



PRINCIPLES OF ACCOUNTS

7110/11

Paper 1 Multiple Choice

October/November 2014

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, 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.

DO NOT WRITE IN ANY BARCODES.

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 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 are reasons for a trader measuring his profit or loss?

- 1 to calculate the expenses of running the business
- 2 to calculate the return on his investment
- 3 to decide whether to continue in business or close down
- 4 to see how much can be withdrawn without reducing capital

- A 1, 2 and 3 B 1 and 2 only C 2, 3 and 4 D 3 and 4 only

- 3 Which statement about a computerised accounting system is correct?

- 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 Karen borrowed \$80 000 from her father and obtained a bank loan, \$6000 in order to start a business. She bought premises, \$120 000, equipment, \$22 000, and inventory, \$600.

What was Karen's capital?

- A \$56 600 B \$136 600 C \$142 600 D \$216 600

- 5 Andrew purchased a motor vehicle on credit from Claude Motor Company.

How would Claude Motor Company record this?

	account to be debited	account to be credited
A	Andrew	motor vehicle
B	Andrew	sales
C	motor vehicle	Andrew
D	sales	Andrew

6 Which document will a customer issue to inform a supplier of an overcharge?

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

7 Where are the totals of the purchases returns journal and the sales journal posted?

	purchases returns account	sales account
A	credit	credit
B	credit	debit
C	debit	credit
D	debit	debit

8 On 1 September Wayne sent a cheque to his credit supplier, John. This was correctly entered in John's books. On 10 September the cheque was returned unpaid due to lack of funds.

Which entries will be made in John's books on 10 September?

	account to be debited	account to be credited
A	bad debts	bank
B	bank	bad debts
C	bank	Wayne
D	Wayne	bank

9 A business received its bank statement showing the closing balance as \$8500 overdrawn.

It was found that unpresented cheques amounted to \$2000 and uncredited deposits amounted to \$1500.

What was the overdraft shown in the cash book?

- A \$5000
- B \$8000
- C \$9000
- D \$12 000

10 The following account appeared in a trader's ledger.

Rent and rates account							
			\$				\$
May	1	balance b/d	1650	May	1	balance b/d	650
	31	bank	650		31	income statement	550
			<u>2300</u>			balance c/d	1100
							<u>2300</u>

Where did the balance of \$1100 appear in the trader's financial statements?

- A income statement as an expense
 - B income statement as an income
 - C statement of financial position as a current asset
 - D statement of financial position as a current liability
- 11 The purchase of photocopier paper has been debited to the office equipment account.
- Which type of error is this?
- A commission
 - B compensating
 - C principle
 - D reversal
- 12 Liam rents premises from Gavin. In December Liam paid the rent in advance for January and February.

How would the balance on 1 January appear in their ledgers?

	Liam's ledger rent payable account	Gavin's ledger rent receivable account
A	as a credit balance	as a credit balance
B	as a credit balance	as a debit balance
C	as a debit balance	as a credit balance
D	as a debit balance	as a debit balance

- 13 Rashid maintains a provision for doubtful debts of 5% of the trade receivables at the end of each year.

Trade receivables owed \$40 000 on 31 December 2012.

Trade receivables owed \$46 000 on 31 December 2013.

Which journal entry did Rashid make on 31 December 2013?

		debit \$	credit \$
A	income statement provision for doubtful debts	300	300
B	income statement provision for doubtful debts	2300	2300
C	provision for doubtful debts income statement	300	300
D	provision for doubtful debts income statement	2300	2300

- 14 The cost of a motor vehicle was debited to the purchases account in error.

What is the effect of this on the profit and assets?

	profit	assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

- 15 How will the annual depreciation charge on a non-current asset be recorded?

	debit	credit
A	asset account	provision for depreciation account
B	income statement	provision for depreciation account
C	provision for depreciation account	asset account
D	provision for depreciation account	income statement

- 16 An invoice for \$200 from PJ Motors for motor repairs was credited to the motor vehicles account and debited to PJ Motors' account.

Which journal entry would correct this error?

		debit \$	credit \$
A	motor repairs motor vehicles	200	200
B	motor vehicles motor repairs	200	200
C	PJ Motors motor vehicles motor repairs	400	200 200
D	motor vehicles motor repairs PJ Motors	200 200	400

- 17 A trader provided the following information.

		\$
1 March	purchases ledger control account balance	4 000
31 March	purchases journal total	53 000
	purchases returns journal total	2 000
	cheques paid to suppliers	47 000
	discounts received	1 000

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

- A** \$7000 **B** \$9000 **C** \$11 000 **D** \$13 000
- 18 Which item affects gross profit?
- A** carriage outwards
B discounts allowed
C discounts received
D goods taken by owner

19 A trader provided the following information.

	\$
non-current assets	40 000
inventory	10 000
trade receivables	8 000
cash at bank	15 000
trade payables	20 000
long-term loan	12 000

What was the working capital?

- A** \$1000 **B** \$13000 **C** \$41000 **D** \$53000

20 Nirmal sells two products, product G and product H.

The following information is available about his inventory on 31 December 2013.

product	number of units	cost price per unit	net realisable value per unit
G	1000	\$2.00	\$2.50
H	800	\$1.50	\$1.20

It was found that 100 units of product G were damaged and were unsaleable.

What was the total value of Nirmal's inventory?

- A** \$2760 **B** \$3000 **C** \$3260 **D** \$3460

21 Which is a service business?

- A** a business which sells computers and printers
B a business which trains computer operators
C a stationery supplier
D a TV and video supplier

22 A trader took goods at cost price for his own use.

In which account would he make a credit entry?

- A drawings
- B inventory
- C purchases
- D sales

23 X and Y are in partnership with capital contributions of \$50 000 and \$30 000 respectively.

The partnership agreement provides that profits are to be shared in proportion to capital contributions and each partner is entitled to 10% interest on capital.

Profit for the year was \$37 000.

What was the total amount credited to Y's current account at the end of the year?

- A \$10 875 B \$13 875 C \$18 125 D \$23 125

24 On 1 January a sports club's subscriptions account had a debit balance of \$500. During the year subscriptions received amounted to \$6000. Subscriptions due but unpaid on 31 December were \$800.

Which amount will be shown for subscriptions in the income and expenditure account for the year ended 31 December?

- A \$5700 B \$6300 C \$6500 D \$6800

25 A trader provided the following information for September 2014.

	\$
opening trade payables	40 000
cheques paid to credit suppliers	220 000
purchases on credit	240 000
discount received	10 000

How much were the trade payables on 30 September 2014?

- A \$10 000 B \$30 000 C \$50 000 D \$70 000

26 What is net pay?

- A salary less statutory deductions less employer's social security contribution
- B salary less statutory deductions less voluntary deductions
- C salary plus statutory deductions plus employer's social security contribution
- D salary plus statutory deductions plus voluntary deductions

27 How is rate of inventory turnover calculated?

- A cost of goods sold ÷ average inventory
- B cost of goods sold ÷ closing inventory
- C sales ÷ average inventory
- D sales ÷ closing inventory

28 A trader provided the following information.

	\$	\$
inventory	60 000	
trade receivables	39 000	
cash	<u>1 000</u>	100 000
trade payables	18 000	
bank	<u>62 000</u>	80 000

What was the quick ratio?

- A 0.50 : 1
- B 0.76 : 1
- C 1.25 : 1
- D 2.22 : 1

29 'A business will continue to trade in the foreseeable future.'

Which accounting principle is described by this statement?

- A accounting entity
- B accruals (matching)
- C consistency
- D going concern

30 A business applies the money measurement principle.

What would be included in the financial statements?

- A morale of workers
- B quality of the goods sold
- C skill of workers
- D value of the goods sold

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.