



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

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**PRINCIPLES OF ACCOUNTS**

**7110/01**

Paper 1 Multiple Choice

**May/June 2008**

**1 hour**

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



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**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.

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This document consists of **9** printed pages and **3** blank pages.



1 How can the owner of a business make use of annual financial statements?

- A to calculate the cash drawings for the year
- B to determine the amount due to creditors
- C to measure the change in the bank balance
- D to monitor the progress of the business

2 Which increases owner's capital?

- A bank loan extended from five to ten years
- B purchase of machinery by cheque
- C purchase of stock on credit
- D transfer of vehicle to business from private use

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 Which statement about a debit note is correct?

- A It is sent to a customer to request payment of an account.
- B It is sent to a customer when his order cannot be supplied in full.
- C It is sent to a supplier to order additional goods.
- D It is sent to a supplier when goods are received damaged.

- 5 Omar has received the following business documents from Ali, a supplier.

		\$
October 5	invoice	650
October 10	invoice	120
October 12	credit note	150
October 22	invoice	230
November 4	invoice	790

There was no opening balance on Ali's account and Omar made no payments to Ali during October.

What was the balance on the supplier's statement of account at 31 October?

- A** \$850                      **B** \$1150                      **C** \$1640                      **D** \$1940
- 6 Which is both a book of prime entry and a ledger account?
- A** cash book  
**B** general journal  
**C** purchases journal  
**D** sales journal
- 7 A trader posts the total of her purchases returns journal to the ledger at the end of each month.

On 31 January 2008 the purchases returns journal showed the following totals.

	gross	trade discount	net
2008	\$	\$	\$
Jan 31 totals for month	1200	240	960

Which entry should be made in the purchases returns account on 31 January 2008?

- A** credit \$960  
**B** credit \$1200  
**C** debit \$960  
**D** debit \$1200

- 8 A bank statement shows a balance at bank of \$3200. The amount of unrepresented cheques is \$1200 and the amount of uncredited deposits is \$700.

What is the debit balance in the cash book?

- A** \$1300      **B** \$2700      **C** \$3700      **D** \$5100

- 9 A customer owes Tan \$130 which he pays by cheque. The amount is credited to the bank account and debited to the customer's account in the sales ledger. These entries are wrong.

Which journal entry will correct this error?

		dr \$	cr \$
<b>A</b>	bank customer	130	130
<b>B</b>	customer bank	130	130
<b>C</b>	bank customer	260	260
<b>D</b>	customer bank	260	260

- 10 A trader prepares a ledger account using the running balance method.

Which statement is correct?

- A** The balance is shown after each transaction.  
**B** The balance is shown only after a credit transaction.  
**C** The balance is shown only after a debit transaction.  
**D** The balance is shown only at the month end.

- 11 Joe is owed \$500 by a customer.

How does this appear in Joe's books?

	balance in customer's account		balance sheet	
	dr	cr	current asset	current liability
<b>A</b>	✓			✓
<b>B</b>		✓		✓
<b>C</b>	✓		✓	
<b>D</b>		✓	✓	

12 What is a trial balance?

- A a list of balances on the business's books on a certain date
- B a list of the assets, liabilities and capital of the business on a certain date
- C a summary of all the business's transactions for the year
- D a summary of the financial position of the business at the year end

13 A trial balance fails to balance.

Which error caused this?

- A A cheque for \$300 received from M. Green was entered on the credit side of the cash book and on the debit side of M. Green's account.
- B Machinery repairs costing \$500 were entered in the machinery account.
- C Purchases of goods on credit from J. Black, \$750, were entered in J. Blackshaw's account.
- D The sales journal was overcast by \$1000.

14 A trader provides the following information relating to insurance.

	\$
prepayment brought forward at 1 January 2007	600
cheque paid on 1 April 2007 for one year's insurance	3600

Which amount should be shown in the trader's profit and loss account for insurance for the year ended 31 December 2007?

- A \$2700      B \$3000      C \$3300      D \$3600

15 A motor vehicle cost \$8000. The price included \$36 for petrol. The total payment of \$8000 was debited in the motor vehicle account.

What is the effect on the profit and loss account and balance sheet?

	profit and loss account	balance sheet
A	profit overstated by \$36	fixed assets overstated by \$36
B	profit overstated by \$36	fixed assets understated by \$36
C	profit understated by \$36	fixed assets overstated by \$36
D	profit understated by \$36	fixed assets understated by \$36

- 16** A manufacturer buys a machine for \$20 000. Its estimated life is five years with a scrap value of \$10 000. Depreciation is charged on the straight line method.

What is the percentage rate of depreciation on an annual basis?

- A** 5%                      **B** 10%                      **C** 20%                      **D** 50%

- 17** A trial balance failed to agree and a suspense account was opened.

It was found that rent received of \$100 had been debited to the rent paid account.

Which entries are required to correct this error?

	rent received	\$	rent paid	\$	suspense	\$
<b>A</b>	debit	100	debit	100	credit	200
<b>B</b>	debit	100	credit	200	debit	100
<b>C</b>	credit	100	credit	100	debit	200
<b>D</b>	credit	200	debit	100	debit	100

- 18** What does a debit balance on a sales ledger control account represent?

- A** amount owed by customers  
**B** amount owed to customers  
**C** total credit sales  
**D** total sales

- 19** A trader provided the following information.

	1 January	31 December
net assets	\$105 800	\$105 400

Drawings during the year were \$12 000.

What was the net profit or net loss for the year?

- A** \$11 600 loss  
**B** \$11 600 profit  
**C** \$12 400 loss  
**D** \$12 400 profit

- 20** A business has debtors of \$55 000. This includes Harry who owes \$5000. Harry's debt is to be written off as a bad debt. A provision for doubtful debts is then to be created at 4 % of the remaining debtors' balances.

What will be the figure for net debtors in the balance sheet?

- A** \$47 800      **B** \$48 000      **C** \$50 000      **D** \$52 800

- 21** A trader took goods, at cost price, for her own use.

How is this recorded in the books of the business?

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

- 22** William is a sole trader. He wants to expand his business and invites Peter to become a partner.

What is a disadvantage to William of forming a partnership?

- A** The losses of the business will be shared.  
**B** The profits of the business will be shared.  
**C** The responsibility for the debts of the business will be shared.  
**D** The responsibility for managing the business will be shared.

- 23** Accumulated fund appears in the accounts of a club.

What is the corresponding term in the accounts of a business?

- A** balance sheet  
**B** bank account  
**C** capital account  
**D** net profit

- 24 A trader did not keep a complete set of accounts. He provided the following information for the year.

	\$
opening trade creditors	5 000
closing trade creditors	9 800
payments to trade creditors	35 000
cash discounts received	3 000

What were the purchases for the year?

- A** \$30 200      **B** \$36 800      **C** \$39 800      **D** \$42 800
- 25 At the end of its first year of trading, Sinola Ltd transferred \$10 000 to a general reserve. In which of the company's final accounts will this \$10 000 be shown?

	profit and loss account	profit and loss appropriation account	balance sheet
<b>A</b>	no	no	yes
<b>B</b>	no	yes	yes
<b>C</b>	yes	no	no
<b>D</b>	yes	yes	no

- 26 Which is a factory overhead?
- A** carriage on raw materials  
**B** cost of raw materials  
**C** production supervisor's wages  
**D** wages of machine operators
- 27 Eastman employs Freda as an office cleaner. In April, the amount of tax Freda has to pay increases.

Which does this affect?

- A** Eastman's gross profit  
**B** Eastman's net profit  
**C** Freda's gross pay  
**D** Freda's net pay



28 A trader's closing stock was valued at selling price instead of the lower cost price figure.

What effect will this have on the trader's current assets and capital?

	current assets	capital
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

29 A very large company has prepared final accounts without including very small items of furniture in its fixed assets.

Which accounting principle has the company applied?

- A** accounting entity
- B** dual aspect
- C** going concern
- D** materiality

30 What is the meaning of the accounting principle of prudence?

- A** Accounts should only include items with a monetary value.
- B** Accounts should provide for all probable losses and should not anticipate profits.
- C** Accounts should provide for all the accruals and prepayments.
- D** Accounts should use the same methods from year to year.

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