G12 ECZ PRINCIPLES OF ACCOUNTS 2015 PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2015 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

Examination for the School Certificate Ordinary Level

Principles of Accounts 7110/1

PAPER 1 Multiple Choice

Tuesday 6 OCTOBER 2015

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.

1 An alternative name for a Sales Journal is ...
- **A** Sales Invoice Book.
- **B** Sales Day Book.
- **C** Daily Sales Book.
- **D** Sales Ledger Book.

2 The following information is taken from a sole trader's accounts

	K
Opening Capital	1 500
Closing Capital	1 150
Drawings	200

What is the trader's profit/loss?
- **A** Net profit of K250
- **B** Net loss of K350
- **C** Net loss of K150
- **D** Net profit of K150

3 Which concept emphasises on the adoption and use of same accounting policies from year to year?
- **A** Prudence Concept
- **B** Consistency Concept
- **C** Accruals Concept.
- **D** Going concern Concept

4 Machinery, typewriter and cash owned by a business are collectively called ...
- **A** Fixed assets.
- **B** Assets.
- **C** Long Term Liabilities.
- **D** Current Liabilities.

5 A Cash Transaction means that ...
- **A** cash is paid when goods are bought.
- **B** cash is received when goods are sold.
- **C** cash or cheque is paid or received when goods are bought or sold.
- **D** cheque is paid or received when goods are bought or sold.

6 If Mututwa buys goods for resale from Mabote on credit, the correct double entry in Mututwa's ledger would be ...
- **A** debit Purchases Account and credit Mututwa's Account.
- **B** credit Purchases Account and debit Mututwa's Account.
- **C** debit Purchases Account and credit Mabote's Account.
- **D** credit Purchases Account and debit Mabote's Account.

7 In business books, the ledger account of Kasamu, a customer, shows a debit balance of K4 500. What does this mean?

A Kasamu is a bad debtor
B Kasamu owes the business K4 500.
C The business has paid Kasamu K4 500.
D The business owes Kasamu K4 500.

8 Which of the following is the most appropriate title?

A Trial balance for the year ended 31 December 2010.
B Trial balance for the month ended 31 December 2010.
C Trial balance ending the month of 31 December 2010.
D Trial balance as at 31 December 2010.

9 If 5 tables have been sold at K120 each with an agreed trade discount of 5% and a cash discount of 2%, what is the total amount payable if VAT of 20% is included?

A K720
B K558.60
C K666
D K600

10 What is the best way of ascertaining closing stock of a business?

A Opening stock + purchases – cost of stock sold.
B Do the physical stock taking.
C Opening stock + purchases ÷ 2.
D Subtract total purchases from total sales for the year.

11 A motor van costing K100 000 is expected to have a working life of five years and a scrap value of K10 000. Using the straight line method of depreciation, the annual charge of depreciation will be ...

A K20 000.
B K10 000.
C K18 000.
D K22 000.

12 Ben and Bill are in partnership sharing profits and losses in the ratio 2:3. Bill receives a salary of K12 000 per year. The firm's net profit is K52 000. What are the amounts to be credited to the partner's current accounts?

A Ben K16 000 : Bill K24 000.
B Ben K26 000 : Bill K26 000.
C Ben K20 800 : Bill K31 200.
D Ben K16 000 : Bill K36 000.

13 P.K Mandona was debited for the goods sold to P.K Mandola. Which error was commited?

A Error of Origin
B Error of Compensation
C Error of Commission
D Error of Principle

14 A business with two departments had:
Sales: Hardware K20 000 and Electrical K10 000.
Expenses: K6 000.
How much expenses would you charge to Hardware Department, if expenses are charged on the basis of sales?

A K6 000
B K4 000
C K10 000
D K2 000

15 The following information is available for Kateule Enterprises:
Bank balance shown in the bank statement, K650;
Amounts paid in but not yet credited, K150;
Credit transfer received by the bank but not yet entered in the cash book, K100;
The cash book balance should be ...

A K750.
B K450.
C K850.
D K700.

16 On which side of the Control Account should dishonoured cheques appear?

A Debit side of the Debtors' Ledger Control Account.
B Debit side of the Creditors' Ledger Control Account.
C Credit side of the Debtors' Ledger Control Account.
D Credit side of the Creditors' Ledger Control Account.

17 Subscriptions in advance at the end of the year should be ...

A credited to the Income and Expenditure Account.
B debited to the Income and Expenditure Account.
C credited to the Receipts and Payments Account.
D included as a Current Asset in the Balance Sheet.

18 Owner's equity refers to ...

A the equality of owners.
B net profit or net loss.
C owner's capital.
D owner's assets.

19 Which of the following is **not** a Revenue Account?

A Wages Account
B Commission Received Account
C Sales Account
D Rent Received Account

20 The books of a business show the following:

	K
Sales	90 000
Cost of Sales	50 000
Expenses	10 000

What is the Net Profit as a Percentage of Sales?

A 20.0%
B 33.3%
C 44.4%
D 66.6%

21 The Balance Sheet may be defined as a list of ...

A assets, liabilities and capital of a business at any given time.
B purchased assets and liabilities of a business at any given time.
C goods and cash of a business at any given time.
D liabilities and capital of a business at any given time.

22 The Double Entry for Gross Loss is ...

A debit Trading Account and credit Profit and Loss Account.
B debit Capital Account and credit Trading Account.
C debit Profit and Loss Account and credit Trading Account.
D debit Trading Account and credit Capital Account.

23 If Opening Stock is K6 000; closing stock K10 000; Sales K40 000; Gross Profit K8 000, then purchases is ...

A K48 000.
B K56 000.
C K36 000.
D K45 000.

24 Which type of accounts have credit balances in the Ledger?

A Liabilities, Provisions and Gains Accounts.
B Loans and Provisions Accounts only.
C Bad debts, Losses and Assets Accounts.
D Profits, Provisions and Nominal Accounts.

25 Tabo PLC has advertised its Ordinary Shares of 10 000 at K650 each. What document does the company use for this purpose?

A The Memorandum of Association
B The Certificate of Incorporation
C The Prospectus
D The Articles of Associations

[Turn over

26 Which of the following errors would be detected by the Trial Balance?

A Error of Original Entry.
B Error of Principle.
C Error of Complete Reversal.
D A Single Entry of a transaction.

27 Which book of prime entry is part of the double entry system?

A Cash Book
B Returns Outwards Book
C Purchases Day Book
D Sales Day Book

28 Cost of Goods Sold is equal to ...

A Sales less Purchases.
B Purchases less Closing Stock, less Purchases Returns.
C Purchases less Returns Outwards.
D Opening stock plus Purchases, less Returns Outwards, less Closing stock.

29 The cost of goods sold for the business was K80 000 and the gross loss was K10 000. What was the figure for sales?

A K90 000
B K70 000
C K60 000
D K72 000

30 What is the best method of calculating depreciation for loose tools and livestock at a farm?

A Diminishing Balance Method
B Revaluation Method
C Straight Line Method
D Reducing Balance Method

31 What is the effect on the assets and liabilities when a firm pays its creditors by cheque?

A Reduce Bank; Increase Creditors.
B Increase Bank; Reduce Creditors.
C Reduce Bank; Reduce Creditors.
D Increase Bank; Increase Creditors.

32 A wholesaler sold 100 cases Chicco biscuits at K20 a case; 50 cases Vanilla biscuits at K40 a case, both subject to 20% trade discount. What was the invoice price?

A K4 000
B K4 800
C K800
D K3 200

33 Carriage inwards usually increases the ... of the business.

- **A** profitability
- **B** cost of goods
- **C** gross profit
- **D** net profit

34 An example of Real Account is ...

- **A** Drawings Account.
- **B** Makaya Account.
- **C** Cash Account.
- **D** Electricity Account.

35 The Mark-Up is the gross profit's relationship with the ...

- **A** Capital.
- **B** Turnover.
- **C** Cost of goods.
- **D** Average stock.

36 In the books of Tambulukani the Discount Received of K400 was posted to the Discount Allowed account. What would be the entry in the Suspense Account to correct the error?

- **A** Credit suspense with K400
- **B** Debit suspense with K400
- **C** Credit suspense with K800
- **D** Debit suspense with K800

37 A Sole Proprietorship business is best described as ...

- **A** a manufacturing business.
- **B** a business that buys and sells goods at a profit.
- **C** a one man business.
- **D** a non-profit making organisation.

38 The total amount of Credit Purchases is recorded on the ...

- **A** debit side of the Creditors Ledger Control Account.
- **B** credit side of the Creditors Ledger Control Account.
- **C** debit side of the Debtors Ledger Control Account.
- **D** credit side of the Debtors Ledger Control Account.

39 In a Limited Company which of the following are shown in the Appropriation Account?

(i) Directors remuneration.

(ii) Proposed dividends

(iii) Debenture interest

(iv) Transfer to reserves

A (i) and (ii)

B (iii) and (iv)

C (ii) and (iv)

D (i) and (iii)

40 Which subsidiary book records the correction of errors?

A Petty Cash Book

B Sales Journal

C Cash Book

D General Journal

Question 1. An alternative name for a Sales Journal is ...

The Sales Journal records all credit sales transactions. Its alternative names include the Sales Day Book and the Sales Book. 'Sales Ledger Book' is a different record (the personal accounts of debtors).

Answer: B — Sales Day Book.

Question 2. The following information is taken from a sole trader's accounts: Opening Capital K1 500; Closing Capital K1 150; Drawings K200. What is the business's profit/loss?

Net Profit = Closing Capital - Opening Capital + Drawings.

= K1 150 - K1 500 + K200 = -K150.

The negative result means the business made a net LOSS of K150.

Answer: C — Net loss of K150.

Question 3. Which concept emphasises the adoption and use of same accounting policies from year to year?

The Consistency concept requires that once an accounting method is adopted (e.g., straight-line depreciation), it should be applied consistently from one period to the next. Changing methods arbitrarily makes comparisons across periods unreliable.

Answer: C — Consistency Concept.

Question 4. Machinery, typewriter and cash owned by a business are collectively called ...

Machinery and typewriters are tangible fixed assets — long-term assets used in the business. They are collectively referred to as Fixed Assets (non-current assets) in the Balance Sheet.

Answer: A — Fixed assets.

Question 5. A Cash Transaction means that ...

A cash transaction is one where payment is made immediately at the time of buying or selling — either in physical cash or by cheque (both settle the account at once, unlike credit transactions which create a debt to be paid later).

Answer: C — cash or cheque is paid or received when goods are bought or sold.

Question 6. If Mutubwa buys goods for resale from Mabote on credit, the correct double entry in Mutubwa's ledger would be ...

Mutubwa (buyer) acquires goods on credit from Mabote (supplier). The goods come IN — Dr Purchases Account. The obligation to pay Mabote arises — Cr Mabote's Account (creditor).

Answer: C — debit Purchases Account and credit Mabote's Account.

Question 7. In business books, the ledger account of Kasamu, a customer, shows a debit balance of K4 500. What does this mean?

In the seller's books, a customer's account with a DEBIT balance means the customer owes money — the debt is owed TO the business. Kasamu therefore owes the business K4 500.

Answer: B — Kasamu owes the business K4 500.

Question 8. Which of the following is the most appropriate title for a Trial Balance?

A Trial Balance is extracted at a specific date (a snapshot in time), not over a period. The correct heading uses 'as at' — showing the position on that exact date. 'For the year/month ended' implies an Income Statement covering a period.

Answer: D — Trial balance as at 31 December 2010.

Question 9. If 5 tables have been sold at K120 each with an agreed trade discount of 5% and a cash discount of 2%, what is the total amount payable if VAT of 20% is included?

List price: 5 x K120 = K600.

Less trade discount (5%): K600 x 0.95 = K570.

Less cash discount (2%): K570 x 0.98 = K558.60.

VAT at 20% is applied on the discounted goods value, giving the total amount payable.

Answer: B — K553.60.

Question 10. What is the best way of ascertaining closing stock of a business?

The most reliable and accurate method of determining the value of closing stock is a physical stocktake — counting and valuing each item of stock on hand at the end of the period. Formulaic approaches (opening stock + purchases - COGS) give a theoretical figure that may differ from reality.

Answer: B — Do the physical stock taking.

Question 11. A motor van costing K100 000 is expected to have a working life of five years and a scrap value of K10 000. Using the straight line method of depreciation, what is the annual depreciation value?

Annual depreciation = (Cost - Scrap value) / Useful life.

= (K100 000 - K10 000) / 5 = K90 000 / 5 = K18 000 per year.

Answer: C — K18 000.

Question 12. Ben and Bili are in partnership sharing profits and losses in the ratio 2:3. Bili receives a salary of K12 000 per year. The firm's net profit is K52 000. What are the amounts to be credited to the partners' current accounts?

Profit available for sharing = Net profit - Bili's salary = K52 000 - K12 000 = K40 000.

Ben's share (2/5): 2/5 x K40 000 = K16 000.

Bili's profit share (3/5): 3/5 x K40 000 = K24 000. Plus salary K12 000 = K36 000 credited to Bili.

Answer: D — Ben K16 000 : Bili K36 000.

Question 13. P.K. Mandona was debited for the goods sold to P.K. Mandola. Which error was committed?

The correct debtor (Mandola) was not debited; instead Mandona's account was debited. Both are personal accounts — the amount was posted to the right class of account (personal) but the WRONG person's account. This is an error of commission.

Answer: C — Error of Commission.

Question 14. A business with two departments had: Sales — Hardware K20 000 and Electrical K10 000. Expenses: K6 000. How much would you charge to Hardware Department if expenses are charged on the basis of sales?

Total sales = K20 000 + K10 000 = K30 000.

Hardware's share = (K20 000 / K30 000) x K6 000 = 2/3 x K6 000 = K4 000.

Answer: B — K4 000.

Question 15. The following information is available for Katebule Enterprises: Bank balance in bank statement K650; Amounts paid in but not yet credited K150; Credit transfer received by the bank but not yet entered in the cash book K100. What should the cash book balance be?

Start from the Bank Statement balance K650.

Add outstanding lodgements (in CB but not yet in BS): +K150.

Deduct credit transfers (in BS but not yet in CB — CB will be updated to receive these): -K100.

Cash Book balance = K650 + K150 - K100 = K700.

Answer: D — K700.

Question 16. On which side of the Control Account should dishonoured cheques appear?

When a customer's cheque is dishonoured, the payment is reversed and the debt reinstated. In the Sales Ledger Control Account (debtors), reinstating a debt increases the debtor balance — a DEBIT entry. Dishonoured cheques are therefore on the debit side of the Debtors' Ledger Control Account.

Answer: A — Debit side of the Debtors' Ledger Control Account.

Question 17. Subscriptions in advance at the end of the year should be ...

Subscriptions received in advance (for the next financial year) are not income for the current period. They are held on the Balance Sheet — they represent a future obligation (deferred income) and appear as a current item in the Balance Sheet.

Answer: D — included as a Current Asset in the Balance Sheet.

Question 18. Owner's equity refers to ...

Owner's equity (also called proprietor's capital or owner's capital) is the owner's financial interest in the business — the net assets attributable to the owner, equal to Total Assets minus Total Liabilities.

Answer: C — owner's capital.

Question 19. Which of the following is NOT a Revenue Account?

Revenue accounts are income accounts that are credited when income is earned. Commission Received, Sales, and Rent Received are all income accounts. Wages is an EXPENSE account — it is debited (not credited) and represents a cost, not income received by the business.

Answer: A — Wages Account.

Question 20. The books of a business show: Sales K90 000; Cost of Sales K50 000; Expenses K10 000. What is the Net Profit as a Percentage of Sales?

Gross Profit = Sales - COGS = K90 000 - K50 000 = K40 000.

Net Profit = GP - Expenses = K40 000 - K10 000 = K30 000.

Net Profit % of Sales = (K30 000 / K90 000) x 100 = 33.3%.

Answer: B — 33.3%.

Question 21. The Balance Sheet may be defined as a list of ...

The Balance Sheet (Statement of Financial Position) is a snapshot of the business at a specific date. It lists all assets (what the business owns), liabilities (what it owes), and capital (the owner's equity) at that point in time.

Answer: A — assets, liabilities and capital at any given time.

Question 22. The Double Entry for Gross Loss is ...

When the Trading Account shows a gross LOSS (costs exceed revenue), the Trading Account has a debit balance. This loss is transferred to the Profit and Loss Account: Dr Profit and Loss Account / Cr Trading Account.

Answer: C — debit Profit and Loss Account and credit Trading Account.

Question 23. If Opening Stock is K6 000; Closing Stock K10 000; Sales K40 000; Gross Profit K8 000 — what are the purchases?

COGS = Sales - Gross Profit = K40 000 - K8 000 = K32 000.

COGS = Opening Stock + Purchases - Closing Stock.

K32 000 = K6 000 + Purchases - K10 000.

Purchases = K32 000 - K6 000 + K10 000 = K36 000.

Answer: C — K36 000.

Question 24. Which type of accounts have credit balances in the Ledger?

Liabilities (what the business owes), Provisions (credit balances set against assets), and Gains/Income accounts all carry credit balances in the ledger. Expenses, losses, and assets carry debit balances.

Answer: A — Liabilities, Provisions and Gains accounts.

Question 25. Tabu PLC advertised its Ordinary Shares of 10 000 at K20 each. What document does the company use for this purpose?

When a public limited company offers shares to the general public, it must issue a Prospectus — a formal legal document containing details of the company, the shares being offered, and information for potential investors to make an informed decision.

Answer: C — The Prospectus.

Question 26. Which of the following errors would be detected by the Trial Balance?

The Trial Balance detects only errors that cause it to go out of balance (one-sided errors). A single entry (recording only one side of a transaction) means debit total no longer equals credit total — this WILL be detected. Errors of original entry, principle, and complete reversal all keep the TB balanced.

Answer: D — A Single Entry of a transaction.

Question 27. Which book of prime entry is part of the double entry system?

Most books of prime entry (day books) are only books of original entry — transactions are later posted to the ledger as a second step. The Cash Book is unique: it serves as BOTH a book of prime entry AND part of the ledger (it is both a journal and a ledger account for cash and bank).

Answer: A — Cash Book.

Question 28. Cost of Goods Sold is equal to ...

COGS = Opening Stock + Purchases - Purchases Returns - Closing Stock. This formula accounts for the stock on hand at the start, adds net purchases during the period, and deducts what remains unsold at the end.

Answer: D — Opening stock plus Purchases, less Purchases Returns, less Closing stock.

Question 29. The cost of goods sold for the business was K80 000 and the gross loss was K10 000. What was the figure for sales?

Gross Loss = COGS - Sales (when costs exceed revenue): K10 000 = K80 000 - Sales.

Sales = K80 000 - K10 000 = K70 000.

Answer: B — K70 000.

Question 30. What is the best method of calculating depreciation for loose tools and livestock on a farm?

Loose tools and livestock have values that fluctuate and cannot be easily estimated in advance using a fixed rate. The Revaluation Method compares the opening and closing values of the asset each year to determine the depreciation — this is the most appropriate method for these asset types.

Answer: B — Revaluation Method.

Question 31. A wholesaler sold 100 Vanilla biscuits at K20 a case; 50 cases Vanilla biscuits at K40 a case; with a 20% trade discount. What was the invoice price?

Total list price = (100 x K20) + (50 x K40) = K2 000 + K2 000 = K4 000.

Trade discount = 20% x K4 000 = K800.

Invoice price = K4 000 - K800 = K3 200.

Answer: C — K3 200.

Question 32. What is the effect on the assets and liabilities when a firm pays its creditors by cheque?

Paying creditors by cheque: Dr Creditors (liability reduces — creditors decrease) / Cr Bank (asset reduces — bank balance decreases). Both bank (asset) and creditors (liability) are reduced by the same amount.

Answer: C — Reduce Bank; Reduce Creditors.

Question 33. Carriage inwards usually increases the ... of the business.

Carriage inwards is the cost of transporting purchased goods into the business. It is added to the cost of purchases in the Trading Account, thereby increasing the cost of goods available for sale.

Answer: B — cost of goods.

Question 34. An example of a Real Account is ...

Real accounts represent tangible or intangible assets — physical things the business owns. Cash Account (recording physical money) is a real account. Drawings is a personal account; Makaya is a personal account; Electricity is a nominal (expense) account.

Answer: C — Cash Account.

Question 35. The Mark-Up is the gross profit's relationship with the ...

Mark-up expresses the gross profit as a percentage of the COST of goods. It measures how much profit is added to the cost price to arrive at the selling price. (Margin, by contrast, relates gross profit to selling price.)

Answer: C — Cost of goods.

Question 36. In the books of Tambulukani the Discount Received of K400 was posted to the Discount Allowed account. What would be the entry in the Suspense Account to correct the error?

The error: Cr Discount Received K400 was wrongly posted as Dr Discount Allowed K400. This affects both sides of the Trial Balance — Cr total falls by K400 AND Dr total rises by K400, creating a K800 imbalance. Suspense Account Cr K800 was opened.

Correction: Cr Discount Allowed K400 (reverse wrong debit) + Cr Discount Received K400 (correct entry). Two credits totalling K800 require a matching Dr Suspense K800 to clear the suspense account.

Answer: D — Debit suspense with K800.

Question 37. A Sole Proprietorship business is best described as ...

A sole proprietorship (sole trader) is a business owned and managed by a single individual. There is no legal distinction between the owner and the business (unlike a company), and all profits and losses belong to that one person.

Answer: C — a one man business.

Question 38. The total amount of Credit Purchases is recorded on the ...

Credit purchases increase the amount owed to suppliers (creditors). In the Purchases Ledger Control Account (Creditors Control), credit purchases are credited — they add to the credit balance representing total amounts owed to all creditors.

Answer: B — credit side of the Creditors Ledger Control Account.

Question 39. In a Limited Company, which of the following are shown in the Appropriation Account?

The Appropriation Account shows how net profit is distributed after tax. Directors' remuneration and debenture interest are P&L; expenses (above the appropriation line). Proposed dividends (ii) distribute profits to shareholders, and transfers to reserves (iv) retain profits — both are appropriations.

Answer: C — (ii) and (iv).

Question 40. Which subsidiary book records the correction of errors?

Errors and corrections that do not fit into any specific day book (purchases, sales, returns, cash) are recorded in the General Journal (Journal Proper). It is the residual book of prime entry used for opening entries, closing entries, adjustments, and error corrections.

Answer: D — General Journal.

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