

CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

October/November 2003

**1 hour 15 minutes**

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 **forty** 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 **11** printed pages and **1** blank page.



- 1 Sami returns goods bought on credit from Javed.

How is this recorded in Javed's books?

	account debited	account credited
<b>A</b>	purchases returns	Sami
<b>B</b>	sales returns	Sami
<b>C</b>	Sami	purchases returns
<b>D</b>	Sami	sales returns

- 2 A business buys goods on credit.

Which document is used to record this in the buyer's books?

- A** credit note
- B** purchases invoice
- C** sales invoice
- D** statement of account

- 3 A business allows its customers cash discount.

Where is this first recorded?

- A** Cash Book
- B** Sales Journal
- C** Ledger
- D** Purchases Journal

- 4 A purchaser was given the following discounts on a sale of goods, list price \$4000.

trade discount      25 %

cash discount        5 %

Which amount would have been shown in the discount received column of the purchaser's Cash Book when payment was made?

- A** \$150
- B** \$200
- C** \$1000
- D** \$1200

- 5 A Cash Book bank column has a credit balance of \$1700.  
Included in the Cash Book are cheques drawn, but not yet presented, of \$2100.  
The bank statement includes direct debits of \$160, which are not yet included in the Cash Book.  
What balance is shown on the bank statement?  
**A** \$240 credit    **B** \$240 debit    **C** \$3640 credit    **D** \$3640 debit
- 6 Which item is recorded in the General Journal?  
**A** cash sales  
**B** fixed assets bought on credit  
**C** goods sold on credit  
**D** petty cash payments
- 7 There is a debit balance of \$100 on Yasmin's account in Shula's sales ledger.  
What does this mean?  
**A** Yasmin has paid \$100 to Shula  
**B** Yasmin has returned goods, \$100 to Shula  
**C** Yasmin owes \$100 to Shula  
**D** Shula owes \$100 to Yasmin
- 8 Which account will have a credit balance?  
**A** carriage inwards  
**B** carriage outwards  
**C** discounts allowed  
**D** discounts received
- 9 When will the totals of a trial balance **not** agree?  
**A** A debit note is entered in the Purchases Journal.  
**B** A purchase invoice for \$500 is omitted from the Purchases Journal.  
**C** A purchase invoice for \$750 is entered in the Purchases Journal at \$570.  
**D** A purchase invoice for \$310 is entered in the Purchases Journal but not included in the monthly total.

- 10 A bookkeeper puts an amount of \$50 on the debit side of an account. It should have been credited to the account.

What is the effect on the trial balance totals?

- A \$50 more on the credit side than on the debit  
 B \$50 more on the debit side than on the credit  
 C \$100 more on the credit side than on the debit  
 D \$100 more on the debit side than on the credit
- 11 What is regarded as capital expenditure by a clothing retailer?
- A purchase of new shop fittings  
 B re-decoration of stock room  
 C repairs to shop roof  
 D wages of shop staff
- 12 A bookkeeper made two errors.

Repairs to machinery was debited in the Machinery account.  
 Purchase of a motor vehicle was debited in the Purchases account.

How are the fixed assets shown in the Balance Sheet affected?

	machinery	motor vehicles
<b>A</b>	overstated	overstated
<b>B</b>	understated	overstated
<b>C</b>	overstated	understated
<b>D</b>	understated	understated

- 13 X buys a machine on 1 January 2000 for \$10 000 and depreciates it by 20 % per annum using the straight-line method.

X sells the machine on 1 January 2003 for \$3000.

What is the profit or loss on disposal?

- A \$1000 loss    B \$3000 loss    C \$1000 profit    D \$3000 profit

- 14 A fixed asset costing \$5000 is depreciated at the rate of 20 % per annum using the diminishing balance method.

What is the total amount of depreciation for the first two years?

- A \$1000            B \$1200            C \$1800            D \$2000

- 15 George sent an invoice for \$4500 to a customer. He entered the amount correctly in the Sales Journal but posted it to the customer's account as \$5400.

Which book of prime entry does George use to correct the error?

- A Cash Book  
B General Journal  
C Sales Journal  
D Sales Returns Journal

- 16 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 debited		account credited	
		\$		\$
<b>A</b>	rent	100	suspense	100
<b>B</b>	suspense	100	rent	100
<b>C</b>	rent	200	suspense	200
<b>D</b>	suspense	200	rent	200

- 17 A business calculates its net profit at \$25 000.

It is later found that two items had been omitted.

goods taken by the owner for own use costing	\$1200
electricity owing at year end	\$800

What is the correct net profit?

- A \$23 000            B \$23 800            C \$25 400            D \$27 000

- 18** A trader is owed \$4000. It is decided to write off bad debts of \$500 and make a provision for doubtful debts of 5 % of outstanding debtors.

What will be the closing balance on the Sales Ledger Control account?

- A** \$3325            **B** \$3300            **C** \$3500            **D** \$4000

- 19** X maintains a control account for his sales ledger.

What is the purpose of this control account?

- A** to calculate the amount owed to suppliers  
**B** to calculate total sales  
**C** to calculate the accuracy of the sales ledger  
**D** to make the trial balance totals agree

- 20** What would appear in a Purchases Ledger Control account?

- A** cash purchases  
**B** discounts allowed  
**C** refund to credit customer  
**D** returns outward

- 21** How is Goodwill on the purchase of a business shown in the purchaser's Balance Sheet?

- A** capital  
**B** current asset  
**C** current liability  
**D** fixed asset

- 22** An accrual for heating of \$250 is treated as a prepayment in preparing a trader's Profit and Loss Account.

What effect will this have on the net profit?

- A** overstated by \$250  
**B** overstated by \$500  
**C** understated by \$250  
**D** understated by \$500

23 A sole trader provides the following information.

	\$
1 January - Capital account balance	60 000
During the year ended 31 December -	
Net profit	12 000
Capital introduced in cash	20 000
Private car paid for from business bank account	10 000

What is the trader's capital at 31 December?

- A** \$70 000      **B** \$80 000      **C** \$82 000      **D** \$92 000

24 What is the purpose of preparing a Balance Sheet?

- A** to check the accuracy of the books  
**B** to give details of the owners' capital  
**C** to measure the performance of the business  
**D** to show the financial state of the business

25 What is the correct method of valuing stock?

- A** at a valuation decided by the management  
**B** at the lower of cost or net realisable value  
**C** at the net book value of the stock  
**D** at the purchase price of the stock

26 How should the Goodwill resulting from the admission of a new partner be treated if it is to be retained in the books?

- A** apportioned among old partners in old profit-sharing ratios  
**B** apportioned among all partners in new profit-sharing ratios  
**C** apportioned equally among all partners  
**D** apportioned equally among old partners

- 27 The owner of a business takes stock for her own use.

What are the ledger account entries to record this?

	account debited	account credited
<b>A</b>	capital	drawings
<b>B</b>	capital	sales
<b>C</b>	drawings	purchases
<b>D</b>	drawings	stock

- 28 In 2002 a business paid \$3000 for electricity.

On 1 January 2002 \$600 was owed for electricity.

On 31 December 2002 \$1300 was owed for electricity.

How much is charged for electricity in the Profit and Loss Account for 2002?

- A** \$3000      **B** \$3600      **C** \$3700      **D** \$4300

- 29 John and Paul are partners and share profits equally. Profit for the year before interest on capital is \$50 000. Interest on capital is as follows.

John    \$7000

Paul    \$3000

What will be the total amount credited to John's Current account for the year?

- A** \$20 000      **B** \$25 000      **C** \$27 000      **D** \$32 000

- 30 A club's Income and Expenditure Account for a year showed insurance as \$4000.

Insurance pre-paid by the club at the beginning of the year was \$800 and at the end of the year was \$600.

What was the amount shown in the Receipts and Payments Account for insurance?

- A** \$2600      **B** \$3600      **C** \$3800      **D** \$4000

- 31 What name is given to the amount that a club owes to its members?

- A** accumulated fund  
**B** capital  
**C** net profit  
**D** subscriptions

32 The table shows information relating to the subscription income of a club for a financial year.

	1 January \$	31 December \$
subscriptions in arrears	100	150
subscriptions in advance	300	200

During the year, subscriptions amounting to \$1700 were received.

How much should be credited to the Income and Expenditure Account?

- A** \$1650      **B** \$1700      **C** \$1750      **D** \$1850

33 Sales are \$16 000 and the gross profit margin is 20 %.

What is the cost of sales?

- A** \$3200      **B** \$4000      **C** \$12 000      **D** \$12 800

34 The accounts of a sole trader show the following.

	beginning of year	end of year
	\$	\$
Fixed assets	12 700	11 900
Current assets	7 200	9 500
Current liabilities	4 100	2 800
Bank loan (5 year)	-	5 000

What is the net profit or loss for the year?

- A** \$2200 Net Profit  
**B** \$2800 Net Profit  
**C** \$2200 Net Loss  
**D** \$2800 Net Loss

35 A limited company has an issued share capital of 200 000 ordinary shares of \$1 each fully paid.

		\$
1 January	Profit and Loss Appropriation Account balance brought forward	12 000
31 December	net profit for year ended 31 December	43 000
	transfer to general reserve	10 000

A dividend of 10% on ordinary shares was paid during the year.

What is the balance carried forward on the Profit and Loss Appropriation Account at 31 December?

**A** \$13 000 credit **B** \$23 000 credit **C** \$25 000 credit **D** \$35 000 credit

36 Which item is a factory overhead?

- A** carriage on raw materials
- B** cost of raw materials
- C** production supervisor's wages
- D** wages of machine operators

37 How is cost of production calculated?

- A** prime cost less factory overheads
- B** prime cost plus factory overheads
- C** prime cost less factory overheads less increase in stock of work in progress
- D** prime cost plus factory overheads plus increase in stock of work in progress

38 A business's sales are \$100 000, the expenses are \$30 000 and the net profit is \$20 000.

What is the gross profit as a percentage of the sales?

**A** 10% **B** 50% **C** 70% **D** 80%

39 A trader makes the following forecasts for the business for the next financial year.

average stock at cost	\$80 000
rate of stock turnover	6 times
gross profit as a percentage of cost	25%

What are the forecast sales for the next financial year?

- A** \$360 000      **B** \$480 000      **C** \$576 000      **D** \$600 000

40 A company buys a machine for \$10 000. This amount is debited to the Machinery account and credited to the Bank account.

Which accounting principle has been applied?

- A** dual aspect  
**B** going concern  
**C** matching  
**D** money measurement

