



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

**October/November 2008**

**1 hour**

Additional Materials: Multiple Choice Answer Sheet  
Soft clean eraser  
Soft pencil (type B and 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 **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 What is a disadvantage of a computerised accounting system?
- 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.

- 2 What is the accounting equation?

- A** assets – liabilities = capital
- B** assets + liabilities = capital
- C** liabilities – assets = capital
- D** liabilities – capital = assets

- 3 Winston sold goods on credit to Leroy.

What entries should Winston make in his ledgers?

	sales ledger	general ledger
<b>A</b>	credit Leroy	debit sales
<b>B</b>	credit sales	debit Leroy
<b>C</b>	debit Leroy	credit sales
<b>D</b>	debit sales	credit Leroy

- 4 Omar sends a credit note to Miriam for goods returned.

How will Miriam record the transaction?

	account to be debited	account to be credited
<b>A</b>	purchases returns	Omar
<b>B</b>	sales returns	Miriam
<b>C</b>	Omar	purchases returns
<b>D</b>	Miriam	sales returns

- 5 Patel sent the following documents to Singh in September.

invoice	goods, \$1200, less trade discount of 10 %
credit note	goods, \$160, less trade discount of 10 %

Singh paid a cheque in settlement.

What was the amount of the cheque?

- A \$920                      B \$936                      C \$1040                      D \$1056
- 6 How many of the following transactions should be recorded in the general journal?

- credit purchase of a fixed asset
- credit sale of goods
- goods taken by owner for personal use
- writing off a bad debt

- A 1 transaction
- B 2 transactions
- C 3 transactions
- D 4 transactions
- 7 A cash book (bank columns) shows an overdrawn balance of \$1973 at 31 August. The following items do **not** appear in the bank statement at this date.

	\$
unpresented cheques	942
cheques banked	865

What balance appears on the bank statement at 31 August?

- A \$1896 credit
- B \$1896 debit
- C \$2050 credit
- D \$2050 debit

- 8 A supplier's account in a customer's books has a credit balance of \$8000.

What does this mean?

- A** The customer has paid the supplier \$8000.  
**B** The customer owes the supplier \$8000.  
**C** The supplier has paid \$8000.  
**D** The supplier owes \$8000.
- 9 Carriage outwards, \$300, has been shown on the credit side of a trial balance in error.  
 How will this affect the totals of the trial balance?
- A** credit side \$300 less than debit side  
**B** credit side \$600 less than debit side  
**C** debit side \$300 less than credit side  
**D** debit side \$600 less than credit side
- 10 John's financial year ends on 31 December. He pays his annual insurance premium on 1 July. He provides the following information.

	\$
insurance premium paid on 1 July 2006	2400
insurance premium paid on 1 July 2007	3000

How much is transferred from the insurance account to the profit and loss account for the year ended 31 December 2007?

- A** \$2400      **B** \$2700      **C** \$3000      **D** \$4200
- 11 Which accounting entry is made to decrease a provision for doubtful debts?

	account to be debited	account to be credited
<b>A</b>	debtors	provision for doubtful debts
<b>B</b>	provision for doubtful debts	debtors
<b>C</b>	profit and loss	provision for doubtful debts
<b>D</b>	provision for doubtful debts	profit and loss

12 A trader's expenditure for 2007 includes the following.

	\$
re-decoration of premises	5 000
insurance of motor vehicles	2 000
purchase of machinery	10 000

How much should the trader charge to the profit and loss account for 2007?

- A \$7000            B \$10 000            C \$12 000            D \$17 000

13 Sam owns an engineering business.

For which fixed asset is he **most** likely to use the revaluation method of depreciation?

- A delivery vehicle  
 B loose tools  
 C machinery  
 D office equipment

14 A machine that originally cost \$8000 is now sold for \$900. The balance on the provision for depreciation account for this machine is \$6900.

What is the effect of this transaction?

- A loss on sale \$200  
 B profit on sale \$200  
 C loss on sale \$1100  
 D profit on sale \$1100

15 The difference on a trial balance is entered in a suspense account.

A payment of \$250 for motor expenses had been correctly entered in the cash book but posted to the credit side of the motor expenses account.

Which journal entry corrects this error?

		dr \$	cr \$
<b>A</b>	motor expenses suspense	250	250
<b>B</b>	suspense motor expenses	250	250
<b>C</b>	motor expenses suspense	500	500
<b>D</b>	suspense motor expenses	500	500

16 Which would appear in a purchases ledger control account?

- A** cash discount allowed
- B** cash paid to creditors
- C** cash purchases
- D** cash received from debtors

17 How is gross profit calculated?

- A** sales less expenses
- B** sales less purchases
- C** sales less sales returns less closing stock
- D** sales less sales returns less cost of goods sold

18 Anna's balance sheet showed net assets of \$22 000 on 1 January and \$23 000 on 31 December.

During the year Anna withdrew \$5000 for personal use.

What was Anna's profit for the year?

- A** \$1000
- B** \$4000
- C** \$5000
- D** \$6000

19 Bale has a bank overdraft and also a bank loan repayable in 2010.

Which are shown as long term liabilities in Bale's balance sheet at 30 April 2007?

	bank loan	accrued interest on bank loan	accrued interest on bank overdraft
<b>A</b>	✓	✓	✓
<b>B</b>	✓	✓	x
<b>C</b>	✓	x	x
<b>D</b>	x	✓	✓

20 A trader provides the following information.

	\$
fixed assets	30 000
cash	500
bank overdraft	2 000
debtors	4 000
creditors	3 500
stock	5 000

What is the working capital?

- A** \$4000      **B** \$8000      **C** \$34 000      **D** \$39 500

21 Which is a service business?

- A** business installing computer systems  
**B** business selling computers and printers  
**C** stationery shop  
**D** TV and video shop

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

How will the adjustment for this amount affect Tom's final accounts?

- 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

23 What is the purpose of a partnership appropriation account?

- A to calculate partners' salaries
- B to record partners' drawings
- C to show the distribution of profits between partners
- D to show the movement on partners' capital accounts

24 A partner is entitled to interest on capital, partnership salary and a share of profits.

In which accounts are they credited?

	interest on capital	partnership salary	share of profits
<b>A</b>	capital account	capital account	capital account
<b>B</b>	capital account	current account	current account
<b>C</b>	current account	capital account	capital account
<b>D</b>	current account	current account	current account

25 The following information relates to Abdul's trade creditors for one financial year.

	\$
amount owing to trade creditors at start of year	22 000
purchases on credit	125 000
returns outwards	6 000
payments made to trade creditors	116 000

What is the amount owing to the trade creditors at the end of the year?

- A** \$19 000      **B** \$25 000      **C** \$31 000      **D** \$37 000



26 Wayne's trading account for the year was as follows.

	\$	\$
sales		12 800
opening stock	1 000	
purchases	<u>10 500</u>	
	11 500	
closing stock	<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%

27 A business pays a weekly government tax of 10% on the total weekly wages paid to employees.

For the week ended 30 April, the total paid to employees amounted to \$5000.

Which entries will record the payment on 30 April?

	wages account		government tax account		bank account	
	debit \$	credit \$	debit \$	credit \$	debit \$	credit \$
<b>A</b>	4500		500			5000
<b>B</b>		4500		500	5000	
<b>C</b>	5000		500			5500
<b>D</b>		5000		500	5500	

28 A business provides the following information.

	\$
stock: 1 January	10 000
31 December	30 000
purchases	140 000
sales	250 000

What is the rate of stock turnover for the year?

- A** 5.5 times      **B** 6 times      **C** 7 times      **D** 12.5 times

- 29 Transactions of a similar nature should be recorded in the same way in the same accounting period and in all future accounting periods.

Which accounting principle is being applied?

- A consistency
- B going concern
- C materiality
- D prudence

- 30 Waheda updated her information and communications technology equipment and sent her employees on a training course.

Applying the money measurement principle, which would **not** be recorded in Waheda's accounting records?

- A cost of paper and disks
- B cost of staff training
- C improvement of computer system
- D improvement of employees' knowledge



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