# G12 ECZ PRINCIPLES OF ACCOUNTS 2011 PAPER 1 SOLUTIONS

**Grade 12 ECZ Principles of Accounts 2011 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 2 NOVEMBER 2011 1 hour 15 minutes

Additional materials:
Multiple Choice Answer Sheet

TIME: 1 hour 15 minutes

## INSTRUCTIONS TO CANDIDATES

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

2 You are required to use a soft pencil (Type B or HB is recommended) and a soft clean eraser.

3 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 Sheet.**

## 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.**



This question paper consists of 7 printed pages.

1 Which of the following are not users of accounting information?

A Investors
B Tax inspectors
C Shareholders
D Carpenters

2 Which accounting concept emphasises the value of what is recorded?

A Consistency
B Materiality
C Accruals
D Matching

3 The principle which says that a limited liability company has a separate legal status is …

A business entity.
B accruals.
C money measurement.
D prudence.

4 The order of liquidity in which current assets should be shown in the balance sheet is as follows …

A Stock, debtors, bank, cash.
B Cash, bank, debtors, stock.
C Debtors, stock, bank, cash.
D Stock, debtors, cash, bank.

5 Which of the following statement is not correct?

A Assets – Liabilities = Capital
B Liabilities + Capital = Assets
C Assets – Capital = Liabilities
D Liabilities + Assets = Capital

6 A sole trader or a partnership would have capital accounts. A non-profit making organisation would instead have …

A net assets.
B an accumulated fund.
C working capital.
D capital employed.

7 The number which indicates where the corresponding entry is found is known as …

A column number.
B folio number.
C batch number.
D patent number.

8 Every double-entry in the Journal Proper should have a summary and this is called a …

A balance.

B detail.

C folio.

D narration.

9 When goods are taken for use by the proprietor, the posting to the ledger is …

A Dr stock, Cr purchases.

B Dr proprietor, Cr sales.

C Dr drawings, Cr stock.

D Dr drawings, Cr purchases.

10 The principle book of accounts where all transactions are recorded is called …

A an account.

B a ledger.

C a journal.

D a prime book.

11 Which one of the following is a nominal account?

A Rent paid

B Creditors

C Debtors

D Assets

12 When trial balance totals agree, it means the …

A book-keeper is inaccurate.

B business is making profit.

C book-keeper knows double-entry.

D double entry in the Ledger Accounts was completed correctly.

13 Which of the following is not recorded on the credit side of the Trial Balance?

A Sales Returns

B Purchases Returns

C Rent Received

D Discount Received

14 The total of Sales Returns Journal is posted to the …

A credit side of Sales Returns Account.

B credit side of Sales Ledger.

C Purchases Leger.

D debit side of Purchases Returns Account.

15 A Debit Note received from a supplier for an undercharge, •••

A increases the value of goods sold.

B increases the value for the goods purchased.

C is credited to the Bank Account.

D is debited to the Bank Account.

16 To which of these does Leasehold property belong?

A Fixed assets

B Current liabilities

C Current assets

D Long-term liabilities

17 Calculate gross profit from the following figures:

Sales K19 500 000; Closing stock – 2 000 000;
Purchases K8 500 000;
Carriage outwards K2 300 000;
Purchases returns K500 000;
Opening stock K4 200 000

The gross profit amount is •••

A K4 800 000.

B K9 300 000..

C K5 200 000.

D K7 000 000.

18 If a provision for depreciation account is in use, then the entries for the year's depreciation would be •••

A credit profit and loss account; debit provision for depreciation account.

B debit asset account, credit profit and loss account.

C credit asset account, debit provision for depreciation account.

D credit provision for depreciation account, debit profit and loss account.

19 When a fixed asset can no longer be used or depreciated in the business due to its obsolete state, it is generally referred to as having a •••

A nominal value.

B scrap value.

C book value.

D market value.

20 A debit balance brought down on a Rates Account means we •••

A are owing by the rates account.

B have paid rates account in advance.

C have paid the amount for the rates account.

D have paid too much for the rates account.

21 The omission of a Rent Receivable owing figure from the Profit and Loss Account will ...

- A increase the net profit for the business.
- B reduce the net profit for the business.
- C increase the gross profit for the business.
- D reduce the gross profit for the business.

22 A debt which was previously written off has finally been paid off by cheque. How will this be treated in the books of accounts?

- A Credit the bank account, and debit bad debts account.
- B Credit bad debts recovered accounts and debit bad debts account.
- C Debit the bank account and credit bad debts recovered account.
- D Debit bad debts recovered account and credit bank account.

23 A debtor pays K260 000, receiving 5 per cent cash discount. How much did he pay?

- A K247 000
- B K13 000
- C K273 000
- D K507 000

24 If the purchase of stationery was debited twice in the account, we reverse this by ...

- A debiting stationery account.
- B crediting stationery account.
- C crediting suspense account.
- D debiting suspense account.

25 If the trial balance totals do not agree, the difference must be entered in ...

- A the profit and loss account.
- B a suspense account.
- C a nominal account.
- D the capital account.

26 A Bank Reconciliation Statement is a statement ...

- A sent by the bank when the account is overdrawn.
- B drawn up by us to verify our cash book balance.
- C drawn up by the bank to verify the cash book balance.
- D sent by the bank when we have made an error.

27 Errors corrected using the suspense account are the ones that ...

- A prevent the trial balance from balancing.
- B are not exposed by the trial balance.
- C affect the balance sheet.
- D are omitted in the ledger.

28 In the absence of drawings and additional capital, capital at the end less capital at start is equal to ...

A net profit.
B gross profit.
C net worth.
D drawings.

29 The double entry for the interest on drawings in the partnership account is ...

A credit the interest on drawings account and debit the current accounts for the partnerships.
B credit the current account of partners and debit the interest on drawings account.
C debit the profit and loss appropriation account and credit the partners current account.
D debit the partners current account and credit the profit and loss appropriation account.

30 The sum of prime cost plus the indirect manufacturing costs is the ...

A direct cost.
B production cost.
C overhead expenses.
D direct materials.

31 The cost of manufacturing goods is transferred to ...

A the profit and loss account.
B the trading account.
C the balance sheet.
D no where.

32 The minimum number of partners in a partnership is ...

A 7.
B 2.
C 20.
D 5.

33 A company's authorized capital is ...

A the amount of share capital it has issued and fully paid for.
B the total amount of share capital it is authorized to issue.
C the maximum amount of loan capital and share capital stipulated by the company's articles of association.
D capital which can be used in emergencies only.

34 The rent expense is best allocated on the basis of ...

A sales.
B area occupied.
C time spent.
D purchases.

35 The amount a trader adds to his/her cost price of goods is known as ...

A mark-up.
B prime cost.
C cost of goods sold.
D net profit.

36 In which ledger would the debtors control account be kept?

A Sales ledger
B General ledger
C Nominal ledger
D Purchases ledger

37 Expenditure which is not spent on increasing value of fixed assets, but on running the business on day-to-day basis is known as ...

A capital expenditure.
B revenue expenditure.
C interest paid.
D revenue receipt.

38 The creditors balances at the beginning of the month was K328 000; during the month goods worth K735 000 were purchased and cheques amounting to K800 500 were paid. What was the creditors closing balance?

A K1 063 000 credit
B K262 500 debit
C K1 128 500 debit
D K262 500 credit

39 ... is a summary of the cash book for the period.

A Income and expenditure account
B Profit and loss account
C Balance sheet
D Receipts and payments account

40 A club's income and expenditure statement is similar to ...

A profit and loss account.
B appropriation account.
C cash book.
D balance sheet.

## Question 1. Which of the following are NOT users of accounting information?

Investors, tax inspectors and shareholders all need financial information to make decisions. Carpenters are skilled tradespeople whose work does not require reading company accounts.

**Answer: D — Carpenters.**

## Question 2. Which accounting concept emphasises the importance of the value or significance of what is recorded?

The Materiality concept: only items of sufficient value or significance need be separately recorded and disclosed. Trivial items may be aggregated or treated differently.

**Answer: B — Materiality.**

## Question 3. Which principle establishes that a limited liability company has a separate legal identity from its shareholders?

The Business Entity concept treats the company as a legal person distinct from its owners. Limited companies have their own legal status, separate rights and obligations.

**Answer: A — business entity.**

## Question 4. In which order should current assets be shown in the Balance Sheet (increasing liquidity)?

Liquidity = ease of conversion to cash. Least to most liquid: Stock (must be sold first) → Debtors (must collect payment) → Bank (accessible but not immediate cash in hand) → Cash (most liquid).

**Answer: A — Stock, debtors, bank, cash.**

## Question 5. Which of the following statements about the accounting equation is NOT correct?

The correct equation is: Assets = Capital + Liabilities. Rearrangements such as 'Assets = Liabilities + Capital' and 'Assets - Capital = Liabilities' are all valid. However, 'Assets = Capital - Liabilities' is wrong — liabilities must be ADDED to capital to get assets.

**Answer: D — Assets = Capital - Liabilities.**

## Question 6. A sole trader or partnership has a Capital Account. What is the equivalent for a non-profit-making organisation?

Non-profit bodies (clubs, societies) do not have owner's capital. Instead, the excess of assets over liabilities is called the Accumulated Fund (or General Fund), which is their equivalent of capital.

**Answer: B — an accumulated fund.**

### Question 7. Which number recorded in the journal and ledger indicates where the corresponding entry can be found?

The folio number (or folio reference) cross-references each journal entry to the relevant ledger account and vice versa, allowing entries to be traced between books.

**Answer: B — folio number.**

### Question 8. Every double entry in the Journal Proper should include a summary. What is this called?

The narrative (or narration) is a brief description recorded below each journal entry explaining the nature of the transaction — it is required for every entry in the Journal Proper.

**Answer: D — narration.**

### Question 9. When goods are taken from business stock for the proprietor's personal use, how is this posted to the ledger?

The proprietor's personal withdrawal of goods is treated as drawings. The goods leave stock (reducing purchases) and are charged to the owner's Drawings Account: Dr Drawings, Cr Purchases.

**Answer: D — Dr drawings, Cr purchases.**

### Question 10. What is the principal book of accounts in which all transactions are ultimately recorded?

The ledger is the principal (main) book of accounts. All entries from books of prime entry (journals, day books) are eventually posted to the ledger accounts.

**Answer: B — a ledger.**

### Question 11. Which one of the following is a nominal (revenue/expense) account?

Nominal accounts record income and expenses and are closed to the Profit and Loss Account each year. Rent Paid is an expense account — a nominal account. Creditors and Debtors are personal accounts; Assets (fixed) are real accounts.

**Answer: A — Rent paid.**

### Question 12. When the totals of a Trial Balance agree, this means ...

Agreement of the Trial Balance confirms that for every debit entry there is an equal and corresponding credit entry — the mathematical accuracy of the double entry has been maintained. It does NOT prove the business is profitable or that all entries are correct.

**Answer: D — double entry in the Ledger Accounts was completed correctly.**

## Question 13. Which of the following is NOT recorded on the credit side of the Trial Balance?

Sales Returns (Returns Inwards) represents goods returned by customers. It reduces sales revenue and carries a DEBIT balance — so it appears on the debit side of the Trial Balance, not the credit side.

**Answer: A — Sales Returns.**

## Question 14. The total of the Sales Returns Journal is posted to ...

The individual transactions from the Returns Inwards (Sales Returns) day book are credited to each customer's account in the Sales Ledger, reducing what they owe. The total is also debited to the Returns Inwards Account in the general ledger.

**Answer: B — credit side of Sales Ledger.**

## Question 15. A Debit Note received from a supplier for an undercharge does which of the following?

When a supplier undercharged, they send a Debit Note to the buyer notifying them of the additional amount owed. This increases the buyer's Purchases (and the amount owed to the supplier). Entry: Dr Purchases, Cr Creditor.

**Answer: B — increases the value of goods purchased.**

## Question 16. To which category of assets does Leasehold property belong?

Leasehold property (the right to use land/buildings under a lease) is a long-term asset held for more than one year — it is a Fixed Asset (specifically a tangible or intangible fixed asset depending on the lease type).

**Answer: A — Fixed assets.**

## Question 17. Calculate gross profit from: Sales K19 500 000, Opening stock K4 200 000, Purchases K8 500 000, Carriage outwards K2 300 000, Purchases returns K500 000, Closing stock K2 000 000.

Carriage outwards is a selling expense (below the gross profit line) — exclude from COGS.

Cost of Goods Sold = Opening stock + Purchases - Purchases returns - Closing stock

= K4 200 000 + K8 500 000 - K500 000 - K2 000 000 = K10 200 000.

Gross Profit = Sales - COGS = K19 500 000 - K10 200 000 = K9 300 000.

**Answer: B — K9 300 000.**

## Question 18. When a Provision for Depreciation Account is in use, what is the double entry for the year's depreciation?

Depreciation is an expense charged to the Profit and Loss Account, and the corresponding credit builds up in the Provision for Depreciation Account (keeping the asset at cost in the ledger). Entry: Dr Profit and Loss Account, Cr Provision for Depreciation Account.

**Answer: D — credit provision for depreciation account and debit profit and loss account.**

## Question 19. When a fixed asset can no longer be used due to its obsolete state, it is generally referred to as having a ...

When an asset is obsolete (outdated/no longer serviceable), the remaining value it can be sold or scrapped for is called its scrap value (also known as residual value). This is what the business expects to recover at the end of the asset's life.

**Answer: B — scrap value.**

## Question 20. A debit balance on a Rates Account at the end of a period means the business ...

A debit balance on an expense account at the period end indicates that rates have been paid in advance (prepaid) — the payment covers a future period, so the asset remains as a debit balance to be carried forward.

**Answer: B — have paid rates account in advance.**

## Question 21. The omission of a Rent Receivable owing figure from the Profit and Loss Account will ...

Rent receivable is income owed to the business. If omitted, income is understated, so net profit is reduced. It would NOT affect gross profit (rent income appears below the gross profit line in P&L;).

**Answer: B — reduce the net profit for the business.**

## Question 22. A debt previously written off as bad has now been paid by cheque. How is this treated in the books?

Recovery of a bad debt: the cash received is banked (Dr Bank) and the amount is credited to Bad Debts Recovered Account — income that increases net profit.

**Answer: C — debit the bank account and credit bad debts recovered account.**

## Question 23. A debtor owes K260 000 and receives a 5 per cent cash discount. How much does he actually pay?

Cash discount = 5% x K260 000 = K13 000.

Amount paid = K260 000 - K13 000 = K247 000.

**Answer: A — K247 000.**

## Question 24. If the purchase of stationery was debited twice in the account, we reverse this by ...

The extra debit to the Stationery Account is removed by crediting it once (reversing the duplicate). The corresponding debit goes to the Suspense Account: Dr Suspense, Cr Stationery.

**Answer: B — crediting stationery account.**

## Question 25. If the trial balance totals do not agree, the difference must be entered in ...

When the Trial Balance does not balance, the difference is temporarily placed in a Suspense Account so the books can still be used. The suspense account is later cleared when the error(s) are found and corrected.

**Answer: B — a suspense account.**

## Question 26. A Bank Reconciliation Statement is a statement ...

The Bank Reconciliation Statement is prepared by the BUSINESS (not the bank) to explain the difference between the balance in the Cash Book and the balance shown on the Bank Statement, thereby verifying the accuracy of the Cash Book.

**Answer: B — drawn up by us to verify our cash book balance.**

## Question 27. Errors corrected using the Suspense Account are errors that ...

The Suspense Account is used only for errors that cause the Trial Balance to NOT balance (i.e. one-sided errors). Errors that do not affect the TB totals — such as errors of omission, commission, or principle — are corrected by journal entries WITHOUT a suspense account.

**Answer: A — prevent the trial balance from balancing.**

## Question 28. In the absence of drawings and additional capital, the closing capital less the opening capital equals ...

With no drawings and no new capital introduced: Closing Capital = Opening Capital + Net Profit. Rearranging: Closing Capital - Opening Capital = Net Profit.

**Answer: A — net profit.**

## Question 29. What is the double entry for interest on drawings in a partnership?

Interest on drawings is charged to the partners (reducing their share): Dr Partners' Current Accounts. The corresponding credit increases the profit available for sharing: Cr Profit and Loss Appropriation Account.

**Answer: D — debit the partners' current account and credit the profit and loss appropriation account.**

## Question 30. The sum of prime cost plus indirect manufacturing costs is known as ...

Prime cost = direct materials + direct labour + direct expenses. Adding indirect factory overheads (indirect manufacturing costs) gives the total Production Cost (also called factory cost or manufacturing cost).

**Answer: B — production cost.**

## Question 31. The cost of manufacturing goods is transferred to ...

The Manufacturing Account calculates the total cost of goods produced. This total is then transferred to the Trading Account as the cost of goods available for sale, replacing 'Purchases' in a trading business's Trading Account.

**Answer: B — the trading account.**

## Question 32. The minimum number of partners in a partnership is ...

By definition a partnership requires at least two people carrying on business together with a view to profit. One person alone is a sole trader; the maximum is typically 20 (for ordinary partnerships under Zambian/common law).

**Answer: B — 2.**

## Question 33. A company's authorised share capital is ...

Authorised (nominal) share capital is the maximum amount of share capital the company is permitted to issue, as stated in its Memorandum of Association. It is NOT necessarily the amount actually issued or fully paid up.

**Answer: B — the total amount it is authorised to issue.**

## Question 34. The rent expense is best allocated to departments on the basis of ...

Rent relates to the physical space occupied. The fairest (most equitable) basis for apportioning rent is the floor area occupied by each department.

**Answer: B — area occupied.**

## Question 35. The amount a trader adds to the cost price of goods in order to arrive at the selling price is known as ...

Mark-up is the amount added to cost price to arrive at the selling price. It is expressed as a percentage of the COST price. (Margin, by contrast, is the profit as a percentage of the selling price.)

**Answer: A — mark-up.**

## Question 36. In which ledger is the Debtors Control Account kept?

Control accounts are kept in the General Ledger (also called the Nominal Ledger). Individual debtor accounts are in the Sales Ledger, but the Debtors Control Account — which summarises them all — sits in the General Ledger.

**Answer: B — General ledger.**

## Question 37. Expenditure that is not spent on increasing the value of fixed assets, but on running the day-to-day business, is known as ...

Revenue expenditure covers the day-to-day running costs of a business (rent, wages, stationery, repairs, etc.). It is charged to the Profit and Loss Account in the period it is incurred. Capital expenditure, by contrast, acquires or improves fixed assets.

**Answer: B — revenue expenditure.**

## Question 38. Opening creditors K328 000; goods purchased on credit K735 000; cheques paid K800 500. Find the closing creditors balance.

Creditors Control: Opening K328 000 + Purchases K735 000 - Payments K800 500 = K262 500.

Creditors normally have a credit balance (the business still owes suppliers).

**Answer: D — K262 500 credit.**

## Question 39. Which of the following is a summary of the cash book for the period?

The Receipts and Payments Account used by clubs and non-profit organisations is essentially a summary of cash/bank movements — all receipts on one side and all payments on the other, similar to a summarised cash book.

**Answer: D — Receipts and payments account.**

## Question 40. A club's Income and Expenditure statement is similar to which business account?

The Income and Expenditure Account for a club mirrors the Profit and Loss Account for a business. Both match income against expenditure for the period to arrive at a net surplus (I&E;) or net profit (P&L;).

**Answer: A — profit and loss account.**

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