PRINCIPLES OF ACCOUNTS   **7110/01**

Paper 1 Multiple Choice   **October/November 2010**

1 hour

Additional Materials: Multiple Choice Answer Key
                          Soft clean eraser
                          Soft pencil (type B and 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.

UNIVERSITY *of* CAMBRIDGE
International Examinations

[Turn over

1   A trader prepares financial statements (final accounts) each year.

What do these assist the trader to do?

A   calculate the amount owing to creditors

B   calculate the cash drawings

C   check the bank statement balance

D   make decisions about the future

2   Which does **not** reduce the owner's capital?

A   business expenses paid using a personal cheque

B   cash withdrawn from the business bank account for personal use

C   goods taken from inventory (stock) for personal use

D   personal expenses paid using business cash

3   A customer returns goods to a supplier.

How does the supplier record this in his ledger?

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

4   Which transaction is recorded in the purchases ledger?

A   cash purchases

B   cheque paid to a creditor

C   cheque received from a debtor

D   purchase of non-current (fixed) assets

5   Which document may be sent by a purchaser to a supplier when damaged goods are returned?

A   credit note

B   debit note

C   invoice

D   statement of account

6   Where is the total of the purchases journal posted?

    A   credit income statement (trading account)

    B   debit income statement (trading account)

    C   credit purchases account

    D   debit purchases account

7   Wayne sold goods with a list price of $5000 to a credit customer. The customer was allowed a 5 % trade discount and a further $2\frac{1}{2}$ % cash discount if payment was made within 20 days of the invoice date.

How much did Wayne credit to his sales account?

    A $4625   **B** $4631   **C** $4750   **D** $4875

8   The totals of the discount columns in a trader's cash book were as follows.

$200 debit

$150 credit

Which entry did the trader make in the discount allowed account?

    A $150 credit   **B** $150 debit   **C** $200 credit   **D** $200 debit

9   On 1 September the bank statement showed an overdrawn balance of $2015.

A refund for insurance, $74, and bank charges, $86, have not been entered in the cash book.

What was the balance on the cash book on 1 September before it was updated?

    A $2003 credit

    B $2003 debit

    C $2027 credit

    D $2027 debit

10 Sarah bought a motor vehicle on credit from Ace Motors for $8000.

Which journal entry did Sarah make to record this?

		debit $	credit $
A	Ace Motors	8000	
	Motor vehicles		8000
B	Bank	8000	
	Motor vehicles		8000
C	Motor vehicles	8000	
	Ace Motors		8000
D	Motor vehicles	8000	
	Bank		8000

11 The following incomplete account appears in Singh's sales ledger.

Bashir account

2010		debit $	credit $	balance $
June 1	Balance			800 dr
5	Sales	620		?
12	Sales returns		30	?
29	Bank		800	?

What was the balance on Bashir's account on 30 June?

A $590 credit

B $590 debit

C $1010 credit

D $1010 debit

12 The following account appears in the ledger of Chan.

Fu account			
2010	$	2010	$
Aug 28 Bank	100	Aug 1 Balance b/d	100
31 Balance c/d	250	12 Purchases	250
	350		350

Which statement is true?

A Chan is owed $100 by Fu on 1 August.

B Chan paid Fu $100 by cheque on 28 August.

C Fu is a debtor of Chan for $250 on 31 August.

D Fu purchased goods, $250, from Chan on 12 August.

13 A cheque received from Joe was credited to Joanna's account.

Which type of error was made?

A commission

B compensating

C original entry

D principle

14 Paul's financial year ends on 31 December. He purchased premises on 1 July 2008.

The insurance premium payable on the premises was:

	$
1 July 2008 – 30 June 2009	1800
1 July 2009 – 30 July 2010	2000

How much was transferred from the insurance on premises account to the income statement (profit and loss account) for the year ended 31 December 2009?

A $1800   **B** $1900   **C** $2000   **D** $2900

15 A trader decides to change his provision for doubtful debts from 2 % of trade receivables (debtors) to 3 % of trade receivables (debtors).

Which entry is made to record this?

	account to be debited	account to be credited
A	bad debts	income statement (profit and loss)
B	income statement (profit and loss)	bad debts
C	income statement (profit and loss)	provision for doubtful debts
D	provision for doubtful debts	income statement (profit and loss)

16 A restaurant spends the following amounts.

	$
cutlery	500
food	5000
plates	1500
drinks	3000

What is the amount of capital expenditure?

A $2000   B $5000   C $7000   D $10 000

17 Sam buys a new computer for business use and the cost is debited to the purchases account.

What is the effect of this error on the profit for the year (net profit) and the non-current (fixed) assets?

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

18 Mandy depreciates her motor vehicles annually.

Which journal entry records the depreciation for the year ended 31 December 2009?

		debit $	credit $
A	Income statement (profit and loss)	500	
	Provision for depreciation of motor vehicles		500
B	Motor vehicles	500	
	Provision for depreciation of motor vehicles		500
C	Provision for depreciation of motor vehicles	500	
	Income statement (profit and loss)		500
D	Provision for depreciation of motor vehicles	500	
	Motor vehicles		500

19 Zafar purchased a motor vehicle for $4800. He estimated the residual value will be $300. Zafar decided to write off the motor vehicle over 4 years.

What was the net book value of the motor vehicle after 2 years?

A $2100 **B** $2250 **C** $2400 **D** $2550

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

A discounts allowed

B interest charged on overdue accounts

C provision for doubtful debts

D sales returns

21 Beth provided the following information.

	1 January	31 December
Net assets	$28 000	$24 000

Her drawings during the year amounted to $3000.

What was Beth's profit for the year (net profit) or loss for the year (net loss)?

A $1000 loss

B $1000 profit

C $7000 loss

D $7000 profit

22 What affects gross profit?

    A   carriage outwards

    B   discounts allowed

    C   discounts received

    D   goods taken by owner for own use

23 Which would **not** appear in a balance sheet?

    A   carriage inwards accrued

    B   gross profit for the year

    C   provision for depreciation of fittings

    D   rent receivable prepaid

24 Which appears in a sports club's receipts and payments account?

    A   accrued expenses

    B   accumulated fund

    C   bank balance

    D   subscriptions in arrears

25 On 1 January 2009 a club had received prepaid subscriptions of $560. During the year ended 31 December 2009 the club received subscriptions of $8480. On 31 December 2009 subscriptions owing to the club amounted to $400.

Which amount should be shown for subscriptions in the income and expenditure account for 2009?

    A $8080   **B** $8480   **C** $8880   **D** $9440

26 A statement of affairs may be prepared when a trader has not maintained a complete set of accounting records.

Which is similar to a statement of affairs?

    A   balance sheet

    B   bank reconciliation statement

    C   income statement (profit and loss account)

    D   trial balance

27 A limited company provided the following information.

	$
non-current (fixed) assets	35 000
ordinary share capital	40 000
5% debentures	10 000
net current assets (working capital)	30 000

What was the retained profit (profit and loss account)?

A $15 000 **B** $25 000 **C** $55 000 **D** $115 000

28 Richi has the following assets and liabilities.

	$
inventory (stock)	8400
trade receivables (trade debtors)	9300
cash	400
trade payables (trade creditors)	3600
bank overdraft	1700

What is Richi's working capital (current) ratio?

A 1.13 : 1 **B** 1.83 : 1 **C** 3.42 : 1 **D** 5.50 : 1

29 Inventory (stock) at 31 December 2008 was overstated by $6000.

What was the effect on the gross profit for the year ended 31 December 2009?

A $6000 overstated

B $6000 understated

C $12 000 overstated

D $12 000 understated

30 Assets and liabilities are recorded in the accounts at the actual amount of the transaction.

Which accounting principle is being applied?

A accounting entity

B consistency

C historical cost

D money measurement

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