



**Cambridge Assessment International Education**  
Cambridge Ordinary Level

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**PRINCIPLES OF ACCOUNTS**

**7110/12**

Paper 1 Multiple Choice

**May/June 2019**

**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, 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.

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This document consists of **10** printed pages and **2** blank pages.

- 1 What is the main function of book-keeping?
  - A communicating information
  - B interpreting information
  - C recording information
  - D summarising information
  
- 2 Which does **not** reduce the owner's capital?
  - A business expenses paid using a personal cheque
  - B cash withdrawn from the business bank account for personal use
  - C goods taken from inventory for personal use
  - D personal expenses paid using business cash
  
- 3 What would be recorded by a debit entry in a ledger account?
  - A a decrease in an asset
  - B an increase in a liability
  - C an increase in an asset
  - D an increase in capital employed
  
- 4 In April Meena sent Ralph invoices for \$170, \$240, \$125 and a credit note for \$63. In the same month Ralph sent Meena a debit note for \$70 and a cheque for \$107.

What was the balance on Meena's account in Ralph's books on 1 May?

  - A \$295 credit
  - B \$295 debit
  - C \$365 credit
  - D \$365 debit

5 Tahir purchased goods on credit from Yasmin.

How did Yasmin record this?

	book of prime (original) entry	account debited	account credited
<b>A</b>	purchases journal	purchases	Yasmin
<b>B</b>	purchases journal	Yasmin	purchases
<b>C</b>	sales journal	sales	Tahir
<b>D</b>	sales journal	Tahir	sales

6 Jane invoiced John for goods, \$5000. John took a cash discount of 5% and sent Jane a cheque for the amount due.

Which entries will appear in Jane's cash book?

	discount allowed \$	bank debit \$	discount received \$	bank credit \$
<b>A</b>	250	4750		
<b>B</b>			250	4750
<b>C</b>	250	5000		
<b>D</b>			250	5000

7 After receiving her bank statement Lyn updated her cash book.

Which items would reduce the overdrawn balance in the cash book?

- 1 bank interest received
- 2 credit transfer received
- 3 direct debit payment

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

8 The following account appeared in the ledger of Chan.

Fu account						
2019		\$		2019	\$	
March	28 bank	100		March	1 balance b/d	100
	31 balance c/d	<u>250</u>			12 purchases	<u>250</u>
		<u>350</u>				<u>350</u>

Which statement is correct?

- A On 1 March Chan was owed \$100 by Fu.
  - B On 12 March Fu purchased goods, \$250, from Chan.
  - C On 28 March Chan paid Fu \$100 by cheque.
  - D On 31 March Fu owed Chan \$250.
- 9 After preparing a trial balance it was found that a cheque, \$300, received from Oliver, had been debited in Oliver's account and credited in the bank account.

No other errors were found.

Which statement about the trial balance **before** correcting the error is correct?

- A The credit column was equal to the debit column.
- B The credit column was \$300 more than the debit column.
- C The debit column was \$300 more than the credit column.
- D The debit column was \$600 more than the credit column.

- 10 Ali's financial year ends on 31 March. During the year ended 31 March 2019, Ali paid wages of \$42 500. On 31 March 2019, \$1400 wages were accrued.

Which journal entry records the transfer from the wages account to the income statement on 31 March 2019?

		debit \$	credit \$
<b>A</b>	income statement wages	42 500	42 500
<b>B</b>	income statement wages	43 900	43 900
<b>C</b>	wages income statement	42 500	42 500
<b>D</b>	wages income statement	43 900	43 900

- 11 A trader created a provision for doubtful debts.

Why did he create this provision?

- 1 to ensure that money was available to cover bad debts
- 2 to ensure that the current assets were not overstated
- 3 to ensure that the matching / accruals principle was followed
- 4 to ensure that the profit for the year was not overstated

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

- 12 Which item is revenue expenditure for a manufacturer?

- A** buying new office equipment
- B** extending the factory
- C** purchasing motor vehicles
- D** repairing machinery

13 An item of revenue expenditure was treated as an item of capital expenditure.

What was the effect of this error?

	profit for the year	non-current assets
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

14 What causes computer equipment to depreciate?

- A** depletion
- B** economic reasons
- C** passage of time
- D** physical deterioration

15 On 1 January 2017 Wayne purchased a motor vehicle for \$8000. He decided to depreciate it using the diminishing (reducing) balance method at 20% per annum.

Which journal entry did Wayne make on 31 December 2018?

		debit \$	credit \$
<b>A</b>	income statement provision for depreciation	1280	1280
<b>B</b>	income statement provision for depreciation	1600	1600
<b>C</b>	provision for depreciation income statement	1280	1280
<b>D</b>	provision for depreciation income statement	1600	1600

- 16 A cheque received from D Pawson, a trade receivable, was correctly debited to the bank account but was credited to the account of P Dawson, a trade payable.

What was the effect of correcting this error?

	trade receivables	trade payables
<b>A</b>	decrease	decrease
<b>B</b>	decrease	increase
<b>C</b>	increase	decrease
<b>D</b>	increase	increase

- 17 Which items are used to calculate cost of goods sold?

- A** carriage on purchases, carriage on sales, net purchases, opening inventory
- B** carriage on purchases, closing inventory, net purchases, opening inventory
- C** carriage on sales, closing inventory, net purchases, opening inventory
- D** carriage on sales, closing inventory, net purchases, sales returns

- 18 Fatima opened a department store on 1 January 2018. She provided the following information on 31 December 2018.

	department X \$	department Y \$
revenue	100 000	60 000
sales returns	14 000	8 000
purchases	80 000	40 000
carriage outwards	–	1 000
carriage inwards	5 000	–

At 31 December 2018 inventory was valued at \$16 000 of which 75% related to department X.

What was the gross profit of department Y?

- A** \$15 000
- B** \$16 000
- C** \$23 000
- D** \$24 000

19 Muriel had a bank overdraft of \$3820 and was owed \$2100 by Ada.

Ada paid promptly by cheque and received a 5% cash discount.

What was the effect on Muriel's statement of financial position when Ada paid her debt?

	current assets	\$	current liabilities	\$	capital	\$
<b>A</b>	decrease	1995	decrease	2100	decrease	105
<b>B</b>	decrease	1995	decrease	2100	increase	105
<b>C</b>	decrease	2100	decrease	1995	decrease	105
<b>D</b>	decrease	2100	decrease	1995	increase	105

20 On 1 January 2019 a commission receivable account had a credit balance.

What does this balance represent?

	commission receivable paid in advance	commission receivable outstanding	asset	liability
<b>A</b>	✓		✓	
<b>B</b>	✓			✓
<b>C</b>		✓	✓	
<b>D</b>		✓		✓

21 What is an advantage of trading as a partnership?

- A** A partnership is a separate legal entity.
- B** Decision-making is easy and quick.
- C** Liability is unlimited.
- D** Responsibilities are shared.

22 A golf club sells refreshments to its members. Suppliers of refreshments were owed \$250 on 1 January 2018 and \$400 on 31 December 2018. 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 for the year ended 31 December 2018?

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



- 23 After the preparation of the financial statements of a sports club it was found that no adjustment had been made for subscriptions received for the following financial year.

How will **correcting** this error affect the financial statements?

	income and expenditure account	statement of financial position
<b>A</b>	decrease income	increase current assets
<b>B</b>	decrease income	increase current liabilities
<b>C</b>	increase income	increase current assets
<b>D</b>	increase income	increase current liabilities

- 24 A business provided the following information.

	\$
sales	100 000
opening inventory	40 000
closing inventory	30 000
gross profit	5 000

What was the value of the purchases?

- A** \$85 000      **B** \$95 000      **C** \$105 000      **D** \$115 000
- 25 A limited company provided the following information.

		\$
1 January	ordinary shares of \$1 each	200 000
	retained earnings	12 000
31 December	profit for the year	43 000
	transfer to general reserve	10 000

A dividend of 10% on ordinary shares was paid during the year.

What were the retained earnings on 31 December?

- A** \$13 000      **B** \$23 000      **C** \$25 000      **D** \$35 000

- 26 What is **not** included in a statement of changes in equity of a limited company for the year ended 31 March 2019?
- A an issue of additional ordinary shares that was made during the year
  - B an interim dividend paid to the ordinary shareholders on 1 November 2018
  - C a proposed final dividend which is to be paid to ordinary shareholders on 1 August 2019
  - D a transfer made to general reserve from retained earnings on 31 March 2019
- 27 A business's sales are \$100 000, the expenses are \$30 000 and the profit for the year is \$20 000.  
What is the gross profit/sales ratio?
- A 10%                      B 50%                      C 70%                      D 80%
- 28 A business prepares its accounts on the basis that it will continue to trade in the foreseeable future.  
Which accounting principle is being applied?
- A accounting entity
  - B accounting year
  - C going concern
  - D matching/accruals
- 29 A cheque paid by a business for fuel for the delivery vehicle was recorded in the books of the business. A cheque paid by the business owner for fuel for his motorcycle was not recorded in the books of the business.  
Which accounting principle was applied?
- A accounting entity
  - B going concern
  - C materiality
  - D money measurement
- 30 Which statement is **not** correct about reasons for using international accounting standards?
- A helps when making comparisons between companies
  - B improves the reliability of accounting information
  - C narrows the areas of difference between companies
  - D makes the preparation of financial statements less time consuming

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