G12 ECZ
PRINCIPLES OF ACCOUNTS
2016
PAPER 1
SOLUTIONS

Grade 12 ECZ Principles of Accounts 2016 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 School Certificate Ordinary Level

Principles of Accounts 7110/1

Paper 1

Monday 7 NOVEMBER 2016

Additional Material(s):
Multiple choice answer sheet

Time 1 hour

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 the instructions on the Answer Sheet very carefully.

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.

1 The importance of accounting information is to ...

A measure the performance of the business.

B pay salaries to workers.

C test the market share.

D forecast purchases.

2 Which of the following are job opportunities for someone who has studied Accounts?

(i) Secretary

(ii) Public Relations Manager

(iii) Minister of Finance

(iv) Technician

(v) Bursar

(vi) Buyer

(vii) Stores Manager

A (i), (iv)

B (ii), (vi)

C (iii), (v)

D (v), (vii)

3 Explain the term business transaction.

A The recording of information in the books of the business.

B The exchange of goods for goods.

C A meeting for business executives.

D The exchange of goods and services for money's worth.

4 The exchange of goods, money and services between persons is called ...

A barter transaction.

B business transaction.

C trade transaction.

D selling and buying.

5 Which of the following are not included in the Sales Day Book?

A Cash Sales

B Credit sales made to overseas customers

C Credit sales made without deduction of trade discount

D Credit sales which eventually turn out to be bad debts

6 If a Debtor's Account is overcharged on the invoice, which document is sent to him to adjust the amount due from him?

A Purchases Invoice

B Sales Invoice

C Debit Note

D Credit Note

7 The Ledger is the main book of accounts where … are completed.
- **A** calculations
- **B** double entries
- **C** transactions
- **D** single entries

8 … is an example of a nominal account.
- **A** Asset
- **B** Liability
- **C** Expense
- **D** Capital

9 The double entry is completed in the …
- **A** Sales book.
- **B** Ledger book.
- **C** Purchases book.
- **D** General book.

10 The personal accounts of debtors are found in the …
- **A** Sales Ledger.
- **B** General Ledger.
- **C** Purchases Ledger.
- **D** Nominal Ledger.

11 A Trial Balance is prepared to check the …
- **A** financial position of the business.
- **B** arithmetical accuracy of the accounts.
- **C** profitability position of the business.
- **D** accuracy of the accounts.

12 Below is a Trial Balance prepared by an inexperienced book-keeper. You are required to redraft it and find the correct balance. Which of the following is the correct balance?

	Dr (K)	Cr (K)
Purchases returns	3 000	
Carriage inwards		2 000
Purchases	40 000	
Sales	70 000	
Debtors	20 000	
Creditors		12 000
Bank overdraft	14 000	
Motor vehicles		134 000
Sales Returns	15 000	
Capital	112 000	
	274 000	148 000

- **A** K177 000
- **B** K218 000
- **C** K197 500
- **D** K211 000

13 The Balance Sheet can be defined as a …

A list of balances after calculating net profit.
B statement of assets and liabilities.
C trial balance at different dates.
D list of balances before calculating net profit.

14 In which statement is gross profit calculated?

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

15 Calculate the Cost of Goods sold from the following items:

Closing stock	K72 400
Carriage Inwards	K5 700
Purchases	K213 600
Opening Stock	K21 360

A K156 860
B K168 260
C K313 060
D K270 340

16 Which of these would appear as a current liability in the Balance Sheet?

A Wages due
B Rent receivable due
C Insurance premium paid in advance
D Advertising charges carried forward

17 The cost of a machine is K250 000, provision for depreciation is K60 000, depreciation charges for the year are K19 000. In the Balance Sheet, the machine will be shown at a net value of …

A K190 000.
B K231 000.
C K250 000.
D K171 000.

18 Which of the following errors would not affect the balancing of a Trial Balance?

A An amount not posted to E. Nyirenda.
B An amount omitted entirely from the books.
C An amount posted to the wrong side of the account.
D An amount overcast in one account.

19 Which of these errors will be revealed by the Trial Balance?

- **A** Error on a Purchases Invoice.
- **B** Purchases from M Sakala entered in R Sakala's account.
- **C** Carriage outwards debited to Purchases Account.
- **D** Overcast of total on sales account.

20 Discount received K2 000 has been posted on the debit side of Discount allowed account. The entry to correct the error is ...

A	Suspense Dr K2 000	Discount received Cr K2 000
B	Discount allowed Dr K2 000	Discount received Cr K2 000
C	Suspense Dr K4 000 Discount received Cr K2 000	Discount allowed Cr K 2 000
D	Discount allowed Dr K4 000	Discount received Cr K4 000

21 Which statement is sent by the bank to its customers to verify the balance at bank at the end of the month?

- **A** Bank Statement
- **B** Statement of Account
- **C** Cash Statement
- **D** Bank Reconciliation Statement

22 Which one of the following does not create a difference, between the bank balance of the firm and the balance shown by the bank statement?

- **A** Errors made by the firm's bank.
- **B** Cheques written by the firm which have not yet appeared on its bank statement.
- **C** Lodgements made by the firm which have not yet appeared on its bank statement.
- **D** Cheques received appearing both on the bank statement and in the bank account.

23 Why do Accountants prepare Control Accounts? To ...

- **A** calculate the sales and purchases.
- **B** find errors quickly.
- **C** make the 'Trial balance' balance.
- **D** prevent errors quickly.

24 Which item appears on the credit side of a Purchases Ledger Control Account?

- **A** Cheques paid
- **B** Discount received
- **C** Refund from suppliers
- **D** Purchases returns

25 Which of the following is similar to a club's Receipts and Payments Account?

A Cash or Bank Account
B Balance Sheet
C Income and Expenditure Account
D Profit and Loss Account

26 Social club's records for the year show

Subscriptions	K8 000
Sales of refreshments	K4 000
Purchase of refreshments	K2 000
Opening stock of refreshments	K800
Closing stock of refreshments	K600

What is the total net income for the year?

A K8 000
B K9 800
C K10 000
D K12 000

27 Which item should be treated as capital expenditure in the accounts of a company?

A Purchase of a new computer for resale.
B Legal costs for the purchase of property.
C Renewing the electrical wiring in the office.
D Repairs to plant and machinery.

28 Which of the following is a revenue receipt for a newspaper agent?

A The proceeds of the sale of plant and equipment.
B Money received from an insurance company as a result of crashing a delivery vehicle.
C A refund received from a supplier as compensation for damaged stock supplied.
D Commission received from the sale of newspapers.

29 Single entry records are kept by …

A all the traders.
B partnerships.
C small traders.
D companies.

30 Which of the following is **not** used in the calculation of profit for incomplete records?

A Opening capital = opening assets – opening liabilities.
B Drawings = Closing capital – opening capital.
C Closing capital = closing assets – closing liabilities.
D Net profit = closing capital – opening capital + drawings – additional investment.

31 Which of the following item is used in sales calculation for single entry organisations?

A Discount allowed

B Cash payments to creditors

C Discount received

D Returns outwards

32 A partnership is formed by ...

A a partnership act.

B a partnership deed.

C a verbal agreement.

D an agreement in writing.

33 Which one is **not** an appropriation of profit?

A Partner's interest on loan

B Partner's interest on capital

C Partner's interest on drawings

D Partner's share of profits

34 In Manufacturing account, prime cost is equal to total ...

A direct manufacturing costs.

B manufacturing costs.

C indirect costs.

D overhead expenses.

35 The manufacturer provides you with the following balances.

	K
Raw materials (opening stock)	60 000
Direct Labour	23 000
Royalties	2 000
Factory overheads	37 000
Depreciation of plant	53 000
Sale of scrapped raw materials	5 000

What is the prime cost?

A K80 000

B K85 000

C K180 000

D K175 000

36 In manufacturing business, royalty paid on every item manufactured is regarded as ...

A an indirect expense.

B a direct expense.

C part of raw materials used.

D a factory overhead expense.

37 Why is it against Accounting Ethics and Standards to value closing stock in the final accounts at market value? It …

A has double effect on profits.
B has no effect on the profits.
C would understate the profit.
D would overstate the profits.

38 Explain the meaning of ethics in accountancy. Study of …

A how to make profits in a business.
B morals, values and judgement as they apply in accountancy.
C business etiquette as they apply in accountancy.
D banking procedures in a business as they apply in accountancy.

39 The Acid Test Ratio is calculated by …

A Current Assets ÷ Current Liabilities.
B Debtors ÷ Creditors.
C Current Assets less Debtors ÷ Current Liabilities.
D Current Assets less Closing Stock and Prepayment ÷ Current Liabilities.

40 Which organization has a high Rate of Stock Turnover?

A Electrical wholesale chain
B Estate agency
C Fast food outlet
D Travel agency

Question 1. The importance of accounting information is to ...

Accounting information is a management tool — its primary importance is to measure and report on how well the business is performing financially. This enables owners and managers to make informed decisions.

Answer: A — measure the performance of the business.

Question 2. Which of the following are job opportunities for someone who has studied Accounts?

Of the seven roles listed, Bursar (v) manages institutional finances directly, and Ministry of Finance (iii) is a government finance role. Both require core accounting knowledge. Secretary, PR Manager, Technician, Buyer, and Stores Manager are not primarily accounting roles.

Answer: C — (iii) and (v) — Ministry of Finance and Bursar.

Question 3. Explain the term 'business transaction'.

A business transaction is any financial exchange between parties involving goods, services, or money. The key characteristic is that it involves the exchange of value — goods and services are exchanged for money's worth (cash, credit, or other consideration).

Answer: D — The exchange of goods and services for money's worth.

Question 4. The exchange of goods, money and services between persons is called ...

Any exchange of goods, money, or services between two or more parties constitutes a business transaction. This is the fundamental definition of a commercial dealing that gets recorded in the books of account.

Answer: B — business transaction.

Question 5. Which of the following are NOT included in the Sales Day Book?

The Sales Day Book (Sales Journal) records only CREDIT sales — goods sold on account. Cash sales are settled immediately at the point of sale and are recorded in the Cash Book, not the Sales Day Book.

Answer: A — Cash Sales.

Question 6. If a Debtor is overcharged on the invoice, which document is sent to him to adjust the amount due?

When a seller has overcharged a customer (debtor), the seller sends a Credit Note to reduce the amount the debtor owes. A credit note is the opposite of an invoice — it cancels or reduces a debt.

Answer: D — Credit Note.

Question 7. The Ledger is the main book of accounts where ... are completed.

The Ledger is the main set of accounts — it is where all double entries are completed (posted). Every transaction recorded in a book of prime entry is ultimately posted to the ledger as a debit in one account and a credit in another.

Answer: B — double entries.

Question 8. ... is an example of a nominal account.

Nominal accounts record income, expenses, gains, and losses — they are temporary accounts closed to the Profit and Loss Account at year end. Expense accounts (like wages, rent, electricity) are nominal. Asset accounts are real; personal accounts belong to individuals or organisations.

Answer: C — Expense.

Question 9. The double entry is completed in the ...

All double-entry postings — debits and credits — are recorded in the Ledger. Books of prime entry (day books) are only the first point of entry; the ledger holds the permanent double-entry record for every account.

Answer: B — Ledger book.

Question 10. The personal accounts of debtors are found in the ...

The Sales Ledger (also called the Debtors Ledger) contains the individual personal accounts of all customers who owe the business money. The total of these accounts equals the Debtors balance in the Sales Ledger Control Account.

Answer: A — Sales Ledger.

Question 11. A Trial Balance is prepared to check the ...

The primary purpose of the Trial Balance is to verify that total debits equal total credits across all ledger accounts — confirming arithmetical accuracy of the double-entry bookkeeping. It does not, however, detect all types of errors (e.g., errors of omission or commission).

Answer: B — arithmetical accuracy of the accounts.

Question 12. A Trial Balance prepared by an inexperienced book-keeper needs to be redrawn. Find the correct balance.

Items on wrong sides: Carriage inwards (debit, not credit), Bank overdraft (credit, not debit), Motor vehicles (debit, not credit), Capital (credit, not debit).

Corrected Dr: Carriage inwards K2,000 + Purchases K40,000 + Debtors K20,000 + Motor vehicles K134,000 + Sales Returns K15,000 = K211,000.

Corrected Cr: Purchases returns K3,000 + Sales K70,000 + Creditors K12,000 + Bank overdraft K14,000 + Capital K112,000 = K211,000. Totals agree.

Answer: D — K211 000.

Question 13. The Balance Sheet can be defined as a ...

The Balance Sheet (Statement of Financial Position) is a snapshot of the business at a specific date. It lists all assets the business owns and all liabilities it owes, with the difference representing the owner's capital. It is a 'statement of assets and liabilities.'

Answer: B — statement of assets and liabilities.

Question 14. In which statement is gross profit calculated?

Gross profit is calculated in the Trading Account (the first section of the Trading and Profit & Loss Account). It is the excess of net sales revenue over the cost of goods sold, before any other expenses are deducted.

Answer: D — Trading Account.

Question 15. Calculate the Cost of Goods Sold: Closing stock K72,400; Carriage Inwards K5,700; Purchases K213,600; Opening Stock K21,360.

COGS = Opening Stock + Purchases + Carriage Inwards - Closing Stock.

= K21,360 + K213,600 + K5,700 - K72,400 = K168,260.

Answer: B — K168 260.

Question 16. Which of these would appear as a current liability in the Balance Sheet?

Wages due (accrued wages) are wages earned by employees but not yet paid at the balance sheet date. They represent an obligation the business owes — a current liability. Rent receivable due is a current asset; insurance paid in advance and advertising charges carried forward are prepaid expenses (current assets).

Answer: A — Wages due.

Question 17. The cost of a machine is K250,000; provision for depreciation is K60,000. What is the net asset value?

Net book value (net asset value) = Cost - Accumulated Depreciation = K250,000 - K60,000 = K190,000.

Answer: A — K190 000.

Question 18. Which of the following errors would NOT affect the balancing of a Trial Balance?

If an amount is omitted ENTIRELY from the books, neither the debit nor the credit entry is made. Both sides of the Trial Balance are reduced by the same amount — the TB still balances. Errors that only affect one side (wrong side, overcast, missing posting) cause an imbalance.

Answer: B — An amount omitted entirely from the books.

Question 19. Which of these errors will be revealed by the Trial Balance?

An overcast of the total on the sales account means the credit total of the Sales Account is too high. This inflates the credit side of the Trial Balance without a corresponding debit, causing an imbalance — the TB will not balance and the error is detected.

Answer: D — Overcast of total on sales account.

Question 20. Discount received K2,000 was posted to the debit side of Discount Allowed account. What is the correction?

Error: Dr Discount Allowed K2,000 (wrong account, wrong side). Should have been: Cr Discount Received K2,000.

Impact: Dr total K2,000 too high; Cr total K2,000 short → K4,000 imbalance. Suspense Account Cr K4,000 opened.

Correction journal: Dr Suspense K4,000 | Cr Discount Allowed K2,000 (reverse wrong debit) + Cr Discount Received K2,000 (correct credit).

Answer: C — Suspense Dr K4,000; Discount Allowed Cr K2,000 and Discount Received Cr K2,000.

Question 21. Which statement is sent by the bank to its customers to verify the balance at the end of the month?

The bank periodically sends a Bank Statement to each account holder showing all transactions on the account, the running balance, and the closing balance. Customers use this to verify and reconcile against their own Cash Book records.

Answer: A — Bank Statement.

Question 22. Which does NOT create a difference between the bank balance of the firm and the bank statement balance?

If a cheque appears in BOTH the bank statement AND the firm's bank account (Cash Book), it has been fully processed on both sides — there is no timing difference and therefore no reconciling difference. Unpresented cheques, outstanding lodgements, and bank errors all create differences.

Answer: D — Cheques received appearing both on the bank statement and in the bank account.

Question 23. Why do Accountants prepare Control Accounts?

Control accounts (such as the Sales Ledger Control Account and Purchases Ledger Control Account) are totals accounts that summarise the individual subsidiary ledger accounts. When the control account balance disagrees with the total of individual account balances, an error exists — making it easier to find errors quickly.

Answer: B — find errors quickly.

Question 24. Which item appears on the credit side of a Purchases Ledger Control Account?

The PLCA debit side typically holds payments, discount received, returns outwards, and contra entries (all reduce what we owe). A refund from a supplier arises when we have overpaid them — the supplier sends cash back. This is recorded: Dr Bank / Cr Supplier account → Cr PLCA (credit side).

Answer: C — Refund from suppliers.

Question 25. Which of the following is similar to a club's Receipts and Payments Account?

The Receipts and Payments Account is essentially a summarised Cash Book for the period — it records all actual cash and bank receipts and payments, regardless of which accounting period they belong to. It is therefore most similar to a Cash or Bank Account.

Answer: A — Cash or Bank Account.

Question 26. Social club: Subscriptions K8,000; Sales of refreshments K4,000; Purchases K2,000; Opening stock K800; Closing stock K600. What is the total net income?

COGS for refreshments = Opening K800 + Purchases K2,000 - Closing K600 = K2,200.

Profit on refreshments = Sales K4,000 - COGS K2,200 = K1,800.

Total net income = Subscriptions K8,000 + Refreshments profit K1,800 = K9,800.

Answer: B — K9 800.

Question 27. Which item should be treated as capital expenditure in the accounts of a company?

Legal costs incurred to acquire a property are directly attributable to the purchase of a fixed asset. They are capitalised as part of the cost of the property — this is capital expenditure. Computer 'for resale' is stock (current asset, not capex). Electrical wiring renewal and plant repairs are typically revenue expenditure.

Answer: B — Legal costs for the purchase of property.

Question 28. Which of the following is a revenue receipt for a newspaper agent?

Revenue receipts arise from normal, recurring trading activities. Commission received from selling newspapers is regular trading income for a newspaper agent — it is a revenue receipt. Proceeds from plant/equipment sales and insurance payouts for a delivery vehicle are capital receipts (one-off, relating to fixed assets). A supplier refund for damaged stock is also revenue in nature, but commission from sales is the clearest example of regular trading income.

Answer: D — Commission received from the sale of newspapers.

Question 29. Single entry records are kept by ...

Single entry (incomplete records) bookkeeping is typically used by small traders who lack the expertise or resources to maintain a full double-entry system. Large partnerships and companies are legally required to keep proper books of account.

Answer: C — small traders.

Question 30. Which of the following is NOT used in the calculation of profit for incomplete records?

The standard incomplete records profit formula: Net Profit = Closing Capital - Opening Capital + Drawings - Additional Capital. Both opening and closing capital are derived from assets minus liabilities (A and C). The formula in D is correct. However, 'Drawings = Closing capital - Opening capital' is NOT a valid accounting formula — drawings are given, not derived from capital balances. So B is not used.

Answer: B — Drawings = Closing capital - Opening capital.

Question 31. Which of the following items is used in sales calculation for single entry organisations?

To find total credit sales in incomplete records, reconstruct the Debtors (SLCA) account: Opening debtors + Credit sales = Receipts from debtors + Discount allowed + Returns inwards + Bad debts + Closing debtors. Rearranging: Credit sales = Receipts + Discount allowed + Returns + Bad debts + Closing - Opening. Discount allowed is essential in this calculation.

Answer: A — Discount allowed.

Question 32. A partnership is formed by ...

While a partnership can legally be formed verbally, the proper and formal method is a Partnership Deed — a written agreement setting out the terms: profit-sharing ratio, salaries, interest on capital/drawings, duties, etc. A partnership act sets the legal framework but doesn't form the specific partnership.

Answer: B — a partnership deed.

Question 33. Which one is NOT an appropriation of profit?

The Appropriation Account distributes net profit among partners (salaries, interest on capital, share of residual profit). Interest on a partner's loan is charged BEFORE arriving at net profit — it is a business expense in the Profit and Loss Account, not an appropriation. It must be paid regardless of whether a profit is made.

Answer: A — Partner's interest on loan.

Question 34. In a Manufacturing account, prime cost is equal to ...

Prime cost = Direct Manufacturing Costs = Direct materials + Direct labour + Direct expenses (e.g., royalties per unit). These are costs directly traceable to each unit of production. Factory overheads and depreciation are indirect costs added to prime cost to give the total cost of production.

Answer: A — direct manufacturing costs.

Question 35. Manufacturing account data: Raw materials K60,000; Direct Labour K23,000; Royalties K2,000; Factory overheads K37,000; Depreciation of plant K53,000; Sale of scrapped raw materials K5,000. What is the prime cost?

Prime cost = Direct materials + Direct labour + Direct expenses (royalties).

= K60,000 + K23,000 + K2,000 = K85,000.

Factory overheads (K37,000) and depreciation (K53,000) are indirect costs added after prime cost to give cost of production. Scrapped raw materials (K5,000) is deducted from raw materials in the cost statement but does not affect prime cost directly here.

Answer: B — K85 000.

Question 36. In a manufacturing business, royalty paid on every item manufactured is regarded as ...

A royalty paid per unit manufactured is a direct expense — it can be traced directly to each unit of output and varies in proportion to the number of units produced. It forms part of prime cost. Factory overheads are indirect (fixed or absorbed costs spread across all units).

Answer: B — a direct expense.

Question 37. Why is it against Accounting Ethics and Standards to value closing stock at market value in the final accounts?

Valuing closing stock above cost violates the prudence concept. It has a double effect on profits: in Year 1 it overstates closing stock (and thus overstates profit); this inflated figure then becomes Year 2's opening stock, overstating COGS and understating Year 2 profit. The error reverses, affecting two periods.

Answer: A — has double effect on the profits.

Question 38. Explain the meaning of ethics in accountancy.

Ethics in accountancy refers to the moral principles and professional values that govern the behaviour of accountants — honesty, integrity, objectivity, and professional judgement. These standards guide accountants in making decisions that are fair, transparent, and in the public interest.

Answer: B — morals, values and judgement as they apply in accountancy.

Question 39. The Acid Test Ratio is calculated by ...

The Acid Test (Quick Ratio) measures a business's ability to meet short-term obligations without selling stock (the least liquid current asset) or using prepayments. Acid Test = (Current Assets - Closing Stock - Prepayments) / Current Liabilities.

Answer: D — Current Assets less Closing Stock and Prepayment divided by Current Liabilities.

Question 40. Which organisation has a high Rate of Stock Turnover?

A fast food outlet sells perishable food products continuously throughout each day. Stock (food ingredients) is sold and replenished very rapidly — sometimes multiple times per day. This gives an extremely high rate of stock turnover. Estate and travel agencies hold no physical stock; electrical wholesalers have slower turnover.

Answer: C — Fast food outlet.

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