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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**October/November 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 **11** printed pages and **1** blank page.

1 Which statements about book-keeping and accounting are correct?

- 1 Accounting is performed periodically rather than daily.
- 2 Accounting relies on having accurate book-keeping records.
- 3 Book-keeping includes the preparation of financial statements.
- 4 Book-keeping involves the recording of financial transactions.

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

2 Ava had \$4000 in the bank. She paid a supplier \$575 by cheque in full settlement of \$600 owing.

Which changes would take place within the accounting equation?

	assets	owner's equity (capital)	liabilities
<b>A</b>	-\$600	-\$25	-\$625
<b>B</b>	-\$600	+\$25	-\$625
<b>C</b>	-\$575	+\$25	-\$600
<b>D</b>	+\$575	-\$25	+\$600

3 Winston returned goods to Hanif.

Which entries will Winston make in his ledgers?

	debit entry		credit entry	
	ledger	account	ledger	account
<b>A</b>	general	Hanif	purchases	purchases returns
<b>B</b>	general	purchases returns	purchases	Hanif
<b>C</b>	purchases	Hanif	general	purchases returns
<b>D</b>	purchases	purchases returns	general	Hanif

- 4 Andy purchases goods from Charles.

The account of Charles in Andy's books for the month of September showed the following entries.

	debit \$	credit \$	balance \$
Sept 1 purchases		625	625 cr
8 returns	27		598 cr
17 purchases		317	915 cr
30 bank	598		317 cr

Which document would be issued by Charles on 8 September?

- A cheque  
 B credit note  
 C debit note  
 D invoice
- 5 The following amounts were recorded in the bank columns of Tamir's cash book in September.

	\$
receipts from customers	4022
payments	4819
cheques banked later dishonoured	256

On 30 September the balance in the bank column of Tamir's cash book was \$1265 overdrawn.

What was the credit balance on the bank column of the cash book on 1 September?

- A \$212                      B \$724                      C \$1806                      D \$2318
- 6 On 30 September 2018, Ahmed's bank statement showed a credit balance of \$2500. Ahmed found that a cheque issued for \$90 and a deposit of \$500 had not been included on the bank statement.

What was the balance at bank shown in Ahmed's cash book on 30 September 2018?

- A \$1910                      B \$2090                      C \$2910                      D \$3090

- 7 On 1 September 2018 Chan owed Tan \$570. During September 2018 the following transactions took place.

Tan sold goods, \$380, on credit to Chan

Chan returned goods, \$150, to Tan

Chan paid Tan \$500 by cheque

What was the balance brought down on Chan's account in Tan's ledger on 1 October 2018?

- A** \$300 credit  
**B** \$300 debit  
**C** \$840 credit  
**D** \$840 debit
- 8 Lisa is a credit customer of Daniel. Her account in Daniel's ledger showed the following entries.

	debit \$	credit \$	balance \$
Aug 1 balance			10 cr
Aug 8 sales	300		?

On 10 August Lisa returned goods, list price \$140, subject to a 20% trade discount.

What was the debit balance on Lisa's account after this transaction?

- A** \$150                      **B** \$170                      **C** \$178                      **D** \$198

- 9 Seema's financial year ends on 30 September. She rents premises at a monthly rent of \$2000. During the year ended 30 September 2018 she paid \$26 000 rent.

Which journal entry will Seema make on 30 September 2018 to transfer the rent to the income statement?

		debit \$	credit \$
<b>A</b>	income statement rent	24 000	24 000
<b>B</b>	income statement rent	26 000	26 000
<b>C</b>	rent income statement	24 000	24 000
<b>D</b>	rent income statement	26 000	26 000

- 10 Bashir maintains a provision for doubtful debts of 3% of the trade receivables at the end of the year.

On 31 August 2017 trade receivables amounted to \$70 000.

On 31 August 2018 trade receivables amounted to \$73 000.

Which double entry should Bashir make on 31 August 2018?

	debit	\$	credit	\$
<b>A</b>	income statement	90	provision for doubtful debts account	90
<b>B</b>	income statement	2100	provision for doubtful debts account	2100
<b>C</b>	provision for doubtful debts account	90	income statement	90
<b>D</b>	provision for doubtful debts account	2100	income statement	2100

- 11 Leroy has an engineering business. On 31 May he received an invoice from AB Machines showing the following:

cost of replacement parts for machine

cost of repairs to machine

cost of machine

cost of installation of machine

Which costs are capital expenditure in Leroy's books?

- A** machine, installation
- B** machine only
- C** replacement parts, machine
- D** replacement parts, repairs, installation
- 12 Why is depreciation charged on a non-current asset?
- A** to accumulate a fund of money to replace the asset
- B** to charge the cost of using the asset against income
- C** to determine the market value of the asset
- D** to ensure that profits are not understated
- 13 Sally bought a non-current asset. It was to be used for 10 years, after which it would have no scrap value. Sally used the straight-line method of depreciation.

Which statements are correct?

	accumulated depreciation after five years	annual depreciation charge
<b>A</b>	equalled half of cost	decreased each year
<b>B</b>	equalled half of cost	was constant
<b>C</b>	was more than half of cost	decreased each year
<b>D</b>	was more than half of cost	was constant

- 14 A draft income statement showed a gross profit of \$12 200.

It was later found that carriage on purchases, \$260, and carriage on sales, \$230, had both been included as expenses in the profit and loss section of the income statement.

What was the corrected gross profit?

- A** \$11 710      **B** \$11 940      **C** \$12 460      **D** \$12 690

15 Raj is both a customer of and a supplier to Balbir.

Raj's account in Balbir's sales ledger showed a debit balance of \$300. There was a credit balance of \$100 on Raj's account in the purchases ledger. A contra entry between the two accounts was agreed.

Which entry would Balbir make in Raj's account in the purchases ledger?

- A credit \$100
- B credit \$200
- C debit \$100
- D debit \$200

16 Michael's financial year ends on 31 August.

On 30 August 2018 he purchased a motor vehicle using a bank loan which is repayable on 30 August 2020.

On 31 August 2018 Michael had a bank overdraft.

In which sections of Michael's statement of financial position on 31 August 2018 did these items appear?

	motor vehicle	bank loan	bank overdraft
<b>A</b>	current asset	current liability	non-current liability
<b>B</b>	current asset	non-current liability	current liability
<b>C</b>	non-current asset	current liability	non-current liability
<b>D</b>	non-current asset	non-current liability	current liability

17 Which may be included in an income and expenditure account?

- A bad debts
- B opening balance on the bank account
- C purchase of equipment
- D subscriptions received for the following financial year

- 18 A club's financial year ends on 31 July. During the year ended 31 July 2018 the following subscriptions were received.

	\$
subscriptions for the year ended 31 July 2017	50
subscriptions for the year ended 31 July 2018	3400
subscriptions for the year ending 31 July 2019	20

How much would be included in the receipts and payments account for the year ended 31 July 2018?

- A** \$3400      **B** \$3420      **C** \$3450      **D** \$3470
- 19 A trader does not keep full accounting records.  
How can credit purchases for his first year of trading be calculated?
- A** cheques paid + discounts received + amount owing to suppliers at year end  
**B** cheques paid + discounts received – amount owing to suppliers at year end  
**C** cheques paid – discounts received + amount owing to suppliers at year end  
**D** cheques paid – discounts received – amount owing to suppliers at year end
- 20 A trader provided the following information.

	\$
revenue	100 000
cost of sales	60 000
gross profit	40 000
profit for the year	20 000

What was the mark-up?

- A** 20%      **B** 33.33%      **C** 40%      **D** 66.67%
- 21 Which statements about ordinary shares are correct?
- 1 If a company is wound up ordinary shares are repaid after debentures.
  - 2 Ordinary shares are a non-current liability of the company.
  - 3 The holders of ordinary shares are the owners of the company.
- A** 1 and 3      **B** 1 only      **C** 2 and 3      **D** 3 only



**22** Which items are included in the equity section of the statement of financial position of a limited company?

- A** ordinary shares, retained earnings, debentures and current liabilities
- B** ordinary shares, retained earnings and debentures only
- C** ordinary shares and retained earnings only
- D** ordinary shares only

**23** During the financial year, a manufacturing company's payments included the following.

purchase of a new machine

running costs of the machine

Where would these appear in the financial statements prepared at the end of the financial year?

	machine	running costs of machine
<b>A</b>	manufacturing account	income statement
<b>B</b>	manufacturing account	manufacturing account
<b>C</b>	statement of financial position	income statement
<b>D</b>	statement of financial position	manufacturing account

**24** Which group contains only indirect costs?

- A** carriage inwards, factory rent, wages of factory supervisors
- B** carriage inwards, raw materials, wages of machine operators
- C** depreciation of machinery, factory rent, wages of factory supervisors
- D** depreciation of machinery, raw materials, wages of machine operators

**25** A factory employee records his time of arrival and departure each day.

Which document is used for recording his hours of work?

- A** clock card
- B** payroll register
- C** time sheet
- D** wages sheet

26 Which items are statutory deductions from an employee's gross pay?

- A donation to charity and club subscription
- B donation to charity and social security contribution
- C income tax and club subscription
- D income tax and social security contribution

27 A trader provided the following information.

	\$
revenue	95 000
purchases	40 000
opening inventory	20 000
closing inventory	18 000
cost of sales	42 000

What was the rate of turnover of inventory?

- A 2.10 times
- B 2.21 times
- C 5 times
- D 5.28 times

28 A business provided the following information about its percentage of gross profit to sales.

Year 1 40%

Year 2 38%

Year 3 35%

What could explain the changes in the percentage of gross profit to sales?

- A Cost of sales is decreasing.
- B Expenses are decreasing.
- C Quantity of goods sold is decreasing.
- D Selling price is decreasing.

**29** A business values its inventory at the lower of cost and net realisable value.

Which accounting principle is being applied?

- A** accounting entity
- B** dual aspect
- C** money measurement
- D** prudence

**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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