

---

**PRINCIPLES OF ACCOUNTS**

**7110/11**

Paper 1 Multiple Choice

**May/June 2017**

**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 What is a disadvantage of a computerised book-keeping system?

- A Calculations are performed without errors.
- B Information can be processed quickly.
- C Reconciliations are performed automatically.
- D There is an initial cost of training staff.

2 A trader provides the following information.

	\$
equipment	10 000
inventory	4 000
trade receivables	2 500
trade payables	3 500
insurance prepaid	100
rent owing	200
bank overdraft	1 500

What is the total of the assets?

- A \$16 600      B \$16 700      C \$17 600      D \$18 100

3 James bought a motor vehicle costing \$10 000 from GF Motors. He paid \$2 000 by cheque. The balance was to be paid over the next two years.

How was this recorded in James' books of account?

	account to be debited	\$	account to be credited	\$
<b>A</b>	bank	2 000	motor vehicles	10 000
	GF Motors	8 000		
<b>B</b>	bank	2 000	GF Motors	10 000
	motor vehicles	8 000		
<b>C</b>	GF Motors	10 000	bank	2 000
			motor vehicles	8 000
<b>D</b>	motor vehicles	10 000	bank	2 000
			GF Motors	8 000

- 4 Sara purchases goods on credit from Zola.

Sara owed Zola \$400 on 1 May. She paid this on 1 May after deducting a 5% cash discount. Sara made further purchases, \$280, during May.

What were the opening and closing balances on Sara's statement of account for May?

	opening balance \$	closing balance \$
<b>A</b>	380	266
<b>B</b>	380	280
<b>C</b>	400	280
<b>D</b>	400	300

- 5 A business provided the following information for April 2017.

	\$
invoices received for credit purchases	250 000
invoices received for cash purchases	15 000
credit notes received for goods returned	10 000

What was the total of the purchases journal for April 2017?

- A** \$240 000      **B** \$250 000      **C** \$255 000      **D** \$265 000
- 6 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, \$10 000, 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
<b>A</b>	✓		✓			✓
<b>B</b>	✓			✓		✓
<b>C</b>		✓	✓		✓	
<b>D</b>		✓		✓	✓	

- 7 Sukesh's account in the books of Jack showed the following.

Sukesh account

date		debit \$	credit \$	balance \$
May 1	balance			450 dr
4	sales	200		650 dr
8	bank		432	218 dr
8	discount		18	200 dr

Which statements about the transactions on 8 May are correct?

- 1 Jack made a payment to Sukesh.
- 2 Jack received a payment from Sukesh.
- 3 Sukesh allowed a discount to Jack.
- 4 Sukesh received a discount from Jack.

- A** 1 and 3      **B** 1 and 4      **C** 2 and 3      **D** 2 and 4

- 8 Which is an error of omission?

- A** No entries have been made for the purchase of stationery by cheque.
- B** Purchase of stationery has been entered only in the cash book.
- C** Purchase of stationery has been entered only in the stationery account.
- D** The stationery account has been omitted from the trial balance.

- 9 Liam rents premises from Gavin. In March Liam paid the rent in advance for April and May.

How would the balance on 1 April appear in their ledgers?

	Liam's ledger rent payable account	Gavin's ledger rent receivable account
<b>A</b>	as a credit balance	as a credit balance
<b>B</b>	as a credit balance	as a debit balance
<b>C</b>	as a debit balance	as a credit balance
<b>D</b>	as a debit balance	as a debit balance

- 10 Ahmed decided to write off an amount owing from Yasmin as a bad debt.

Which entries will Ahmed make?

	when the debt is written off		at the end of the financial year	
	account to be debited	account to be credited	account to be debited	account to be credited
<b>A</b>	bad debts	Yasmin	income statement	bad debts
<b>B</b>	income statement	sales	sales	bad debts
<b>C</b>	sales	income statement	bad debts	sales
<b>D</b>	Yasmin	bad debts	bad debts	income statement

- 11 An item of capital expenditure has been incorrectly treated as revenue expenditure.

What is the effect of this error?

	assets	profit for the year
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

- 12 A business sells a machine which has been depreciated over several years.

Which entry records the transfer of depreciation to the machinery disposal account?

	account to be debited	account to be credited
<b>A</b>	machinery	machinery disposal
<b>B</b>	machinery disposal	machinery
<b>C</b>	machinery disposal	provision for depreciation of machinery
<b>D</b>	provision for depreciation of machinery	machinery disposal

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

Provision for depreciation of machinery account			
	\$		\$
31 Dec 2015 balance c/d	<u>3000</u>	31 Dec 2015 income statement	<u>3000</u>
	<u>3000</u>		<u>3000</u>
31 Dec 2016 balance c/d	5100	1 Jan 2016 balance b/d	3000
	_____	31 Dec 2016 income statement	<u>2100</u>
	<u>5100</u>		<u>5100</u>
		1 Jan 2017 balance b/d	5100

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

What does the \$5100 on 1 January 2017 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
- 14 What would **not** appear in a sales ledger control account?
- A a customer's cheque returned by the bank as dishonoured
  - B a debt owed by a customer written off as a bad debt during the month
  - C discount given to a customer because he had placed a large order
  - D goods returned by credit customers during the month
- 15 A business has two departments, X and Y. The total revenue was \$120 000 of which 60% related to department X. The total cost of sales was \$90 000 of which 50% related to department X.

What was the gross profit of department Y?

- A \$3000
  - B \$15 000
  - C \$18 000
  - D \$27 000
- 16 How should inventory be valued?
- A at cost
  - B at the lower of cost and net realisable value
  - C at the lower of cost and replacement value
  - D at the lower of selling price and net realisable value

- 17 On 1 April a business had a working capital of \$6000. On 2 April \$1150 was received from credit customers in settlement of debts of \$1200. On the same day damaged inventory costing \$200 was written off.

What was the working capital at close of business on 2 April?

- A \$4600      B \$5750      C \$6950      D \$7150

- 18 Seema is a business consultant. She provided the following information at the end of her first financial year on 30 April 2017.

	\$
fees earned during the year	244 000
fees owed by clients at 30 April 2017	22 000
cost of computer equipment purchased	26 000
loan interest paid	4 000
other business expenses	142 000

What was Seema's profit for the year?

- A \$72 000      B \$94 000      C \$98 000      D \$120 000

- 19 At the end of Carl's financial year he made an adjustment for \$40 rent owed by his tenant.

How did this adjustment affect Carl's financial statements?

	decrease profit for the year	increase profit for the year	increase current assets	increase current liabilities
<b>A</b>	✓		✓	
<b>B</b>	✓			✓
<b>C</b>		✓	✓	
<b>D</b>		✓		✓

- 20 Gurmit agreed to admit Balbir as a partner from 1 January 2017. A value of \$4000 was agreed as goodwill of Gurmit's business.

Why was the goodwill of Gurmit's business valued before admitting Balbir as a partner?

- A to recognise that Gurmit's business has built up a good reputation  
 B to recognise that Gurmit should have the largest share of profit  
 C to recognise that Gurmit should receive a partnership salary  
 D to recognise that Gurmit will have the largest capital

- 21 Which item may appear on the debit side of a partner's current account?
- A interest on capital  
 B interest on drawings  
 C salary  
 D share of profit
- 22 The financial year of a club ends on 30 April. During the year ended 30 April 2017, the club received an interest-free loan from a member.

In which of the club's financial statements will this appear?

- A income and expenditure account and statement of financial position  
 B receipts and payments account and income and expenditure account  
 C receipts and payments account and statement of financial position  
 D statement of financial position only
- 23 A sports club provided the following information.

	\$
subscriptions paid in advance at the start of the year	400
total subscriptions received during the year	3600
subscriptions paid in advance at the end of the year	500

Which amount would appear as subscriptions in the income and expenditure account?

- A \$3500      B \$3600      C \$4000      D \$4500
- 24 Nula provided the following information for the year.

	\$
drawings for the year	3 900
net assets at 1 January 2016	60 500
net assets at 31 December 2016	72 275

What was the profit or loss for the year?

- A \$7875 loss  
 B \$7875 profit  
 C \$15 675 loss  
 D \$15 675 profit



25 Abdul does not keep a full set of books but was able to provide the following information.

	\$
opening inventory	5 000
closing inventory	7 000
purchases	58 000

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

What were Abdul's sales for the year?

- A** \$67 200      **B** \$70 000      **C** \$72 000      **D** \$75 000

26 Which costs are included in prime cost?

	direct materials	direct labour	factory overheads	change in work in progress
<b>A</b>	✓	✓	✓	✓
<b>B</b>	✓	✓	✓	X
<b>C</b>	✓	✓	X	X
<b>D</b>	✓	X	X	X

27 Paula has the following deductions from her wages.

a subscription to her employer's social club

a pension contribution

How are these deductions classified?

	subscription	pension contribution
<b>A</b>	statutory	statutory
<b>B</b>	statutory	voluntary
<b>C</b>	voluntary	statutory
<b>D</b>	voluntary	voluntary

28 Winston provided the following information on 30 April 2017.

	\$
capital at 1 May 2016	42 000
profit for the year	6 000
current liabilities	2 000
current assets	7 000
10 year loan (received 1 May 2014)	12 000

What was the profit for the year as a percentage of opening capital employed?

- A** 10%                      **B** 11.11%                      **C** 12.5%                      **D** 14.29%

29 Which accounting principle requires a business to prepare financial statements at regular intervals?

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

30 Joyce depreciates her non-current assets using the straight-line method of depreciation, but she writes off any office equipment costing under \$200 in the year of purchase.

On 1 January 2016 she bought a printer, cost \$120, which she expected to use for 3 years.

The book value of her office equipment on 31 December 2016 was \$24 610.

What would be the book value of her office equipment on 31 December 2016 if Joyce wrote off only office equipment costing under \$100?

- A** \$24 490                      **B** \$24 530                      **C** \$24 690                      **D** \$24 730



**BLANK PAGE**

---

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at [www.cie.org.uk](http://www.cie.org.uk) after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.