



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**May/June 2012**

**1 hour**

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

\* 0 7 6 8 2 5 5 8 9 3 \*

**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 **8** printed pages.



- 1 Which task would **not** be carried out by an accountant?
- A comparing one year's results with those of previous years
  - B interpreting the accounting records
  - C preparing financial statements
  - D recording the financial transactions
- 2 Jane made a payment to a supplier for goods bought on credit. Jane does not have a bank overdraft.

What is the effect on the accounting equation?

- A decrease capital and decrease assets
  - B decrease liabilities and decrease assets
  - C increase assets and decrease liabilities
  - D increase liabilities and decrease capital
- 3 Anna keeps a full set of accounting records.

Goods purchased by Anna from Winston were returned before they were paid for.

Where will Anna record the return of goods?

- A cash book and purchases ledger
  - B general ledger only
  - C general ledger and purchases ledger
  - D purchases ledger only
- 4 What is true about a statement of account issued by a business?
- 1 It is a source document for the purchases journal.
  - 2 It is a source document for the sales journal.
  - 3 It is sent by a customer to a supplier.
  - 4 It is sent by a supplier to a customer.

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

- 5 Hasina buys radios from Nazneen at a list price of \$10 each. Hasina bought 12 radios and was offered 20 % trade discount and 4 % cash discount. Two radios were faulty and returned to Nazneen.

What was the total of the credit note issued by Nazneen?

A \$15.36      B \$16.00      C \$19.20      D \$20.00

- 6 A trader posts the total of her purchases returns journal to the ledger at the end of each month. On 30 April 2012 the purchases returns journal showed the following totals.

	gross	trade discount	net
2012	\$	\$	\$
April 30 totals for month	1200	240	960

Which entry should be made in the purchases returns account on 30 April 2012?

- A credit \$960  
 B credit \$1200  
 C debit \$960  
 D debit \$1200
- 7 On 1 January Sudip borrowed \$15 000 from the bank at an interest rate of 8% per annum. On 1 August the loan was increased to \$24 000. How much interest was Sudip charged for the year ended 31 December?
- A \$1000      B \$1500      C \$1920      D \$2000
- 8 On 31 March 2012, Ahmed's bank statement showed a credit balance of \$2500. Ahmed found that a cheque issued for \$90 and a deposit of \$500 had not been included on the bank statement. What was the balance at bank shown in Ahmed's cash book on 31 March 2012?
- A \$1910      B \$2090      C \$2910      D \$3090
- 9 Which item is recorded in the general journal before it is entered in the ledger?
- A bad debt written off  
 B cash sales  
 C equipment purchased by cheque  
 D purchases returns
- 10 Which account could have a credit balance?
- A bank  
 B carriage inwards  
 C carriage outwards  
 D cash

11 What is a trial balance?

- A a list of balances remaining on the books of a business at a certain date
- B a list of the transactions of a business for the year
- C a statement of the assets, liabilities and capital of a business at a certain date
- D a summary showing the profit made by a business

12 Which is an error of omission?

- A rent paid in cash not entered in the rent account
- B rent paid not entered in the cash book or the rent account
- C rent paid not included in the income statement
- D rent paid not included in the trial balance

13 John's financial year ends on 31 December. He pays his annual insurance premium on 1 July. He provided the following information.

	\$
insurance premium paid on 1 July 2010	2400
insurance premium paid on 1 July 2011	3000

How much was transferred from the insurance account to the income statement for the year ended 31 December 2011?

- A \$2400      B \$2700      C \$3000      D \$4200

14 Raminder maintains a provision for doubtful debts of 2½% of the trade receivables.

On 1 January the balance on the provision account was \$1075. The trade receivables at 31 December amounted to \$41 000.

Which entry will Raminder make on 31 December to adjust the provision for doubtful debts?

	debit	\$	credit	\$
<b>A</b>	income statement	50	provision for doubtful debts	50
<b>B</b>	income statement	1025	provision for doubtful debts	1025
<b>C</b>	provision for doubtful debts	50	income statement	50
<b>D</b>	provision for doubtful debts	1025	income statement	1025

15 A company purchased a new computer system.

What would be recorded as revenue expenditure?

- A computer hardware
- B computer software
- C ink cartridges
- D inkjet printers

16 What is depreciation?

- A an entry to write off the cost of a non-current asset when it is scrapped
- B a reserve to finance the purchase of future non-current assets
- C a reserve to pay for repairs which increase with the non-current asset's age
- D a system of matching the benefits of using a non-current asset with its cost

17 A machine costing \$60 000 is depreciated by 25% per annum on the reducing (diminishing) balance method.

What was the depreciation charge for the second year?

- A \$11 250      B \$15 000      C \$26 250      D \$30 000

18 Lisa's trial balance failed to balance and a suspense account was opened.

It was found that the return of goods, \$20, by Zaffar, a customer, had been correctly entered in the sales returns account, but had been incorrectly debited to Zaffar's account.

Which journal entry corrects this error?

		debit \$	credit \$
<b>A</b>	suspense Zaffar	20	20
<b>B</b>	Zaffar suspense	20	20
<b>C</b>	suspense Zaffar	40	40
<b>D</b>	Zaffar suspense	40	40

19 What would be entered in a purchases ledger control account?

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

20 Which statement is correct?

- A  $\text{cost of goods sold} - \text{gross profit} - \text{sales returns} = \text{revenue}$
- B  $\text{cost of goods sold} - \text{gross profit} + \text{sales returns} = \text{revenue}$
- C  $\text{cost of goods sold} + \text{gross profit} - \text{sales returns} = \text{revenue}$
- D  $\text{cost of goods sold} + \text{gross profit} + \text{sales returns} = \text{revenue}$

21 When might goodwill appear in a balance sheet?

- A when a trader plans to retire and close his business
- B when it has been purchased
- C when the market value of non-current assets is higher than net book value
- D when the workforce is highly skilled

22 A trader provided the following information.

	\$
non-current assets	25 000
current assets	12 000
current liabilities	9 000
non-current liabilities	10 000

What was the capital employed?

- A \$18 000      B \$28 000      C \$38 000      D \$56 000

23 At the end of his financial year Tom owes \$150 rent.

How will the adjustment for this amount affect Tom's financial statements?

- A decrease expenses and increase current assets
- B decrease expenses and increase current liabilities
- C increase expenses and increase current assets
- D increase expenses and increase current liabilities

24 Amina and Sabena are in partnership.

How is interest on drawings recorded in the ledger?

- A credit capital account
- B credit current account
- C debit capital account
- D debit current account

25 Which would appear in a receipts and payments account?

- A depreciation
- B donations
- C inventory
- D subscriptions owing by members

26 A trader does not keep a full set of accounting records.

How is the profit for the year calculated?

- A closing capital less opening capital less capital introduced plus drawings
- B closing capital less opening capital less drawings
- C closing capital less opening capital plus capital introduced
- D closing capital less opening capital plus capital introduced less drawings

27 A manufacturing business provided the following information.

	\$
direct expenses	6 000
direct labour	15 000
direct materials	20 000
office expenses	4 000
factory heating and lighting	10 000
selling expenses	8 000

What was the prime cost of production?

- A \$41 000
- B \$45 000
- C \$51 000
- D \$63 000

- 28 Anne works 40 hours and is paid \$5 per hour. She pays income tax at 20%, national insurance at 10% and pension contributions at 5%.

What is her gross pay?

- A \$130            B \$140            C \$160            D \$200

- 29 A trader provided the following information.

	\$	\$
revenue		60 000
opening inventory	15 000	
purchases	30 000	
	<u>45 000</u>	
closing inventory	<u>10 000</u>	35 000
gross profit		<u>25 000</u>

What was the rate of inventory turnover?

- A 2.5 times            B 2.8 times            C 3.5 times            D 4.8 times

- 30 Loose tools are shown in a balance sheet at valuation.

Which accounting principle is being applied?

- A consistency  
 B going concern  
 C materiality  
 D prudence