrawn \$5000 from the business.
- C His drawings exceeded his total profit share.
- D His total profit share exceeded his drawings.

21 What is similar to a statement of affairs?

- A bank reconciliation statement
- B income statement
- C statement of financial position
- D trial balance

22 Omar started a business but did not maintain any accounting records.

Which item(s) are included in a calculation to find credit purchases for his first year of trading?

- 1 amount owing to trade payables at year end
- 2 amount owing by trade receivables at year end
- 3 cash discount received

- A** 1 and 3  
**B** 1 only  
**C** 2 and 3  
**D** 2 only

23 Which statement applies to preference shareholders?

- A** They are members of the company.  
**B** They are usually entitled to vote.  
**C** They get a fixed percentage of the profit each year.  
**D** They get a fixed rate of interest each year.

24 A limited company provided the following information.

|             |                             | \$      |
|-------------|-----------------------------|---------|
| January 1   | ordinary shares of \$1 each | 200 000 |
|             | retained earnings           | 12 000  |
| December 31 | profit for the year         | 43 000  |
|             | transfer to general reserve | 10 000  |

A dividend of 10% on ordinary shares was paid during the year.

What were the retained earnings on 31 December?

- A** \$13 000      **B** \$23 000      **C** \$25 000      **D** \$35 000



25 Raminder, a manufacturer, provided the following information for the year ended 30 April 2015.

|                                | \$     |
|--------------------------------|--------|
| cost of materials used         | 54 000 |
| factory overheads              | 29 500 |
| wages – machine operators      | 48 200 |
| work in progress 1 May 2014    | 7 000  |
| work in progress 30 April 2015 | 4 000  |

What was the cost of production for the year ended 30 April 2015?

- A** \$102 200      **B** \$128 700      **C** \$131 700      **D** \$134 700

26 Heng is paid a basic wage of \$6 per hour for a 40 hour week. Any overtime is paid as follows:

|                    |                    |
|--------------------|--------------------|
| Monday to Saturday | time and a quarter |
| Sunday             | double time        |

One week, Heng worked 45 hours. Of these, 3 hours were on Sunday.

What was Heng's gross pay for the week?

- A** \$291      **B** \$313.50      **C** \$351      **D** \$373.50

27 A business provided the following information.

|               | \$     |
|---------------|--------|
| cost of sales | 60 000 |
| gross profit  | 40 000 |
| expenses      | 25 000 |

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

- A** 12%      **B** 15%      **C** 20%      **D** 25%

28 A payment made from the business bank account for petrol for the owner's private car is not included in the income statement.

Which accounting principle is being applied?

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

29 'A business's financial statements should include all the costs and income for the period to which they relate.'

Which accounting principle is referred to in this statement?

- A accounting year
- B consistency
- C prudence
- D matching (accruals)

30 What is the purpose of international accounting standards?

- A to allow users to rely on the information in financial statements being error-free
- B to enable accountants to get work easily anywhere in the world
- C to enable non-accountants to understand all the information in financial statements
- D to make it easier to compare financial statements prepared in different countries



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