



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/01

Paper 1 Multiple Choice

For Examination from 2010

SPECIMEN PAPER

1 hour

Additional Materials: Multiple Choice Answer Sheet
 Soft clean eraser
 Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write your name, Centre number and candidate number on the Answer sheet in the spaces provided unless this has been done for you.

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

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.



- 1 Which will be most suitable for a computer application?
- A maintaining highly confidential records
 - B maintaining the payroll for a large company
 - C recording credit sales for a small retailer
 - D recording stock withdrawn by partners [1]
- 2 What is the accounting equation?
- A assets less liabilities equals capital
 - B assets plus liabilities equals capital
 - C capital less liabilities equals assets
 - D capital plus assets equals liabilities [1]
- 3 Which document is issued by a supplier when a customer returns goods?
- A credit note
 - B debit note
 - C invoice
 - D statement [1]
- 4 25 items are sold at \$10 each with trade discount of 20 %, and cash discount of 2 % if accounts are settled within 7 days.
- How much would be recorded in the sales journal?
- A \$196
 - B \$200
 - C \$245
 - D \$250 [1]
- 5 On 31 July, Jay's bank statement shows a balance at bank of \$2500, but the cash book shows a balance at bank of \$1750.
A cheque for \$750 issued by Jay does not appear on the bank statement.
Which bank balance figure will appear in Jay's balance sheet on 31 July?
- A \$1000
 - B \$1750
 - C \$2500
 - D \$3250 [1]

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

[1]

7 Which ledger entries record the purchase of a machine bought on credit from John Smith?

- A debit John Smith, credit machinery
- B debit John Smith, credit purchases
- C debit machinery, credit John Smith
- D debit purchases, credit John Smith

[1]

8 The following account appears in the ledger of Ahmed.

Sara account				
2009		debit \$	credit \$	balance \$
June	01 Balance			100 dr
	14 Sales	300		400 dr
	16 Bank		100	300 dr
	18 Sales returns		025	275 dr

Which statement is true?

- A Ahmed owed Sara \$100 on 1 June 2009.
- B Ahmed returned goods to Sara on 18 June 2009.
- C Sara owed Ahmed \$275 on 18 June 2009.
- D Sara sold goods to Ahmed on 14 June 2009.

[1]

9 Printing expenses paid in cash were correctly entered in the cash book but debited to the postages account.

Which type of error has been made?

- A commission
- B compensating
- C principle
- D complete reversal

[1]

10 J. Peters rents premises at an annual rent of \$2800. He provides the following information.

	\$
Rent accrued on 1 January 2009	350
Payments during 2009	3 600

What is the balance on the rent account at 31 December 2009?

- A \$450 accrued
- B \$450 prepaid
- C \$1150 accrued
- D \$1150 prepaid

[1]

11 On 1 January 2009 a company's provision for doubtful debts was \$500. On 31 December 2009 debtors were \$20 000. The provision is to be maintained at 2% of debtors.

Which adjustment to the provision for doubtful debts account is needed?

- A \$100 debit
- B \$100 credit
- C \$400 debit
- D \$400 credit

[1]

12 Which item is capital expenditure for a sole trader?

- A additional capital brought into the business
- B drawings of the proprietor for her own use
- C expenditure on the improvement of fixed assets
- D expenditure to finance day-to-day expenses

[1]

13 A machine cost \$5000. Depreciation to date on this machine was \$1750. It is disposed of for \$4000.

What is the profit or loss on sale?

- A loss \$750
- B profit \$750
- C loss \$1000
- D profit \$2250

[1]

- 14** A business made the correct entry in its cash book for rent paid of \$100 but credited the rent account.
A suspense account was opened.

Which correcting entries are required?

	account to be debited \$		account to be credited \$	
A	rent	100	suspense	100
B	suspense	100	rent	100
C	rent	200	suspense	200
D	suspense	200	rent	200

[1]

- 15** Ahmed returns goods to Fahad.
Where will this appear in Ahmed's control account?

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

[1]

- 16** At the end of his first year of trading a trader provides the following information.

	\$
sales	90 000
purchases	60 000
closing inventory (stock)	10 000
carriage inwards	05 000
carriage outwards	08 000

What is the gross profit?

- A** \$27 000
- B** \$32 000
- C** \$35 000
- D** \$40 000

[1]

17 A business has the following assets and liabilities at 31 December 2009.

	\$
premises	80 000
inventory (stock)	15 000
trade receivables (debtors)	28 000
trade payables (creditors)	19 000
bank overdraft	05 000

What is the working capital?

- A \$11 000
- B \$19 000
- C \$81 000
- D \$91 000

[1]

18 Which is a service business?

- A garage selling petrol and diesel
- B motor insurance agency
- C second-hand car trader
- D shop selling motor parts

[1]

19 Winston and Leroy are considering forming a partnership.
Which is a disadvantage to Winston of going into partnership with Leroy?

- A share losses
- B share profits
- C share responsibilities
- D share work-load

[1]

- 20 Maria and Lucy decide to amalgamate their businesses and agree to share profits and losses equally. Maria's goodwill is valued at \$3000 and Lucy's goodwill is valued at \$2000. How is the goodwill recorded in the opening books of the partnership?

	account(s) to be debited	\$	account(s) to be credited	\$
A	capital Maria	2 500	goodwill	5 000
	capital Lucy	2 500		
B	goodwill	5 000	capital Maria	2 500
			capital Lucy	2 500
C	capital Maria	3 000	goodwill	5 000
	capital Lucy	2 000		
D	goodwill	5 000	capital Maria	3 000
			capital Lucy	2 000

[1]

- 21 The New Street Sports Club provided the following information on 1 July 2009.

	\$
Clubhouse	30 000
Sports equipment	8 000
Bank	1 500 (dr)
Wages owing to sports coach	100
Creditor for bar supplies	960
Subscriptions paid in advance by members	50

What is the accumulated fund?

- A** \$35 390
B \$35 490
C \$38 390
D \$38 490

[1]

- 22 The following information is taken from the accounts of a sole trader.

	\$
opening capital	50 000
closing capital	65 000
drawings	5 000
capital introduced	7 500

What is the trader's net profit?

- A** \$10 000 **B** \$12 500 **C** \$15 000 **D** \$17 500

23 Meyer Ltd was established on 1 January 2001.

On 1 January 2009 the company's profit and loss account showed a credit balance of \$55 000. What does this represent?

- A net loss for the previous year
- B net profit for the previous year
- C total profits brought forward from previous years
- D undistributed profits brought forward from previous years

[1]

24 Paul Bergen is a manufacturer and his financial year ends on 30 June. On 30 June 2009 he had three types of inventory (stock) – finished goods, raw material and work in progress.

Where will these inventories (stocks) appear in Paul Bergen's financial statements (final accounts) prepared on 30 June 2009?

	manufacturing account	trading account	balance sheet
A	finished goods raw material	work in progress	finished goods raw material
B	finished goods raw material	work in progress	finished goods raw material work in progress
C	raw material work in progress	finished goods	finished goods work in progress
D	raw material work in progress	finished goods	finished goods raw material work in progress

25 Stewart has a working week of 40 hours for which he is paid \$10 per hour. For hours worked in excess of this he is paid 1¼ times the basic rate. Stewart worked a total of 50 hours in the first week of July. What is Stewart's gross pay for this week?

- A \$400
- B \$500
- C \$525
- D \$625

[1]

- 26** Latif pays his employees' wages at the end of each week. He pays statutory deductions to the tax authorities monthly in arrears. For the first week in June the total gross pay of employees amounted to \$8000 and statutory deductions amounted to \$1500.

Which entries will Latif make in his accounting records on 7 June?

	account to be debited	\$	account to be credited	\$
A	bank	8 000	wages statutory deductions	6 500 1 500
B	bank statutory deductions	6 500 1 500	wages	8 000
C	wages	8 000	bank statutory deductions	6 500 1 500
D	wages statutory deductions	6 500 1 500	bank	8 000

[1]

- 27** Balances in the books of a business include the following.

	\$
Inventory (stock)	4 500
Trade receivables (debtors)	3 000
Other receivables (prepayment expenses)	600
Cash	900
Trade payables (creditors)	1 600
Other payables (accrued expenses)	200

What is the current ratio?

- A** 2.5 : 1
B 4.5 : 1
C 5 : 1
D 5.25 : 1

[1]

- 28** What measures a business's liquidity?

- A** net profit / sales
B net profit / capital
C rate of inventory (stock) turnover
D quick ratio (acid test ratio)

[1]

29 Anna has applied the straight line method of depreciation on her motor vehicles. She wishes to use the reducing balance method for the current year.

Which accounting concept advises Anna against changing the method of depreciation?

A consistency

B going concern

C historical cost

D matching

[1]

30 "Financial information should represent actual events and must be free from errors and bias."

Which accounting objective is being described?

A comparability

B materiality

C reliability

D understandability

[1]