



**Cambridge International Examinations**  
Cambridge Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/11**

Paper 1 Multiple Choice

**May/June 2014**

**1 hour**

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

\* 0 9 5 3 1 3 0 0 6 7 \*

**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 Why does a trader prepare a statement of financial position?
- A to calculate the profit for the year
  - B to check if assets equal capital plus liabilities
  - C to show the transactions which took place during the year
  - D to summarise what the business owns and what it owes
- 2 Which statement about a computerised accounting system is correct?
- A The general ledger does not include non-current asset accounts.
  - B The income statement always shows a profit.
  - C The statement of financial position does not include non-current asset accounts.
  - D The trial balance always balances.
- 3 Which is a liability of a business?
- A amount owing by credit customers
  - B amount owing to credit suppliers
  - C long term loan to employee
  - D property tax paid in advance
- 4 A business bought a computer for office use and paid by cheque.

How will the business record the transaction?

	account to be debited	account to be credited
<b>A</b>	bank	office equipment
<b>B</b>	office equipment	bank
<b>C</b>	bank	purchases
<b>D</b>	purchases	bank

- 5 Abdul sold goods on credit to Zaffar.

Which entries will Zaffar make in his ledgers?

	sales ledger		purchases ledger		general ledger	
	debit	credit	debit	credit	debit	credit
<b>A</b>	✓					✓
<b>B</b>		✓			✓	
<b>C</b>			✓			✓
<b>D</b>				✓	✓	

- 6 A business provided the following information for March.

	\$
credit notes issued	2 000
debit notes received	1 000
payments received from credit customers	93 000

The total owed by credit customers on 31 March was the same as on 1 March.

What was the value of the invoices issued in March?

- A** \$90 000      **B** \$91 000      **C** \$95 000      **D** \$96 000
- 7 Fatima returned goods to Youseff.

How would this be recorded by Youseff?

	book of prime (original) entry	ledger
<b>A</b>	purchases returns journal	credit Fatima account
<b>B</b>	purchases returns journal	debit Fatima account
<b>C</b>	sales returns journal	credit Fatima account
<b>D</b>	sales returns journal	debit Fatima account

- 8 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
<b>A</b>	✓		✓			✓
<b>B</b>	✓			✓		✓
<b>C</b>		✓	✓		✓	
<b>D</b>		✓		✓	✓	

- 9 Ali allows Yasmin a trade discount of 20%. Yasmin returned goods to Ali with a list price of \$980.

How is this recorded in Ali's books?

	debit	\$	credit	\$
<b>A</b>	sales returns	784	Yasmin	784
<b>B</b>	sales returns	980	Yasmin	980
<b>C</b>	Yasmin	784	sales returns	784
<b>D</b>	Yasmin	980	sales returns	980

- 10 The total of the credit side of a trial balance was \$9000 more than the total of the debit side.

Which error has been made?

- A** A debit entry of \$4500 was incorrectly posted as a credit entry.  
**B** A debit entry of \$9000 was incorrectly posted as a credit entry.  
**C** A purchase of goods, \$9000, was completely omitted from the accounting records.  
**D** A purchase invoice for \$9000 was credited to Tyler's account instead of Taylor's account.
- 11 On 1 January the motor expenses account had a credit balance of \$135.  
 During the year payments of \$462 were made. On 31 December \$74 remained unpaid.  
 Which amount was transferred to the income statement on 31 December?  
**A** \$253      **B** \$401      **C** \$523      **D** \$671

- 12 Andrew issued an invoice to Edward for \$1000. After receiving 50% of the invoice value from Edward, Andrew decided to write off the amount outstanding.

Which entries would Andrew make to write off the amount outstanding?

	account to be debited	\$	account to be credited	\$
<b>A</b>	bad debts	500	Edward	500
<b>B</b>	bad debts	1000	Edward	1000
<b>C</b>	Edward	500	bad debts	500
<b>D</b>	Edward	1000	bad debts	1000

- 13 Motor vehicle repairs, \$2000, were debited to the motor vehicles account.

Motor vehicles are depreciated at 20% per annum on the balance on the account at the year end.

What is the effect of the error?

	effect on profit for the year		effect on motor vehicles in statement of financial position	
		\$		\$
<b>A</b>	overstated	1600	overstated	1600
<b>B</b>	overstated	2000	overstated	2000
<b>C</b>	understated	1600	understated	1600
<b>D</b>	understated	2000	understated	2000

- 14 Machinery is depreciated at 20% per annum using the diminishing (reducing) balance method.

A machine, cost \$20 000, is sold after two years at book value.

What was the sale price of the machine?

- A** \$7200      **B** \$12 000      **C** \$12 800      **D** \$16 000

15 Bola provided the following information about her delivery van.

	\$
cost	12 800
net book value at end of year 1	8 960
net book value at end of year 2	6 272

How did Bola depreciate her van?

	method	annual rate %
<b>A</b>	diminishing (reducing) balance	30
<b>B</b>	diminishing (reducing) balance	70
<b>C</b>	straight line	30
<b>D</b>	straight line	70

16 Tahir is preparing his purchases ledger control account.

From which book of prime (original) entry will he obtain information about contra entries?

- A** cash book
- B** general journal
- C** purchases journal
- D** sales journal

17 What is prepared to show the trading results for a financial year?

- A** capital account
- B** income statement
- C** statement of financial position
- D** trial balance

18 At the year end a business wrote off a bad debt.

What is the effect of this?

- A** capital reduced and current assets reduced
- B** capital reduced and non-current assets reduced
- C** current liabilities increased and current assets reduced
- D** current liabilities increased and non-current assets reduced

- 19 Which group contains **only** trading businesses?
- A** driving school, motor insurance agency, vehicle repair business
- B** driving school, motor insurance agency, petrol station
- C** motor parts shop, vehicle repair business, car dealership
- D** motor parts shop, petrol station, car dealership

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

How is this recorded?

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

- 21 X and Y are sole traders. They decide to form a partnership and agree to share profits and losses equally. Goodwill is valued as follows.

X's business	\$2000
Y's business	\$0

How is goodwill recorded in the ledger of the partnership?

	account(s) to be debited		account(s) to be credited	
		\$		\$
<b>A</b>	goodwill	2000	capital X	1000
			capital Y	1000
<b>B</b>	capital X	1000	goodwill	2000
	capital Y	1000		
<b>C</b>	capital X	2000	goodwill	2000
<b>D</b>	goodwill	2000	capital X	2000

- 22** The Allstars Sports Club was formed on 1 October 2012. Some members' subscriptions were still outstanding on 30 September 2013.

Where would these outstanding subscriptions appear?

	receipts and payments account	income and expenditure account	statement of financial position
<b>A</b>	✓	✓	✓
<b>B</b>		✓	✓
<b>C</b>	✓		✓
<b>D</b>	✓	✓	

- 23** A trader provided the following information.

		\$
1 April 2013	capital	25 000
31 March 2014	assets	75 000
	liabilities	36 500
	drawings during the year	7 500

What was the profit for the year ended 31 March 2014?

- A** \$6000      **B** \$13 500      **C** \$17 500      **D** \$21 000
- 24** On 1 January NH Limited was formed with the issue of 200 000 ordinary shares of \$0.50 each. During the first year it made a profit of \$21 000. A dividend of \$0.02 per share was paid and \$10 000 was transferred to general reserve.

What was the total of reserves on 31 December?

- A** \$7000      **B** \$9000      **C** \$17 000      **D** \$19 000
- 25** In which section of a manufacturing account would a royalty payment appear?
- A** direct expenses  
**B** direct labour  
**C** direct materials  
**D** factory overheads



- 26 Which items are statutory deductions from an employee's gross pay?
- A** donation to charity and social club membership  
**B** donation to charity and social security contributions  
**C** income tax and social club membership  
**D** income tax and social security contributions
- 27 Martin's revenue for the year was \$100 000 and his expenses were \$20 000. His profit for the year was 10% of revenue.

What was his gross profit?

- A** \$30 000      **B** \$70 000      **C** \$90 000      **D** \$110 000
- 28 What information is required to calculate the return on capital employed for a sole trader?
- A** gross profit, non-current liabilities, owner's capital  
**B** gross profit, non-current liabilities, working capital  
**C** profit for the year, non-current liabilities, owner's capital  
**D** profit for the year, non-current liabilities, working capital
- 29 Jai intends to continue trading for many years.

He provided the following information about his assets.

	\$
cash at bank	1 000
trade receivables	4 000
inventory – historical cost	6 000
inventory – market value	10 000
non-current assets – historical cost	52 000
non-current assets – market value	68 000

Which amount should be entered in the statement of financial position for the total assets?

- A** \$63 000      **B** \$67 000      **C** \$78 000      **D** \$83 000

- 30** What is the meaning of the money measurement principle?
- A** Assets are normally shown at cost price.
  - B** Only items with a monetary value are included in the accounts.
  - C** Profits are calculated after allowing for accruals and prepayments.
  - D** Profits are calculated on the basis of cash received less cash paid.



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