
PRINCIPLES OF ACCOUNTS

7110/12

Paper 1 Multiple Choice

May/June 2017

1 hour

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, 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.

DO NOT WRITE IN ANY BARCODES.

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 Information and Communications Technology in book-keeping?
- A accuracy of calculations
 - B capacity of information storage
 - C cost of training staff
 - D speed of processing information

- 2 A trader made the following entries in his accounting records.

debit	credit
income statement	capital account

What did he record?

- A capital introduced
 - B capital withdrawn
 - C loss for the year
 - D profit for the year
- 3 A customer received a credit note.
- In which book of prime (original) entry would the customer record this document?
- A purchases journal
 - B purchases returns journal
 - C sales journal
 - D sales returns journal
- 4 Total goods returned to Wayne by credit customers in March 2017 had a list price of \$440. He allows a trade discount of 25% on all credit sales.
- He posts the total of his sales returns journal to the ledger at the end of each month.
- How much should be debited to Wayne's sales returns account on 31 March 2017?
- A \$110
 - B \$330
 - C \$440
 - D \$550

- 5 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, \$10000, 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
A	✓		✓			✓
B	✓			✓		✓
C		✓	✓		✓	
D		✓		✓	✓	

- 6 On 31 July the bank column in Jay's cash book showed he had \$312 in the bank. On the same date his bank statement showed a debit balance of \$53.

It was found that bank charges, \$47, had not been recorded in the cash book and a cheque, \$318, from a customer had not been credited by the bank.

What is the bank balance that should be shown in Jay's statement of financial position on 31 July?

- A** \$265 asset
- B** \$324 liability
- C** \$359 asset
- D** \$371 liability
- 7 Which accounts all have debit balances?
- A** capital, insurance, purchases
- B** drawings, sales, purchases returns
- C** inventory, motor vehicles, cash
- D** rent received, drawings, wages

- 8 Sukesh's account in the books of Jack showed the following.

Sukesh account

date		debit \$	credit \$	balance \$
May 1	balance			450 dr
4	sales	200		650 dr
8	bank		432	218 dr
8	discount		18	200 dr

Which statements about the transactions on 8 May are correct?

- 1 Jack made a payment to Sukesh.
- 2 Jack received a payment from Sukesh.
- 3 Sukesh allowed a discount to Jack.
- 4 Sukesh received a discount from Jack.

- A** 1 and 3 **B** 1 and 4 **C** 2 and 3 **D** 2 and 4

- 9 Which is an error of omission?

- A** No entries have been made for the purchase of stationery by cheque.
- B** Purchase of stationery has been entered only in the cash book.
- C** Purchase of stationery has been entered only in the stationery account.
- D** The stationery account has been omitted from the trial balance.

- 10 Maria started a business on 1 May 2016. The monthly rates on her business premises are \$100. During the year ended 30 April 2017 she paid rates of \$1300.

Which journal entry will Maria make on 30 April 2017 to transfer the rates to the income statement?

		debit \$	credit \$
A	income statement rates	1200	1200
B	income statement rates	1300	1300
C	rates income statement	1200	1200
D	rates income statement	1300	1300

11 Liam rents premises from Gavin. In March Liam paid the rent in advance for April and May.

How would the balance on 1 April appear in their ledgers?

	Liam's ledger rent payable account	Gavin's ledger rent receivable account
A	as a credit balance	as a credit balance
B	as a credit balance	as a debit balance
C	as a debit balance	as a credit balance
D	as a debit balance	as a debit balance

12 An item of capital expenditure has been incorrectly treated as revenue expenditure.

What is the effect of this error?

	assets	profit for the year
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

13 Which cost would **not** be depreciated?

- A** improvement of non-current assets
- B** installation of non-current assets
- C** purchase of non-current assets
- D** repair of non-current assets

14 The following account appeared in a trader's ledger.

Provision for depreciation of machinery account			
	\$		\$
31 Dec 2015 balance c/d	<u>3000</u>	31 Dec 2015 income statement	<u>3000</u>
	<u>3000</u>		<u>3000</u>
31 Dec 2016 balance c/d	5100	1 Jan 2016 balance b/d	3000
	_____	31 Dec 2016 income statement	<u>2100</u>
	<u>5100</u>		<u>5100</u>
		1 Jan 2017 balance b/d	5100

There were no sales or purchases of machinery during the two year period.

What does the \$5100 on 1 January 2017 represent?

- A accumulated depreciation of machinery using the diminishing (reducing) balance method
- B accumulated depreciation of machinery using the straight-line method
- C net book value of machinery using the diminishing (reducing) balance method
- D net book value of machinery using the straight-line method

15 The totals of a trial balance did not agree and a suspense account was opened. It was later found that the total of the discount allowed column in the cash book, \$100, had been credited to the discount allowed account.

Which journal entry corrects this error?

		debit \$	credit \$
A	discount allowed suspense	100	100
B	discount allowed suspense	200	200
C	suspense discount allowed	100	100
D	suspense discount allowed	200	200

- 16 A trader calculated her draft profit for the year at \$28 400.

She later discovered the following errors.

A prepayment of rent payable was understated by \$1000.

Closing inventory was understated by \$1500.

What was the correct profit for the year?

- A \$25 900 B \$27 900 C \$28 900 D \$30 900

- 17 A business has two departments, X and Y. The total revenue was \$120 000 of which 60% related to department X. The total cost of sales was \$90 000 of which 50% related to department X.

What was the gross profit of department Y?

- A \$3000 B \$15 000 C \$18 000 D \$27 000

- 18 Alex purchased goods for resale costing \$1000 to which she would normally apply a 25% mark-up. These goods remained unsold at the financial year end as they were found to be damaged. Alex estimated that they could be sold for \$600.

At which value should these goods be recorded in the year end financial statements?

- A \$400 B \$600 C \$750 D \$1250

- 19 On 1 April a business had a working capital of \$6000. On 2 April \$1150 was received from credit customers in settlement of debts of \$1200. On the same day damaged inventory costing \$200 was written off.

What was the working capital at close of business on 2 April?

- A \$4600 B \$5750 C \$6950 D \$7150

- 20 Pooja owns a hair salon. She lives in a flat above the salon. The business pays rent for the whole building. No adjustment has been made in the financial statements for the rent for the flat.

What is the effect of **omitting** this adjustment?

	profit for the year	capital employed
A	overstated	no effect
B	overstated	understated
C	understated	no effect
D	understated	overstated

- 21** Ben and Joe decide to form a partnership. Ben is to invest \$50 000 in the business and Joe \$10 000.

Ben wants the partnership agreement to reflect the differences in the amounts invested by the partners.

What should Ben insist is included in the partnership agreement?

- A** interest on capital
 - B** interest on drawings
 - C** interest on partner's loan
 - D** salary for extra responsibilities
- 22** A sports club was formed on 1 January 2016.
- Which amount will appear for subscriptions in the income and expenditure account for the year ended 31 December 2016?
- A** total subscriptions received during the year
 - B** total subscriptions received less amounts owing plus amounts paid in advance
 - C** total subscriptions received plus amounts owing less amounts paid in advance
 - D** total subscriptions received plus amounts owing
- 23** The financial year of a club ends on 30 April. During the year ended 30 April 2017, the club received an interest-free loan from a member.
- In which of the club's financial statements will this appear?
- A** income and expenditure account and statement of financial position
 - B** receipts and payments account and income and expenditure account
 - C** receipts and payments account and statement of financial position
 - D** statement of financial position only
- 24** How can profit for the year be calculated?
- A** closing capital + opening capital + drawings
 - B** closing capital + opening capital – drawings
 - C** closing capital – opening capital + drawings
 - D** closing capital – opening capital – drawings

25 Abdul does not keep a full set of books but was able to provide the following information.

	\$
opening inventory	5 000
closing inventory	7 000
purchases	58 000

Abdul applies a mark-up of 20% to obtain the selling price of goods.

What were Abdul's sales for the year?

- A** \$67 200 **B** \$70 000 **C** \$72 000 **D** \$75 000

26 What are the main features of debentures?

	return received	rate of return	voting rights
A	dividend	fixed rate	no
B	dividend	varies with profit	yes
C	interest	fixed rate	no
D	interest	varies with profit	yes

27 Which items are shown in a statement of changes in equity?

	changes in share capital	changes in reserves	changes in long term loans and debentures
A	✓	✓	✓
B	✓	✓	x
C	✓	x	x
D	x	x	✓

28 Which document is used in the calculation of gross pay?

- A** payroll register
B payslip
C time sheet
D wages sheet

29 A business provided the following information.

	\$
tangible non-current assets	15 000
intangible non-current assets	25 000
current assets	35 000
current liabilities	10 000

What was the working capital ratio (current ratio)?

- A** 1.5:1 **B** 2.5:1 **C** 3.5:1 **D** 7.5:1

30 Mario has decided that all items purchased by his business should be recorded at the amount he actually paid for them.

Which accounting principle is Mario applying?

- A** accounting entity
B consistency
C going concern
D historical cost

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