



PRINCIPLES OF ACCOUNTS

7110/11

Paper 1 Multiple Choice

October/November 2018

1 hour

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

* 2 6 0 7 7 8 7 7 0 3 *

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 **9** printed pages and **3** blank pages.

1 Which statements about book-keeping and accounting are correct?

- 1 Accounting is performed periodically rather than daily.
- 2 Accounting relies on having accurate book-keeping records.
- 3 Book-keeping includes the preparation of financial statements.
- 4 Book-keeping involves the recording of financial transactions.

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

2 A trader invested \$4000 into the business. \$2000 was used to pay a credit supplier. The rest of the money was paid into the business bank account.

What changes would take place within the accounting equation?

	assets	owner's equity (capital)	liabilities
A	-\$2000	-\$4000	+\$2000
B	+\$2000	+\$2000	no effect
C	+\$2000	+\$4000	-\$2000
D	+\$4000	+\$4000	no effect

3 Wilma bought 55 items from Margot at a list price of \$40 each, subject to a 15% trade discount.

Wilma later returned 25 items as they were faulty.

Which document did Margot issue to Wilma for the returned items?

- A** credit note for \$850
- B** credit note for \$1000
- C** debit note for \$850
- D** debit note for \$1000

4 The bank agreed to allow Dan an overdraft with a limit of \$500.

What did this mean?

- A** A sum of \$500 would be transferred into Dan's account by the bank.
- B** All cheques issued by Dan would be paid by the bank.
- C** Cheques issued by Dan would be paid by the bank provided the account was not overdrawn by more than \$500.
- D** Only cheques issued by Dan for less than \$500 would be paid by the bank if there was not enough money in the account.

- 5 On 30 September 2018, Ahmed's bank statement showed a credit balance of \$2500. Ahmed found that a cheque issued for \$90 and a deposit of \$500 had not been included on the bank statement.

What was the balance at bank shown in Ahmed's cash book on 30 September 2018?

- A \$1910 B \$2090 C \$2910 D \$3090

- 6 Which statement about a debit balance brought down on a ledger account is **not** correct?

- A It may represent a loss.
B It may represent a prepaid expense.
C It may represent an accrued expense.
D It may represent an asset.

- 7 On 1 September 2018 Chan owed Tan \$570. During September 2018 the following transactions took place.

Tan sold goods, \$380, on credit to Chan

Chan returned goods, \$150, to Tan

Chan paid Tan \$500 by cheque

What was the balance brought down on Chan's account in Tan's ledger on 1 October 2018?

- A \$300 credit
B \$300 debit
C \$840 credit
D \$840 debit

- 8 Which name is given to a statement of ledger balances on a particular date?

- A bank reconciliation statement
B general ledger
C statement of financial position
D trial balance

- 9 The balance of which account will appear in the debit column of a trial balance?

- A carriage inwards
B discounts received
C provision for doubtful debts
D purchases returns

10 Ella rents business premises. She owed rent at both the start and the end of the financial year.

How can rent payable for the year be calculated?

- A rent paid – amount owing at start of year
- B rent paid – amount owing at start of year + amount owing at end of year
- C rent paid + amount owing at end of year
- D rent paid + amount owing at start of year – amount owing at end of year

11 Bashir maintains a provision for doubtful debts of 3% of the trade receivables at the end of the year.

On 31 August 2017 trade receivables amounted to \$70 000.

On 31 August 2018 trade receivables amounted to \$73 000.

Which double entry should Bashir make on 31 August 2018?

	debit	\$	credit	\$
A	income statement	90	provision for doubtful debts account	90
B	income statement	2100	provision for doubtful debts account	2100
C	provision for doubtful debts account	90	income statement	90
D	provision for doubtful debts account	2100	income statement	2100

12 Leroy has an engineering business. On 31 May he received an invoice from AB Machines showing the following:

cost of replacement parts for machine

cost of repairs to machine

cost of machine

cost of installation of machine

Which costs are capital expenditure in Leroy's books?

- A machine, installation
- B machine only
- C replacement parts, machine
- D replacement parts, repairs, installation

13 Why is depreciation charged on a non-current asset?

- A to accumulate a fund of money to replace the asset
- B to charge the cost of using the asset against income
- C to determine the market value of the asset
- D to ensure that profits are not understated

14 Chris purchased a machine costing \$15 000 on 1 January 2016. He depreciates the machine using the diminishing (reducing) balance method at 20% per annum.

Which journal entry did Chris make on 31 December 2017?

		debit \$	credit \$
A	income statement provision for depreciation of machinery	2400	2400
B	income statement provision for depreciation of machinery	3000	3000
C	provision for depreciation of machinery income statement	2400	2400
D	provision for depreciation of machinery income statement	3000	3000

15 Hossam took out a 5-year bank loan on 1 January 2018. All of the money borrowed was used to purchase a delivery van.

Under which heading will these items be shown in Hossam's statement of financial position on 31 March 2018?

	bank loan	delivery van
A	current liability	current asset
B	current liability	non-current asset
C	non-current liability	current asset
D	non-current liability	non-current asset

16 Beth provided the following information at 31 December 2017.

	\$
capital 1 January 2017	26 000
profit for the year	3 600
drawings	2 500
long-term loan	8 000

Beth paid a personal cheque to the business on 30 December 2017 amounting to \$5000.

What was the capital employed on 31 December 2017?

- A** \$24 100 **B** \$32 100 **C** \$35 100 **D** \$40 100

17 Which businesses do **not** prepare a trading account section of an income statement?

- 1 furniture store
- 2 gym
- 3 newsagent
- 4 toy shop
- 5 window-cleaner

- A** 1 and 2 **B** 2 and 5 **C** 3 and 4 **D** 3 and 5

18 The following entries appeared in a trader's ledger.

Dr.	drawings account	Cr.
	\$	\$
purchases	200	

Dr.	purchases account	Cr.
	\$	\$
		drawings
		200

Which transaction has taken place?

- A** Goods purchased for resale have been paid for from the owner's private bank account.
B The owner has purchased goods for cash from the business.
C The owner has taken goods for his own use which the business had purchased for resale.
D The owner has taken cash out of the business for his own use.

19 X and Y are sole traders. They decided to form a partnership.

Which group contains only **disadvantages** of forming a partnership?

- A disagreements may occur between the partners, profits are shared
- B disagreements may occur between the partners, risks are shared
- C losses are shared, responsibilities are shared
- D profits are shared, risks are shared

20 Which may be included in an income and expenditure account?

- A bad debts
- B opening balance on the bank account
- C purchase of equipment
- D subscriptions received for the following financial year

21 At the end of the financial year a sports club owed rent for the clubhouse. Some members had paid their subscriptions in advance for the following year.

How would these items be recorded in the club's statement of financial position?

	rent owing	subscriptions paid in advance
A	current asset	current asset
B	current asset	current liability
C	current liability	current asset
D	current liability	current liability

22 Tariq provided the following information.

	31 August 2017 \$	31 August 2018 \$
non-current assets	60 000	70 000
current assets	20 000	25 000
current liabilities	15 000	19 000

Tariq's drawings for the year ended 31 August 2018 were \$5000.

What was the profit for the year ended 31 August 2018?

- A** \$6000
- B** \$11 000
- C** \$14 000
- D** \$16 000

23 A business provided the following information.

opening inventory	\$8000
closing inventory	\$10 000
rate of turnover of inventory	12 times
mark-up	50%

What was the revenue?

- A** \$54 000 **B** \$108 000 **C** \$162 000 **D** \$180 000

24 Which group contains only indirect costs?

- A** carriage inwards, factory rent, wages of factory supervisors
B carriage inwards, raw materials, wages of machine operators
C depreciation of machinery, factory rent, wages of factory supervisors
D depreciation of machinery, raw materials, wages of machine operators

25 A manufacturing business provided the following information.

	\$
prime cost	250 000
factory overhead expenses	50 000
office and selling expenses	25 000
work-in-progress at 1 January	1 500
work-in-progress at 31 December	2 500

What was the production cost of goods completed?

- A** \$249 000 **B** \$299 000 **C** \$301 000 **D** \$324 000

26 Which items are statutory deductions from an employee's gross pay?

- A** donation to charity and club subscription
B donation to charity and social security contribution
C income tax and club subscription
D income tax and social security contribution

- 27 Karim works 40 hours a week at a rate of \$5 per hour and any overtime is paid at time and a half. He is paid monthly in arrears.

He worked 12 hours, 16 hours and 18 hours overtime in May, June and July respectively.

How much was Karim paid in June? (Assume 4 weeks in a month)

- A \$800 B \$890 C \$920 D \$935
- 28 What is included in the working capital ratio (current ratio), but **not** the quick ratio (acid test ratio)?
- A cash
- B inventory
- C other receivables
- D trade payables
- 29 Kim has been in business for many years and expects this will continue.

She provided the following information.

	\$
premises	
at cost	50 000
at market value	65 000
trade receivables	
at book value	14 000

Trade receivables included a debt of \$2000 which was unlikely to be paid.

At which total value were these assets recorded in Kim's statement of financial position?

- A \$62 000 B \$64 000 C \$77 000 D \$79 000
- 30 What is the purpose of international accounting standards?
- A to allow users to rely on the information in financial statements being error-free
- B to enable accountants to get work easily anywhere in the world
- C to enable non-accountants to understand all the information in financial statements
- D to make it easier to compare financial statements prepared in different countries

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