

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

For Examination from 2008

SPECIMEN PAPER

**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, 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 **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 Which will be most suitable for a computer application?
- A maintaining highly confidential records
  - B maintaining the payroll for a large company
  - C recording credit sales for a small retailer
  - D recording stock withdrawn by partners
- 2 What is the accounting equation?
- A assets less liabilities equals capital
  - B assets plus liabilities equals capital
  - C capital less liabilities equals assets
  - D capital plus assets equals liabilities
- 3 Which document is issued by a supplier when a customer returns goods?
- A credit note
  - B debit note
  - C invoice
  - D statement
- 4 25 items are sold at \$10 each with trade discount at 20 % and cash discount is 2 % if accounts are settled within 7 days.
- How much would be recorded in the sales journal?
- A \$196            B \$200            C \$245            D \$250
- 5 On 31 July, Jay's bank statement shows a balance at bank of \$2500, but the cash book shows a balance at bank of \$1750.
- A cheque for \$750 issued by Jay does not appear on the bank statement.
- Which bank balance figure will appear in Jay's balance sheet on 31 July?
- A \$1000            B \$1750            C \$2500            D \$3250

- 6 New shop fittings are bought on credit for \$4000.

Where is this transaction entered first?

- A cash book  
 B general journal  
 C purchases journal  
 D purchases ledger
- 7 Which ledger entries record the purchase of a machine bought on credit?
- A debit creditors, credit machinery  
 B debit creditors, credit purchases  
 C debit machinery, credit creditors  
 D debit purchases, credit creditors
- 8 The following account appears in the ledger of Ahmed.

Sara account			
2006	debit \$	credit \$	balance \$
June 1 Balance			100 dr
14 Sales	300		400 dr
16 Bank		100	300 dr
18 Sales returns		25	275 dr

Which statement is true?

- A Ahmed owed Sara \$100 on 1 June 2006.  
 B Ahmed returned goods to Sara on 18 June 2006.  
 C Sara owed Ahmed \$275 on 18 June 2006.  
 D Sara sold goods to Ahmed on 14 June 2006.

- 9 Printing expenses paid in cash were correctly entered in the cash book but debited to the postages account.

Which type of error has been made?

- A commission
- B compensating
- C principle
- D reversal

- 10 J. Peters rents premises at an annual rent of \$2800. He provides the following information.

	\$
Rent accrued on 1 January 2005	350
Payments during 2005	3 600

What is the balance on the rent account at 31 December 2005?

- A \$450 accrued
  - B \$450 prepaid
  - C \$1150 accrued
  - D \$1150 prepaid
- 11 On 1 January 2005 a company's provision for doubtful debts was \$500.

On 31 December 2005 debtors were \$20 000.

The provision is to be maintained at 2% of debtors.

Which adjustment to the provision for doubtful debts account is needed?

- A \$100 debit
  - B \$100 credit
  - C \$400 debit
  - D \$400 credit
- 12 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

- 13 A machine cost \$5000. Depreciation to date on this machine was \$1750.

It is disposed of for \$4000.

What is the profit or loss on sale?

- A loss \$750  
 B profit \$750  
 C loss \$1000  
 D profit \$2250
- 14 A business made the correct entry in its cash book for rent paid of \$100 but credited the rent account.

A suspense account was opened.

Which correcting entries are required?

	account to be debited	\$	account to be credited	\$
<b>A</b>	rent	100	suspense	100
<b>B</b>	suspense	100	rent	100
<b>C</b>	rent	200	suspense	200
<b>D</b>	suspense	200	rent	200

- 15 Ahmed returns goods to Fahad.

Where will this appear in X's control account?

- A credit purchases ledger control account  
 B debit purchases ledger control account  
 C credit sales ledger control account  
 D debit sales ledger control account

16 At the end of his first year a trader provides the following information.

	\$
sales	90 000
purchases	60 000
closing stock	10 000
carriage inwards	5 000
carriage outwards	8 000

What is the gross profit?

- A** \$27 000      **B** \$32 000      **C** \$35 000      **D** \$40 000

17 A business has the following assets and liabilities at 31 December 2005.

	\$
premises	80 000
stock	15 000
debtors	28 000
creditors	19 000
bank overdraft	5 000

What is the working capital?

- A** \$11 000      **B** \$19 000      **C** \$81 000      **D** \$91 000

18 Which is a service business?

- A** garage selling petrol and diesel  
**B** motor insurance agency  
**C** second-hand car trader  
**D** shop dealing in motor parts

19 Winston and Leroy are considering forming a partnership.

Which is a disadvantage to Winston of going into partnership with Leroy?

- A** share losses  
**B** share profits  
**C** share responsibilities  
**D** share work-load

- 20 Maria and Lucy decide to amalgamate their businesses and agree to share profits and losses equally. Maria's goodwill is valued at \$3000 and Lucy's goodwill is valued at \$2000.

How is the goodwill recorded in the books of the partnership?

	account(s) to be debited	\$	account(s) to be credited	\$
<b>A</b>	capital Maria capital Lucy	2 500 2 500	goodwill	5 000
<b>B</b>	goodwill	5 000	capital Maria capital Lucy	2 500 2 500
<b>C</b>	capital Maria capital Lucy	3 000 2 000	goodwill	5 000
<b>D</b>	goodwill	5 000	capital Maria capital Lucy	3 000 2 000

- 21 The New Street Sports Club provided the following information on 1 July 2006.

	\$
clubhouse	30 000
sports equipment	8 000
bank	1 500 (dr)
wages owing to sports coach	100
creditor for bar supplies	960
subscriptions paid in advance by members	50

What is the accumulated fund?

- A** \$35 390      **B** \$35 490      **C** \$38 390      **D** \$38 490
- 22 The following information is taken from the accounts of a sole trader.

	\$
opening capital	50 000
closing capital	65 000
drawings	5 000
capital introduced	7 500

What is the trader's net profit?

- A** \$10 000      **B** \$12 500      **C** \$15 000      **D** \$17 500

- 23 Meyer Ltd was established on 1 January 2001. On 1 January 2006 the company's profit and loss account showed a credit balance of \$55 000.

What does this represent?

- A net loss for the previous year  
 B net profit for the previous year  
 C total profits brought forward from previous years  
 D undistributed profits brought forward from previous years
- 24 The financial year of Paul Bergen, who is a manufacturer, ends on 30 June. On 30 June 2006 he had three stocks – finished goods, raw material and work in progress.

Where will these stocks appear in Paul Bergen's final accounts prepared on 30 June 2006?

	manufacturing account	trading account	balance sheet
<b>A</b>	finished goods raw material	work in progress	finished goods raw material
<b>B</b>	finished goods raw material	work in progress	finished goods raw material work in progress
<b>C</b>	raw material work in progress	finished goods	finished goods work in progress
<b>D</b>	raw material work in progress	finished goods	finished goods raw material work in progress

- 25 Stewart has a working week of 40 hours for which he is paid \$10 per hour. For hours worked in excess of this he is paid 1¼ times the basic rate. Stewart worked a total of 50 hours in the first week of July.

What is Stewart's gross pay for this week?

- A \$400                      B \$500                      C \$525                      D \$625



- 26 Latif pays his employees' wages at the end of each week. He pays statutory deductions to the tax authorities monthly in arrears.

For the first week in June the total gross pay of employees amounted to \$8000 and statutory deductions amounted to \$1500.

Which entries will Latif make in his accounting records on 7 June?

	account to be debited	\$	account to be credited	\$
<b>A</b>	bank	8 000	wages	6 500
			statutory deductions	1 500
<b>B</b>	bank	6 500	wages	8 000
	statutory deductions	1 500		
<b>C</b>	wages	8 000	bank	6 500
			statutory deductions	1 500
<b>D</b>	wages	6 500	bank	8 000
	statutory deductions	1 500		

- 27 Balances in the books of a business include the following.

	\$
stock	4 500
debtors	3 000
prepayment expenses	600
cash	900
creditors	1 600
accrued expenses	200

What is the current ratio?

- A** 2.5:1      **B** 4.5:1      **C** 5:1      **D** 5.25:1
- 28 What measures a business's liquidity?
- A** net profit/sales  
**B** net profit/capital  
**C** rate of stock turnover  
**D** quick ratio

- 29 Anna has applied the straight line method of depreciation on her motor vehicles. She wishes to use the reducing balance method for the current year.

Which accounting principle advises Anna against changing the method of depreciation?

- A consistency
- B going concern
- C historical cost
- D matching

- 30 "Financial information should represent actual events and must be free from errors and bias."

Which accounting objective is being described?

- A comparability
- B materiality
- C reliability
- D understandability



**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.

University of 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.