



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/11

Paper 1 Multiple Choice

May/June 2011

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 **9** printed pages and **3** blank pages.



1 Businesses make use of both book-keeping and accounting procedures.

What is the purpose of book-keeping?

- A to interpret the double entry records
- B to prepare financial statements at regular intervals
- C to record all the financial transactions of the business
- D to summarise the financial position of the business

2 Which would be recorded by a credit entry in an account?

- A a decrease in capital
- B a decrease in liabilities
- C an increase in assets
- D an increase in capital

3 Which is true of a computerised accounting system?

- A Anyone with a computer can gain access to the accounting records.
- B Data input can only be used for one specific purpose.
- C Data output can only be understood by computer programmers.
- D Operator error may result in inaccurate information.

4 Which is the accounting equation?

- A $\text{assets} - \text{current liabilities} = \text{owner's equity (capital)}$
- B $\text{assets} - \text{liabilities} = \text{owner's equity (capital)}$
- C $\text{current assets} - \text{current liabilities} = \text{owner's equity (capital)}$
- D $\text{non-current assets} - \text{liabilities} = \text{owner's equity (capital)}$

- 5 Wayne has sent the following business documents to Len, a customer.

	\$
Jan 1 invoice	250
Jan 12 invoice	370
Jan 14 credit note	90
Jan 18 invoice	480
Feb 2 invoice	670

There was no opening balance on Len's account and no payments made by Len during January.

What is the amount to be paid by Len to clear his January account?

- A** \$1010 **B** \$1190 **C** \$1680 **D** \$1860
- 6 Which document is issued to a customer to show all the transactions that have taken place during a month?
- A** credit note
B invoice
C receipt
D statement
- 7 Hassan maintains a sales journal, purchases journal, sales returns journal and a purchases returns journal.

At the end of his first month's trading, Hassan transfers the total of each of these journals to the general ledger.

Which entries will Hassan make in his general ledger to record these totals?

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

- 8 Jane, a trader, withdrew \$50 from the business bank account for office use.

How is this recorded in Jane's books?

	account to be debited	account to be credited
A	bank	cash
B	bank	drawings
C	cash	bank
D	drawings	bank

- 9 Ann is a trader. On 1 April 2011 Cindy's account in Ann's ledger showed a credit balance of \$520. The following transactions took place during April 2011.

April 2 Ann returned goods, \$30, to Cindy

14 Ann bought goods, \$210, from Cindy, and paid in cash

Which statement is true about the balance on Cindy's account in Ann's ledger on 30 April 2011?

- A** Ann owes Cindy \$490.
B Ann owes Cindy \$700.
C Cindy owes Ann \$490.
D Cindy owes Ann \$700.
- 10 A trial balance fails to agree. The credit column totals \$10 000. Two errors are then found.

The sales journal 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
- 11 Azad maintains a ledger account for general expenses.
- On 1 January there was a prepayment of \$176. On 31 December there was an accrual of \$212. The amount transferred to the income statement for the year was \$10 690.

What was the total paid for general expenses during the year?

- A** \$10 302 **B** \$10 654 **C** \$10 726 **D** \$11 078

- 12 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 to be debited	account to be credited
A	bad debts	Leroy
B	bad debts	sales
C	Leroy	bad debts
D	sales	bad debts

- 13 Motor repairs of \$250 have been posted in error to the motor vehicles account.

What is the effect on the financial statements?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

- 14 A machine was purchased on 1 January 2010 for \$12 000.

It has a working life of 8 years after which it will be sold for \$2000. Depreciation is calculated using the straight line method.

What was the net book value at 31 December 2010?

- A** \$10 000 **B** \$10 500 **C** \$10 750 **D** \$12 000

15 The difference on a trial balance is entered in a suspense account.

A payment of \$112 for general expenses had been correctly entered in the cash book but posted in error to the credit side of the general expenses account.

Which journal entry corrects this error?

		dr \$	cr \$
A	general expenses suspense	112	112
B	suspense general expenses	112	112
C	general expenses suspense	224	224
D	suspense general expenses	224	224

16 Which total is shown by the closing balance on a purchases ledger control account?

- A cash purchases
- B credit purchases
- C trade payables
- D trade receivables

17 Which affects both gross profit and net profit?

- A carriage inwards
- B carriage outwards
- C discount allowed
- D discount received

18 How is capital employed calculated?

- A capital – non-current liabilities
- B capital + non-current liabilities
- C capital – non-current assets
- D capital + non-current assets

19 Which is **not** a service business?

- A hairdresser
- B manufacturer
- C private tutor
- D window cleaner

20 Rajid and Sunil formed a partnership on 1 January 2010 but did not prepare a partnership agreement.

They provided the following information.

	Rajid	Sunil
capital introduced 1 January 2010	\$40 000	\$20 000
during the year ended 31 December 2010		
drawings	\$5 000	\$3 500
share of work	50 %	50 %

They decide to draw up a partnership agreement for future years.

Which of the following adjustments to the partnership agreement would be most beneficial to Rajid in 2010?

- A interest on capital
- B interest on drawings
- C limit on annual drawings
- D partnership salaries

21 The Sandhill Golf Club has 150 members who each pay an annual subscription of \$40.

On 1 January 2010 subscriptions unpaid for 2009 amounted to \$480. On 31 December 2010, subscriptions paid in advance for 2011 amounted to \$280.

What was the total of the subscriptions received from members in 2010?

- A \$5240
- B \$5800
- C \$6200
- D \$6760

22 A football club provided the following information at the end of its financial year:

rent of premises paid in advance

outstanding subscriptions from members

Where will these items appear in the club's balance sheet?

	rent paid in advance	outstanding subscriptions
A	current asset	current asset
B	current asset	current liability
C	current liability	current asset
D	current liability	current liability

23 Tarrant produced a statement of affairs at 31 December 2009 and at 31 December 2010.

During 2010 his long term loan increased by \$3000 and his net current assets decreased by \$1000. Depreciation for the year was \$500.

By how much did the total of Tarrant's capital decrease?

- A** \$2500 **B** \$3500 **C** \$4000 **D** \$4500

24 A limited company provided the following information:

	\$
issued share capital – 50 000 ordinary shares of \$1 each	50 000
profit for the year ended 30 June 2010 before appropriations	13 000
transfer to general reserve on 30 June 2010	6 000
interim ordinary share dividend paid during the year	3 000

On 30 June 2010 it was decided to use the remaining profit to pay a final ordinary share dividend.

What percentage final dividend would the ordinary shareholders receive?

- A** 8% **B** 14% **C** 20% **D** 26%

25 Which appears in the appropriation account of a limited company?

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

26 Which is a direct cost?

- A depreciation of machinery
- B lighting and heating
- C raw materials used
- D supervisor's wages

27 An employer provides each employee with a time sheet.

Which statement is correct?

- A It is completed by the employee to calculate the hourly rate of pay.
- B It is completed by the employee to show the hours spent on each job.
- C It is completed by the employer to calculate the hourly rate of pay.
- D It is completed by the employer to show the hours spent on each job.

28 Jake had current liabilities of trade payables and had current assets of inventory, trade receivables and cash at bank.

Which measure would improve his current ratio?

- A buying additional inventory and paying in cash
- B decreasing drawings
- C revaluing non-current assets
- D selling inventory on credit rather than for cash

29 An international company has prepared financial statements without including very small items of furniture in its non-current assets.

Which accounting principle has the company applied?

- A accounting entity
- B dual aspect
- C going concern
- D materiality

30 Applying the money measurement principle, what is recorded in a balance sheet?

- A better staff morale following redecoration of premises
- B improved public roads to the business premises
- C increase in efficiency following staff training
- D installation of air conditioning to improve staff comfort

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