



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

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**PRINCIPLES OF ACCOUNTS**

**7110/11**

Paper 1 Multiple Choice

**October/November 2011**

**1 hour**

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



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**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.

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This document consists of **9** printed pages and **3** blank pages.



1 How should the owner of a business use his annual financial statements?

- A to calculate the cash drawings for the year
- B to determine the amount due to trade payables
- C to measure the change in the bank balance
- D to monitor the progress of the business

2 Melanie provided the following information at the end of her financial year.

|                            | \$     |
|----------------------------|--------|
| non-current assets at cost | 14 000 |
| amount owing by customers  | 1 250  |
| amount owing to suppliers  | 850    |
| inventory                  | 1 875  |
| bank overdraft             | 365    |

What was Melanie's capital?

- A \$12 160      B \$15 110      C \$15 910      D \$16 640

3 How does the information provided by computerised accounting differ from that provided by a manual system?

- A The balance sheet does not include non-current asset accounts.
- B The general ledger does not include non-current asset accounts.
- C The income statement always shows a profit.
- D The trial balance always balances.

4 Eli buys goods on credit from Mona.

What entries should Eli make in his ledgers?

|          | general ledger   | purchases ledger |
|----------|------------------|------------------|
| <b>A</b> | credit Mona      | debit purchases  |
| <b>B</b> | credit purchases | debit Mona       |
| <b>C</b> | debit Mona       | credit purchases |
| <b>D</b> | debit purchases  | credit Mona      |

- 5 Raoul trades with Christine. They exchange the following documents.

Which document would normally be issued first?

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

- 6 Zoran was given the following discounts by his supplier when he bought goods, list price \$4000.

|                |     |
|----------------|-----|
| trade discount | 25% |
| cash discount  | 5%  |

Which amount would be entered in the discount received column of Zoran's cash book when payment was made?

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

- 7 Melissa transferred \$5000 from the bank deposit account to the bank current account on 1 May.

On the same day she received a bank loan, \$10 000, which she paid into the bank current account.

How will Melissa record these transactions?

|          | bank loan account |        | bank deposit account |        | bank current account |        |
|----------|-------------------|--------|----------------------|--------|----------------------|--------|
|          | debit             | credit | debit                | credit | debit                | credit |
| <b>A</b> | ✓                 |        | ✓                    |        |                      | ✓      |
| <b>B</b> | ✓                 |        |                      | ✓      |                      | ✓      |
| <b>C</b> |                   | ✓      | ✓                    |        | ✓                    |        |
| <b>D</b> |                   | ✓      |                      | ✓      | ✓                    |        |

- 8 The bank statement of Leroy shows a balance of \$3500 and the cash book shows a balance of \$4200.

The difference is due to a receipt of \$1000 shown in the cash book but not on the bank statement. There is also an unrepresented cheque.

What is the amount of the unrepresented cheque?

- A \$300
- B \$700
- C \$1700
- D \$2500

- 9 Why is the general journal used to correct errors in the ledger?
- A to avoid making alterations in the ledger
  - B to complete the double entry
  - C to provide a record explaining ledger entries
  - D to save the book-keeper's time
- 10 At the end of the financial year there was a debit balance brought down on the office expenses account.

In which section of the balance sheet will this be recorded?

- A capital
  - B current assets
  - C current liabilities
  - D non-current assets
- 11 There is a credit balance of \$100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

- A Shula owes \$100 to Yasmin
  - B Shula has returned goods, \$100, to Yasmin
  - C Yasmin has paid \$100 to Shula
  - D Yasmin owes \$100 to Shula
- 12 Which is an example of a compensating error?
- A A payment for motor vehicle repairs is debited to the motor vehicles account.
  - B A purchase of goods from C Jones is credited to the account of C Johns.
  - C A sale of goods, \$65, to A Aziz is entered in the books as \$56.
  - D The wages account is undercast by \$100 and the rent account is overcast by \$100.

13 At the end of the financial year, Ryan owed \$200 for motor expenses.

How will this appear in Ryan's ledger and balance sheet?

|          | motor expenses account<br>in the ledger | balance sheet     |
|----------|---|-------------------|
| <b>A</b> | credit balance brought down             | current asset     |
| <b>B</b> | credit balance brought down             | current liability |
| <b>C</b> | debit balance brought down              | current asset     |
| <b>D</b> | debit balance brought down              | current liability |

14 A business provides the following information.

|   | \$     |
|---|--------|
| trade receivables   | 13 400 |
| provision for doubtful debts brought forward  | 800    |
| debts to be written off as bad  | 600    |
| provision for doubtful debts carried forward<br>(equal to 5 % of trade receivables) | ?      |

What is the provision for doubtful debts to be carried forward to next year?

- A** \$600      **B** \$640      **C** \$660      **D** \$670

15 A motor vehicle cost \$8000. The price included \$36 for petrol. The total payment of \$8000 was debited in the motor vehicle account.

What is the effect of this error on the income statement and balance sheet?

|          | profit              | non-current assets  |
|----------|---------------------|---------------------|
| <b>A</b> | overstated by \$36  | overstated by \$36  |
| <b>B</b> | overstated by \$36  | understated by \$36 |
| <b>C</b> | understated by \$36 | overstated by \$36  |
| <b>D</b> | understated by \$36 | understated by \$36 |

16 At the end of her financial year, Lucy decided to depreciate her fixtures by \$1000.

Which journal entry will record this?

|          |  | debit<br>\$ | credit<br>\$ |
|----------|--|-------------|--------------|
| <b>A</b> | fixtures<br>provision for depreciation of fixtures         | 1000        | 1000         |
| <b>B</b> | income statement<br>provision for depreciation of fixtures | 1000        | 1000         |
| <b>C</b> | provision for depreciation of fixtures<br>fixtures         | 1000        | 1000         |
| <b>D</b> | provision for depreciation of fixtures<br>income statement | 1000        | 1000         |

17 Tracey runs a clothing store. She sold a computer with a net book value of \$2000 for \$1800. Cash was received but no entries had been made in any accounts.

What is the effect on the balance sheet if this error is corrected?

|          | non-current<br>assets | current assets |
|----------|-----------------------|----------------|
|          | \$                    | \$             |
| <b>A</b> | decrease 1800         | increase 1800  |
| <b>B</b> | decrease 1800         | increase 2000  |
| <b>C</b> | decrease 2000         | increase 1800  |
| <b>D</b> | decrease 2000         | increase 2000  |

18 Which group of items appear in a purchases ledger control account?

- A** bad debts, receipts from credit customers, returns outwards
- B** credit purchases, discount allowed, returns inwards
- C** credit purchases, payments to credit suppliers, returns outwards
- D** discount received, payments to credit suppliers, returns inwards

- 19 Nirmal sells two products, product G and product H.

The following information is available about his inventory on 31 December 2010.

| 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
- 20 On 1 January 2010, Zafar borrowed \$10 000. He agreed to repay the loan by annual instalments of \$1000 starting on 1 January 2011.

How will the loan be shown in Zafar's balance sheet at 31 December 2010?

- A \$1000 as a current asset and \$9000 as a non-current liability  
 B \$1000 as a current liability and \$9000 as a non-current liability  
 C \$9000 as a current asset and \$1000 as a current liability  
 D \$10 000 as a current liability
- 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 partnership agreement states that interest on drawings will be charged.

How is this recorded?

|   | debit                      | credit                     |
|---|----------------------------|----------------------------|
| A | appropriation account      | partners' current accounts |
| B | bank account               | partners' current accounts |
| C | partners' current accounts | appropriation account      |
| D | partners' current accounts | bank account               |

23 On 1 August 2011 the opening balance of a receipts and payments account was \$10 000.

The following information is available for the month of August.

|               | \$   |
|---------------|------|
| café receipts | 1400 |
| depreciation  | 500  |
| subscriptions | 3100 |
| wages         | 1800 |

What was the balance of the receipts and payments account on 31 August 2011?

- A** \$6000      **B** \$6500      **C** \$12 200      **D** \$12 700

24 Wayne provided the following information.

|                   | \$            | \$           |
|-------------------|---------------|--------------|
| revenue (sales)   |               | 12 800       |
| opening inventory | 1 000         |              |
| purchases         | <u>10 500</u> |              |
|                   | 11 500        |              |
| closing inventory | <u>1 600</u>  | <u>9 900</u> |
| gross profit      |               | <u>2 900</u> |

What was Wayne's gross profit margin?

- A** 22.66%      **B** 25.22%      **C** 27.62%      **D** 29.29%

25 Zed Ltd provided the following information.

|                                  | \$      |
|----------------------------------|---------|
| issued and paid up share capital | 200 000 |
| general reserve                  | 30 000  |
| retained profits                 | 15 000  |
| 10% debentures                   | 20 000  |

What was the total of Zed Ltd's shareholders' funds?

- A** \$215 000      **B** \$230 000      **C** \$245 000      **D** \$265 000

26 Which group contains only indirect costs?

- A carriage inwards, factory rent, wages of factory supervisors
- B carriage inwards, raw materials, wages of machine operators
- C depreciation of machinery, factory rent, wages of factory supervisors
- D depreciation of machinery, raw materials, wages of machine operators

27 Tarik and Fatima are paid \$5 for each article they make, subject to a minimum weekly wage of \$400 each.

In one week Tarik made 70 articles and Fatima made 85 articles.

What was the **total** gross pay of Tarik and Fatima?

- A \$750                      B \$775                      C \$800                      D \$825

28 Simran's profit for the year, before interest, was \$18 000. Interest payable amounted to \$2000. The balance on her capital account was \$80 000 and she had a long-term loan of \$20 000.

What was her profit for the year as a percentage of owner's equity?

- A 16%                      B 18%                      C 20%                      D 22.5%

29 A sole trader and a large limited company purchase identical office equipment. The sole trader treats it as a non-current asset and the limited company treats it as an expense.

Which accounting principle is being applied?

- A accounting entity
- B materiality
- C money measurement
- D prudence

30 John purchased a non-current asset on credit. He made an entry in both the non-current asset account and the creditor's account.

Which accounting principle did he apply?

- A consistency
- B dual aspect
- C going concern
- D matching





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