

Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/12

Paper 1 Multiple Choice

October/November 2016

1 hour

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

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.

* 2 2 9 0 9 7 2 0 6 4 *

- 1 A company employs a book-keeper and an accountant.

Which task would the accountant perform?

- A extracting balances from the ledger accounts to produce a trial balance
 - B making entries in the journal to adjust a provision for doubtful debts
 - C preparing a monthly report that analyses the profitability of the company
 - D recording sales and purchase invoices in the books of prime (original) entry
- 2 Why does the owner of a business calculate profit?
- A to find the return on capital
 - B to find the total expenses
 - C to know how much he can borrow from the bank
 - D to know the loan interest he can afford to pay

- 3 Melanie provided the following information.

	\$
non-current assets	14 000
amount owing by credit customers	1 250
amount owing to credit suppliers	850
inventory	1 875
bank overdraft	365

What was Melanie's capital?

- A \$12 160
 - B \$15 110
 - C \$15 910
 - D \$16 640
- 4 Jamal bought goods from Sanjay, paying in cash.

How would Jamal record this transaction?

	account to be debited	account to be credited
A	cash	purchases
B	cash	Sanjay
C	purchases	cash
D	Sanjay	cash

- 5 Winston sold goods on credit to Leroy.

Which entries should Winston make in his ledgers?

	sales ledger	general ledger
A	credit Leroy account	debit sales account
B	credit sales account	debit Leroy account
C	debit Leroy account	credit sales account
D	debit sales account	credit Leroy account

- 6 Alex issued a credit note to Marcus.

In which book of prime (original) entry would Alex record this?

- A** purchases journal
 - B** purchases returns journal
 - C** sales journal
 - D** sales returns journal
- 7 A trader sends a monthly statement to a credit customer.

What is the purpose of sending this statement?

- A** to demand immediate payment in cash
 - B** to inform the customer of his credit limit
 - C** to provide a summary of transactions
 - D** to notify the customer of goods awaiting delivery
- 8 A trader allows trade discount to regular customers.
- Where will this discount appear in his financial statements?
- A** as a credit entry in the income statement
 - B** as a current asset in the statement of financial position
 - C** as a debit entry in the income statement
 - D** it will not appear in the financial statements

- 9 Omar had a debit balance of \$6400 on the bank column in his cash book.

The following appeared on the bank statement, but not in the cash book.

	\$
bank charges	52
standing order payment	16
direct debit payment	9
dishonoured cheque from a customer	100

What was the debit balance on the bank column in the cash book after making entries for these items?

- A** \$6223 **B** \$6323 **C** \$6477 **D** \$6577
- 10 Tan has a transport business. He purchased a motor vehicle and some fuel on credit from Yeung.

The invoice received from Yeung showed the following.

	\$
purchase of motor vehicle	20 000
purchase of fuel	200
	20 200

What are the entries in Tan's books?

	account(s) debited		account(s) credited	
		\$		\$
A	motor vehicles	20 200	Yeung	20 200
B	motor vehicles	20 000	Yeung	20 200
	motor expenses	200		
C	Yeung	20 200	motor vehicles	20 200
D	Yeung	20 200	motor vehicles	20 000
			motor expenses	200

- 11 Which error is a compensating error?

- A** cheque received from J. Wilks credited to the account of J. Wilson
- B** drawings debited to the cash account and credited to the drawings account
- C** purchase of a motor vehicle debited to the motor expenses account
- D** sales account and purchases account both undercast by the same amount

- 12** Raminder maintains a provision for doubtful debts of $2\frac{1}{2}\%$ of the trade receivables.

On 1 January the balance on the provision account was \$1075. The trade receivables at 31 December amounted to \$41 000.

Which entries will Raminder make on 31 December to adjust the provision for doubtful debts?

	debit	\$	credit	\$
A	income statement	50	provision for doubtful debts	50
B	income statement	1025	provision for doubtful debts	1025
C	provision for doubtful debts	50	income statement	50
D	provision for doubtful debts	1025	income statement	1025

- 13** At the end of her financial year, Lucy decided to depreciate her fixtures by \$1000.

Which journal entry will record this?

		debit \$	credit \$
A	fixtures provision for depreciation of fixtures	1000	1000
B	income statement provision for depreciation of fixtures	1000	1000
C	provision for depreciation of fixtures fixtures	1000	1000
D	provision for depreciation of fixtures income statement	1000	1000

- 14** Paul sold all his office equipment. He provided the following information.

	\$
equipment at cost	5000
provision for depreciation of equipment	1250
proceeds of disposal of equipment	1950

What was the effect on the profit?

- A** \$1800 decrease
B \$1800 increase
C \$4300 decrease
D \$4300 increase

15 What is the purpose of preparing a sales ledger control account?

- A** to calculate the total credit sales for the period
- B** to correct any errors in the sales ledger
- C** to prove the arithmetical accuracy of the sales account
- D** to prove the arithmetical accuracy of the sales ledger accounts

16 A purchases ledger control account contains discounts received.

Which book of prime (original) entry provides this information?

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

17 Hans sublets part of his premises to Elmer. On 31 December 2015 Elmer had paid two months' rent in advance.

Where would this appear in Hans' statement of financial position on 31 December 2015?

- A** other payables
- B** other receivables
- C** trade payables
- D** trade receivables

18 Wayne deals in two products, P and Q.

At the end of his financial year on 31 December, Wayne's inventories were as follows.

	cost \$	net realisable value \$
product P	2000	1500
product Q	3500	3800

At which value should the total inventory be shown in the financial statements?

- A** \$5000
- B** \$5300
- C** \$5500
- D** \$5800

19 A trader takes cash drawings from the business.

How will this affect the profit for the year and the current assets?

	profit for the year	current assets
A	decrease	no effect
B	increase	no effect
C	no effect	decrease
D	no effect	increase

20 Which is a trading business?

- A** food store
- B** hairdresser
- C** investment adviser
- D** motor vehicle repairer

21 Which items may appear on the debit side of a partner's current account?

	share of profit	share of loss	interest on capital	interest on drawings
A	✓		✓	
B	✓			✓
C		✓	✓	
D		✓		✓

22 Which item is **not** included in a partnership agreement?

- A** annual profit to be earned by the business
- B** annual salaries to be paid to partners
- C** capital contributed by each partner
- D** rate of interest charged on drawings

23 On 1 January 2015 a club had received prepaid subscriptions of \$560. During the year ended 31 December 2015 the club received subscriptions of \$8480. On 31 December 2015 subscriptions owing to the club amounted to \$400.

Which amount should be shown for subscriptions in the income and expenditure account for 2015?

- A** \$8080
- B** \$8480
- C** \$8880
- D** \$9440

- 24** Grassfield Golf Club sells refreshments to its members. Suppliers for refreshments were owed \$250 on 1 January and \$400 on 31 December. Payments to suppliers during the year were \$7200.

The inventory at the end of the year was \$100 less than the inventory at the start of the year.

What was the cost of sales of refreshments?

- A** \$7050 **B** \$7150 **C** \$7300 **D** \$7450

- 25** A trader provided the following information for his first year of trading.

	\$
revenue	90 000
purchases	72 500
closing inventory	560

What was the margin?

- A** 18.82% **B** 20.07% **C** 23.19% **D** 25.10%

- 26** An employer provides each employee with a time sheet.

Which statement is correct?

- A** It is completed by the employee to calculate the hourly rate of pay.
B It is completed by the employee to show the hours spent on each job.
C It is completed by the employer to calculate the hourly rate of pay.
D It is completed by the employer to show the hours spent on each job.

- 27** A business provided the following information for its financial year.

	\$
opening inventory	3 800
closing inventory	4 200
cost of sales	36 000

What was the rate of turnover of inventory?

- A** 2.25 times **B** 4.5 times **C** 8.57 times **D** 9 times

28 Which action will improve the percentage of gross profit to revenue (sales)?

- A increasing expenses
- B increasing selling price
- C reducing expenses
- D reducing selling price

29 Which formula is used to calculate the quick ratio (acid test ratio)?

- A $\frac{\text{current assets}}{\text{current liabilities}}$
- B $\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$
- C $\frac{\text{current liabilities}}{\text{current assets}}$
- D $\frac{\text{current liabilities}}{\text{current assets} - \text{inventory}}$

30 Which statement describes the matching / accruals principle?

- A A business should continue to use the same accounting methods.
- B A business will continue to trade in the foreseeable future.
- C Each financial transaction is recorded by two accounting entries.
- D Related income and costs should be recorded in the same period.

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