

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
**Joint Examination for the School Certificate**  
**and General Certificate of Education Ordinary Level**

**PRINCIPLES OF ACCOUNTS**

**7110/1**

PAPER 1 Multiple Choice

**OCTOBER/NOVEMBER SESSION 2002**

1 hour 15 minutes

Additional materials:

Multiple Choice answer sheet

Soft clean eraser

Soft pencil (type B or HB is recommended)

**TIME** 1 hour 15 minutes

**INSTRUCTIONS TO CANDIDATES**

**Do not open this booklet until you are told to do so.**

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty** questions in 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 very carefully the instructions on the answer sheet.**

**INFORMATION FOR CANDIDATES**

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 question paper consists of 12 printed pages.**



- 1 Which transaction is recorded in the sales ledger?
- A cash sales
  - B cheque paid to a creditor
  - C cheque received from a debtor
  - D sale of fixed assets
- 2 In which book is a credit note from a supplier entered?
- A purchases journal
  - B purchases returns journal
  - C sales journal
  - D sales returns journal
- 3 Which book of prime entry is part of the double entry system?
- A cash book
  - B general journal
  - C purchases journal
  - D sales journal
- 4 Y allows X trade discount of 25% and cash discount of 5% if invoices are paid within 30 days.  
X purchases goods with a list price of \$1200 from Y.  
Which amount will be entered in X's purchases journal?
- A \$840      B \$855      C \$900      D \$1200
- 5 A business keeps a three column cash book. How is the total of the discount column on the debit side posted?
- A credit Discount Allowed account
  - B credit Discount Received account
  - C debit Discount Allowed account
  - D debit Discount Received account

- 6 A cash book has separate columns for bank and cash transactions. On 1 August the balance on the Bank account was \$1000. Transactions during August were:

Cash paid into bank	\$200
Cheque drawn for office cash	\$50

What was the balance on the Bank account at the end of August?

- A \$750      B \$850      C \$1150      D \$1250
- 7 Which transaction is entered in the general journal?
- A cash paid to supplier  
 B cash received from customer  
 C machinery bought on credit  
 D stock bought on credit
- 8 Gary is a customer of PD Limited. Gary paid PD Limited by cheque. The cheque has been returned unpaid by the bank.

How is this recorded in PD Limited's books?

	debit	credit
A	Bad Debts account	Bank account
B	Gary's account	Bank account
C	Gary's account	Provision for Doubtful Debts account
D	Provision for Doubtful Debts account	Gary's account

- 9 A business buys goods on credit from Grace for \$100 and receives a trade discount of \$20.

Which ledger entries record this transaction in the business's books?

	debit	\$	credit	\$
A	Purchases account	80	Grace's account	100
	Discounts Received account	20		
B	Purchases account	80	Grace's account	80
C	Purchases account	100	Grace's account	80
			Discounts Received account	20
D	Purchases account	100	Grace's account	100

10 Which of these errors will affect the balancing of the trial balance?

- A A payment from X is credited to the account of Y.
- B A purchase of machinery is debited to the Purchases account.
- C An invoice is not entered in the sales journal.
- D The purchases journal is over-added.

11 A trial balance fails to agree. The credit column totals \$10 000. It is found that the sales book has been overcast by \$100 and goods sold to Y on credit for \$200 have been incorrectly debited to X.

What is the total of the debit column of the trial balance?

- A \$9 700      B \$9 900      C \$10 100      D \$10 300

12 What is the effect of treating capital expenditure as revenue expenditure?

- A to reduce the gross profit
- B to increase the net profit
- C to reduce the fixed assets
- D to increase the fixed assets

13 X is an engineering company. On 31 May it received an invoice from AB Machines showing the following.

4 May	cost of replacement parts
	cost of repairs
20 May	cost of machine
	cost of installation of machine

Which costs are capital expenditure in X's books?

- A machine, installation
- B machine
- C replacement parts, machine
- D replacement parts, repairs, installation

- 14 How is the balance on the Provision for Depreciation of Motors account shown in the final accounts?
- A It is added to the current liabilities in the Balance Sheet.
  - B It is deducted from the fixed assets in the Balance Sheet.
  - C It is credited in the Profit and Loss Account.
  - D It is debited in the Profit and Loss Account.

- 15 X and Y each purchased a machine for \$20 000 with an estimated useful life of four years and a final estimated scrap value of \$4000. X depreciated his machine using the reducing balance method at a rate of 40% per annum but Y used the straight-line method.

How much will the second year's depreciation charged by X differ from that charged by Y?

- A \$200 less for X
  - B \$200 more for X
  - C \$800 less for X
  - D \$800 more for X
- 16 A machine that originally cost \$8000 is now sold for \$900. The balance on the Provision for Depreciation account for this machine is \$6900.
- What is the effect of this transaction?
- A a loss on sale of \$200
  - B a profit on sale of \$200
  - C a loss on sale of \$900
  - D a profit on sale of \$900
- 17 A business rented out premises to a tenant from 1 April 2001 for \$10 000 a year. The tenant paid the business \$5000 on 1 November 2001.

How much is credited for rent receivable in the business's Profit and Loss Account for the year ended 31 December 2001?

- A \$5000
- B \$7500
- C \$10 000
- D \$11 250

- 18** A bookkeeper has entered the balance of the Sales Returns account, \$100, on the wrong side of the trial balance. All other items have been entered in the trial balance correctly.

Which Suspense account entry is required to make the trial balance totals equal?

- A** credit \$100
  - B** credit \$200
  - C** debit \$100
  - D** debit \$200
- 19** Which of the following errors will be corrected through a Suspense account?
- A** The sales journal has been added incorrectly.
  - B** An invoice has been posted to the wrong account in the purchases ledger.
  - C** An invoice for \$1052 has been entered in the purchases journal as \$1025.
  - D** Both the Wages account and the Sales account have been overstated by \$1000.
- 20** X Ltd buys raw materials from, and sells goods to, Y Ltd.

On 31 December, X Ltd's ledgers include Y Ltd's balances as follows:

Sales ledger	\$250 debit
Purchases ledger	\$300 credit

X Ltd keeps a Sales Ledger Control account and a Purchases Ledger Control account.

Which contra entry is made in the control accounts?

	account debited	amount \$	account credited	amount \$
<b>A</b>	Purchases Ledger Control	50	Sales Ledger Control	50
<b>B</b>	Purchases Ledger Control	250	Sales Ledger Control	250
<b>C</b>	Sales Ledger Control	250	Purchases Ledger Control	250
<b>D</b>	Sales Ledger Control	50	Purchases Ledger Control	50

21 Which item will **not** appear in a Sales Ledger Control account?

- A discounts allowed
- B interest charged on overdue accounts
- C provision for doubtful debts
- D sales returns

22 A business has purchased stock on credit and received the goods. At the end of the year the business had not received an invoice from the supplier, Harvey.

Which adjustment is necessary at the year-end?

	debit	credit
<b>A</b>	Purchases account	Stock account
<b>B</b>	Purchases account	Harvey account
<b>C</b>	Stock account	Bank account
<b>D</b>	Harvey account	Bank account

23 How is working capital calculated?

- A current assets less current liabilities
- B fixed assets less current assets
- C total assets less current liabilities
- D total assets less total liabilities

24 Which is a current liability?

- A provision for depreciation
- B rent receivable due
- C sales ledger balances
- D wages due

- 25** X and Y are sole traders. They decide to amalgamate their businesses and agree to share profits and losses equally. X's Goodwill is valued at \$3000 and Y's at \$1000.

How is Goodwill recorded in the books of the new partnership?

	account debited	\$	account credited	\$
<b>A</b>	Capital X Capital Y	3 000 1 000	Goodwill	4 000
<b>B</b>	Goodwill	4 000	Capital X Capital Y	3 000 1 000
<b>C</b>	Capital X Capital Y	2 000 2 000	Goodwill	4 000
<b>D</b>	Goodwill	4 000	Capital X Capital Y	2 000 2 000

- 26** What affects gross profit?

- A** carriage outwards
- B** discounts allowed
- C** discounts received
- D** goods taken by owner for own use

- 27** X rents out part of his premises to Y. At the end of X's financial year, Y owes \$100 rent.

Where will this appear in X's final accounts?

	Profit and Loss Account		Balance Sheet	
	expense	revenue	asset	liability
<b>A</b>	✓		✓	
<b>B</b>		✓	✓	
<b>C</b>	✓			✓
<b>D</b>		✓		✓



- 28 A proprietor takes drawings in cash but fails to make any entry in the books.

What is the effect of this error?

	working capital	capital employed
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

- 29 In 2000 Jane created a provision for doubtful debts of \$400. In 2001 she increased the provision to 5% of total debtors.

On 31 December 2001, debtors were \$10 000.

How much did Jane debit to her Profit and Loss Account for 2001?

- A** \$100      **B** \$400      **C** \$500      **D** \$900

- 30 A firm's debtors at the end of the year were \$75 600, including \$2400 owed by John. This debt is now to be written off as bad.

It is then decided to set up a provision for doubtful debts of 2% of the debtors at the end of the year.

What will be the net debtors figure in the Balance Sheet?

- A** \$71 688      **B** \$71 736      **C** \$74 088      **D** \$74 136

- 31 X and Y are in partnership sharing profits and losses equally after X is paid a salary of \$15 000.

The net profit for the year is \$55 000.

Drawings for the year are X \$12 000 and Y \$16 000.

What will be Y's share of the profit?

- A** \$20 000      **B** \$27 500      **C** \$34 000      **D** \$36 000

- 32 At the end of a club's financial year, some members' subscriptions remain unpaid. Where are they accounted for in the club's final accounts?

	Receipts and Payments Account	Income and Expenditure Account	Balance Sheet
<b>A</b>		✓	✓
<b>B</b>	✓	✓	✓
<b>C</b>	✓	✓	
<b>D</b>	✓		✓

- 33 The financial year of a sports club ends on 31 December. The following information relates to sports equipment for the year ended 31 December 2001.

		\$
Jan 1	book value of equipment	3 200
Mar 31	equipment purchased	1 000
July 1	repairs to equipment	100
Dec 31	depreciation of equipment for the year	500

How much is charged for sports equipment in the Income and Expenditure Account for the year ended 31 December 2001?

- A** \$600      **B** \$1600      **C** \$3700      **D** \$4800

- 34 The following information relates to a business.

opening stock	\$20 000
closing stock	\$28 000
stock turnover	6 times
mark-up	20%

What is the gross profit?

- A** \$24 000      **B** \$28 800      **C** \$33 600      **D** \$57 600

- 35 A trader has opening capital of \$85 000 and closing capital of \$107 000. She has drawings of \$13 000 during the year.

What is her net profit?

- A \$9 000
- B \$13 000
- C \$22 000
- D \$35 000

- 36 The table shows information relating to Y Ltd.

	\$
authorised share capital	500 000
Profit and Loss Account	36 000
called-up issued share capital	350 000
proposed dividend	18 000
general reserve	20 000

What is the total of the Y Ltd's shareholders' funds?

- A \$406 000
  - B \$424 000
  - C \$556 000
  - D \$574 000
- 37 Which is included in prime cost in a Manufacturing Account?

- A cost of direct material
- B depreciation of factory machinery
- C factory rent
- D supervisor's salary

38 A manufacturer has the following costs.

		\$
raw material		8 000
wages:	factory workers	4 000
	factory supervisor	1 000
	office workers	2 000
fixed overheads:	factory	4 500
	office	1 500

What is the factory cost of production?

- A** \$12 000      **B** \$16 500      **C** \$17 500      **D** \$21 000

39 In preparing his final accounts, X has overvalued the closing stock by \$400.

What is the effect of this?

	profit	assets
<b>A</b>	\$400 too high	\$400 too high
<b>B</b>	\$400 too low	\$400 too low
<b>C</b>	no effect	\$400 too high
<b>D</b>	no effect	\$400 too low

40 What is the meaning of the money measurement concept?

- 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.