



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

**October/November 2007**

**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 **12** printed pages.



- 1 Which transaction is recorded in the purchases ledger?
- A cash purchases
  - B cheque paid to a creditor
  - C cheque received from a debtor
  - D purchase of fixed assets
- 2 Which document is sent to a buyer when he returns goods to a supplier?
- A credit note
  - B debit note
  - C invoice
  - D receipt

- 3 Smith returns goods purchased on credit from Jones.

Where will this transaction be entered in Smith's books?

	book of prime entry	account debited	account credited
<b>A</b>	purchases	Jones	purchases
<b>B</b>	purchases	purchases	Jones
<b>C</b>	purchases returns	Jones	purchases returns
<b>D</b>	purchases returns	purchases returns	Jones

- 4 Sally buys goods and is allowed a discount for early payment.

How will Sally record this discount?

	account to be debited	account to be credited
<b>A</b>	discount allowed	supplier
<b>B</b>	discount received	supplier
<b>C</b>	supplier	discount allowed
<b>D</b>	supplier	discount received

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

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

	account to be debited	account to be credited
<b>A</b>	bad debts	bank
<b>B</b>	bank	bad debts
<b>C</b>	bank	Wayne
<b>D</b>	Wayne	bank

- 6 The bank statement of a business shows a bank overdraft of \$1640 on 30 September 2007.

At that date there were uncredited deposits of \$380 and unpresented cheques of \$460.

What is the cash book balance at 30 September 2007?

- A** \$1560 credit  
**B** \$1560 debit  
**C** \$1720 credit  
**D** \$1720 debit
- 7 Which 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
- 8 Which account usually has a credit balance?
- A** capital  
**B** cash  
**C** motor vehicles  
**D** purchases

9 Carl is a customer of Jason. The balance on Carl's account in Jason's books is \$200 debit.

Carl sends Jason a cheque for \$50.

What is the balance on Carl's account after this transaction?

- A \$150 credit
- B \$150 debit
- C \$250 credit
- D \$250 debit

10 The purchase of a motor vehicle was entered in the motor expenses account.

What kind of error was this?

- A commission
- B compensating
- C principle
- D reversal

11 Which error would cause the debit column of a trial balance to exceed the credit column by \$200?

- A carriage outwards, \$100, debited to the carriage inwards account
- B cheque received, \$100, debited to the cash account
- C discount received, \$100, entered in the debit column of the trial balance
- D expenses, \$100, entered in the credit column of the trial balance

12 Sulin sublets part of her premises to Mai.

How will Sulin classify the rent she receives?

- A capital expenditure
- B capital income
- C revenue expenditure
- D revenue income

- 13 A trader debits the cost of repairing machinery to the machinery account.

How does this error affect the final accounts?

	net profit	fixed assets
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

- 14 A motor vehicle is purchased for \$25 000. It is to be depreciated on the diminishing (reducing) balance method at the rate of 20 % per annum.

What will be the book value of the motor vehicle after three years?

- A** \$10 000      **B** \$12 200      **C** \$12 800      **D** \$15 000

- 15 How is the loss on the sale of a fixed asset recorded?

	account to be debited	account to be credited
<b>A</b>	disposal	profit and loss
<b>B</b>	fixed asset	profit and loss
<b>C</b>	profit and loss	disposal
<b>D</b>	profit and loss	fixed asset

- 16 Leroy's financial year ends on 31 December. He paid rent of \$3200 for the year 1 April 2006 to 31 March 2007.

What adjustment is needed to the rent account on 31 December 2006?

- A** an accrual of \$800  
**B** an accrual of \$2400  
**C** a prepayment of \$800  
**D** a prepayment of \$2400

17 Joyce decides to create a provision for doubtful debts.

How is this recorded?

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

18 A trial balance fails to balance. The difference is entered in a suspense account.

It is later found that the sales journal has been overcast.

What entry is required to correct this error?

	account to be debited	account to be credited
<b>A</b>	debtor	sales
<b>B</b>	sales	debtor
<b>C</b>	sales	suspense
<b>D</b>	suspense	sales

19 A trader calculated his net profit at \$31 500. Two errors were then discovered:

sale of goods, \$60, was recorded as a selling expense;

purchase of goods, \$75, was recorded as purchase of a fixed asset.

What is the correct net profit?

**A** \$31 455      **B** \$31 485      **C** \$31 515      **D** \$31 545

20 What are the sources of information for entries in control accounts?

- A** bank statements
- B** books of prime entry
- C** ledger accounts
- D** sales invoices

21 A trader provides the following information.

		\$
1 August	purchases ledger control account balance	27 500 Cr
31 August	credit purchases	12 700
	purchases returns	1 200
	payments to creditors	16 300

What is the purchases ledger control account balance on 31 August?

- A** \$22 700      **B** \$23 900      **C** \$25 100      **D** \$26 300

22 Eileen bought Bernard's business for \$10 000. Eileen took over the following assets and liabilities:

	\$
bank overdraft	1000
creditors	3000
debtors	4000
motor vehicles	5000
prepayments	2000

What is the value of goodwill?

- A** \$1000      **B** \$3000      **C** \$5000      **D** \$7000

23 What is net profit?

- A** gross profit, plus discount allowed, less expenses  
**B** gross profit, plus discount received, less expenses  
**C** sales less cost of goods sold  
**D** sales less expenses

24 A trader provides the following information for his financial year.

	\$
sales	12 000
opening stock	1 000
closing stock	2 000
purchases	7 000
carriage inwards	500

What is the cost of sales?

- A** \$3500      **B** \$5500      **C** \$6500      **D** \$8500

25 Which is a current liability?

- A** advertising prepaid  
**B** debtors  
**C** stock  
**D** wages accrued

26 Premises are purchased on 1 January 2007 using a bank loan repayable on 1 January 2017.

How does this transaction affect the balance sheet on 1 January 2007?

- A** increases fixed assets, decreases current liabilities  
**B** increases fixed assets, increases current liabilities  
**C** increases fixed assets, decreases long-term liabilities  
**D** increases fixed assets, increases long-term liabilities



27 A sole trader provides the following information.

	\$
capital account balance 1 January	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

28 Rajid and Sunil formed a partnership on 1 January 2006 but did not prepare a partnership agreement.

They provide the following information.

	Rajid	Sunil
capital introduced 1 January 2006	\$40 000	\$20 000
during the year ended 31 December 2006		
drawings	\$5 000	\$3 500
share of work	50 %	50 %

They decide to draw up a partnership agreement for future years.

What will Rajid be especially interested to see included in the partnership agreement?

- A** interest on capital  
**B** interest on drawings  
**C** limit on annual drawings  
**D** partnership salaries

29 What are the effects on a business's final accounts of providing for depreciation?

	profit and loss account expenses		balance sheet fixed assets	
	increase	decrease	increase	decrease
<b>A</b>	✓		✓	
<b>B</b>		✓		✓
<b>C</b>	✓			✓
<b>D</b>		✓	✓	

30 At the end of the financial year, a trader is owed commission.

How will this be treated in the trader's final accounts?

	profit and loss account	balance sheet
<b>A</b>	expense	asset
<b>B</b>	expense	liability
<b>C</b>	revenue	asset
<b>D</b>	revenue	liability

31 The owner of a business takes goods for his own use.

What are the book keeping entries?

	account to be debited	account to be credited
<b>A</b>	drawings	purchases
<b>B</b>	drawings	stock
<b>C</b>	purchases	drawings
<b>D</b>	stock	drawings

32 A partner is entitled to interest on his capital.

What entry is made in the personal account of the partner?

- A** credit partner's capital account
- B** credit partner's current account
- C** debit partner's capital account
- D** debit partner's current account

- 33 Ann and Sue are in partnership, sharing profits and losses equally. The following information relates to the year ended 31 December 2006.

		\$	\$
net profit			10 000
interest on drawings	Ann	200	
	Sue	<u>300</u>	500
interest on capital	Ann	1 500	
	Sue	<u>1 000</u>	2 500

What is Ann's share of the residual profit?

- A** \$3500      **B** \$4000      **C** \$5000      **D** \$6000
- 34 At the end of the financial year, a club's receipts and payments account showed a debit balance of \$970.

What does this mean?

- A** Bank and cash balances in hand were \$970.  
**B** Creditors were owed \$970.  
**C** Subscriptions in arrears were \$970.  
**D** Surplus for the year was \$970.
- 35 On 31 December a sports club's subscriptions account showed the following.

	\$
1 January debit balance	500
subscriptions received in year	6000

Subscriptions due but unpaid on 31 December were \$800.

What 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
- 36 Lee's capital at the start of the year was \$200 000. At the end of the same year his capital was \$220 000. His net profit was \$60 000.

What were his drawings?

- A** \$20 000      **B** \$40 000      **C** \$60 000      **D** \$80 000

- 37** A company was formed on 1 January with an authorised capital of 10 million shares of \$0.50 each.

On that date six million shares were issued and fully paid. On 1 March another one million shares were issued and \$0.30 per share called up.

What is the issued share capital of the company on 31 March?

- A** \$3.3 million
- B** \$3.5 million
- C** \$5.3 million
- D** \$7.0 million

- 38** A trader's sales are \$150 000, the cost of sales is \$90 000 and the expenses are \$45 000.

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

- A** 10%
- B** 30%
- C** 40%
- D** 70%

- 39** What is meant by the rate of stock turnover?

- A** average stock held during the financial year
- B** number of times the average stock is purchased
- C** number of times the average stock is sold
- D** value of the stock at the end of the year

- 40** A business prepares its accounts on the basis that it will continue to trade in the foreseeable future.

Which accounting principle is being applied?

- A** accounting entity
- B** accounting period
- C** going concern
- D** matching

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