G12 ECZ PRINCIPLES OF ACCOUNTS 2014 PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2014 Paper 1 (7110/1)

Worked solutions — 40 multiple-choice questions

The full question paper appears first — worked answers follow.

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 7 OCTOBER 2014 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.
Non programmable 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 The job opportunity available for a person who has studied accounts is • • •

A cashier.

B secretary.

C office orderly.

D personnel manager.

2 • • • is the accounting concept that makes capital be treated as a liability to the business.

A Business Entity

B Going Concern

C Objectivity

D Consistence

3 If the current assets are arranged in a Balance Sheet in increasing Order of Liquidity, which of the following will be correct? The • • •

A easiest to turn into cash will come first.

B easiest to turn into cash will come last.

C highest value of money will come last.

D highest value of money will come first.

4 The transaction whose double entry is completed within the cash book is called • • •

A cash transaction.

B contra entry transaction.

C bank transaction.

D double entry transaction.

5 The recording of two aspects of a transaction involves • • •

A double entry.

B accounting equation.

C debit entry.

D credit entry.

6 Give an example of a Nominal Account from the following;

A Kanyama Kaluba Account.

B Furniture and Fittings Account.

C Wages Account.

D ZESCO Account.

7 Show the effect of the transaction in which the owner puts an extra K4 000 cash into the business.

A Debit cash and Credit owner

B Debit business and Credit cash

C Debit Bank and Credit Capital

D Debit Cash and Credit Capital

8 To check completion of double entry and arithmetical accuracy in the books of accounts a ••• is drawn.

- **A** Balance Sheet
- **B** Trial Balance
- **C** Profit and Loss Account
- **D** Trading Account

9 Which book of Prime Entry can a bus ticket be recorded?

- **A** Purchases Day Book
- **B** Sales Day Book
- **C** Cash Book
- **D** Petty Cash Book

10 In which of the following will Cash Discount be first recorded?

- **A** Cash Book
- **B** General Journal
- **C** Ledger
- **D** Sales Journal

11 ••• shows the state of affairs of a business at the end of a financial year.

- **A** The Trading Account
- **B** The Profit and Loss Account
- **C** The Cash Book
- **D** The Balance Sheet

12 A trader had opening capital of K85 000 and closing capital of K107 000. She had drawings of K13 000 during the year. What was her net profit?

- **A** K9 000
- **B** K13 000
- **C** K22 000
- **D** K35 000

13 Zuze Enterprise bought a motor van at K20 000. It was estimated to be used in business for 5 years after which it would have a scrap value of K2 000. What was the depreciation value of each year?

- **A** K3 335.33
- **B** K3 666.67
- **C** K3 600.00
- **D** K2 000.00

14 Expenses which a firm has incurred but not yet paid for are called •••

- **A** prepaid expenses.
- **B** administrative expenses.
- **C** accrued expenses.
- **D** distribution expenses.

15 Chasha created a provision for Bad and Doubtful Debts of K400 in 2012. In 2013 she increased the provision to 5% of total debtors. On 31st December 2013, debtors were K10 000. How much did Chasha debit to her Profit and Loss Account for the year 2013?

A K100

B K400

C K500

D K900

16 The sale of Machinery costing K10 000 was entered in the Sales Account instead of Machinery Disposal Account. Such an error is an example of …

A complete reversal of entries.

B error of principle.

C error of original entry.

D error of commission.

17 The Suspense Account was opened for K429.62. Later it was discovered that cash sales of the amount was entered in cash account but no entry was made in the sales account. What would be the double entry to clear off the suspense account?

	Account Debited		Account Credited	
A	Cash	K429.62	Suspense	K429.62
B	Suspense	K429.62	Sales	K429.62
C	Suspense	K429.62	Cash	K429.62
D	Sales	K429.62	Suspense	K429.62

18 The bank charges on the Bank Statement did not appear in the cash book causing a difference in the balances. What should be the entry to correct the balances.

A Debit the statement of account

B Credit the statement of account

C Credit the cash book

D Debit the cash book

19 Entries in control accounts are made from …

A Bank Statement.

B Books of Original entry.

C Ledger Accounts.

D Sales invoices.

20 Which of the following items appear under Current Assets of a non-profit making organisation?

A Transport cost owing

B Debtors for subscription

C Subscription received in advance

D Bar expenses owing

21 The purchase of a grinding machine is • • •

A Revenue receipt.

B Capital expenditure.

C Capital receipt.

D Revenue expenditure.

22 Incomplete Records are best described as records which • • •

A are destroyed by fire.

B are not kept on single entry.

C are not kept on double entry system.

D show only debit entry.

23 A partner's salary of K210 000 would be posted to the • • •

A debit side of profit and loss account.

B credit side of capital account.

C debit side of his current account.

D credit side of his current account.

24 A manufacturing business extracted the following information from its books:

Raw material	K150 000
Wages	K144 000
Overheads	K130 000

What was the cost of production?

A K150 000

B K292 000

C K424 000

D K194 000

25 What is a Limited Company's Authorised Capital?

A Capital the company is allowed to raise

B Issued capital plus loan capital

C Paid up share capital

D Shares issued

26 A business with two departments had:

Sales:	**Department A**	K2 000 000
	Department B	K1 000 000
Expenses:	K600 000	

How much expenses would you charge to **Department A** if expenses are charged on the basis of sales?

A K600 000

B K400 000

C K1 000 000

D K200 000

[Turn over

27 Mala and Company had the following data for the year 2012:

Gross Profit	10 000
Net Profit	5 000
Capital	40 000
Drawings	15 000
Loan	45 000

Calculate the company's return on investment

A 25%

B 10%

C 37½%

D 12½%

28 A person often has to pay for Goodwill when admitted as a partner. Why does payment for Goodwill take place? To . . .

A share profit.

B purchase a new business.

C compensate old partners.

D compensate for good reputation.

29 Stock Turnover is calculated by:

A $\dfrac{\text{Sales}}{\text{Average Stock}}$

B $\dfrac{\text{Cost of goods sold}}{\text{Average stock}}$

C $\dfrac{\text{Sales}}{\text{Opening stock}}$

D Sales + Cost of goods sold

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

A Debenture interest

B Director's salaries

C Investment income received

D Ordinary share dividends

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

A Debenture interest

B Shares

C Dividends

D Reserves

32 An Accountant mistakenly treats a Capital Expenditure item as revenue. What will be the effect of this error?

A Gross Profit will be understated

B Net Profit will be overstated

C Total assets will be overstated

D Total assets will be understated

33 The document for withdrawing money from a current accounts is the …

A Invoice.

B Withdrawal slip.

C Receipt.

D Cheque.

34 Which of the following is **incorrect** for a non profit making organisation?

A Accumulated Fund = Assets + Liabilities

B Assets – Liabilities = Accumulated Fund

C Assets = Accumulated Fund + Liabilities

D Assets – Accumulated Fund = Liabilities

35 The accounting equation falls under the …

A cost concept.

B accrual concept

C dual aspect concept

D consistency concept

36 What is the effect of making contra entries in the Sales and Purchases Ledger Control Accounts?

	Debtors	Creditors
A	Increase	Increase
B	Decrease	Decrease
C	Increase	Decrease
D	Decrease	Increase

37 A Bad Debt written off in the previous year has been recovered. This should be …

A treated as a profit for the year.

B written off from the profit and loss account.

C re-entered in the debtor's account.

D ignored as it was already written off.

38 The number of times the business replenishes its stock is …

A net profit margin.

B gross profit margin.

C acid test.

D Rate of stock turnover

[Turn over

39 In the General Ledger, the total of the discount received is posted to the ..

A credit of the discount received account.

B credit of the discount allowed account.

C debit of the discount allowed account.

D debit of the discount received account.

40 Gross profit can be defined as ...

A Net profit less expenses of the period.

B Cost of goods sold plus opening stock.

C Sales less purchases.

D Excess of sales divided by cost of goods sold.

Question 1. The job opportunity available for a person who has studied accounts is ...

Accounting knowledge is directly needed to handle financial transactions, record receipts and payments, and balance cash. Of the options given, a cashier is the role that most specifically requires accounting training.

Answer: A — cashier.

Question 2. The accounting concept that makes capital be treated as a liability to the business is ...

The Business Entity concept holds that the business is a separate legal and accounting entity from its owner(s). From the business's perspective, the capital invested by the owner is a liability — the business owes it back to the owner. This separation is the foundation of the accounting equation.

Answer: A — Business Entity.

Question 3. If the current assets are arranged in a Balance Sheet in increasing Order of Liquidity, which of the following will be correct?

Increasing order of liquidity means starting from the LEAST liquid (hardest to convert to cash) and ending with the MOST liquid. Stock must be sold first, then debtors collected, then bank, then cash. So the hardest to turn into cash appears first in the list.

Answer: A — hardest to turn into cash will come first.

Question 4. The transaction whose double entry is completed within the cash book is called ...

A contra entry is one in which both sides of the double entry are within the same book — the Cash Book. For example, withdrawing cash from the bank: Dr Cash (cash column) / Cr Bank (bank column). Both entries stay within the Cash Book.

Answer: B — contra entry transaction.

Question 5. The recording of two aspects of a transaction involves ...

Double entry bookkeeping records every transaction as two equal and opposite entries — a debit and a credit. This captures both aspects (giving and receiving) of every business transaction and ensures the books always balance.

Answer: A — double entry.

Question 6. Give an example of a Nominal Account from the following:

Nominal accounts record income, expenses, gains, and losses — they are closed to the Profit and Loss Account at year end. Wages is an expense account (nominal). Kaluba's account is personal; furniture and fittings is real (asset); ZESCO is a personal (creditor) account.

Answer: C — Wages Account.

Question 7. Show the effect of the transaction in which the owner puts an extra K4 000 cash into the business.

When the owner introduces additional capital by depositing cash into the business: Cash (asset) increases — Dr Cash Account. Capital (owner's equity) increases — Cr Capital Account.

Answer: D — Debit Cash and Credit Capital.

Question 8. To check completion of double entry and arithmetical accuracy in the books of accounts ... is drawn.

The Trial Balance is extracted from the ledger and lists all account balances. If total debits equal total credits, it confirms that the double-entry posting is arithmetically complete. It does not, however, detect all types of errors.

Answer: B — Trial Balance.

Question 9. Which Book of Prime Entry can a bus ticket be recorded?

A bus ticket is a small cash expense typically paid from petty cash. Small day-to-day cash payments supported by petty cash vouchers are recorded in the Petty Cash Book, the appropriate book of prime entry for minor expenditure.

Answer: D — Petty Cash Book.

Question 10. In which of the following will Cash Discount be first recorded?

Cash (settlement) discount is recorded at the time of payment or receipt. Both the cash received/paid and the discount appear in the Cash Book simultaneously — the Cash Book has dedicated discount columns for this purpose, making it the first point of entry.

Answer: A — Cash Book.

Question 11. ... shows the state of affairs of a business at the end of a financial year.

The Balance Sheet (Statement of Financial Position) shows the assets, liabilities, and capital of a business at a specific date. It captures the financial position at a point in time, unlike the Trading and P&L; Accounts which cover a period.

Answer: D — The Balance Sheet.

Question 12. A trader had opening capital of K85 000 and closing capital of K107 000. She had drawings of K13 000 during the year. What was her net profit?

Net Profit = Closing Capital - Opening Capital + Drawings.

= K107 000 - K85 000 + K13 000 = K22 000 + K13 000 = K35 000.

Answer: D — K35 000.

Question 13. Zuze Enterprise bought a motor van at K20 000. It was estimated to be used in business for 5 years after which it would have a scrap value of K2 000. What was the depreciation value of each year?

Straight-line depreciation = (Cost - Scrap Value) / Useful Life.

= (K20 000 - K2 000) / 5 = K18 000 / 5 = K3 600 per year.

Answer: C — K3 600.00.

Question 14. Expenses which a firm has incurred but not yet paid for are called ...

Accrued expenses (accruals) are costs that have been incurred in the current period but not yet paid. They represent an obligation (current liability) and must be matched against the revenue of the period in which they are incurred.

Answer: C — accrued expenses.

Question 15. Chesha created a provision for Bad and Doubtful Debts of K400 in 2012. In 2013 she increased the provision to 5% of debtors. On 31 December 2013, debtors were K10 000. How much did Chesha debit to her Profit and Loss Account for the year 2013?

New required provision = 5% x K10 000 = K500.

Existing provision = K400.

Increase in provision = K500 - K400 = K100.

Only the INCREASE (K100) is charged to the P&L; Account — the K400 already provided reduces the double-counting.

Answer: A — K100.

Question 16. The sale of Machinery costing K10 000 was entered in the Sales Account instead of Machinery Disposal Account. Such an error is an example of ...

An error of principle occurs when an entry is made in the wrong TYPE of account — confusing capital and revenue accounts. Recording a fixed asset disposal (capital transaction) in the Sales Account (revenue account) is a classic error of principle.

Answer: B — error of principle.

Question 17. The Suspense Account was opened for K429.62. Later it was discovered that cash sales of the same amount were entered in the cash account but no entry was made in the sales account. What would be the double entry to clear off the suspense account?

The error: Dr Cash K429.62 was made but no Cr Sales entry — the credit side was missing, causing the Trial Balance to differ and a Suspense Account to be opened (credit balance K429.62).

To correct: Dr Suspense K429.62 / Cr Sales K429.62 — this completes the missing credit and clears the suspense account.

Answer: B — Debit Suspense K429.62, Credit Sales K429.62.

Question 18. The bank charges on the Bank Statement did not appear in the cash book causing a difference in the balances. What should the authority to correct the balances?

Bank charges appear on the Bank Statement but have not yet been entered in the Cash Book. To update the Cash Book and eliminate the difference, the charges must be entered: Dr Bank Charges (expense), Cr Cash Book (bank column). This means we credit the cash book to reduce the balance.

Answer: C — Credit the cash book.

Question 19. Entries in control accounts are made from ...

Control accounts (Sales Ledger Control, Purchases Ledger Control) are totals accounts posted from the totals of the day books (books of original entry). For example, the total of the Sales Day Book is credited to the SLCA; individual debtor postings go to the Sales Ledger.

Answer: B — Books of Original Entry.

Question 20. Which of the following items appear under Current Assets of a non-profit making organisation?

Debtors for subscription are members who owe their annual subscription — an amount receivable by the organisation. It is a current asset. Subscriptions received in advance are a liability (deferred income). Transport costs owing and bar expenses owing are liabilities.

Answer: B — Debtors for subscription.

Question 21. The purchase of a grinding machine is ...

A grinding machine is a piece of equipment — a long-term asset that will provide economic benefit over several years. Purchasing it is Capital Expenditure (acquiring a fixed asset), which is recorded on the Balance Sheet, not as a current expense.

Answer: B — Capital expenditure.

Question 22. Incomplete Records are best described as records which ...

Incomplete records are accounting records where full double-entry bookkeeping has NOT been applied — typically only a cash book and some invoices are kept. The trader has not maintained a proper set of ledger accounts with corresponding debits and credits.

Answer: C — are not kept on double entry system.

Question 23. A partner's salary of K210 would be posted to the ...

In the Appropriation Account, the partner's salary is debited (charged against distributable profit): Dr P&L; Appropriation Account. The corresponding entry credits the PARTNER's account — specifically their Current Account (or Capital Account in a fluctuating-capital system).

Answer: D — credit side of his current account.

Question 24. A manufacturing business extracted the following information: Raw material K150 000; Wages K144 000; Overheads K130 000. What was the cost of production?

Cost of Production = Prime Cost + Factory Overheads.

Prime Cost = Raw Materials + Wages = K150 000 + K144 000 = K294 000.

Cost of Production = K294 000 + K130 000 = K424 000.

Answer: C — K424 000.

Question 25. What is a Limited Company's Authorised Capital?

Authorised (nominal) capital is the maximum amount of share capital a company is legally permitted to issue, as specified in its Memorandum of Association. The company cannot issue shares beyond this limit without amending its constitutional documents.

Answer: A — Capital the company is allowed to raise.

Question 26. A business with two departments had: Sales — Department A K2 000 000; Department B K1 000 000. Expenses: K600 000. How much expenses would you charge to Department A if expenses are charged on the basis of sales?

Total sales = K2 000 000 + K1 000 000 = K3 000 000.

Department A's share = (K2 000 000 / K3 000 000) x K600 000 = 2/3 x K600 000 = K400 000.

Answer: B — K400 000.

Question 27. Mala and Company had: Gross Profit K10 000; Net Profit K5 000; Capital K40 000; Drawings K15 000; Loan K45 000. Calculate the company's return on investment.

Return on Investment = (Net Profit / Capital) x 100.

= (K5 000 / K40 000) x 100 = 12.5%.

Answer: D — 12 1/2%.

Question 28. A person often has to pay for Goodwill when admitted as a partner. Why does payment for Goodwill take place?

When a new partner is admitted, they gain a share of an already-established, profitable business. The existing (old) partners have built up the business's reputation and customer base. The incoming partner pays goodwill to compensate the existing partners for surrendering a share of future profits.

Answer: C — compensate old partners.

Question 29. Stock Turnover is calculated by ...

Rate of Stock Turnover = Cost of Goods Sold / Average Stock. This ratio measures how many times the stock is sold and replaced during the period. Using cost (not selling price) gives a consistent basis for comparison.

Answer: B — Cost of goods sold / Average Stock.

Question 30. Which item appears in the Appropriation Account of a Limited Company?

The Appropriation Account shows how the net profit is distributed. Debenture interest and directors' salaries are charged in the P&L; before reaching appropriation. Investment income is P&L; income. Ordinary share dividends are appropriations of profit — they are paid to shareholders from distributable profit.

Answer: D — Ordinary share dividends.

Question 31. Which one of the following is paid whether profit is made or not?

Debentures are long-term loans to the company; debenture interest is a contractual obligation that must be paid regardless of whether the company makes a profit or a loss. Dividends (ordinary and preference) are only paid when profits are available and directors declare them.

Answer: A — Debenture Interest.

Question 32. An accountant mistakenly treats a Capital Expenditure item as revenue. What will be the effect of this error?

Treating a capital expenditure (buying 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. The fixed asset also fails to appear on the Balance Sheet, understating total assets.

Answer: D — Net Profit will be understated.

Question 33. The document for withdrawing money from a current account is the ...

To withdraw cash from a bank current account, the account holder completes and presents a withdrawal slip at the bank. A cheque is used to make payments to third parties, not for personal cash withdrawals from a bank counter.

Answer: B — Withdrawal slip.

Question 34. Which of the following is incorrect for a non profit making organisation?

The correct relationship: Accumulated Fund = Assets - Liabilities, which rearranges to Assets = Accumulated Fund + Liabilities.

Option C states: Assets = Accumulated Fund - Liabilities, which rearranges to Accumulated Fund = Assets + Liabilities. This is WRONG — adding liabilities would overstate the fund.

Answer: C — Assets = Accumulated Fund - Liabilities.

Question 35. The accounting equation falls under the ...

The dual (aspect) concept states that every business transaction has two sides — a giving aspect and a receiving aspect. The accounting equation (Assets = Capital + Liabilities) embodies this: every asset has a corresponding source of finance, reflecting the dual nature of all transactions.

Answer: C — dual concept.

Question 36. What are the matching contra entries in the Sales and Purchases Ledger Control Accounts?

Contra entries (set-offs) arise when a debtor is also a creditor. The amount is offset against both balances: the debtor balance in the SLCA decreases (credit entry) and the creditor balance in the PLCA decreases (debit entry). Both control accounts show a decrease.

Answer: B — Debtors Decrease / Creditors Decrease.

Question 37. A Bad Debt written off in the previous year has been recovered. This should be ...

When a previously written-off bad debt is recovered, the money received is credited to a Bad Debts Recovered Account — income for the current period. This increases net profit for the year in which the recovery occurs.

Answer: A — treated as a profit for the year.

Question 38. The number of times the business replenishes its stock is ...

The rate of stock turnover measures how many times during the year the business sells through and restocks its inventory. A high turnover means stock is sold and replaced frequently; a low turnover means stock moves slowly.

Answer: D — Rate of stock turnover.

Question 39. In the General Ledger, the total of the discount received is posted to the ...

Discount received (prompt payment discount from suppliers) is income to the business. The total from the Cash Book's discount received column is posted to the CREDIT of the Discount Received Account in the General Ledger, increasing the credit (income) balance.

Answer: A — credit of the discount received account.

Question 40. Gross profit can be defined as ...

Gross Profit is the excess of net sales revenue over the cost of goods sold. It represents the trading surplus before deducting overhead expenses (admin, selling, distribution). GP = Net Sales - Cost of Goods Sold.

Answer: D — Excess of sales over cost of goods sold.

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