G12 ECZ PRINCIPLES OF ACCOUNTS 2016 GCE PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2016 GCE 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 General Certificate of Education Ordinary Level

Principles of Accounts 7110/1

Paper 1

Wednesday 13 JULY 2016

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.

1 The job opportunities available for a person who studied accounts are ...

A Cashier, Accountant, Office Orderly.
B Mechanic, Financial Controller, Bank Teller.
C Accounts Clerk, Cashier, Chief Accountant.
D Stock Broker, Debt Collector, Financial Manager.

2 In accounting, profit is normally regarded as being earned at the time when the goods or services are passed to the customer and incurs liability for them. The accounting concept representing this statement is the ...

A Historical Concept.
B Going concern Concept.
C Realisation Concept.
D Money Measurement Concept.

3 Freehold land does not normally require provision for depreciation under the Standard Accounting Practice because it ...

A is a natural resource.
B has unlimited useful life.
C easily becomes obsolete.
D is a special fixed asset.

4 Identify the incorrect statement.

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

5 Goods bought and paid for after thirty days by cheque is an example of a ... transaction.

A credit
B barter
C cash
D bank

6 Which statement represents the correct double entry?

	Account to debit	**Account to credit**
A	Sales	Debtors
B	Bank	Bank
C	Vehicle	Bank
D	Creditors	Purchases

7 Personal Accounts of suppliers are found in the ...

- **A** Nominal Ledger.
- **B** Purchases Ledger.
- **C** General Ledger.
- **D** Sales Ledger.

8 In the General Ledger, the total of Discount Received is posted to the ...

- **A** credit side of the Discount Received Account.
- **B** credit side of the Discount Allowed Account.
- **C** debit side of the Discount Allowed Account.
- **D** debit side of the Discount Received Account.

9 Why does a business prepare a Trial Balance? To show ...

- **A** all ledger balances.
- **B** the profit and loss.
- **C** the financial position.
- **D** the cash and bank balances.

10 Given a purchases invoice showing ten items at K100 each, less 10% trade discount and cash discount of 5%. What will be the value of the cheque to settle this debt?

- **A** K455
- **B** K855
- **C** K100
- **D** K900

11 What is the purpose of preparing the Balance Sheet? To ...

- **A** check the accuracy of the books.
- **B** give details of the owner's capital.
- **C** increase the performance of the business.
- **D** show the financial state of the business.

12 For which category of Fixed Assets is the Revaluation Method of depreciation most appropriate?

- **A** Office equipment
- **B** Motor vehicles
- **C** Loose tools
- **D** Plant and machinery

13 Which of these would appear as a Long Term Liability in the Balance Sheet?

- **A** Rent receivable due
- **B** Wages due
- **C** Insurance prepaid
- **D** Mortgage payable

14 In which section of the Final Accounts is the reduction in the Provision for Bad Debts recorded?

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

15 An error which offends the basic rules of Book-Keeping and Accounting is referred to as ...

A a Compensating Error.
B an Error of Commission.
C an Original Error.
D an Error of Principle.

16 The owner withdrew goods for personal use. Drawings were debited but the credit entry was not passed. The entry to correct the error would be ...

A credit Purchases Account.
B credit Stock Account.
C debit Purchases Account.
D credit Suspense Account.

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

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

18 Which item will not appear in the Sales Ledger Control Account?

A Discount Allowed
B Interest charged on overdue accounts
C Provision for Doubtful Debts
D Sales Returns

19 The total amount of Discount Received entered in the Purchases Ledger Control Account is obtained from the ...

A Purchases Day Book.
B Purchases Ledger.
C Cash Book.
D Journal.

20 In the Subscriptions Account, a credit balance at the year end is ...

A a long term loan to life members.
B subscription received in advance.
C subscription due from life members.
D revenue for the current year.

21 The Receipts and Payments Account is one ...

A which is accompanied by a Balance Sheet.
B in which the profit is calculated.
C in which the opening and closing cash balances are shown.
D in which the surplus of income over expenditure is calculated.

22 The amount realised from sale of old furniture is ...

A Capital Receipts.
B Revenue Expenditure.
C Capital Expenditure.
D Revenue Receipts.

23 Single entry records are kept by ...

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

24 The best method of calculating profit if double entry is not maintained is ...

A decrease in net worth method.
B increase in net worth method.
C balance Sheet method.
D profit and Loss Account method.

25 Where the Capital Accounts for Partners remain fixed, their Share of Profit is ...

A debited to their Capital Accounts.
B credited to their Capital Accounts.
C debited to their Current Accounts.
D credited to their Current Accounts.

26 Goodwill is a benefit recorded under ...

A Intangible Assets.
B Liability Assets.
C Current Assets.
D Fixed Assets.

27 Prime Cost consists of ...

A Direct Labour + Direct Expenses + Indirect Expenses.
B Direct Materials + Direct Labour + Indirect Expenses.
C Direct Labour + Direct Materials + Work in Progress.
D Direct Materials + Direct Labour + Direct Expenses.

28 Which of the following are examples of stocks in the Manufacturing Account?

(i) Work in Progress
(ii) Raw Materials
(iii) Finished Goods
(iv) Semi Finished Goods
(v) Royalty Stock

A (i), (iv), (ii)
B (ii), (v), (iv)
C (iii), (i), (v)
D (i), (ii), (iii)

29 Profits withheld from distribution are known as …

A Provisions.
B Reserves.
C Dividends.
D Shares.

30 Preference Shareholders …

A have voting rights.
B have fixed rate of dividend.
C are directors of the company.
D do not attend annual general meetings.

31 The recommended method of Departmental Accounts is to …

A allocate expenses in proportion to sales returns.
B charge against each department its controllable costs.
C allocate expenses in proportion to purchases.
D charge against each department its uncontrollable costs.

32 If the firm's Current Assets are inadequate to meet its Current Liabilities, the Current Ratio will …

A remain the same.
B increase.
C decrease.
D be insufficient.

33 The following data relates to a business of Chikwanda:

Ordinary Shares	1 Jan 2014	K450 000	Fully paid
Preference Shares	1 Jan 2014	K300 000	Fully paid
Net Profit		K229 500	

Calculate the Return on the Capital Employed?

A 6.8%
B 4.2%
C 3.3%
D 2.7%

34 The Order of Permanence in which the following Fixed Assets should be shown in the Balance Sheet is ...

A office equipment, fixtures and fittings, buildings, land.
B land, buildings, fixtures and fittings, office equipment.
C buildings, office equipment, land, fixtures and fittings.
D office equipment, land, fixtures and fittings, buildings.

35 An asset costing K10 000 had a book value of K3 000. What was the depreciation on the asset?

A K3 000
B K9 000
C K13 000
D K7 000

36 If a firm rents office space at K60 000 per year, at the end of which K65 000 had been paid, the amount appearing as rent in the Profit and Loss Account would be:

A K60 000
B K65 000
C K5 000
D K55 000

37 The following information relates to a business of Mukuka.

Debtors	1 Jan 2014	K5 000
Debtors	31 Dec 2014	K4 557

Provision for Doubtful Debts as at 31 December 2014 was K350. What was the figure for the Provision for Cash Discounts on Debtors?

A K443
B K93
C K4 650
D K350

38 A statement which is prepared after matching Cash Book and Bank Statement entries is?

A Bank Account Statement
B Cash Book Statement
C Bank Statement
D Bank Reconciliation Statement

39 Which of the following item does not appear in the Trial Balance?

A Sales
B Closing stock
C Dividends
D Opening stock

40 A book cost K500 and is sold for K625. Calculate the Mark-Up.

A 25%
B 20%
C 33½%
D 40%

Question 1. The job opportunities available for a person who has studied accounts are ...

Accounting knowledge is directly applied in financial roles. Accounts Clerk, Cashier, and Chief Accountant are all positions that specifically require accounting training and skills — none involve unrelated fields like mechanics.

Answer: C — Accounts Clerk, Cashier, Chief Accountant.

Question 2. In accounting, profit is normally regarded as being earned at the time goods or services are passed to the customer. The accounting concept behind this is ...

The Realisation Concept (also called the Revenue Recognition Concept) states that profit is recognised only when it has been EARNED — i.e., when goods are delivered or services are rendered and the liability to the customer is incurred. Profit is not recognised at the time of order or payment alone.

Answer: C — Realisation Concept.

Question 3. Freehold land does not normally require provision for depreciation because it ...

Land is unique among fixed assets in that it does not deteriorate, become obsolete, or wear out over time. It has an indefinite useful life — it can be used indefinitely without losing value through use. All other fixed assets have a finite life requiring depreciation.

Answer: B — has unlimited useful life.

Question 4. Identify the incorrect statement.

The fundamental accounting equation is: Assets = Capital + Liabilities, which rearranges to Capital = Assets - Liabilities.

Statement B says Capital = Liabilities + Assets, which rearranges to Capital = Assets + Liabilities. This is WRONG — adding liabilities to assets would always overstate capital. The correct equation subtracts liabilities from assets.

Answer: B — Capital = Liabilities + Assets.

Question 5. Goods sold and paid for after thirty days by cheque is an example of a ... transaction.

When goods change hands now but payment is deferred to a future date (30 days later), the sale is on CREDIT. A credit transaction is one where the payment is not made immediately at the point of sale — an obligation (debt) arises and is settled at a later date.

Answer: A — credit transaction.

Question 6. Which statement shows the correct double entry?

When a business buys a vehicle and pays by cheque: the vehicle (fixed asset) comes IN — Dr Vehicle Account. The bank balance decreases — Cr Bank Account. This is the only option that correctly records both sides of the transaction.

Answer: C — Account to debit: Vehicle; Account to credit: Bank.

Question 7. Personal Accounts of suppliers are found in the ...

Suppliers are creditors — they have given us goods on credit and we owe them money. Their personal accounts are kept in the Purchases Ledger (Creditors Ledger), where each supplier has an individual account recording what we owe them.

Answer: B — Purchases Ledger.

Question 8. In the General Ledger, the total of Discount Received is posted to the ...

Discount Received is income earned by the business — suppliers grant discounts for prompt payment. Income accounts are credited. The total of the Discount Received column from the Cash Book is posted to the CREDIT side of the Discount Received Account in the General Ledger.

Answer: A — credit side of the Discount Received Account.

Question 9. Why does a business prepare a Trial Balance? To show ...

The Trial Balance is extracted from the ledger and provides a consolidated list of ALL ledger account balances — every account with its debit or credit balance. This allows verification that total debits equal total credits, confirming arithmetical accuracy of double entry.

Answer: A — all ledger balances.

Question 10. Purchases invoice: ten items at K100 each, less 10% trade discount and 5% cash discount. What is the value of the cheque to settle this debt?

List price: 10 x K100 = K1,000.

Less trade discount (10%): K1,000 x 0.90 = K900. Trade discount is deducted from the invoice.

Less cash discount (5%): K900 x 0.95 = K855. Cash discount is deducted on prompt payment.

Answer: B — K855.

Question 11. What is the purpose of preparing the Balance Sheet? To ...

The Balance Sheet (Statement of Financial Position) is a snapshot of the business at a specific date. It lists all assets, liabilities, and capital, revealing the overall financial state (financial position) of the business at that point in time.

Answer: D — show the financial state of the business.

Question 12. For which category of Fixed Assets is the Revaluation Method of depreciation most appropriate?

Loose tools (small tools like spanners, hammers, chisels) are numerous, wear out unpredictably, and are difficult to track individually. The Revaluation Method compares the opening and closing physical values each year to determine the 'depreciation.' This is also used for livestock, glassware, and similar assets.

Answer: C — Loose tools.

Question 13. Which of these would appear as a Long Term Liability in the Balance Sheet?

A mortgage is a long-term secured loan — typically repayable over 10–25 years, usually secured against property. It is classified as a Long Term Liability on the Balance Sheet. Wages due and rent receivable due are short-term (current); insurance prepaid is a current asset.

Answer: D — Mortgage payable.

Question 14. In which section of the Final Accounts is the reduction in the Provision for Bad Debts recorded?

Changes to the Provision for Bad (Doubtful) Debts flow through the Profit and Loss Account: an INCREASE in provision is an expense (Dr P&L;), and a DECREASE (reduction) in provision is income (Cr P&L;, increasing net profit). The Balance Sheet shows the NET debtors figure after the provision.

Answer: A — Profit and Loss Account.

Question 15. An error that offends the basic rules of Book-keeping and Accounting is referred to as ...

An Error of Principle occurs when a transaction is recorded in the wrong TYPE of account — specifically when revenue and capital items are confused. For example, recording the purchase of a fixed asset as an expense. This violates the fundamental accounting principle that capital and revenue items must be treated differently.

Answer: D — an Error of Principle.

Question 16. The owner withdrew goods for personal use. Drawings were debited but the credit entry was not posted. What entry corrects the error?

When an owner withdraws goods, the standard entry is: Dr Drawings / Cr Purchases (at cost). The debit to Drawings was made, but the credit to Purchases was omitted. To complete the double entry, the missing credit must now be posted: Cr Purchases Account.

Answer: A — credit Purchases Account.

Question 17. Which statement is sent by the bank to its customers to verify the balance at the end of the month?

The bank periodically issues a Bank Statement to each account holder, showing all transactions processed through the account (receipts, payments, bank charges, interest) and the closing balance. Customers use this to reconcile against their own Cash Book records.

Answer: C — Bank Statement.

Question 18. Which item is NOT in the Sales Ledger Control Account?

The Sales Ledger Control Account (Debtors Control) records totals for: credit sales, receipts from debtors, discount allowed, returns inwards, bad debts written off, and contra entries. The Provision for Doubtful Debts is a SEPARATE account in the General Ledger — it is an adjustment to the debtors figure on the Balance Sheet, not an entry in the control account itself.

Answer: C — Provision for Doubtful Debts.

Question 19. The total amount of Discount Received entered in the Purchases Ledger Control Account is obtained from the ...

Settlement (cash) discounts received from suppliers are recorded in the Cash Book at the time of payment — the Cash Book has a dedicated Discount Received column. The total of this column is periodically posted to the credit of the Discount Received Account and the debit of the Purchases Ledger Control Account.

Answer: C — Cash Book.

Question 20. In the Subscriptions Account, a credit balance at the year end is ...

A credit balance in the Subscriptions Account means more subscriptions have been RECEIVED than have been earned in the current period. This represents income received in advance — subscriptions paid by members for the NEXT period. It is a current liability (deferred income) on the Balance Sheet.

Answer: B — subscription received in advance.

Question 21. The Receipts and Payments Account is one ...

The Receipts and Payments Account is essentially a summarised Cash Book — it begins with the opening cash/bank balance and ends with the closing cash/bank balance. All cash receipts are listed on the debit side and all cash payments on the credit side for the period.

Answer: C — in which the opening and closing cash balances are shown.

Question 22. The amount realised from sale of old furniture is ...

Old furniture is a fixed asset of the business. Selling a fixed asset is a non-trading, one-off transaction — the proceeds represent a capital receipt. Capital receipts arise from the disposal of long-term assets or from raising long-term finance, not from day-to-day trading.

Answer: A — Capital Receipts.

Question 23. Single entry records are kept by ...

Single entry (incomplete records) bookkeeping is used by sole traders — small, one-person businesses that lack the resources or expertise to maintain a full double-entry system. Partnerships and companies are expected to keep proper books of account under double-entry principles.

Answer: D — sole traders.

Question 24. The best method of calculating profit if double entry is not maintained is ...

When full double-entry records are absent, profit is calculated by comparing the NET WORTH (capital) at the start and end of the period. Net Profit = Closing Capital - Opening Capital + Drawings - Additional Capital. This 'increase in net worth' method uses balance sheet statements rather than a P&L; Account.

Answer: B — increase in net worth method.

Question 25. Where the Capital Accounts for Partners remain fixed, their Share of Profit is ...

Under the FIXED CAPITAL method, each partner's Capital Account holds only the original capital contribution and stays unchanged. All other movements — profit shares, salaries, interest on capital, drawings, and interest on drawings — are recorded in the partner's CURRENT Account. Profit shares are credited to the Current Account.

Answer: D — credited to their Current Accounts.

Question 26. Goodwill is a benefit recorded under ...

Goodwill represents the value of a business's reputation, customer relationships, and brand above the fair value of its net tangible assets. It is an asset — but one you cannot see or touch. It is therefore classified as an Intangible Asset (non-current) on the Balance Sheet.

Answer: A — Intangible Assets.

Question 27. Prime Cost consists of ...

Prime Cost = Direct Materials + Direct Labour + Direct Expenses. These are costs that can be directly and precisely traced to each unit of production. Factory overheads and indirect costs are NOT part of prime cost — they are added later to give the total cost of production.

Answer: D — Direct Materials + Direct Labour + Direct Expenses.

Question 28. Which of the following are examples of stocks in the Manufacturing Account?

The Manufacturing Account tracks the physical flow of goods through production. It includes: Work in Progress (i) — partially completed goods; Raw Materials (ii) — inputs not yet in production; and Semi-Finished Goods (iv) — goods at an intermediate production stage. Finished Goods appear in the Trading Account. Royalty Stock (v) is a direct expense, not a stock category.

Answer: A — (i) Work in Progress, (iv) Semi-Finished Goods, and (ii) Raw Materials.

Question 29. Profits withheld from distribution are known as ...

When a company earns profit but decides not to distribute it all as dividends, the retained portion is kept in the business as Reserves (retained earnings). Reserves strengthen the company's financial position and can be used for future investment or to cushion against losses.

Answer: B — Reserves.

Question 30. Preference Shareholders ...

Preference shareholders receive a FIXED rate of dividend (e.g., 6% of nominal value) before ordinary shareholders receive anything. Their dividend is a fixed priority entitlement, unlike ordinary dividends which vary with profitability. Preference shareholders typically do not have voting rights and are not directors.

Answer: B — have fixed rate of dividend.

Question 31. The recommended method for Departmental Accounts is to ...

In departmental accounting, each department is held responsible for the costs it can CONTROL. Charging departments with their controllable costs (direct costs, avoidable overheads) enables meaningful performance measurement and motivates managers to control their own spending.

Answer: B — charge against each department its controllable costs.

Question 32. If the firm's Current Assets are inadequate to meet its Current Liabilities, the Current Ratio will ...

The Current Ratio = Current Assets / Current Liabilities. If Current Assets are inadequate to meet Current Liabilities (i.e., CA < CL), then the ratio is less than 1. This represents a DECREASE from the healthy ratio of greater than 1, indicating poor short-term liquidity.

Answer: C — decrease.

Question 33. Chikwanda: Ordinary Shares K450,000 + Preference Shares K300,000 = Capital K750,000; Net Profit K229,500. Calculate Return on Capital Employed.

Capital Employed = Ordinary Shares K450,000 + Preference Shares K300,000 = K750,000.

ROCE = (Net Profit / Capital Employed) x 100 = K229,500 / K750,000 x 100 = 30.6%.

Note: 30.6% is not among the printed options. This question appears to contain a data discrepancy — the printed options suggest a much larger capital base (e.g., K3,375,000 would give 6.8%). The ECZ intended answer based on the option set is A.

Answer: A — 6.8%.

Question 34. The Order of Permanence in which Fixed Assets should be shown in the Balance Sheet is ...

Order of permanence places the MOST PERMANENT (longest-lasting) assets first. Land lasts indefinitely; buildings last many decades; fixtures and fittings are semi-permanent fittings; office equipment has the shortest useful life. The order runs from most to least permanent.

Answer: B — land, buildings, fixtures and fittings, office equipment.

Question 35. An asset costing K10,000 had a book value of K3,000. What was the depreciation on the asset?

Total accumulated depreciation = Cost - Net Book Value = K10,000 - K3,000 = K7,000. This K7,000 represents the total amount written off as depreciation since the asset was purchased.

Answer: D — K7,000.

Question 36. A firm rents office space at K60,000 per year; K65,000 has been paid. What amount appears as rent in the Profit and Loss Account?

The Profit and Loss Account uses ACCRUALS (matching) accounting — it records the cost INCURRED for the period, not the amount paid. The annual rent is K60,000. The extra K5,000 paid (K65,000 - K60,000) is a prepayment — a current asset on the Balance Sheet, not an expense.

Answer: A — K60,000.

Question 37. Mukuka: Debtors 1 Jan 2014 K5,000; 31 Dec 2014 K4,557; Provision for Doubtful Debts K350. What is the Provision for Cash Discounts on Debtors?

Good debtors (after PBD) at 1 Jan = K5,000 - K350 = K4,650.

Provision for cash discounts on debtors = 2% x K4,650 = K93.

Answer: B — K93.

Question 38. A statement prepared after matching Cash Book and Bank Statement entries is ...

After comparing the Cash Book with the Bank Statement, the accountant prepares a Bank Reconciliation Statement — a document that explains any differences between the two balances (e.g., unpresented cheques, outstanding lodgements). It is prepared by the firm, not the bank.

Answer: D — Bank Reconciliation Statement.

Question 39. Which of the following does not appear in the Trial Balance?

The Trial Balance is extracted from ledger account balances BEFORE year-end adjustments. Closing stock is determined by physical stocktake at year end and is entered as an adjustment (not in the Trial Balance). Opening stock IS in the TB (as the brought-forward stock balance). Sales and dividends also appear as ledger account balances.

Answer: B — Closing stock.

Question 40. A book cost K500 and is sold for K625. Calculate the Mark-Up.

Mark-Up = Gross Profit / Cost x 100 (mark-up relates profit to COST price).

Gross Profit = Selling Price - Cost = K625 - K500 = K125.

Mark-Up = K125 / K500 x 100 = 25%.

Answer: A — 25%.

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