



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/12

Paper 1 Multiple Choice

May/June 2010

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 What is the accounting equation?

- A assets + liabilities = capital
- B assets – liabilities = capital
- C capital + assets = liabilities
- D capital – assets = liabilities

2 Zafar returns goods bought on credit from Khalid.

How is this recorded in Zafar's books?

	account to be debited	account to be credited
A	Khalid	purchases returns
B	Khalid	sales returns
C	purchases returns	Khalid
D	sales returns	Khalid

3 Which is recorded in the sales ledger?

- A cash sales
- B cheque paid to a creditor
- C cheque received from a debtor
- D sale of fixed assets

4 Which document does a trader send to a credit customer to summarise the transactions for the month?

- A credit note
- B debit note
- C receipt
- D statement of account

- 5 On 1 April the bank column in Miriam's cash book showed a debit balance of \$150.
During April the following transactions took place.

	\$
receipts from sales banked	4210
dividends banked	180
cheques paid to suppliers	3270

What was the bank balance on 1 May?

- A** \$790 credit **B** \$910 credit **C** \$970 debit **D** \$1270 debit
- 6 Which 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
- 7 A trader prepares a ledger account using the running balance method.
Which statement is correct?
- A** The balance is shown after each transaction.
B The balance is shown only at the month end.
C There are fewer calculations than in a traditional 'T' account.
D This method is not suitable for computerised accounts.
- 8 On 1 March a business owed its suppliers \$9500. During March the following transactions took place.

	\$
goods purchased on credit	10 000
goods returned to suppliers	200
cheques paid to suppliers	8900
cash discounts received	100

How much did the business owe its suppliers on 31 March?

- A** \$800 **B** \$1000 **C** \$10 300 **D** \$10 500

- 9 Which is a compensating error?
- A** cheque received from J. Wilks debited to the account of J. Wilson
- B** drawings debited to the cash account and credited to the drawings account
- C** purchase of a motor vehicle on credit debited to the motor expenses account
- D** sales account and purchases account both undercast by the same amount
- 10 On 1 January 2009 there was a credit balance on the wages account of \$2000. Wages paid during the year amounted to \$48 000. On 31 December 2009 wages totalling \$3500 remained unpaid.

How much should be transferred from the wages account to the income statement (profit and loss account) for the year ended 31 December 2009?

- A** \$42 500 **B** \$46 500 **C** \$49 500 **D** \$53 500
- 11 Rashid maintains a provision for doubtful debts of 5 % of the trade receivables (debtors) at the end of each year.

Trade receivables (debtors) owed \$40 000 on 31 December 2008.

Trade receivables (debtors) owed \$46 000 on 31 December 2009.

Which journal entry should Rashid make on 31 December 2009?

		debit \$	credit \$
A	Income statement (profit and loss) Provision for doubtful debts	300	300
B	Income statement (profit and loss) Provision for doubtful debts	2300	2300
C	Provision for doubtful debts Income statement (profit and loss)	300	300
D	Provision for doubtful debts Income statement (profit and loss)	2300	2300

- 12 A taxi firm received \$500 from passengers.

The firm sold a vehicle for \$5000.

How should these receipts be treated?

	capital receipts	revenue receipts
	\$	\$
A	—	5500
B	500	5000
C	5000	500
D	5500	—

- 13 Repairs to a motor vehicle were debited in error to the motor vehicles account.

How does this affect the profit for the year (net profit) and the non-current (fixed) assets in the balance sheet?

	profit for the year (net profit)	non-current (fixed) assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

- 14 The difference on a trial balance was entered in a suspense account. It was later found that the purchases returns journal had been undercast.

Which entries are required to correct this error?

	account to be debited	account to be credited
A	purchases	purchases returns
B	purchases returns	purchases
C	purchases returns	suspense
D	suspense	purchases returns

15 A sales ledger control account showed the following.

	\$
opening debit balance	2 000
sales	10 000
receipts from debtors	8 000
returns inwards	100
discounts allowed	200

What was the closing balance?

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

16 A trader's income statement (trading and profit and loss account) showed a gross profit and a loss for the year (net loss).

What caused the loss for the year (net loss)?

- A** cost of sales exceeding sales
B expenses exceeding gross profit
C gross profit exceeding expenses
D sales exceeding cost of sales

17 Simi had the following assets and liabilities.

	\$
inventory (stock)	6300
trade receivables (debtors)	5000
cash	800
trade payables (creditors)	3200
loan repayable in 2021	7100
bank overdraft	1300

What was the working capital?

- A** \$500 **B** \$7600 **C** \$14 700 **D** \$23 700

- 18 Which group contains **only** trading businesses?
- A driving school, motor insurance agent, motor vehicle repairer
 B driving school, motor insurance agent, petrol station
 C motor parts shop, motor repairer, used car dealer
 D motor parts shop, petrol station, used car dealer
- 19 What is the purpose of a partnership appropriation account?
- A to avoid disagreements between the partners
 B to calculate residual profits for division between partners
 C to calculate the profit sharing ratio
 D to determine the amount of partners' salaries
- 20 A partner had a debit balance on his current account of \$1600 on 1 January 2009.
 On 31 December 2009 the following amounts were entered in the partner's current account:

interest on capital \$500
 share of profit \$4000

What was the balance on the partner's current account on 1 January 2010?

- A credit \$1900
 B credit \$2900
 C debit \$5100
 D debit \$6100
- 21 A sports club had the following assets and liabilities.

	\$
trade payables (creditors) for refreshments	750
bank	1870 debit
subscriptions due from members	60
subscriptions prepaid by members	40
equipment	9500
loan to a member	500

How much was the accumulated fund?

- A \$7400 B \$10 140 C \$11 100 D \$11 140

- 22 A sports club was formed on 1 January 2009. During the year ended 31 December 2009 the club purchased equipment costing \$5000, paying by cheque.

In which of the club's final accounts did this appear?

	receipts and payments account	income and expenditure account	balance sheet
A			✓
B	✓	✓	
C	✓		✓
D		✓	✓

- 23 The capital of a business is higher at the end of year 2 than it was at the end of year 1. No additional capital has been introduced during year 2.

What does this mean?

- A** The business has made a loss.
B The business has made a profit.
C The business has sold some non-current (fixed) assets.
D The business has taken a long term loan.
- 24 Barry's sales for his first year of trading were \$55 000. His gross profit margin was 20 %. The closing inventory (stock) was \$3200.

What were the purchases for the year?

- A** \$41 250 **B** \$44 000 **C** \$44 450 **D** \$47 200
- 25 Which item will **not** appear in the appropriation account of a limited company?
- A** debenture interest
B ordinary share dividend
C preference share dividend
D transfer to general reserve

- 26 How is the factory cost of production calculated?

- A** direct material + direct labour
B direct material + direct labour + direct expenses
C direct material + direct labour + direct expenses + factory overheads
D direct material + direct labour + direct expenses + total overheads

27 What is the formula for calculating rate of inventory (stock) turnover?

- A
$$\frac{\text{cost of sales}}{(\text{opening stock less closing stock}) \div 2}$$
- B
$$\frac{\text{cost of sales}}{(\text{opening stock plus closing stock}) \div 2}$$
- C
$$\frac{\text{purchases}}{(\text{opening stock less closing stock}) \div 2}$$
- D
$$\frac{\text{purchases}}{(\text{opening stock plus closing stock}) \div 2}$$

28 A sole trader purchased the following items from an office supplier.

	\$
calculator	10
computer system	2000
document shredder	25
stapler	5

Applying the accounting principle of materiality, which would be recorded as revenue expenditure?

- A calculator, computer system, document shredder
- B calculator, computer system, stapler
- C calculator, document shredder, stapler
- D computer system, document shredder, stapler
- 29 Bi-Appah thinks her business will be worth more when she takes on new, highly skilled staff.

Which accounting principle prevents her from recording this in her balance sheet?

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

- 30 What is the benefit of using information and communications technology in book-keeping and accounting?
- A Anyone with a computer can access the information.
 - B It is cheap to install.
 - C Large quantities of information can be stored.
 - D Staff require special training.

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