G12 ECZ PRINCIPLES OF ACCOUNTS 2013 PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2013 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**

Tuesday 8 OCTOBER 2013 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 8 printed pages.

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1 Which statement is correct?

A A liability is always a debit entry.

B An expense is always a credit entry.

C An asset is always a credit entry.

D An expense is always a debit entry.

2 Mwemato Co. Ltd decided to change from the straight line method of depreciation to the reducing balance method. Name the accounting concept which the company contravened.

A Going Concern Concept

B Historic Cost Concept

C Prudence Concept

D Consistency Concept

3 Under which concept is provision for Bad Debts created?

A Consistency Concept

B Money measurement Concept

C Prudence Concept

D Historic Concept

4 Assets of the business may be financed by a combination of the ...

A owner's capital and any capital borrowed.

B owner's capital and debtors.

C creditors and debtors.

D capital borrowed and cash at bank.

5 E. M. Jamba has the following assets and liabilities at the beginning of the year:

Premises, K15 000;
Equipment K8 500;
Stock K3 000;
Debtors K2 500;
Bank overdraft K2 000;
Creditors K1 900;
Mortgage on land and buildings K10 000 and
Bank loan K3 500.
What is his capital as at that date?

A K29 000

B K17 400

C K11 600

D K46 400

6 A. Munyama was a sales agent for Standard Sales Co. Ltd and was receiving 15% commission on monthly sales. In one month he sold goods by cheque worth K15 500 000. Which entry below was correct to record the commission in A. Munyama's books?

	Account Debited	Account Credited
A	Bank Account K2 325	Sales Account K235
B	Sales Account K2 325	Bank Account K2 325
C	Bank Account K2 325	Commission Received K2 325
D	Commission Received K2 325	Bank Account K2 325

7 If a friend asked you why a business prepares a Trial Balance, what answer would you give him/her? To •••

A calculate the profit or loss of the business for the year.
B show the financial position of the business.
C check the accuracy of the cash and Bank Accounts records of the business.
D check the arithmetic accuracy and completion of the double entry in the ledger accounts of the business.

8 Import Duty and Freight Charges are expenses to the business. In which section of the final accounts should they appear? In the •••

A Profit and Loss Account.
B Trading Account.
C Profit and Loss Appropriation Account.
D Balance Sheet as Current Liabilities.

9 Rent received by the business for sub-letting an office should be •••

A credited to the Trading Account.
B debited to the Trading Account.
C credited to the Profit and Loss Account.
D debited to the Profit and Loss Account.

10 For a manufacturing Company, depreciation of machinery in the plant should be included in the •••

A prime cost section.
B trading Account.
C factory overheads section.
D profit and loss account.

11 Profits withheld from distribution are known as •••

A appropriation.
B disposal.
C floats.
D reserves.

[Turn over

12 M. Muleya runs a small business. He bought goods costing K800 and sold half of them for K950. What was his profit if the expenses were K250?

A K550.
B K300.
C K150.
D K50.

13 In the business of Kawala and Sons who owns a clothing store, which of the following are capital expenditure?

(i) Shop furniture bought
(ii) Wages of assistances
(iii) New van bought
(iv) Petrol for van

A I and II
B I and III
C II and III
D II and IV

14 Accumulated fund for a non-trading organisation is equal to ...

A assets plus net profit.
B capital plus net profit.
C capital minus assets.
D assets minus liabilities

15 Which of the following documents is used to write up the Petty Cash Book?

A Receipt
B Invoice
C Petty Cash Voucher
D Cheque

16 In a club, the profit and loss account is replaced by ...

A receipts and payments account.
B subscriptions account.
C trading, profit and loss account.
D income and expenditure account.

17 E. Phiri's current assets and liabilities were as follows

Stock	K62 000
Creditors	K35 000
Debtors	K43 000
Bank Overdraft	K25 000
Prepaid expenses	K15 000

What is Phiri's working capital ratio?

A 2:1

B 1:2

C 4:1

D 0:7:1

18 Debtors at start of trading period were K11 500; sales on credit K48 000 and receipts from debtors K45 000 . What was the closing debtors total?

A K8 500

B K14 500

C K83 500

D K18 500

19 A credit balance on the rent payable account at the time of the balance sheet denotes ...

A rent paid.

B rent received.

C rent accrued.

D rent collected.

20 Subscriptions prepaid in the previous year will in the Income and Expenditure Account be ...

A added to new subscriptions.

B subtracted from the new subscriptions.

C included in the expenditure.

D left out.

21 Mupakile buys goods on credit from Nkandu. The goods are unsuitable and Mupakile returns them to Nkandu.

What is the name of the document which Mupakile sends to Nkandu with the goods?

A Credit Note

B Invoice

C Debit Note

D Statement of Account

22 In which of the following will cash discount received be first recorded?

A Cash Book

B General Journal

C Ledger

D Sales Journal

23 The outstanding amount of rent to be received may be classified as •••

A debtors for rent.

B creditors for rent.

C accrued liability.

D prepaid liability.

24 An accountant mistakenly treats a capital expenditure item as revenue expenditure. What is the effect of this error?

A Gross profit is understated.

B Net profit is overstated.

C Total assets are overstated.

D Total assets are understated.

25 What is the meaning of the money measurement concept?

A Accounts are kept on the double entry basis.

B Assets are normally shown at cost price.

C Only items with monetary value are included in the accounts.

D Profits are calculated on the basis of cash received less cash paid.

26 Which item would not appear in a sales ledger control account?

A Discounts allowed.

B Interest charged on overdue accounts.

C Provision for bad debts.

D Sales returns.

27 Which item appears in the Appropriation Account of a Limited Company?

A Debenture Interest paid.

B Investment Income received.

C Directors salaries.

D Dividends paid.

28 The average stock of a sole trader is K40. Its rate of stock turn is 5 times a year. Gross profit is 20% on cost. What are the sales for the year?

A K160

B K200

C K240

D K250

29 ••• is regarded as the amount available to the business to meet its daily expenses of running the business.

A Capital employed

B Capital owned

C Working capital

D Net assets

30 Goods taken from stock by the owner of the business for his personal use are •••

A charged to the purchases account.

B charged to the sales account.

C credited to the capital accounts.

D credited to the purchases account.

31 Trade discount is **not** shown in the •••

A Sales Journal.

B Purchases Journal.

C Sales Returns Journal.

D Trading Account.

32 A debit balance in capital account indicates that the firm is •••

A over trading.

B depreciating.

C insolvent.

D investing.

33 When a transaction is completely omitted from the books, it is called •••

A error of commission.

B error of omission.

C error of principle.

D transposition error.

34 Joeworld Ltd has the following balance sheet Summary:

Fixed Assets at Book value	K120 000
Net Current Assets	K 30 000
	K150 000

Financed by capital and reserves K150 000. The fixed assets are valued at K180 000 and the net current assets at K20 000. The business is acquired for K225 000.

What is the payment of goodwill?

A K25 000

B K45 000

C K75 000

D K105 000

35 Interest charged on a partner's drawings account should be •••

A debited to the profit and loss account.

B credited to the profit and loss account.

C debited to the appropriation account.

D credited to the appropriation account.

36 If creditors at 1st January 2010 were K5 000 and at 31st December 2010 creditors were K8 400; then payments to creditors were K64 000 and cash purchases were K10 000. The figure of purchases for 2010 was ...

A K67 400.
B K77 400.
C K60 600.
D K63 200.

37 CARS Public Limited Company had 500 000, 5% Preference Shares at K1.00 each and 1 000 000 ordinary shares at K1.00 each. The company had made a net profit of K800 000 for the year. How much would be paid in total as dividends if directors proposed 20% for ordinary shares?

A K225 000
B K200 000
C K25 000
D K575 000

38 Simasiku supplies goods to Njobvu. In Simasiku's books the account of Njobvu shows a debit balance of K350. Njobvu sends Simasiku a cheque for K75.

What is the balance on Njobvu's account after this transaction?

A K275 debit.
B K275 credit.
C K425 debit.
D K425 credit.

39 A trader provided the following information:

Sales	K1 200
Cost of sales	480
Expenses	430

What was the net profit?

A K50
B K290
C K720
D K770

40 How is gross profit calculated?

A Sales less expenses.
B Sales less purchases.
C Sales less sales returns less closing stock.
D Sales less sales returns less cost of goods sold.

Question 1. Which statement about the nature of accounting entries is correct?

Liabilities and capital carry credit balances; assets and expenses carry debit balances. An expense is always recorded as a debit entry — it represents an outflow of benefit or value from the business.

Answer: D — An expense is always a debit entry.

Question 2. A company changed from the straight-line method to the reducing balance method of depreciation. Which accounting concept did the company contravene?

The Consistency concept requires that the same accounting methods be applied from one period to the next. Changing the depreciation method from year to year violates this principle, making comparisons across periods unreliable.

Answer: D — Consistency Concept.

Question 3. Under which concept is a provision for Bad Debts created?

The Prudence (Conservatism) concept requires that potential losses be recognised as soon as they are foreseeable, even if not yet confirmed. Creating a provision for bad debts anticipates a likely future loss, matching it against current revenue.

Answer: C — Prudence Concept.

Question 4. The assets of a business may be financed by a combination of ...

The accounting equation: Assets = Capital + Liabilities. Assets are funded by the owner's own capital (equity) plus any external borrowings (capital borrowed from lenders/creditors). The two sources together finance all business assets.

Answer: A — owner's capital and any capital borrowed.

Question 5. E. M. Jamba has the following assets and liabilities at the beginning of the year: Premises K15 000; Equipment K8 500; Stock K3 000; Debtors K2 500; Bank Overdraft K2 000; Creditors K1 900; Mortgage on land K10 000; Bank loan K3 500. What is his capital at that date?

Capital = Total Assets - Total Liabilities.

Total Assets = K15 000 + K8 500 + K3 000 + K2 500 = K29 000.

Total Liabilities = K2 000 + K1 900 + K10 000 + K3 500 = K17 400.

Capital = K29 000 - K17 400 = K11 600.

Answer: C — K11 600.

Question 6. A. Munyama was a sales agent for Standard Sales Co. Ltd receiving 15% commission on monthly sales. In one month he sold goods by cheque worth K15 500 000. Which entry is correct to record in A. Munyama's books?

As a sales agent, Munyama earns only his commission — he does not record the full sale as his own revenue. Commission = 15% x K15 500 000 = K2 325 000.

Entry in his books: Dr Bank K2 325 000 (cheque received) / Cr Commission Received K2 325 000 (income earned).

Answer: C — Bank Account debited, Commission Received Account credited.

Question 7. If a friend asks why a business prepares a Trial Balance, what answer would you give him?

The Trial Balance checks the arithmetic accuracy of the double-entry system — it verifies that total debits equal total credits across all ledger accounts. It does not prove profit, financial position, or the correctness of entries in terms of principle.

Answer: D — check the arithmetic accuracy and completion of the double entry in the ledger accounts of the business.

Question 8. Import Duty and Freight Charges are expenses to the business. In which section of the final accounts should they appear?

Import duty and freight charges are costs incurred to bring goods to the business — they form part of the cost of goods and belong in the Trading Account (added to purchases when calculating Cost of Goods Sold).

Answer: B — Trading Account.

Question 9. Rent received by the business for sub-letting an office should be ...

Rent received is income earned by the business — it is credited to the Rent Received Account and then credited to the Profit and Loss Account (below the gross profit line) as other income, increasing net profit.

Answer: C — credited to the Profit and Loss Account.

Question 10. For a manufacturing company, depreciation of machinery in the plant should be included in the ...

Plant machinery is used in the production process. Its depreciation is an indirect manufacturing cost and belongs in the Factory Overheads section of the Manufacturing Account, not in prime cost (which covers only direct costs).

Answer: C — factory overheads section.

Question 11. Profits withheld from distribution are known as ...

When profits are retained in the business rather than distributed to owners, they are transferred to reserves. Reserves represent accumulated retained profits — they remain within the business to fund future operations or growth.

Answer: D — reserves.

Question 12. M. Muleya runs a small business. He bought goods costing K800 and sold half of them for K950. What was his profit if the expenses were K250?

Cost of goods sold = half of K800 = K400.

Gross Profit = Sales - COGS = K950 - K400 = K550.

Net Profit = Gross Profit - Expenses = K550 - K250 = K300.

Answer: B — K300.

Question 13. In the business of Kawala and Sons who owns a clothing store, which of the following are capital expenditure?

Capital expenditure acquires or improves long-term assets. Shop furniture bought (i) and a new van (iii) are fixed assets — both are capital expenditure. Wages of assistants (ii) and petrol for the van (iv) are day-to-day running costs (revenue expenditure).

Answer: B — I and III.

Question 14. Accumulated fund for a non-trading organisation is equal to ...

Non-profit organisations do not have owner's capital. Their accumulated fund (general fund) represents the excess of total assets over total liabilities — the same concept as capital in a profit-making business, calculated as: Assets minus Liabilities.

Answer: D — assets minus liabilities.

Question 15. Which of the following documents is used to write up the Petty Cash Book?

Every payment from petty cash is supported by a Petty Cash Voucher — a small form completed by the person claiming the expense. These vouchers are the source documents from which the Petty Cash Book is written up.

Answer: C — Petty Cash Voucher.

Question 16. In a club, the profit and loss account is replaced by ...

Non-profit clubs and societies do not aim to make profit. Instead of a Profit and Loss Account, they prepare an Income and Expenditure Account, which matches income earned against expenditure incurred to show the surplus or deficit for the period.

Answer: D — income and expenditure account.

Question 17. E. Phiri's current assets and liabilities: Stock K62 000; Creditors K35 000; Debtors K43 000; Bank Overdraft K25 000; Prepaid expenses K15 000. What is his working capital ratio?

Working capital ratio = Current Assets / Current Liabilities.

Current Assets = Stock + Debtors + Prepaid expenses = K62 000 + K43 000 + K15 000 = K120 000.

Current Liabilities = Creditors + Bank Overdraft = K35 000 + K25 000 = K60 000.

Ratio = K120 000 / K60 000 = 2 : 1.

Answer: A — 2 : 1.

Question 18. Debtors at start of trading period were K11 500; sales on credit K48 000; receipts from debtors K45 000. What was the closing debtors total?

Debtors Control: Opening debtors + Credit sales - Cash received = Closing debtors.

= K11 500 + K48 000 - K45 000 = K14 500.

Answer: B — K14 500.

Question 19. A credit balance on the rent payable account at the time of the Balance Sheet denotes ...

The Rent Payable Account records rent owed by the business. A credit balance means the business has a liability for rent that has been incurred but not yet paid — this is rent accrued (accrued expense).

Answer: C — rent accrued.

Question 20. Subscriptions prepaid in the previous year will in the Income and Expenditure Account be ...

Subscriptions received in advance (prepaid) at the end of last year relate to the current year — they are income for the current period. They are therefore added to subscriptions received this year in the I&E; Account.

Answer: A — added to new subscriptions.

Question 21. Mupakile buys goods on credit from Nkandu. The goods are unsuitable and Mupakile returns them. What is the name of the document which Mupakile sends to Nkandu with the goods?

When a buyer returns goods to a seller, the buyer (Mupakile) sends a Debit Note to the seller (Nkandu). This document notifies the seller that the buyer is debiting (reducing) what they owe, requesting a corresponding credit from the seller.

Answer: C — Debit Note.

Question 22. In which of the following will cash discount received be first recorded?

Cash discount received is given by a creditor when the business pays promptly. The discount is entered immediately in the Cash Book (in the discount received column) at the time of payment — this is its first point of entry in the accounting records.

Answer: A — Cash Book.

Question 23. The outstanding amount of rent to be received may be classified as ...

Rent receivable that is outstanding (due but not yet received) represents an amount owed to the business. It is an asset — effectively a debtor — appearing on the Balance Sheet as accrued income or debtors for rent.

Answer: A — debtors for rent.

Question 24. An accountant mistakenly treats a capital expenditure item as revenue expenditure. What is the effect of this error?

Treating a capital expenditure (purchase of a fixed asset) as revenue expenditure (an expense) means the full cost is charged against profit in the current period. This overstates expenses and therefore understates the net profit for the period.

Answer: D — Net profit is understated.

Question 25. What is the meaning of the Money Measurement concept?

The Money Measurement concept states that only transactions and events that can be expressed in monetary (financial) terms are recorded in the accounts. Non-monetary items — such as staff morale, management quality, or brand reputation — are excluded regardless of their importance.

Answer: C — Only items with monetary value are included in the accounts.

Question 26. Which of the following will NOT appear in a Sales Ledger Control Account?

The Sales Ledger Control Account summarises debtor balances — it includes items that affect what customers owe: discounts allowed, interest on overdue accounts, and sales returns (all of which change debtor balances). Provision for bad debts is a general ledger adjustment and does NOT appear in the SLCA.

Answer: C — Provision for bad debts.

Question 27. Which item appears in the Appropriation Account of a Limited Company?

The Appropriation Account shows how profits are distributed. Debenture interest and directors' salaries are charged before reaching the Appropriation Account (they appear in the P&L;). Investment income is credited in P&L.; Dividends (paid from profits to shareholders) are distributions shown in the Appropriation Account.

Answer: D — Dividends paid.

Question 28. The selling price of a sole trader is K40. Its rate of stock turn is 5 times a year. Gross profit is 20% on cost. What are the sales for the year?

If average stock at cost = K40 and rate of stock turnover = 5: Cost of Goods Sold = 5 x K40 = K200.

Gross profit is 20% on cost: GP = 20% x K200 = K40.

Sales = COGS + GP = K200 + K40 = K240.

Answer: C — K240.

Question 29. ... is regarded as the amount available to the business to meet its daily expenses of running the business.

Working capital (Current Assets minus Current Liabilities) is the liquid fund available for day-to-day business operations. It measures the short-term financial health of the business and its ability to meet routine expenses and obligations.

Answer: C — Working capital.

Question 30. Goods taken from stock by the owner of the business for personal use are ...

When the proprietor takes goods from stock for personal use (drawings in kind), the entry reduces the purchases balance: Dr Drawings (personal account), Cr Purchases Account. The goods are no longer available for resale, so purchases is reduced.

Answer: D — credited to the purchases account.

Question 31. Trade discount is NOT shown in the ...

Trade discount is deducted from the list price on the invoice before any entry is made in the books. It therefore does not appear as a separate entry in any book of account — not in the day books, not in the ledger, and not in the Trading Account. The Trading Account shows only net sales and net purchases (both already reduced by trade discount).

Answer: D — Trading Account.

Question 32. A debit balance in a capital account indicates that the firm is ...

Capital normally has a credit balance (representing the owner's investment). A debit balance in the capital account means total liabilities exceed total assets — the business owes more than it owns. This is the definition of insolvency.

Answer: C — insolvent.

Question 33. When a transaction is completely omitted from the books, it is called ...

An error of omission occurs when a transaction is not recorded at all in the books. Both the debit and credit entry are missing, so the Trial Balance still agrees — but the accounts are incomplete.

Answer: B — error of omission.

Question 34. Joeworld Ltd has the following balance sheet summary: Fixed Assets at book value K120 000; Net Current Assets K30 000; total K150 000. The fixed assets are valued at K180 000 and net current assets at K20 000. The business is acquired for K225 000. What is the payment of goodwill?

Goodwill = Purchase price - Fair value of net assets acquired.

Fair value of net assets = Fixed assets (fair value) + Net current assets (fair value) = K180 000 + K20 000 = K200 000.

Goodwill = K225 000 - K200 000 = K25 000.

Answer: A — K25 000.

Question 35. Interest charged on a partner's drawings account should be ...

Interest on drawings is a charge levied on partners for withdrawing funds early — it penalises the withdrawal and adds to the profit available for distribution. It is credited to the Profit and Loss Appropriation Account, increasing distributable profit, and debited to the partners' accounts.

Answer: D — credited to the appropriation account.

Question 36. If creditors at 1st January 2010 were K5 000 and at 31st December 2010 creditors were K8 400; then payments to creditors were K64 000 and cash purchases K10 000. The figure of purchases for 2010 was ...

Creditors Control: Opening K5 000 + Credit purchases - Payments K64 000 = Closing K8 400.

Credit purchases = K8 400 + K64 000 - K5 000 = K67 400.

Total purchases = Cash purchases + Credit purchases = K10 000 + K67 400 = K77 400.

Answer: B — K77 400.

Question 37. CARS Public Limited Company had 500 000 5% Preference Shares at K1 00 each and 1 000 000 ordinary shares at K1. The company made a net profit of K800 000. How much would be paid in total as dividends if directors proposed 20% for ordinary shares?

Preference dividend = 500 000 x K1.00 x 5% = K25 000.

Ordinary dividend = 1 000 000 x K1.00 x 20% = K200 000.

Total dividends = K25 000 + K200 000 = K225 000.

Answer: A — K225 000.

Question 38. Simasiku supplies goods to Njobvu. In Simasiku's books the account of Njobvu shows a debit balance of K350. Njobvu sends Simasiku a cheque for K75. What is the balance on Njobvu's account after this transaction?

In Simasiku's books, Njobvu is a debtor (debit balance = K350 owed to Simasiku). When Njobvu pays K75 by cheque: Dr Bank K75, Cr Njobvu K75.

New balance = K350 - K75 = K275 (still a debit — Njobvu still owes K275).

Answer: A — K275 debit.

Question 39. A trader provided the following information: Sales K1 200; Cost of sales K480; Expenses K430. What was the net profit?

Gross Profit = Sales - Cost of Sales = K1 200 - K480 = K720.

Net Profit = Gross Profit - Expenses = K720 - K430 = K290.

Answer: B — K290.

Question 40. How is gross profit calculated?

Gross Profit is the trading surplus before deducting overhead expenses. It equals Net Sales (Sales minus Sales Returns) minus the Cost of Goods Sold. COGS = Opening stock + Purchases - Closing stock.

Answer: D — Sales less sales returns less cost of goods sold.

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