

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

May/June 2004

**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 **11** printed pages and **1** blank page.



1 What is the purpose of double entry bookkeeping?

- A to apply the dual aspect concept
- B to avoid errors
- C to prepare books of prime entry accurately
- D to record revenue and capital transactions correctly

2 What is the original document for sales returns?

- A a credit note from the purchaser
- B a credit note from the supplier
- C an invoice from the purchaser
- D an invoice from the supplier

3 A business buys stock on credit for \$500. It is allowed trade discount of 10 % and cash discount of 4 %.

Which amount will be entered in the purchases account?

- A \$432
- B \$450
- C \$480
- D \$500

4 Goods returned to a supplier were entered in the supplier's appropriate journal.

Which account should be debited in the supplier's general ledger?

- A purchases
- B returns inwards
- C returns outwards
- D sales

5 After the cash book is updated, a bank reconciliation statement is prepared.

What is shown in the bank reconciliation statement?

- A bank charges debited in the bank statement
- B cheques debited in the bank statement in error
- C dividends received credited directly to the bank
- D standing orders paid directly by the bank

- 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 X owns a shop. To determine his selling price he marks up his stock by 50%. He took stock for his own use costing \$100 but did not pay for it.

How should this be entered in the accounts?

	debit	credit
<b>A</b>	debtors \$100	sales \$100
<b>B</b>	debtors \$150	sales \$150
<b>C</b>	drawings \$100	purchases \$100
<b>D</b>	drawings \$150	purchases \$150

- 8 Brown charged Jones for carriage on goods delivered to Jones' premises.

What entries will Brown make in his ledger?

	debit	credit
<b>A</b>	carriage inwards	Jones
<b>B</b>	carriage outwards	Jones
<b>C</b>	Jones	carriage inwards
<b>D</b>	Jones	carriage outwards

- 9 What is the purpose of a trial balance?

- A to calculate a provisional net profit for a financial year
- B to confirm that the total of debit balances in the ledger agree with the total credit balances
- C to confirm the cash book balance agrees with the bank statement balance
- D to show the assets and liabilities of a business at a certain date

10 Which error prevents a trial balance from balancing?

- A completely omitting an entry
- B debiting A. Brown instead of B. Brown
- C debiting purchases instead of motor vehicles
- D making an entry in one account only

11 Sulin sublets part of her premises to Mai.

How will Sulin classify the rent she receives?

- A capital expenditure
- B capital income
- C revenue expenditure
- D revenue income

12 Repairs to a motor vehicle have been debited to the motor vehicle account.

How will this affect the net profit and the fixed assets in the Balance Sheet?

	net profit	fixed assets
<b>A</b>	overstated	overstated
<b>B</b>	understated	understated
<b>C</b>	overstated	understated
<b>D</b>	understated	overstated

13 A trader provides the following information.

		\$	
2002	Jan 1	Cost of tools purchased	1100
	Dec 31	Value of tools held	1000
2003	Jan 1	Cost of additional tools purchased	20
	Dec 31	Value of tools held	900

How much is charged to the Profit and Loss Account for depreciation for the year ended 31 Dec 2003?

- A \$80
- B \$100
- C \$120
- D \$200

14 What is the main purpose of charging depreciation on fixed assets?

- A to provide funds for the replacement of assets
- B to record the assets at their market value
- C to reduce the cost of repairing assets
- D to spread the cost of assets over their useful lives

15 What are the entries required to create a provision for doubtful debts?

	account debited	account credited
<b>A</b>	bad debts	provision for doubtful debts
<b>B</b>	provision for doubtful debts	bad debts
<b>C</b>	Profit and Loss	provision for doubtful debts
<b>D</b>	provision for doubtful debts	Profit and Loss

16 Fran and David are sole traders. They agree to amalgamate their businesses to share profit and losses equally.

Fran's Goodwill was valued at \$8000 and David's at \$6000.

How will be Goodwill be recorded in the books of the new business?

	Goodwill debited	\$	account credited	\$
<b>A</b>	Fran David	8000 6000	Goodwill	14000
<b>B</b>	Goodwill	14000	Fran David	8000 6000
<b>C</b>	Fran David	7000 7000	Goodwill	14000
<b>D</b>	Goodwill	14000	Fran David	7000 7000

- 17 X's trial balance failed to balance. The difference of \$100 was entered in a suspense account. It was later found that rent received of \$100 had been debited to the rent payable account. What correcting entries are required?

	account debited	\$	account credited	\$
<b>A</b>	suspense	100	rent payable rent received	100 100
<b>B</b>	rent payable rent received	100 100	suspense	100
<b>C</b>	suspense	100	rent payable	100
<b>D</b>	rent received	100	suspense	100

- 18 X made two errors in his accounting records.

The sales journal was under-added by \$250.

The purchase of a motor car for \$400 was debited to the office equipment account.

The net profit for the year **before** correction of these errors was \$25 400.

What is the correct net profit for the year?

- A** \$25 150      **B** \$25 250      **C** \$25 650      **D** \$26 050

- 19 A business prepares control accounts.

How are discounts allowed shown?

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

- 20 Which would **not** appear in a sales ledger control account?

- A** bad debts written off  
**B** cash sales  
**C** debtor's cheque dishonoured  
**D** returns inwards

21 The following is a summary of X Ltd's Balance Sheet.

	\$
fixed assets at net book value	120 000
net current assets	30 000
	150 000
financed by capital and reserves	150 000

The business is acquired by Y Ltd for \$225 000. Y valued the fixed assets at \$180 000 and the net current assets at \$20 000.

How much does Y Ltd pay for Goodwill?

- A** \$25 000      **B** \$45 000      **C** \$75 000      **D** \$105 000

22 A trader's net profit for a financial year was calculated as \$20 000. It was then discovered that the stock at the end of the year was undervalued by \$2000.

What will be the effect of correcting this error on the gross profit and net profit?

	gross profit	\$	net profit	\$
<b>A</b>	decrease	2000	decrease	2000
<b>B</b>	decrease	2000	increase	2000
<b>C</b>	increase	2000	decrease	2000
<b>D</b>	increase	2000	increase	2000

23 A business has the following assets and liabilities at 31 December, 2003.

	\$
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

24 Which is shown in a Balance Sheet?

- A capital expenditure
- B cost of goods sold
- C gross profit
- D revenue expenditure

25 Chan provides the following information.

	1 January 2003 \$	31 December 2003 \$
fixed assets	10 000	12 000
stock	2 500	2 000
debtors	1 500	1 300
bank overdraft	800	900
creditors	1 000	1 900

What is Chan's profit or loss for the year?

- A \$300 loss
- B \$500 loss
- C \$300 profit
- D \$500 profit

26 Stock cost \$2300. It can be sold for \$2500 after realisation costs of \$300.

At what value is stock shown in the Balance Sheet?

- A \$2000
- B \$2200
- C \$2300
- D \$2500

27 Kumar and Khan are in partnership sharing profits and losses equally. Interest on capital account balances is to be allowed at 5%.

The capital account balances at the start of the year are: Kumar \$10 000; Khan \$20 000.

The net profit for the year is \$28 000.

How much will be credited to Kumar's current account at the end of the year?

- A \$13 250
- B \$13 750
- C \$14 000
- D \$14 250

28 How should the provision for doubtful debts be shown in a Balance Sheet?

- A as a current asset
- B as a current liability
- C as a deduction from the creditors' balances
- D as a deduction from the debtors' balances



29 What is the effect on the final accounts of providing for a wages accrual?

	net profit	current liabilities
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

30 What does a credit balance on a partner's current account represent to a business?

- A** current asset
- B** current liability
- C** long-term liability
- D** part of the capital

31 For which type of business will an Appropriation Account be required?

	sole trader	partnership	limited company
<b>A</b>	yes	yes	yes
<b>B</b>	no	yes	yes
<b>C</b>	no	yes	no
<b>D</b>	no	no	yes

32 No adjustment has been made in a club's Income and Expenditure Account for the year ended 31 December 2003 for subscriptions prepaid for 2004.

What is the effect of this error?

	surplus of income over expenditure	Balance Sheet
<b>A</b>	overstated	current assets understated
<b>B</b>	overstated	current liabilities understated
<b>C</b>	understated	current assets understated
<b>D</b>	understated	current liabilities understated

- 33** A cricket club has 60 members and an annual subscription is \$10. Subscriptions received during the year were \$580, which included opening arrears of \$20.

What was the balance on the subscriptions account at the end of the year?

- A** \$20 debit      **B** \$30 debit      **C** \$40 credit      **D** \$40 debit

- 34** Peter is a trader. His assets and liabilities on 31 December 2003 were

	\$
machinery	5 000
bank overdraft	4 000
unpaid accountant's bill	250
motor car	7 000

What was his capital account balance?

- A** \$7750      **B** \$8000      **C** \$8250      **D** \$12 000

- 35** The following information relates to a business's trade creditors for one financial year.

	\$
amount owing to trade creditors at start of year	22 000
purchases on credit	5 000
returns outwards	1 000
payments made to trade creditors	16 000

What is the amount owing to the trade creditors at the end of the year?

- A** \$5000      **B** \$10 000      **C** \$11 000      **D** \$12 000

- 36** A company's undistributed profits were \$45 000 on 1 January 2003. These had increased to \$75 000 on 31 December 2003. The company earned a profit for the year of \$80 000.

What was the total dividend for the year?

- A** \$30 000      **B** \$35 000      **C** \$45 000      **D** \$50 000

37 Leroy makes one product. He provides the following information.

	\$
Material cost	5000
Labour cost	4000
Factory overheads	2000

What is the prime cost?

- A \$5000
- B \$7000
- C \$9000
- D \$11 000

38 What is meant by the rate of stock turnover?

- A average stock held during the financial year
- B number of times the average stock is purchased
- C number of times the average stock is sold
- D value of the stock at the end of the year

39 A sole trader's closing stock was valued at selling price instead of the lower cost price figure.

What effect will this have on the trader's current assets and capital?

	current assets	capital
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	understated
<b>D</b>	understated	overstated

40 Which accounting principle requires a business not to anticipate profits but to provide for foreseeable losses?

- A going concern
- B matching
- C materiality
- D prudence

