

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level
PRINCIPLES OF ACCOUNTS
PAPER 1 Multiple Choice

7110/1

MAY/JUNE SESSION 2002

1 hour 15 minutes

Additional materials:

Multiple Choice answer sheet

Soft clean eraser

Soft pencil (type B or HB is recommended)

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty** questions in 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 very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

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 question paper consists of 11 printed pages and 1 blank page.



- 1 A business bought a computer for the office and paid by cheque. How will the business record the transaction?

	debit	credit
A	Bank account	Office Equipment account
B	Office Equipment account	Bank account
C	Bank account	Purchases account
D	Purchases account	Bank account

- 2 X buys goods on credit from Y.

What is the name for the document used by X to settle the liability to Y?

- A** cheque
B credit note
C receipt
D statement of account
- 3 In which book of account is cash discount received first recorded?
- A** cash book
B purchases ledger
C sales journal
D sales ledger
- 4 X sells goods with a list price of \$5000 to a credit customer. The customer is allowed a 5% trade discount and a further 2½% cash discount if payment is within 20 days of the invoice date.

What amount should be credited to the Sales account of X?

- A** \$4631 **B** \$4750 **C** \$4875 **D** \$5000

- 5 A bank reconciliation statement starts with the cash book balance.

How are uncredited deposits and unpresented cheques shown in the bank reconciliation statement?

	uncredited deposits	unpresented cheques
A	added	added
B	added	deducted
C	deducted	added
D	deducted	deducted

- 6 Which should be recorded in the general journal?

- A** debt written off as bad
- B** goods returned to supplier
- C** goods sold for cash
- D** trade discount allowed to customer

- 7 Which account could have a credit balance?

- A** bank
- B** carriage inwards
- C** carriage outwards
- D** cash

- 8 Y's account appears in the ledger of X as follows.

\$			\$		
Jan 1	Balance b/d	100	Jan 10	Bank	100
Jan 20	Sales	<u>400</u>	Jan 31	Balance c/d	<u>400</u>
		<u>500</u>			<u>500</u>

Which statement is true?

- A** On 1 January Y was owed \$100 by X.
- B** On 10 January Y paid \$100 into the bank.
- C** On 20 January Y supplied goods \$400 to X.
- D** On 31 January Y was a debtor of X for \$400.

- 9 A bookkeeper recorded the receipt of a cheque for \$245 in the cash book as \$425.

What kind of error was this?

- A commission
 - B omission
 - C original entry
 - D principle
- 10 A business received \$123 from X. The entry in the cash book was correct but it was debited as \$132 in X's account.

What is the difference between the totals of the trial balance?

- A \$9
 - B \$18
 - C \$255
 - D \$264
- 11 Which item is capital income?
- A cash received from the sale of office equipment
 - B cheque received from the sale of stock
 - C discounts received from trade creditors
 - D rent received from tenants

- 12 A builder's charges for work on XY Company's offices are as follows.

	\$
repairing ceiling in existing office	2 000
converting disused hut into office	7 000
repainting walls in existing office	3 000

How much should be entered in the XY Company's Profit and Loss Account?

- A \$3000
- B \$5000
- C \$7000
- D \$12 000

- 13 A business buys a delivery van for \$12 000. Its estimated useful life is four years, after which its scrap value is estimated to be \$4000. Depreciation is charged on the straight line basis.

What is the annual amount of depreciation?

- A** \$1000 **B** \$2000 **C** \$3000 **D** \$8000

- 14 Two companies each purchase a car for \$10 000 at the beginning of year 1. Company G uses the straight line method of depreciation at a rate of 15 % per annum, while Company H uses the reducing balance method at a rate of 20 % per annum.

What will be the difference in the depreciation charge between the two companies for year 2?

- A** \$100 greater for G
B \$100 greater for H
C \$500 greater for G
D \$500 greater for H

- 15 At 31 December a firm's Balance Sheet shows

	\$
Machinery at cost	52 000
Provision for Depreciation of Machinery	23 000

Depreciation for the year is calculated at 20% on cost.

After the Balance Sheet is prepared it is found that the machinery repairs costing \$2000 have been debited to the Machinery account.

What should be the corrected balance on the Provision for the Depreciation of Machinery account?

- A** \$21 000 **B** \$22 600 **C** \$23 400 **D** \$25 000

- 16 Susan owes a business \$100. The business is not sure if Susan will pay.

Which ledger entries should the business make?

	debit	credit
A	Bad Debts account	Susan's account
B	Profit and Loss Account	Bad Debts account
C	Profit and Loss Account	Provision for Doubtful Debts account
D	Provision for Doubtful Debts account	Susan's account

- 17 A trader provides the following information relating to insurance.

	\$
prepayment brought forward at 1 January 2001	600
cheques paid for insurance in the year 2001	7 200
insurance prepaid at 31 December 2001	950

Which amount should be shown in the trader's Profit and Loss Account for insurance for 2001?

- A** \$6250 **B** \$6850 **C** \$7550 **D** \$7800

- 18 The difference on a trial balance is entered in a Suspense account. It is later found that the purchases journal has been undercast.

Which ledger entries are required to correct the error?

	debit	credit
A	Creditor's account	Purchases account
B	Purchases account	Creditor's account
C	Purchases account	Suspense account
D	Suspense account	Purchases account

- 19 A trader's net profit was calculated at \$27 000. Later it was found that depreciation of \$2000 had been omitted and that the rent payable included a prepayment of \$750.

What is the correct net profit?

- A** \$24 250 **B** \$25 750 **C** \$28 250 **D** \$29 750

- 20 A cheque received by X from a debtor is later dishonoured. How is this shown in X's control accounts?

- A** credit in Purchases Ledger Control account
B credit in Sales Ledger Control account
C debit in Purchases Ledger Control account
D debit in Sales Ledger Control account

- 21 Entries in control accounts are made from
- A bank statements.
 - B books of original entry.
 - C ledger accounts.
 - D sales invoices.
- 22 X pays \$20 000 for the purchase of a business. The purchase price includes equipment worth \$9000 and stock valued at \$4000. X deposits \$2000 of his own money into the business bank account.
- What is X's capital?
- A \$13 000 B \$15 000 C \$20 000 D \$22 000
- 23 Which error may cause an increase in the gross profit?
- A closing stock under valued
 - B opening stock omitted from the cost of sales
 - C purchases recorded before deduction of trade discount
 - D sales invoices omitted from the sales journal
- 24 Which is a current asset?
- A purchase ledger balances
 - B rent received in advance
 - C sales ledger balances
 - D wages accrued
- 25 How are fixed assets normally shown in a Balance Sheet?
- A at net book value
 - B at net realisable value
 - C at replacement cost
 - D at scrap value
- 26 A business has working capital of \$6000 at 31 January. On 2 February debtors pay \$1150 in full settlement of debts \$1200 and damaged stock costing \$200 is written off.
- What is the working capital at close of business on 2 February?
- A \$4600 B \$5750 C \$6950 D \$7150

27 In the absence of a partnership agreement how should profits be shared?

- A equally
- B equally after interest on partners' capitals
- C equally after interest on partners' loans
- D equally after interest on partners' capitals and partners' salaries

28 The owner of a business takes goods costing \$6000 from his shop for his own use.

What are the book keeping entries?

	debit		credit	
A	Drawings account	\$6000	Purchases account	\$6000
B	Drawings account	\$6000	Stock account	\$6000
C	Purchases account	\$6000	Drawings account	\$6000
D	Stock account	\$6000	Drawings account	\$6000

29 A trader accepts \$500 from a debtor in full settlement of a debt of \$650. What effect will this have on the owner's capital?

- A increase it by \$150
- B decrease it by \$150
- C increase it by \$500
- D decrease it by \$650

30 A partner has to pay interest on drawings.

What is the entry 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

31 How will interest on capital and share of profit appear in a partner's current account?

	debit	credit
A	interest on capital share of profit	—
B	interest on capital	share of profit
C	share of profit	interest on capital
D	—	interest on capital share of profit

32 The financial year of a drama club ends on 31 December. The club rents a theatre at an annual rent of \$3600. On 1 January 2001 rent accrued amounted to \$300. During 2001 a total of \$4500 rent was paid.

How much will be shown for rent in the club's Receipts and Payments Account for the year ended 31 December 2001?

A \$3600 **B** \$3900 **C** \$4200 **D** \$4500

33 A sports club includes the purchase of a new rowing machine costing \$5000 in its Income and Expenditure account.

What is the effect of this error?

	fixed assets	surplus of income over expenditure
A	decreased by \$5000	decreased by \$5000
B	decreased by \$5000	no effect
C	increased by \$5000	increased by \$5000
D	no effect	decreased by \$5000

34 The books of a business show the following.

	\$
Debtors at 1 January	10 000
Debtors at 31 December	12 000
For the year ended 31 December:	
Receipts from debtors	80 000
Discounts allowed	2 000
Cash sales	20 000

What are the total sales for the year?

- A** \$82 000 **B** \$84 000 **C** \$100 000 **D** \$104 000

35 What is a limited company's authorised capital?

- A** called up share capital
B capital the company is allowed to raise
C issued capital plus loan capital
D paid up share capital

36 What does prime cost in a Manufacturing Account include?

- A** carriage inwards on raw materials
B carriage outwards
C factory power
D factory rent and rates

37 A manufacturing firm's costs were as follows.

	\$
raw materials	55 000
direct labour	86 400
factory overheads	122 000
depreciation of plant	6 400
administration costs	8 800
selling and distribution	12 000

There was closing work-in-progress of \$12 400.

What was the factory cost of production?

- A** \$257 400 **B** \$263 400 **C** \$269 800 **D** \$278 200

38 Which ratio can be calculated from the details in a sole trader's Balance Sheet?

- A** expenses to gross profit
B net profit to capital
C net profit to sales
D rate of stock turnover

39 X had a net profit of \$40 000, which was 20% of sales. The cost of goods sold was 75% of sales.

What was X's gross profit?

- A** \$50 000 **B** \$120 000 **C** \$150 000 **D** \$200 000

40 Which accounting concept is a business following when it includes a provision for doubtful debts in its annual accounts?

- A** consistency
B matching
C prudence
D realisation

