G12 ECZ PRINCIPLES OF ACCOUNTS 2010 PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2010 Paper 1 (7110/1)

Worked solutions — 40 multiple-choice questions

The full question paper appears first — worked answers follow.

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EXAMINATIONS COUNCIL OF ZAMBIA

Joint Examination for the School Certificate
and General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

PAPER 1 Multiple Choice **7110/1**

Wednesday **3 NOVEMBER 2010** **1 hour 15 minutes**

Additional materials:
- Multiple Choice answer sheet
- Soft clean eraser
- Soft pencil (Type B or HB is recommended)

TIME 1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.

There are **forty (40)** questions in 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 very carefully the instructions on the Answer Booklet.

INFORMATION FOR CANDIDATES

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Calculators may be used.

Cell phones are not allowed in the examination room.

1 If assets equal to K100 000 000 and liabilities equal to K20 000 000, what is the net worth of the business.

A K60 000 000.

B K 80 000 000.

C K 120 000 000.

D K 40 000 000.

2 The concept which implies that the affairs of a business are to be treated as being quite separate from non-business activities of its owner(s) is called …

A money measurement concept.

B dual aspect concept.

C business entity concept.

D going concern concept.

3 Which one of the following will be shown as an Asset in the Balance Sheet.

A Bank overdraft.

B Salaries prepaid.

C Commission received in advance.

D Interest owing.

4 The total of the Discounts Allowed column in the Cash Book is posted to the …

A credit of the Discount Allowed Account.

B debit of the Discount Allowed Account.

C credit of the Discount Received Account.

D debt of the Discount Received Account.

5 A provision for Bad and Doubtful debts is created …

A to write off bad debts.

B when debtors cease to be in business.

C when debtors become bankrupt.

D to provide for possible bad debts.

6 Goods returned to our suppliers will be posted to …

A Debtor's Account.

B Carriage Outwards Account.

C Returns Inwards Account.

D Returns Outwards Account.

7 In the Trial Balance, the balance on Provision for Depreciation Accounts is …

A shown as a debt item.

B shown as a credit item.

C not shown, as it is part of depreciation.

D sometimes shown as a credit, sometimes as a debit.

8 Which one of the following increases Net Profit of a business?

A Sale of a Fixed Asset.

B Rent Prepaid.

C Discount Allowed.

D Bad Debts Recovered.

9 The purpose of the Subsidiary Books is to ...

A complete the double entry.

B provide an early record for business transactions.

C find the financial position of a business.

D prepare public records.

10 When a supplier discovers that he had over supplied a customer, he prepares a ...

A credit note.

B original invoice.

C debt note.

D suspense account.

11 ... relates to a credit item in the Cash Account of a trader's Cash Book.

A Original receipt

B Copy receipt

C Original deposit slip

D Copy invoice

12 A computer costs K500 000 excluding V.A.T. If V.A.T. is at the rate of 10 percent, the price including V.A.T. will be ...

A K530 000.

B K570 000.

C K450 000.

D K550 000.

13 When Trade Discount and Cash Discount are offered, on which amount is the Cash Discount calculated?

A List price of goods bought.

B Cost price of goods bought.

C Net price of goods bought.

D Cash price.

14 Normally, goods and services are sold above cost price, the difference being ...

A loss.

B capital.

C profit.

D turnover.

15 Given the following figures: Purchases K6 400 000; Opening stock K1 300 000; Closing stock K900 000; Carriage inwards K200 000; Gross profit K1 200 000; calculate the figure for sales.

A K8 200 000.
B K7 000 000.
C K6 800 000.
D K6 200 000.

16 List the following in increasing order of liquidity: (i) Bank (ii) Stock (iii) Cash (iv) Debtors

A (ii), (iv), (iii), (i)
B (iii), (i), (iv), (ii)
C (iv), (ii), (i), (iii)
D (ii), (iv), (i), (iii)

17 A loss incurred on the disposal of plant and machinery should be …

A debited to Plant and Machinery Account.
B debited to Provision for Depreciation Account.
C debited to Profit and Loss Account.
D credited to Profit and Loss Account.

18 A machine was purchased on 1st January 2008 for K1 250 000. Depreciation is charged at 20 percent per year using the reducing balance method. The financial year-end was 31st December. At 31st December 2010 the machine will have a written down value of …

A K750 000.
B K512 000.
C K500 000.
D K640 000.

19 A debit balance brought down on a Stationery Account means …

A owing for stationery.
B are owed for stationery.
C have lost money on stationery.
D have a stock of stationery unused.

20 A reduction in the provision for bad debts …

A increases the profit of a business.
B decreases the profit of a business.
C increases the cash/bank balance.
D decreases the cash/bank balance.

21 On 20th November, 2009, the Accounts clerk discovered that sales of K250 000 had been posted to R Hatubotu's account in error. The goods had been sold to J. Hamubotu on credit. Upon discovery of this error the journal entry was made as shown below:

Journal entry

DR J. Hamubotu K250 000

CR R. Hatubotu K250 000

(--)

Which one is the correct narration for this record?

A Being sales overcast.

B Being error of commission now corrected.

C Being suspense accounts now opened.

D Being error of omission now corrected.

22 A business does not consider depreciation on its fixed assets at year end. What is the effect of this omission?

A Gross profit is overstated.

B Profit is understated.

C Resale value of the asset is overstated.

D Resale value of the asset is understated.

23 A Bank Reconciliation Statement prepared starting with balance as per Bank Statement will show ...

A unpresented cheques **added** and uncredited deposits subtracted.

B uncredited deposits **added** and unpresented cheques subtracted.

C bank charges **added** and uncredited cheques subtracted.

D credit transfers **added** and bank charges subtracted.

24 Which one should be recorded in the Bank Reconciliation Statement?

A Bank charges.

B Direct debts.

C Standing orders.

D Unpresented cheques.

25 When preparing a Control Account, the total of Returns Inwards for the month should be entered on the ...

A debit side of Purchases Ledger Control Account.

B credit side of Purchases Ledger Control Account.

C debit side of Sales Ledger Control Account.

D credit side of Sales Ledger Control Account.

[Turn over

26 The total amount of discounts received entered in the Purchases ledger Control Account is obtained from ...

A purchases journal.

B returns outwards journal.

C general journal.

D cash book.

27 A club has a total membership of 50 and the annual subscription per member is K100 000. At the end of the year, the club's Cash Book shows that a total of K4 000 000 is received. How much is transferred to the Income and Expenditure Account?

A K4 000 000.

B K1 000 000.

C K5 000 000.

D K6 000 000.

28 The consolidated fund balance of a club at a specific date can be found by ...

A balancing off a receipts and payments account.

B preparing a statement of affairs.

C preparing an income and expenditure account.

D subtracting the surplus for the year from total assets.

29 Chalata and Company purchased an industrial sewing machine for the business. What expenditure is this?

A Fixed expenditure.

B Capital Expenditure.

C Labilities.

D Fixed Assets.

30 Which one of the following calculations can be used to find the net profit figure where full double – entry book keeping records have not been kept?

A Increase in value of capital **less** drawings.

B Increase in value of capital **add** drawings.

C This year's net assets, **less** last year's net assets.

D Increase in bank balance.

31 Incomplete records are best described as records which ...

A are not kept on a single entry book keeping system.

B have been partly destroyed or lost.

C show only the cash book.

D are not maintained on the double entry system.

32 Profits of a partnership amounted to K3 280 000 before the following were taken into account:

(i)	Interest on partner's capital	K180 000
(ii)	Interest on drawings	K20 000
(iii)	Salary of one partner	K1 000 000

How much profit will be available for appropriation to partners in their profit sharing ratio?

A K2 080 000.

B K2 100 000.

C K2 120 000.

D K2 440 000.

33 In partnership accounts, interest on drawings is ...

A added to capital account.

B credited to current account.

C added to profit for appropriation.

D not recorded at all.

34 Factory overhead expenses are made up of ...

A all direct factory costs.

B prime costs only.

C all indirect factory costs.

D all factory costs.

35 Where Capital Accounts of partners are fluctuating, interest on drawings is ...

A debited to Capital Accounts of partners.

B debited to Current Accounts of partners.

C credited to Capital Accounts of partners.

D credited to Current Accounts of partners.

36 The 'share premium' is the excess of ...

A authorised share capital over issued share capital.

B called up capital over paid up capital.

C profits over dividends.

D the issue price of shares over their nominal value.

37 Which one of the following is paid whether profit is made or not?

A Debenture interest

B Shares

C Dividends

D Reserves

[Turn over

38 Chabala K. Company Limited has a share capital of 4 000 5% preference shares of K5 000 each. The company made profit of K2 000 000 for the year ended 31st December, 2009. Find total dividends paid to preference shareholders.

A K20 000 000.

B K10 000 000.

C K1 000 000.

D K370 000.

39 Where common expenses are to be allocated to departments which require adjustments for accruals and prepayments, the most appropriate procedure is ...

A to do the adjustment and the apportionment simultaneously.

B to do the apportionment before the adjustment

C to do the adjustment before the apportionment.

D to start with either the adjustment or the apportionment depending on the circumstances.

40 If cost price is K120 000 and selling price is K150 000, then ...

A margin is 25 per cent.

B mark up is 25 per cent.

C margin is 33 ½ per cent.

D mark up is 20 per cent.

Question 1. A business has total assets of K100 000 000 and total liabilities of K20 000 000. What is the net worth of the business?

Net worth = Total assets - Total liabilities = K100 000 000 - K20 000 000 = K80 000 000.

Answer: B — K80 000 000.

Question 2. Which accounting concept requires that the financial affairs of a business be kept completely separate from the personal affairs of its owner(s)?

This is the Business Entity concept: the business is treated as a separate entity from its owner for accounting purposes.

Answer: C — business entity concept.

Question 3. Which of the following items would appear as an Asset in a Balance Sheet?

A bank overdraft is a liability. Commission received in advance and interest owing are also liabilities/accruals. Salaries prepaid means rent or wages paid in advance — it is an asset (prepaid expense) because the benefit is yet to be received.

Answer: B — Salaries prepaid.

Question 4. Where is the total of the Discounts Allowed column in the Cash Book posted at the end of the period?

Discounts Allowed are expenses to the business. The column total is posted as a debit to the Discounts Allowed Account (increasing the expense) in the general ledger.

Answer: B — debit of the Discount Allowed Account.

Question 5. Why is a Provision for Bad and Doubtful Debts created?

The provision is created to anticipate and provide for debts that may not be collected in the future, matching the potential loss against the revenue of the period concerned.

Answer: D — to provide for possible bad debts.

Question 6. Where are goods returned to suppliers posted in the ledger?

Goods returned to suppliers reduce what the business owes them. The Returns Outwards Account (also called Purchase Returns) records these returns, and it is credited in the creditor's account.

Answer: D — Returns Outwards Account.

Question 7. In the Trial Balance, on which side does the balance of the Provision for Depreciation Account appear?

The Provision for Depreciation Account has a credit balance because it accumulates credits each year (Dr Depreciation Expense, Cr Provision for Depreciation). In the Trial Balance it therefore appears as a credit item.

Answer: B — shown as a credit item.

Question 8. Which of the following increases the Net Profit of a business?

Bad Debts Recovered is income — it represents amounts previously written off that have now been received, directly increasing profit. Sale of a fixed asset at a profit also helps, but bad debts recovered is the clearest income item listed.

Answer: D — Bad Debts Recovered.

Question 9. What is the main purpose of Subsidiary Books (Books of Original/Prime Entry)?

Subsidiary books (day books, journals) provide the first record of each business transaction before they are posted to the ledger. They are books of prime entry — not part of the double entry itself.

Answer: B — provide an early record for business transactions.

Question 10. When a supplier discovers that he has oversupplied a customer, what document does he prepare?

When a supplier has overcharged or oversupplied, he issues a credit note to the customer to reduce the amount the customer owes. The customer then records this in the Returns Outwards book.

Answer: A — credit note.

Question 11. Which document relates to a credit item in the Cash Account of a trader's Cash Book?

A credit entry in the Cash Account means cash is going OUT (a payment). When the business pays someone, the payee issues an original receipt to the payer as evidence of the payment. This original receipt is the source document for the credit entry.

Answer: A — Original receipt.

Question 12. A computer is priced at K500 000 excluding VAT. At a VAT rate of 10%, what is the price including VAT?

Price including VAT = K500 000 x 1.10 = K550 000.

Answer: D — K550 000.

Question 13. When both trade discount and cash discount are offered, on which amount is the cash discount calculated?

Trade discount is deducted from the list price first, giving the net (invoice) price. Cash discount is then calculated on this net price, not the original list price.

Answer: C — net price of goods bought.

Question 14. Goods and services are normally sold above cost price. What is the term for this difference?

When the selling price exceeds the cost price, the difference is called profit. If selling price were below cost the difference would be a loss.

Answer: C — profit.

Question 15. Given: Purchases K6 400 000, Opening stock K1 300 000, Closing stock K900 000, Carriage inwards K200 000, Gross profit K1 200 000. Calculate Sales.

Cost of Goods Sold = Opening stock + Purchases + Carriage inwards - Closing stock

= K1 300 000 + K6 400 000 + K200 000 - K900 000 = K7 000 000.

Sales = Cost of Goods Sold + Gross Profit = K7 000 000 + K1 200 000 = K8 200 000.

Answer: A — K8 200 000.

Question 16. Arrange the following in increasing order of liquidity: (i) Bank, (ii) Stock, (iii) Cash, (iv) Debtors.

Liquidity = ease of conversion to cash. From least to most liquid: Stock (must be sold first) → Debtors (must collect the debt) → Bank (nearly liquid) → Cash (most liquid).

That gives the order: (ii), (iv), (i), (iii).

Answer: B — (ii), (iv), (i), (iii).

Question 17. A loss on the disposal of plant and machinery should be debited to which account?

A loss on disposal is a revenue loss and must be charged to the Profit and Loss Account (debited), reducing the net profit for the period.

Answer: C — debited to Profit and Loss Account.

Question 18. A machine costing K1 250 000 is purchased on 1 January 2008. Depreciation is 20% per year on the reducing balance. What is the written-down value at 31 December 2010?

Year 1 (end 2008): K1 250 000 x 0.80 = K1 000 000.

Year 2 (end 2009): K1 000 000 x 0.80 = K800 000.

Year 3 (end 2010): K800 000 x 0.80 = K640 000.

Answer: D — K640 000.

Question 19. What does a debit balance on a Stationery Account indicate?

A debit balance on the Stationery Account at the end of a period means that not all the stationery purchased has been used — there remains a stock of unused stationery, which is an asset (prepaid expense).

Answer: D — have a stock of stationery unused.

Question 20. What is the effect of a reduction in the Provision for Bad Debts?

A reduction in the provision means less bad debt expense is charged this period. This decreases expenses and therefore increases the net profit of the business.

Answer: A — increases the profit of a business.

Question 21. An Accounts clerk posted K250 000 to R. Hatubulo's account instead of J. Hatubulo's account. The correcting journal entry is: DR J. Hatubulo K250 000 / CR R. Hatubulo K250 000. What narrative describes this?

The amount was posted to the wrong person's account — this is an error of commission (correct amount, wrong account of the same class). The journal entry corrects it by reversing the wrong entry and posting to the right account.

Answer: B — being error of commission now corrected.

Question 22. A business fails to charge depreciation on its fixed assets at year end. What is the effect?

Without depreciation the asset's book value stays at a higher figure than it should. The Balance Sheet therefore shows an overstated asset value (the resale/book value of the asset appears higher than its true worth). Note also that profit is overstated, not understated.

Answer: C — resale value of the asset is overstated.

Question 23. A Bank Reconciliation Statement prepared starting with the Bank Statement balance will show which adjustments?

Starting from the Bank Statement balance to arrive at the Cash Book balance:

ADD uncredited deposits (lodgements in the cash book not yet processed by the bank).

DEDUCT unpresented cheques (cheques issued and entered in the cash book but not yet cleared the bank).

Answer: B — uncredited deposits added and unpresented cheques subtracted.

Question 24. Which item is correctly recorded in the Bank Reconciliation Statement?

Unpresented (outstanding) cheques are genuine reconciling items — they exist in the Cash Book but have not yet cleared the bank, so they appear in the BRS. Bank charges, direct debits and standing orders should be entered directly in the Cash Book when discovered and are not BRS items.

Answer: D — unpresented cheques.

Question 25. In which column of the Sales Ledger Control Account is the total Returns Inwards for the month recorded?

Returns Inwards (goods returned by customers) reduce the amount debtors owe. In the Sales Ledger Control Account, any reduction in debtors is on the credit side.

Answer: D — credit side of Sales Ledger Control Account.

Question 26. The total of Discounts Received is obtained from which book?

When the business pays its creditors and receives a cash discount, these discounts are recorded in the Cash Book (receipts/payments side). The column total of discounts received is posted from the Cash Book to the Discounts Received Account.

Answer: D — cash book.

Question 27. A club has 50 members each paying an annual subscription of K100 000. At year end K4 000 000 has been received. How much is transferred to the Income and Expenditure Account?

The Income and Expenditure Account is charged with income DUE for the year, not just cash received. Total subscriptions due = 50 x K100 000 = K5 000 000. The full K5 000 000 is recognised as income, with K1 000 000 shown as subscriptions owing (a debtor).

Answer: C — K5 000 000.

Question 28. The consolidated (accumulated) fund balance of a club at a specific date can be found by:

The accumulated fund = net assets of the club at that date. This is established by preparing a Statement of Affairs (listing assets and liabilities), not from an I&E; Account (which shows the surplus/deficit for a period) or a Receipts and Payments Account.

Answer: B — preparing a statement of affairs.

Question 29. Chatata and Company purchase an industrial sewing machine for the business. What type of expenditure is this?

Purchasing a fixed asset (machinery) that will provide benefit over several accounting periods is Capital Expenditure. It is recorded on the Balance Sheet, not charged entirely to the current period's Profit and Loss Account.

Answer: B — Capital Expenditure.

Question 30. Using incomplete records, which calculation gives the net profit figure when full double-entry records have not been kept?

Under single-entry/incomplete records: Net Profit = Closing Capital - Opening Capital + Drawings (- any additional capital introduced).

This simplifies to: Net Profit = Increase in capital + Drawings.

Answer: B — increase in value of capital add drawings.

Question 31. Incomplete records are records which ...

Incomplete records are those where full double-entry bookkeeping has NOT been used — typically only a cash book and some invoices are kept, without the full ledger system.

Answer: D — are not maintained on the double entry system.

Question 32. Partnership profits are K3 280 000. Appropriations: interest on capital K180 000, interest on drawings K20 000, salary to one partner K1 000 000. How much profit is available for sharing in the profit-sharing ratio?

Profit available for appropriation = Net profit + Interest on drawings - Interest on capital - Partner's salary.

= K3 280 000 + K20 000 - K180 000 - K1 000 000 = K2 120 000.

Interest on drawings is ADDED back because it is a charge to partners that increases the distributable profit.

Answer: C — K2 120 000.

Question 33. In a partnership, interest on drawings is ...

Interest on drawings is charged to the partners as a penalty for withdrawing funds early, and it is income to the partnership. It is added to (credited to) the Profit and Loss Appropriation Account, increasing the profit available for distribution.

Answer: C — added to profit for appropriation.

Question 34. Factory overhead expenses are made up of ...

Factory overheads are INDIRECT production costs — costs that cannot be traced directly to individual units of output. Direct costs (direct labour, direct materials) form prime cost, not overheads.

Answer: C — all indirect factory costs.

Question 35. Where Capital Accounts of partners are fluctuating, interest on drawings is ...

With fluctuating capital accounts, there are no separate Current Accounts — all transactions (drawings, interest, salary, share of profit) pass through the one Capital Account. Interest on drawings is therefore debited directly to the partners' Capital Accounts.

Answer: A — debited to Capital Accounts of partners.

Question 36. The 'share premium' is the excess of ...

Share premium arises when shares are issued at a price above their nominal (face/par) value. The excess of the issue price over the nominal value is the share premium, and it is credited to the Share Premium Account (a capital reserve).

Answer: D — the issue price of shares over their nominal value.

Question 37. Which of the following is paid whether or not a profit is made?

Debentures are loans to the company; debenture interest is a fixed contractual obligation and must be paid regardless of whether the company makes a profit or a loss. Dividends on shares are only declared from profit.

Answer: A — Debenture interest.

Question 38. Chabala K. Company has 4 000 preference shares of K5 000 each, carrying a 5% dividend. What is the total dividend paid to preference shareholders for the year?

Total preference capital = 4 000 x K5 000 = K20 000 000.

Annual preference dividend = 5% x K20 000 000 = K1 000 000.

Answer: C — K1 000 000.

Question 39. When common expenses must be apportioned across departments and there are accruals/prepayments, what is the correct procedure?

The adjustment (for accruals or prepayments) should be done FIRST to arrive at the correct total expense for the period, and THEN the adjusted figure is apportioned among the departments. Apportioning before adjusting would give incorrect departmental figures.

Answer: B — to do the adjustment before the apportionment.

Question 40. If cost price is K120 000 and selling price is K150 000, which statement is correct?

Gross profit = K150 000 - K120 000 = K30 000.

Mark-up = profit as % of COST = K30 000 / K120 000 = 25%.

Margin = profit as % of SELLING PRICE = K30 000 / K150 000 = 20%.

So mark-up is 25%; margin is 20%.

Answer: B — mark up is 25 per cent.

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