

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/01

Paper 1 Multiple Choice

May/June 2003

1 hour 15 minutes

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 **forty** 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 **12** printed pages.



- 1 Goods for re-sale are bought for cash.

What are the entries in the books of the purchaser?

	account debited	account credited
A	cash	purchases
B	cash	supplier
C	purchases	cash
D	supplier	cash

- 2 X keeps a full set of books of account.

Where will the Sales account appear?

- A** general journal
- B** general ledger
- C** sales journal
- D** sales ledger

- 3 A firm has received the following business documents from X, a supplier.

		\$
October 5	invoice	650
October 10	invoice	120
October 12	credit note	150
October 22	invoice	230
November 4	invoice	790

There was no opening balance on X's account and the firm made no payments to X during October.

What was the balance on the supplier's statement of account at 31 October?

- A** \$850 **B** \$1150 **C** \$1640 **D** \$1940

- 4 X buys goods on credit from Y, who issues an invoice. The goods are unsuitable and X returns them to Y without paying for them.

Which document should Y issue to X on receipt of the returned goods?

- A credit note
- B debit note
- C purchase invoice
- D receipt

- 5 A business purchases goods on credit for \$800, less 25% trade discount, with a cash discount of 5% if payment is received in full within 28 days.

How much will the business pay if it settles within 28 days?

- A \$560
- B \$570
- C \$600
- D \$760

- 6 A retailer bought 20 items from a manufacturer at list price of \$20 each, subject to 20% trade discount.

The retailer later returned ten of the items.

How much is entered in the Sales Returns Journal of the manufacturer?

- A \$160
- B \$200
- C \$240
- D \$320

- 7 The totals of the discount columns in a trader's Cash Book were as follows.

\$200 debit
\$150 credit

What entry will the trader make in the Discount Allowed account?

- A \$150 credit
- B \$200 credit
- C \$150 debit
- D \$200 debit

- 8 The Bank account balance in the Cash Book was \$150 debit.

The following transactions were then entered in the Bank account.

	\$
Receipts from sales	4210
Dividends banked	180
Cheques paid to suppliers	3270

What was the new bank balance in the Cash Book?

- A \$790 credit
- B \$910 credit
- C \$970 debit
- D \$1270 debit

- 9 X Ltd receives a cheque for \$100, records it in the Cash Book and banks it on the same day. A statement sent by the bank that day does not show this \$100.

How is this \$100 shown on the bank reconciliation statement?

- A as an uncredited deposit added to the bank statement balance
 B as an uncredited deposit deducted from the bank statement balance
 C as an unpresented cheque added to the bank statement balance
 D as an unpresented cheque deducted from the bank statement balance
- 10 Winston decides to write off a debt due to him from Leroy for goods sold on credit.

Which general journal entry records this?

	account debited	account credited
A	bad debts	sales
B	bad debts	Leroy
C	sales	bad debts
D	Leroy	bad debts

- 11 Ben, a trader, started purchasing goods on credit from David on 1 March.

Transactions during March were as follows.

	\$
Purchases	1600
Cash paid	1200
Purchases returns	90
Discount received	18

What is the closing balance of David's account in the books of Ben?

- A \$292 credit B \$328 credit C \$472 credit D \$508 credit
- 12 Which error will be discovered by the preparation of a trial balance?
- A capital expenditure treated as revenue expenditure
 B an incorrect amount entered as both a debit and a credit
 C complete omission of a transaction
 D an incorrect amount entered twice as a debit

- 13 A motor vehicle cost \$8000 and the price included \$36 for petrol. The total payment of \$8000 was debited in the Motor Vehicles account.

What is the effect of the error on the Profit and Loss Account and the Balance Sheet?

	net profit		fixed assets	
A	overstated	\$36	overstated	\$36
B	overstated	\$36	understated	\$36
C	understated	\$36	overstated	\$36
D	understated	\$36	understated	\$36

- 14 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

- 15 At the beginning of his financial year a trader buys a new machine costing \$20 000. His old machine had a net book value of \$6000 and he part-exchanged it for the new machine at a value of \$5000, the balance being paid in cash. Depreciation is charged at 20 % per annum.

What is the total charge to the Profit and Loss Account for the year?

- A** \$1000 **B** \$3000 **C** \$4000 **D** \$5000

- 16 Why does a business provide for depreciation on fixed assets?

- A to retain cash in the business for replacement of the assets
- B to charge the cost of fixed assets against profits in the year of purchase
- C to ensure that the realisable value of assets is shown in the Balance Sheet
- D to ensure that the matching principle is applied when preparing final accounts

- 17 For which category of fixed assets is the revaluation method of depreciation **most** appropriate?

- A loose tools
- B motor vehicles
- C office equipment
- D plant and machinery

18 Which accounting entry is made to decrease a provision for doubtful debts?

	account debited	account credited
A	debtors	provision for doubtful debts
B	provision for doubtful debts	debtors
C	Profit and Loss	provision for doubtful debts
D	provision for doubtful debts	Profit and Loss

19 A company paid annual insurance premiums as follows.

	\$
1 July 2001	2400
1 July 2002	3000

What amount is transferred from the Insurance account to the Profit and Loss Account for the year ended 31 December 2002?

- A** \$2400 **B** \$2700 **C** \$3000 **D** \$4200

20 An electricity accrual of \$450 is treated as a prepayment when preparing a trader's Profit and Loss Account.

What effect does this have on the trader's net profit?

- A** It is overstated by \$450.
B It is understated by \$450.
C It is overstated by \$900.
D It is understated by \$900.

21 A sole trader's private car repairs bill has been treated as a business expense.

Which general journal entry corrects this error?

	account debited	account credited
A	capital	motor vehicles
B	drawings	motor expenses
C	motor expenses	motor vehicles
D	motor vehicles	capital

22 Discounts received, \$100, were entered on the debit side of the Discounts Allowed account.

A Suspense account was opened.

Which journal entry corrects this error?

	account(s) debited		account(s) credited	
A	discounts allowed	\$ 100	suspense	\$ 200
	discounts received	100		
B	suspense	200	discounts allowed	100
			discounts received	100
C	discounts received	200	discounts allowed	100
			suspense	100
D	discounts allowed	100	discounts allowed	200
	suspense	100		

23 A Sales Ledger Control account shows the following.

	\$
Opening debit balance	2 000
Sales	10 000
Receipts from debtors	8 000
Returns inwards	100
Discounts allowed	200

What is the closing balance?

- A** \$3700 **B** \$3900 **C** \$4100 **D** \$4300

24 What is found in a Purchases Ledger Control account?

- A** contra entries to sales ledger accounts
B debts written off as bad
C discounts allowed for prompt payment
D returns inwards of damaged goods

25 The assets and liabilities of Y on 31 March 2003 were as follows.

	\$
Fixed assets	186 000
Cash	12 800
Other current assets	19 200
Current liabilities	27 500

On 1 April 2003 Z purchased Y's business for \$195 000. Z took over all the assets and liabilities of Y, except for cash, at the Balance Sheet valuation.

What is the value of Goodwill?

- A** \$4500 **B** \$10 200 **C** \$17 300 **D** \$37 700

26 What is a Balance Sheet?

- A** a statement of the assets, liabilities and capital of a business on a certain date
B a list of balances remaining on a business's books on a certain date
C a summary of a business's transactions for the year
D an account showing the financial position of a business at the year end

27 How are trade debtors shown in a Balance Sheet?

- A** amount owing less provision for doubtful debts at the start of the year
B amount owing less provision for doubtful debts at the end of the year
C amount owing less provisions for doubtful debts and discounts allowed at the start of the year
D amount owing less provisions for doubtful debts and discounts allowed at the end of the year

28 A sole trader writes off a bad debt.

What will be the effect of this on her Balance Sheet?

- A** capital reduced and assets reduced
B liabilities increased and assets reduced
C liabilities reduced and assets increased
D no effect on assets or liabilities

- 29 X and Y are sole traders. They decide to form a partnership and agree to share profits and losses equally. Goodwill is valued at \$2000 for X's business and nil for Y's business.

How is Goodwill recorded in the ledger of the partnership?

	account(s) debited		account(s) credited	
		\$		\$
A	Goodwill	2000	Capital X	1000
			Capital Y	1000
B	Capital X	1000	Goodwill	2000
	Capital Y	1000		
C	Capital X	2000	Goodwill	2000
D	Goodwill	2000	Capital X	2000

- 30 A trader takes goods that have a selling price of \$200 from his shop for his own use. The cost price of these goods is \$150.

How is this transaction recorded in his accounting records?

	account debited		account credited	
		\$		\$
A	drawings	200	purchases	200
B	purchases	200	drawings	200
C	drawings	150	purchases	150
D	purchases	150	drawings	150

- 31 Ann and Sue are in partnership, sharing profits and losses equally. The following information relates to the year ended 31 December 2002.

		\$	\$
Net profit			10 000
Interest on drawings	Ann	200	
	Sue	<u>300</u>	500
Interest on capital	Ann	1 500	
	Sue	<u>1 000</u>	2 500

What is Ann's share of the residual profit?

- A** \$3500 **B** \$4000 **C** \$5000 **D** \$6000

32 Accumulated fund appears in the accounts of a club. What is the corresponding term in the accounts of a business?

- A Balance Sheet
- B bank account
- C capital account
- D net profit

33 At the end of his financial year a sole trader's records show that his capital has decreased by \$5000. His drawings were \$14 000.

What is the amount of his profit or loss for the year?

- A \$5000 loss
- B \$5000 profit
- C \$9000 loss
- D \$9000 profit

34 Abdul does not keep a full set of books. The table shows information for the financial year.

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

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

What are Abdul's total sales for the year?

- A \$67 200
- B \$70 000
- C \$72 000
- D \$72 500

35 A business provides the following information.

sales for year	\$189 000
purchases for year	\$125 000
gross profit as a percentage of cost of sales	25%

What is the gross profit for the year?

- A \$31 250
- B \$37 800
- C \$47 250
- D \$64 000

36 Which item appears in the Appropriation Account of a limited company?

- A debenture interest paid
- B directors' salaries
- C dividends paid
- D investment income received

37 What does prime cost include?

- A carriage inwards on raw materials
- B carriage outwards on finished goods
- C factory heat and light
- D forklift truck drivers' wages

38 A manufacturer provides the following information for May.

	\$
Direct material	4000
Direct labour	2000
Factory overheads	500
Work in progress 1 May	100
31 May	150

What is the factory cost of production?

- A \$6050 B \$6450 C \$6500 D \$6550

39 The books of a business show the following.

	\$
Sales	90 000
Cost of sales	50 000
Expenses	10 000

What is the net profit as a percentage of sales?

- A 20.0% B 33.3% C 44.4% D 66.6%

40 X Ltd owed its staff one week's wages at the end of its financial year. It added this amount to the wages actually paid during the year to get the total wages expense for the year.

Which accounting principle was being used?

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