

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/01

Paper 1 Multiple Choice

May/June 2006

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 A cheque has been received from X, a debtor.

How is this transaction recorded in the books?

| | account debited | account credited |
|----------|-----------------|------------------|
| A | bank | X |
| B | X | bank |
| C | sales | X |
| D | X | sales |

- 2 What would a business use to pay for goods?
- A** cheque
 - B** invoice
 - C** receipt
 - D** statement of account
- 3 What is entered in a business's general journal?
- A** purchase of a new motor vehicle on credit
 - B** return of faulty goods by a credit customer
 - C** standing order for payment of insurance premium
 - D** transfer of surplus office cash into the bank
- 4 A provision for doubtful debts is to be reduced.
- Which book of prime entry will be used?
- A** cash book
 - B** general journal
 - C** purchases journal
 - D** sales journal
- 5 What is credited in the cash book?
- A** bank charges
 - B** cheques received
 - C** discounts allowed
 - D** trade discount

6 How is a trader's bank overdraft shown?

| | in cash book | in Balance Sheet |
|----------|----------------|-------------------|
| A | credit balance | current asset |
| B | credit balance | current liability |
| C | debit balance | current asset |
| D | debit balance | current liability |

7 In Tony's ledger, Gordon's account shows a debit balance of \$5000.

What does this mean?

- A** Gordon has paid Tony \$5000
- B** Gordon owes Tony \$5000
- C** Tony has paid Gordon \$5000
- D** Tony owes Gordon \$5000

8 A business buys goods on credit.

Which entries should be made?

| | account debited | account credited |
|----------|-----------------|------------------|
| A | bank | purchases |
| B | purchases | bank |
| C | purchases | supplier |
| D | supplier | purchases |

9 A trial balance fails to agree. The credit column totals \$10 000. Two errors are then found:

the sales book has been overcast by \$100;

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** \$9700
- B** \$9900
- C** \$10 100
- D** \$10 300

10 Which error affects the balancing of the trial balance?

- A addition
- B commission
- C omission
- D principle

11 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

12 A garage business buys a motor van which will be used for business purposes only.

In which account will this transaction be recorded?

- A capital
- B motor expenses
- C motor vehicles
- D purchases

13 Winston decides to write off a debt due to him from Leroy for goods sold on credit.

How is this recorded in Winston's books?

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

- 14 'Final accounts should include all the costs and income for the accounting period to which they relate.'

Which accounting principle is being observed?

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

- 15 A trader's net profit is \$20 000.

Later the trader discovers the following omissions from the Profit and Loss Account:

| | |
|-----------------------------|-------|
| closing stock of stationery | \$600 |
| rent receivable | \$200 |

What is the correct net profit?

- A \$19 200 B \$19 600 C \$20 400 D \$20 800
- 16 The following information was extracted from the books of X.

| | | \$ |
|----------|--|--------|
| 1 March | Purchases ledger control account balance | 4 000 |
| 31 March | Purchases journal | 53 000 |
| | Purchases returns journal | 2 000 |
| | Cheques paid to suppliers | 47 000 |
| | Discounts received | 1 000 |

What is the purchases ledger control account balance on 31 March?

- A \$7000 B \$9000 C \$11 000 D \$13 000
- 17 X has the following balances in his books.

| | 1 April | 1 May |
|------------------------------|--------------|--------------|
| sales ledger control account | \$4600 debit | \$3700 debit |

Cheques received amounted to \$3200 and discount allowed was \$250.

What were the sales for the month of April?

- A \$2050 B \$2550 C \$3850 D \$4350

- 18 X bought the business of Y for \$75 000 taking over all the assets and liabilities. At the date of purchase the assets totalled \$80 000 and the liabilities were \$20 000.

Which amount will be posted to the Goodwill account of X?

- A \$5000 B \$15 000 C \$60 000 D \$75 000

- 19 X provides the following information.

| | \$ |
|----------------|------|
| stock | 8000 |
| debtors | 7000 |
| creditors | 6000 |
| bank overdraft | 3500 |
| cash | 50 |
| prepayments | 500 |
| accruals | 1000 |

What is X's working capital?

- A \$3050 B \$4050 C \$5050 D \$6050

- 20 Which is a fixed asset?

- A computer equipment
 B debtors
 C motor vehicle repairs
 D rent

- 21 X and Y are sole traders. They decide to form a partnership and agree to share profits and losses equally. Goodwill is valued as follows:

| | |
|--------------|--------|
| X's business | \$2000 |
| Y's business | \$0 |

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 |

- 22 In 2005 a business paid \$3000 for electricity.

On 1 January 2005 \$600 was owed for electricity.

On 31 December 2005 \$1300 was owed for electricity.

How much is charged for electricity in the Profit and Loss Account for 2005?

- A** \$3000 **B** \$3600 **C** \$3700 **D** \$4300

- 23 What is the effect of paying for motor vehicle expenses?

- A** decreases gross profit
B decreases net profit
C increases current assets
D increases fixed assets

- 24** The owner of a business took stock valued at \$75 for personal use. This was not recorded in the accounts.

How did this error affect the profit?

- A** overstated \$75
 - B** understated \$75
 - C** overstated \$150
 - D** understated \$150
- 25** A partner made a loan to the business.

How is interest on this loan recorded?

- A** credited to her current account
- B** credited to her loan account
- C** debited to her capital account
- D** debited to her loan account

- 26** A partner has a debit balance on his current account of \$1600 on 1 January 2005.

On 31 December 2005 the following amounts were entered in the partner's current account:

interest on capital \$500

drawings \$4000

What is the balance on the partner's current account on 1 January 2006?

- A** credit \$1900
- B** credit \$5100
- C** debit \$1900
- D** debit \$5100

- 27 X and Y are in partnership sharing profits and losses equally. The following information is extracted from their financial records at 31 December.

| | \$ |
|-----------------------|------|
| X interest on capital | 1300 |
| Y interest on capital | 1100 |
| Y's salary | 4000 |

The net profit for the year is \$24 200.

What is Y's share of the residual profit?

- A** \$8900 **B** \$10 200 **C** \$12 900 **D** \$14 000
- 28 Which will appear in a Receipts and Payments Account?
- A** depreciation of fixed assets
B opening bank balance
C refreshment stocks
D subscriptions outstanding at year end
- 29 What is the name for a club's capital?
- A** accumulated fund
B bank balance
C subscriptions
D surplus
- 30 A club's subscriptions account for 2005 shows the following:

| | \$ |
|----------------------------|-------|
| owing at start of the year | 300 |
| received during the year | 4 000 |
| owing at end of the year | 700 |

What amount will appear in the Income and Expenditure Account for 2005?

- A** \$3000 **B** \$3600 **C** \$4300 **D** \$4400

31 The amounts of opening stock and closing stock are known.

What is needed to calculate the rate of stock turnover?

- A cost of sales
- B gross profit
- C net profit
- D sales

32 X started business on 1 April 2005. His purchases for his first year of trading amounted to \$59 400. His stock on 31 March 2006 was valued at \$9000. X's profit mark-up is 25%.

What were the sales for the year ended 31 March 2006?

- A \$60 480 B \$63 000 C \$71 280 D \$74 250

33 The following data is available for a business's first year of trading which ended on 31 December.

| | |
|--|---------|
| stock at 31 December | \$5000 |
| rate of stock turnover during the year | 8 times |
| average value of stock during the year | \$5000 |

What were the business's purchases during the year?

- A \$35 000 B \$40 000 C \$45 000 D \$50 000

34 The following relates to Z Ltd:

| | \$ |
|----------------------------------|---------|
| Authorised share capital | 250 000 |
| Issued and paid up share capital | 200 000 |
| General reserve | 30 000 |
| Profit and Loss Account | 15 000 |
| 10 % Debentures | 20 000 |

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

- A \$245 000 B \$265 000 C \$295 000 D \$315 000

- 35 Which does **not** appear in the Appropriation Account of a limited company?
- A dividends paid
 - B directors' salaries
 - C proposed dividends
 - D retained profits

- 36 How is the factory cost of production calculated?
- A direct labour + direct material
 - B direct labour + factory overheads
 - C direct material + direct labour + factory overheads
 - D direct material + direct labour + total overheads

- 37 Which ratio can be calculated from the details in a sole trader's Balance Sheet?
- A expenses to gross profit
 - B net profit to capital
 - C net profit to sales
 - D rate of stock turnover

- 38 A trader provides the following information:

| | \$ |
|---------------------|---------|
| Fixed assets | 140 000 |
| Current assets | 40 000 |
| Current liabilities | 20 000 |

Net profit on capital employed is 10 %.

What is the net profit?

- A \$14 000 B \$16 000 C \$18 000 D \$20 000
- 39 A business's sales are \$500 000. Gross profit to sales is 25 % and the expenses are \$25 000.
- What is the net profit as a percentage of sales?
- A 5% B 20% C 75% D 80%

40 A business decides to create a provision for doubtful debts.

Which accounting principle is being applied?

- A going concern
- B materiality
- C money measurement
- D prudence (conservatism)