AN Date		
	OF CAMBRIDGE INTERNATIC eral Certificate of Education Or	
7110/01	ACCOUNTS	PRINCIPLES OF
October/November 2006	Choice	Paper 1 Multiple
1 hour 15 minutes		
a da di	Multiple Choice Answer Sheet Soft clean eraser Soft pencil (type B or HB is recomme	Additional Materials:

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

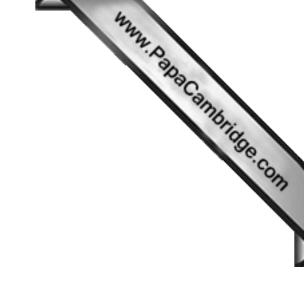
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **forty** 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.



- 1 Which statement is correct?
 - **A** An asset is always a credit entry.
 - **B** An expense is always a credit entry.
 - **C** An expense is always a debit entry.
 - **D** A liability is always a debit entry.
- 2 X receives a credit note from one of his suppliers.

How would X record this?

	account to be debited	account to be credited
Α	purchases	supplier
в	purchases returns	supplier
С	supplier	purchases
D	supplier	purchases returns

3 X purchases goods on credit from Y.

How will Y record this?

	book of prime entry	account to be debited	account to be credited
Α	purchases	purchases	Y
в	purchases	Y	purchases
С	sales	sales	Х
D	sales	Х	sales

4 A company purchased goods costing \$4000 and was allowed a trade discount of 10%.

A cash discount of $2\frac{1}{2}$ % is given for payment within 30 days. Payment was made within the 30 day period.

What was the amount paid?

A \$3500 **B** \$3510 **C** \$3600 **D** \$3900

www.papaCambridge.com Li, a trader, discovered an error in her accounting records. She made the following 5 general journal to correct this error.

2006		debit \$	credit \$
August 31	Stationery	20	
	Purchases		20

Which error made this entry necessary?

- Α goods purchased for re-sale had been credited to the stationery account
- goods purchased for re-sale had been debited to the stationery account В
- С stationery purchased for office use had been credited to the purchases account
- D stationery purchased for office use had been debited to the purchases account
- A business keeps a three column cash book. 6

Where is the total of the discount column on the credit side posted?

- to the credit side of discounts allowed account Α
- В to the credit side of discounts received account
- to the debit side of discounts allowed account С
- **D** to the debit side of discounts received account
- The bank account balance in the cash book was \$150 debit. 7

The following transactions were then entered in the bank account:

	\$
receipts from sales	4210
dividends banked	180
cheques paid to suppliers	3270

What was the new bank balance in the cash book?

A \$790 credit **B** \$910 credit **C** \$970 debit **D** \$1270 debit 8 The bank statement of X shows a balance of \$3500 and the cash book shows \$4200.

www.papacambridge.com The difference is due to a receipt of \$1000 in the cash book but not on the bank statement, an unpresented cheque.

What is the amount of the unpresented cheque?

Α \$300 В \$700 С \$1700 D \$2500

- 9 Which transaction is entered in the general journal?
 - Α cash paid to supplier
 - В cash received from customer
 - С machinery bought on credit
 - D stock bought on credit
- 10 In a business's books, the ledger account of Khan has a debit balance of \$900.

What does this mean?

- Α Khan has paid \$900 to the business.
- В Khan owes the business \$900.
- С The business has paid Khan \$900.
- D The business owes Khan \$900.
- **11** On 1 August Lim owes his suppliers \$16 000.

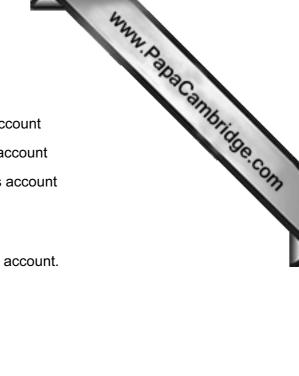
The purchases journal for August totalled \$25 000. Payments to suppliers during the month amounted to \$27 000. There were no cash purchases.

How much is owed by Lim to his suppliers on 31 August?

\$2000 В \$14 000 \$18 000 \$52 000 Α С D

- 12 Why does a business prepare a trial balance?
 - to calculate the profit and loss Α
 - to check the arithmetical accuracy of the ledger В
 - С to check the cash and bank balances
 - to show the financial position D

4



- 5
- 13 Which will cause a trial balance not to balance?
 - A goods returned inwards have been debited to the sales account
 - B payment from F. Green has been credited to G. Green's account
 - C purchase of stationery has been debited to the purchases account
 - D the sales journal has been over-cast
- 14 Motor repairs of \$250 have been posted to the motor vehicles account.

What is the effect on the final accounts?

	net profit	fixed assets
Α	overstated	overstated
В	overstated	understated
С	understated	overstated
D	understated	understated

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

4 May	cost of replacement parts
	cost of repairs
20 May	cost of machine
	cost of installation of machine

Which costs are capital expenditure in X's books?

- **A** machine, installation
- B machine
- **C** replacement parts, machine
- D replacement parts, repairs, installation
- 16 What are the entries for providing depreciation of fixed assets?

	account to be debited	account to be credited
Α	bank	provision for depreciation
В	Profit and Loss	provision for depreciation
С	provision for depreciation	Profit and Loss
D	provision for depreciation	bank

17 The financial year of Yeung ends on 30 June. On 1 July 2005 he purchased a machine

www.papaCambridge.com He estimated that it would have a useful working life of 3 years and a residual value Yeung uses the straight line method of depreciation.

The machine was sold on 1 July 2006 for \$1500.

What was the loss on disposal?

A \$1100 В \$1200 \$2400 \$2500 С D

18 Equipment costing \$20 000 was purchased on 1 January 2005. It has a useful working life of 5 years and a residual value of \$3000. Depreciation using the straight line method was included in the Profit and Loss Account for the year ended 31 December 2005.

It was then found that the reducing balance method at 30% per annum should have been used.

How will this error affect the net profit for the year ended 31 December 2005?

- Α overstated by \$2000
- understated by \$2000 В
- overstated by \$2600 С
- understated by \$2600 D
- **19** X provided the following information on 31 December 2005:

	\$
debtors	60 000
provision for doubtful debts	1 200

X decided to make a provision for discounts allowable of 1%.

What entries are necessary in X's books to create a provision for discounts allowable?

	account to be debited	\$	account to be credited	\$
Α	discounts allowable	588	Profit and Loss	588
в	discounts allowable	600	Profit and Loss	600
С	Profit and Loss	588	discounts allowable	588
D	Profit and Loss	600	discounts allowable	600

www.papacambridge.com 20 Tom, a trader, sublets part of his premises to Jane. At the end of Tom's financial year \$150 for rent.

How will the adjustment for this amount affect Tom's final accounts?

Α	decrease expenses	increase current liabilities
в	increase expenses	increase current assets
С	decrease income	increase current liabilities
D	increase income	increase current assets

21 An electricity accrual of \$450 is treated as a prepayment when preparing a trader's Profit and Loss Account.

What effect does this have on the trader's net profit?

- Α It is overstated by \$450.
- В It is understated by \$450.
- С It is overstated by \$900.
- It is understated by \$900. D
- 22 At the end of the financial year it was discovered that the purchases returns account had been undercast by \$50. A suspense account had been opened.

Which entries are required to correct this error?

- Α credit purchases account \$50, debit purchases returns account \$50
- В credit suspense account \$50, debit purchases returns account \$50
- С debit purchases account \$50, credit purchases returns account \$50
- D debit suspense account \$50, credit purchases returns account \$50
- 23 Furniture repairs have been debited to the office furniture account, and rent receivable has been credited to the sales account.

How are the office furniture account and the gross profit affected by these errors?

	office furniture	gross profit
Α	overstated	overstated
В	overstated	understated
С	understated	overstated
D	understated	understated

www.papacambridge.com 24 What is the effect of making contra entries in the sales and purchases ledger control

	debtors	creditors	profit
Α	increase	increase	increase
В	reduce	reduce	reduce
С	increase	increase	no effect
D	reduce	reduce	no effect

- 25 Which would not appear in a purchases ledger control account?
 - A cash purchases
 - B discount received
 - interest charged by creditors С
 - D payments to creditors
- 26 At the end of a sole trader's financial year, to which account will general expenses be transferred?
 - A Capital
 - В Income and Expenditure
 - C Profit and Loss
 - **D** Trading
- 27 A business prepares its final accounts for the year ended 31 December 2005. The last telephone bill was paid in November 2005. An adjustment is made in the final accounts for telephone expenses for December 2005.

Which accounting principle is being applied?

- A accounting entity
- В going concern
- C matching
- D money measurement
- 28 Which is a fixed asset?
 - A bank balance
 - **B** debtors
 - С motor vehicles
 - D prepayments



29 P. Smith is making a list of his assets and liabilities.

Which is a liability?

- A computer
- B creditors
- C loan to J. Jones
- **D** premises
- **30** X and Y agree to amalgamate their businesses.

X's business is valued at \$15 000 of which \$2000 is Goodwill.

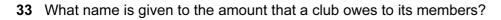
What amount will be shown in X's capital account in the books of the new business?

- A credit \$13 000
- **B** credit \$15 000
- **C** debit \$13 000
- **D** debit \$15 000
- **31** The owner of a business has taken goods for personal use but not recorded this in the books.

Which entries must be made at the end of the year?

	debit	credit
Α	drawings	purchases
в	drawings	sales
С	purchases	drawings
D	sales	drawings

- 32 Which appears in a partnership's Profit and Loss Account?
 - A interest on a loan from a partner
 - **B** interest on partners' capitals
 - C partners' drawings
 - D shares of partnership profit



- A accumulated fund
- B capital
- **C** net profit
- D subscriptions
- **34** 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
Α	decreased by \$5000	decreased by \$5000
в	decreased by \$5000	no effect
С	increased by \$5000	increased by \$5000
D	no effect	decreased by \$5000

35 The values of cost of sales and closing stock are known.

What other value is needed to calculate the rate of stock turnover?

- A gross profit
- B net profit
- C opening stock
- D sales
- 36 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
- **37** During last year, a trader's capital increased from \$20 000 to \$60 000.

In the same period, drawings amounted to \$25 000 and capital of \$16 000 was introduced.

What was the net profit for the year?

A \$31 000 **B** \$35 000 **C** \$40 000 **D** \$49 000

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					11		
38	A Manufacturing A	ccou	nt includes t	he follow	ving:		
						\$	
			raw mat	erials -			
			о	pening s	stock	300	
			р	urchase	S	9100	
			с	losing st	ock	500	
	What is the cost of	raw	materials?				
	A \$8300	в	\$8900	С	\$9100	D	\$9300
39	Information about	a bus	iness is as f	ollows:			
			Sales		ç	\$10 000	
			Gross profi	t/sales		20 %	
			Net profit/s	ales		10%	
	What is the amour	nt of t	he expenses	;?			

C \$3000 **A** \$1000 **B** \$2000

40 X purchased a motor vehicle from a motor trader for \$16 000. The trader told X that the original price of the motor vehicle was \$18 000.

D \$8000

X debited the motor vehicles account and credited the cash book with \$16 000.

Which accounting principle is being applied?

A accounting entity

- B going concern
- **C** historical cost
- **D** prudence (conservatism)



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