G12 ECZ PRINCIPLES OF ACCOUNTS 2016 SPECIMEN PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2016 Specimen Paper 1 (7110/1)

Worked solutions — 40 multiple-choice questions

The full question paper appears first — worked answers follow.

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7110/1/2

EXAMINATIONS COUNCIL OF ZAMBIA

EXAMINATIONS FOR SCHOOL CERTIFICATE AND
GENERAL CERTIFICATE OF EDUCATION ORDINARY LEVEL

Principles of Accounts

SPECIMEN PAPERS FOR EXAMINATIONS STARTING FROM 2016 FOR INTERNAL CANDIDATES AND FROM 2017 FOR EXTERNAL CANDIDATES

Principles of Accounts (7110/1/2) – Preamble

The **Principles of Accounts (7110)** examination is part of the Senior Secondary – School Certificate Examination taken at the end of Grade 12. The School Certificate Examination is designed based on the three-year course, covering Grades 10, 11 and 12. The Ministry of General Education revised the senior secondary school curriculum (CDC 2013) and its implementation begun in 2014. For the purposes of the examination the Principles of Accounts teaching syllabus was analysed and an examinations syllabus was developed with accompanying specimen papers.

The purpose of Principles of Accounts assessment is to measure candidates' essential knowledge and productive skills of financial transactions and management necessary for making reports and economic decisions in the business sector and at personal level. It is also used for certification and placement.

Assessment Objectives

Candidates will be assessed against the following Objectives:

AO 1 Knowledge with Understanding

AO2 Application of Principles of Accounts and Accounting Concepts

AO3 Interpretation of Final Accounts

Test Design

The Grade 12 school certificate and GCE Principles of Accounts Examination will consist of two papers Paper one (7110/1); and Paper two (7110/2).

Paper name	Paper code	Duration	Mark allocation	Weight
Principles of Accounts Paper 1	7110/1	1 hour	100	40%
Principles of Accounts Paper 2	7110/2	2 hours	100	60%
		Total	200	100%

EXAMINATIONS COUNCIL OF ZAMBIA

Examination for School Certificate Ordinary Level

Principles of Accounts 7110/1

Paper 1

Additional information:
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 prime function of Accounting is to …

- **A** record economic data.
- **B** provide information as a basis for action.
- **C** classify and record business transactions.
- **D** summarise accounting data.

2 What is the meaning of the prudence concept?

- **A** Accounts should provide for all probable losses and should not anticipate profit.
- **B** Accounts should only include items with a monetary value.
- **C** Accounts should provide for all accruals and prepayments.
- **D** Accounts should use the same methods from year to year.

3 Pendula Inonge bought goods from Star shop paying for them after 30 days by cheque. What type of transaction is this?

- **A** Cash
- **B** Barter
- **C** Bank
- **D** Credit

4 A business financial transaction is the …

- **A** action by a business which involves the transfer of money or something of value.
- **B** amount of money used in the business.
- **C** recording of money received or paid by the business.
- **D** recording of the true status of the business.

5 Bunda returns goods to Malisa. Which document will Malisa send to Bunda?

- **A** Debit note
- **B** Invoice
- **C** Credit note
- **D** Receipt

6 Which one of the following is **not** a book of prime entry?

- **A** Purchases book
- **B** Ledger book
- **C** Cash book
- **D** Sales book

7 The proprietor paid a creditor Kombweke from his money outside the firm which was treated as additional capital. The entry to record this transaction would be …

- **A** Dr creditors Cr cash
- **B** Dr capital Cr Kombweke
- **C** Dr Kombweke Cr capital
- **D** Dr capital Cr bank

8 Personal accounts are related to ...
- **A** customers and creditors.
- **B** assets and liabilities.
- **C** expenses and incomes.
- **D** capital and drawings.

9 The debtor's ledger is the book in which ... are kept.
- **A** suppliers accounts
- **B** real accounts
- **C** customers accounts
- **D** nominal accounts

10 The General Ledger is the book ...
- **A** from which the trial balance is extracted.
- **B** in which transactions are first recorded.
- **C** of original entry.
- **D** where errors are first recorded.

11 Why does a business prepare a Trial Balance? To ...
- **A** calculate the profit or loss.
- **B** show the financial position.
- **C** check the arithmetical accuracy of the ledger.
- **D** check the cash and bank balances.

12 The following balances are available in the books of K Rosa a trader as at 31st December, 2015.

	(K)
Sales	8 000
Drawings	2 200
Sales returns	800
Purchases	5 000
Opening stock	1 000
Purchases returns	1 500
Insurance	500

Using the information above prepare the Trial Balance to find the totals.

	Dr	Cr
A	7 300	7 300
B	9 500	9 500
C	13 800	13 800
D	3 000	3 000

13 Gross profit can be defined as ...
- **A** excess of Sales over Cost of Goods Sold.
- **B** Sales less Purchases.
- **C** Cost of Goods Sold plus Opening Stock.
- **D** Net Profit less Expenses of the period.

14 Calculate the Cost of Goods Sold from the following items:

	(K)
Closing inventory	7 240
Carriage inwards	570
Purchases	21 360
Opening inventory	5 430

A K34 600
B K23 740
C K20 120
D K18 980

15 Capital of Siamubi at the beginning of the year was K100 000 and his net profit was K20 000. What is his ending capital?

A K80 000
B K75 000
C K120 000
D K100 000

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

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

17 A provision for bad debts is calculated on year end debtors. If debtors were K11 000, provision for doubtful debts is 5%. What is the current year's provision?

A K110
B K120
C K550
D K400

18 Which of the following items would cause a Trial Balance to disagree?

A Omission of debtor's account
B Over valuation of closing stock
C Failing to make a provision for bad debts
D Under valuation of closing stock

19 If a Trial Balance does not balance, which of the following account should opened? A ...

A Control Account.
B Provision Account.
C Liability Account.
D Suspense Account.

20 The total of the Sales Day Book for one month is K9 160. It has been entere the Sales Account as K9 610. The error must be corrected by ...

A Debiting Sales Account and crediting the Sales Day Book with K450.

B Debiting the Sales Day book and Crediting Sales Account with K450.

C Debiting Sales Account and Crediting Suspense Account with K450.

D Debiting Suspense Account and Crediting Sales Account with K450.

21 Bank Reconciliation Statement is drawn to reconcile ...

A Cash Account with Bank Account of the Cash Book.

B Bank Account in the Cash Book with the Bank Statement.

C Cash Book and Ledgers.

D the Bank Statement and the Ledgers.

22 Isaac checked his Bank Statement with the Bank Account in his nominal ledger and found the following differences:

(i) Some cheques had not been lodged by his suppliers.

(ii) The bank credited a personal lodgment to his business account in error.

(iii) The bank debited fees on his account.

Which of the differences require an entry in the bank account in the bank's General Ledger?

A i

B ii

C iii

D ii and iii

23 Which of the following should **not** be recorded in a Sales Ledger Control Account?

A Provision for bad debts.

B Credit sales.

C Bad debts written off.

D Interest charged from debtors.

24 Mutabakomu, an Accounts Clerk, prepared the Purchases Control Account which was undercasted by K900. How would this error be corrected in the concerned firm's journal?

A	Dr suspense K900	Cr purchases K900
B	Dr purchases K1 800	Cr suspense K1 800
C	Dr purchases K900	Cr suspense K900
D	Dr creditors K900	Cr purchases K900

25 What is the purpose of a Receipts and Payments Account? To ...

A calculate profit.
B calculate revenue from income generating activities.
C show the surplus of income over expenditure.
D show the cash transactions for the period.

26 The club's Assets and Liabilities as at 1st January 2014 were as follows:

Subscriptions	K400
Subscriptions in arrears	K200
Equipment	K3 300
Stock of refreshment	K600
Owing to suppliers for refreshment	K350

Calculate the Accumulated Fund as at 1st January 2014.

A K3 350
B K3 750
C K4 150
D K3 650

27 Capital receipts can be defined as ...

A proceeds from sales.
B income from rented premises.
C proceeds from sales of fixed assets.
D commission received.

28 What is an example of capital expenditure?

A Payment of an electricity bill.
B Payment of employees' wages.
C Purchase of stock.
D Purchase of a brand name.

29 Which one of the following is **not** used as a technique for finding missing information in incomplete records?

A Accounting Equation
B Debtors and Creditors Control Accounts
C Trading, Profit and Loss Account
D Cash Book

30 Which of the following item is used to calculate purchases for single entry?

A Discount received
B Returns inwards
C Discount allowed
D Receipts from debtors

31 Where a firm does not keep its books under the double entry system, its profit and loss can be calculated by comparing its ...

A opening capital against the closing capital.
B debtors against its creditors.
C cash withdrawals against cash deposits in the bank.
D cash receipts against cash payments.

32 If partners do not have any agreement, how should profits or losses be shared?

A Equally after interest has been charged on drawings.
B Equally after interest has been allowed on capital.
C In proportion to the amount of time that the partners work.
D In the ratio of the partners individual capitals.

33 What does a credit balance on a partner's current account represent to a business?

A Current asset
B Current liability
C Long term liability
D Part of the capital

34 Which one of the following does **not** appear in a Manufacturing Account?

A Depreciation on factory building.
B Manager's salary.
C Depreciation on warehouse fixtures.
D Royalty expense.

35 From the following information, you are required to calculate the figure for the Cost of Raw Materials Consumed (Used):

	K
Purchases of raw materials	800 500
Factory wages	250 000
Closing stock of raw materials	175 000
Closing stock of finished goods	82 000
Factory power	40 000
Opening stock of raw materials	94 000
Opening stock of finished goods	36 000
Carriage on purchases of raw materials	20 000

A K719 500
B K775 500
C K693 500
D K739 500

36 The excess of Market Value over Cost of Production can be referred to as ...

A Manufacturing Excess.
B Manufacturing Loss.
C Manufacturing Profit.
D Manufacturing Deficit.

37 Which one of the following is **not** a danger of non-adherence to Ethics in Accounting?

A Corruption
B Fraud
C Integrity
D Embezzlement

38 When Accountants in the firm adhere to professional code of ethics, this would result in clients developing ... in the firm as decisions would be made in their best interest.

A trust
B reliability
C loyalty
D dependence

39 Margin is ...

A Net Profit Percentage of sales.
B Gross Profit Percentage of Sales.
C Gross Profit Percentage of Cost of Goods Sold
D Gross Profit as a Percentage of Expenses.

40 Which ratio can be calculated from the details in a sole trader's Balance Sheet?

A Expenses to gross profit
B Net profit to capital
C Net profit to sales
D Rate of stock turnover

Question 1. The prime function of Accounting is to ...

The most basic, prime function of accounting is to RECORD economic (financial) data — capturing every business transaction in the books of account. Summarising, classifying, and communicating information are subsequent stages that build on this foundational act of recording.

Answer: A — record economic data.

Question 2. What is the meaning of the prudence concept?

The Prudence Concept (Conservatism) requires accountants to err on the side of caution: all probable losses must be recognised (provided for) immediately, even before they are certain, but profits should only be recognised when they have ACTUALLY been earned. This prevents overstating the financial position.

Answer: A — Accounts should provide for all probable losses and should not anticipate profit.

Question 3. Pendula Inonge bought goods from Star shop, paying for them after 30 days by cheque. What type of transaction is this?

Payment is deferred by 30 days after the goods change hands — this is the definition of a CREDIT transaction. The goods are received now but payment (by cheque) follows later, creating a short-term debt obligation.

Answer: D — credit transaction.

Question 4. A business financial transaction is ...

A business transaction is any action by a business that involves the TRANSFER OF MONEY or something of monetary value between parties. This exchange — whether of goods, services, or cash — is what generates the entries in the accounting records.

Answer: A — an action by a business which involves the transfer of money or something of value.

Question 5. Bunda returns goods to Malisa. Which document will Malisa send to Bunda?

When a buyer (Bunda) returns goods to the seller (Malisa), the seller acknowledges the return by issuing a CREDIT NOTE. The credit note reduces the amount Bunda owes — it is the formal document that cancels or reduces the original invoice debt.

Answer: C — Credit note.

Question 6. Which one of the following is NOT a book of prime entry?

Books of prime entry (original entry) are the first place transactions are recorded before being posted to the ledger — these include the Purchases Book, Sales Book, Cash Book, and Returns Books. The LEDGER is not a book of prime entry; it is the main book of accounts where double entries are completed.

Answer: B — Ledger book.

Question 7. The proprietor paid a creditor Kombweke from his money outside the firm which was treated as additional capital. The entry to record this transaction would be ...

The owner introduces personal cash to pay the business's creditor (Kombweke). Two effects: (1) the debt to Kombweke is cleared — Dr Kombweke Account (reduces creditor balance); (2) the owner's contribution increases capital — Cr Capital Account.

Answer: C — Dr Kombweke, Cr Capital.

Question 8. Personal accounts are related to ...

Personal accounts record transactions with individuals and organisations — customers (debtors) and creditors (suppliers), as well as the owner's capital account. They carry the name of a person or entity. Asset/liability accounts are real accounts; income/expense accounts are nominal.

Answer: A — customers and creditors.

Question 9. The debtor's ledger is the book in which ... are kept.

The Debtor's Ledger (Sales Ledger) contains the individual personal accounts of all customers who owe the business money. Each customer's account shows their purchases, payments, discounts, and outstanding balance.

Answer: C — customers accounts.

Question 10. The General Ledger is the book ...

The General Ledger contains all the ledger accounts of the business. When the Trial Balance is prepared, balances are extracted directly from the General Ledger accounts. It is therefore the book FROM WHICH the Trial Balance is extracted.

Answer: A — from which the Trial Balance is extracted.

Question 11. Why does a business prepare a Trial Balance?

The Trial Balance lists all ledger account balances — if the total of all debit balances equals the total of all credit balances, it confirms that the double-entry bookkeeping is arithmetically correct. It does NOT detect all errors (e.g., errors of omission, principle, or commission).

Answer: C — check the arithmetical accuracy of the ledger.

Question 12. K Rosa's balances at 31 December 2015: Sales K8,000; Drawings K2,200; Sales returns K800; Purchases K5,000; Opening stock K1,000; Purchases returns K1,500; Insurance K500. Find the Trial Balance totals.

Debit balances: Drawings K2,200 + Sales returns K800 + Purchases K5,000 + Opening stock K1,000 + Insurance K500 = K9,500.

Credit balances: Sales K8,000 + Purchases returns K1,500 = K9,500.

Dr total K9,500 = Cr total K9,500. Trial Balance agrees.

Answer: B — Dr K9,500 / Cr K9,500.

Question 13. Gross profit can be defined as ...

Gross Profit = Net Sales – Cost of Goods Sold. It is the trading surplus earned from buying and selling goods before any other overhead expenses (wages, rent, utilities) are deducted. It is not reduced by drawings, expenses, or other non-trading items.

Answer: A — excess of Sales over Cost of Goods Sold.

Question 14. Calculate the Cost of Goods Sold: Closing inventory K7,240; Carriage inwards K570; Purchases K21,360; Opening inventory K5,430.

COGS = Opening stock + Purchases + Carriage inwards - Closing stock.

= K5,430 + K21,360 + K570 - K7,240 = K27,360 - K7,240 = K20,120.

Answer: C — K20,120.

Question 15. Capital of Silamubi at the beginning of the year was K100,000 and his net profit was K20,000. What is his ending capital?

Closing Capital = Opening Capital + Net Profit - Drawings. No drawings are stated, so: Closing Capital = K100,000 + K20,000 = K120,000.

Answer: C — K120,000.

Question 16. What is the purpose of preparing the Balance Sheet?

The Balance Sheet (Statement of Financial Position) is a snapshot of the business at a specific date — listing all assets, liabilities, and capital. Its purpose is to show the FINANCIAL STATE (financial position) of the business at that point.

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

Question 17. Debtors are K11,000; provision for doubtful debts is 5%. What is the current year's provision?

Provision for Doubtful Debts = 5% x K11,000 = K550. This is the required balance of the provision account at the year end, which will be deducted from debtors on the Balance Sheet to show the net recoverable amount.

Answer: C — K550.

Question 18. Which of the following would cause a Trial Balance to disagree?

If a debtor's account balance is OMITTED from the Trial Balance extract, the debit total is understated by that amount while the credit total remains unchanged. This means Dr total < Cr total — the Trial Balance fails to balance and the error is revealed.

Over/under valuation of stock and failing to provide for bad debts are year-end adjustments that, when omitted, affect both sides equally or are simply omissions — they do not cause a TB imbalance.

Answer: A — Omission of debtor's account.

Question 19. When the Trial Balance does not balance, which account should be opened?

When the Trial Balance fails to balance (Dr ≠ Cr), a Suspense Account is opened with the difference, on whichever side is needed to make the TB agree. The suspense account is a temporary holding account used until the errors causing the imbalance are found and corrected.

Answer: D — Suspense Account.

Question 20. The total of the Sales Day Book for one month is K9,160. It has been entered in the Sales Account as K9,610. How should the error be corrected?

Sales Account was credited with K9,610 instead of K9,160 — an overposting of K450 on the credit side. The trial balance Cr total is K450 too high, so the Suspense Account had a Dr K450 balance.

Correction: Dr Sales Account K450 (reduces the over-credited balance) / Cr Suspense Account K450 (clears the suspense).

Answer: B — Debiting Sales Account and crediting Suspense Account with K450.

Question 21. Bank Reconciliation Statement is drawn to reconcile ...

The Bank Reconciliation Statement reconciles the bank balance shown in the FIRM's Cash Book (bank column) with the balance shown on the BANK's Statement sent by the bank. Differences arise from unpresented cheques, outstanding lodgements, bank charges, and errors.

Answer: B — Bank Account in the Cash Book with the Bank Statement.

Question 22. Isaac found three differences between his Bank Statement and his Cash Book. Which require an entry in the bank account in the bank's General Ledger?

(i) Unpresented supplier cheques — the bank has not yet processed these; no new bank GL entry is needed — the bank will process when the cheques are presented.

(ii) Bank credited a personal lodgment to business account in ERROR — this is the BANK's mistake; the bank must reverse/correct its own GL entry.

(iii) Bank debited fees — the bank has ALREADY recorded this in its GL. The firm just needs to update its Cash Book.

Only (ii) requires a NEW entry in the bank's General Ledger.

Answer: B — ii.

Question 23. Which of the following should NOT be recorded in a Sales Ledger Control Account?

The Sales Ledger Control Account (SLCA / Debtors Control) records: credit sales, receipts from debtors, discount allowed, returns inwards, bad debts written off, and contra entries. The Provision for Bad Debts is a SEPARATE account in the General Ledger — it adjusts the presentation of debtors on the Balance Sheet but is NOT posted to the SLCA.

Answer: A — Provision for bad debts.

Question 24. The Purchases Control Account was undercasted by K900. How would this error be corrected in the firm's journal?

'Undercasted' means the column total was added up incorrectly as K900 less than the true sum — so the Purchases figure is K900 too low. The debit balance of Purchases is K900 short, causing the Trial Balance Dr total to be K900 less than Cr total. A Suspense Account was opened with Cr K900 to balance.

Correction: Dr Purchases K900 (adds the missing amount back) / Cr Suspense K900 (clears the suspense account).

Answer: C — Dr purchases K900, Cr suspense K900.

Question 25. What is the purpose of a Receipts and Payments Account?

The Receipts and Payments Account is a summary of ALL cash and bank transactions during the period — it shows every receipt (debit side) and every payment (credit side) regardless of whether they are capital, revenue, or relate to another period. Its purpose is to show the cash transactions for the period.

Answer: D — show the cash transactions for the period.

Question 26. Club assets and liabilities at 1 January 2014: Subscriptions (advance) K400; Subscriptions in arrears K200; Equipment K3,300; Stock of refreshment K600; Owing to suppliers K350. Calculate the Accumulated Fund.

Assets = Equipment K3,300 + Stock K600 + Subscriptions in arrears K200 = K4,100.

Liabilities = Subscriptions received in advance K400 + Owing to suppliers K350 = K750.

Accumulated Fund = Assets - Liabilities = K4,100 - K750 = K3,350.

Answer: A — K3,350.

Question 27. Capital receipts can be defined as ...

Capital receipts arise from transactions involving long-term (non-current) assets or long-term finance — specifically, they come from selling fixed assets. Proceeds from the SALE OF FIXED ASSETS are the clearest example of a capital receipt. Income from renting premises or commission from trading are revenue receipts.

Answer: C — proceeds from sales of fixed assets.

Question 28. What is an example of capital expenditure?

Capital expenditure creates or acquires a long-term asset that provides benefits over more than one accounting period. Purchasing a BRAND NAME is an intangible fixed asset — a capital expenditure that appears on the Balance Sheet. Electricity, wages, and stock purchases are day-to-day operating (revenue) expenses.

Answer: D — Purchase of a brand name.

Question 29. Which one of the following is NOT used as a technique for finding missing information in incomplete records?

Techniques used in incomplete records: the Accounting Equation (to reconstruct opening/closing capital), Debtors/Creditors Control Accounts (to find credit sales and purchases), and the Cash Book (to reconstruct cash transactions). The Trading, Profit and Loss Account is the RESULT of the exercise — it is prepared AFTER the missing figures are found, not a technique used to find them.

Answer: C — Trading, Profit and Loss Account.

Question 30. Which item is used in the sales calculation for a single entry organisation?

To calculate total credit sales in a single-entry business, reconstruct the Debtors Control Account: Opening debtors + Credit sales = Cash received from debtors + Discount allowed + Returns inwards + Bad debts written off + Closing debtors. Rearranging: Credit sales = Cash received + Discount allowed + Returns + Bad debts + Closing debtors - Opening debtors. DISCOUNT ALLOWED is a required input for this calculation.

Answer: A — Discount received.

Question 31. If a firm does not keep its books under a double entry system, profit or loss can be calculated by comparing its ...

In single-entry (incomplete records), profit is derived by comparing net worth at two points: Net Profit = Closing Capital - Opening Capital + Drawings - Additional Capital Introduced. The starting point is the comparison of OPENING CAPITAL against CLOSING CAPITAL.

Answer: A — opening capital against the closing capital.

Question 32. If partners do not have any agreement, profit or losses should be shared ...

Under the Partnership Act, when partners have no specific written agreement, the default rule is that profits and losses are shared EQUALLY among all partners. No partner receives a priority salary or interest on capital without an agreement. The residual profit is simply divided equally.

Answer: A — Equally after interest has been allowed on capital.

Question 33. What does a credit balance on a partner's current account represent to a business?

A credit balance on a partner's Current Account means the business owes that amount to the partner — it represents accumulated undrawn profits, salaries, and interest. From the firm's perspective, this is the partner's share of ownership and forms PART OF THE CAPITAL of the business.

Answer: D — Part of the capital.

Question 34. Which one of the following does NOT appear in a Manufacturing Account?

The Manufacturing Account includes all factory costs: depreciation on factory building (factory overhead), manager's salary if factory-based, and royalty expense (direct expense). DEPRECIATION ON WAREHOUSE FIXTURES is NOT a manufacturing cost — the warehouse stores finished goods and relates to selling/distribution, appearing in the Trading or P&L; Account instead.

Answer: C — Depreciation on warehouse fixtures.

Question 35. Calculate the Cost of Raw Materials Consumed: Purchases K800,500; Closing raw materials K175,000; Opening raw materials K94,000; Carriage on purchases K20,000.

Raw Materials Consumed = Opening stock of raw materials + Purchases of raw materials + Carriage on purchases of raw materials - Closing stock of raw materials.

= K94,000 + K800,500 + K20,000 - K175,000 = K914,500 - K175,000 = K739,500.

Factory wages, factory power, and stock of finished goods are NOT part of raw materials consumed.

Answer: D — K739,500.

Question 36. The excess of Market Value over Cost of Production can be referred to as ...

When a manufacturing business's market value of goods transferred to the Trading Account exceeds the actual cost of production, the difference is a MANUFACTURING PROFIT (also known as notional profit or manufacturing excess). It reflects the profit element in valuing production at market price.

Answer: C — Manufacturing Profit.

Question 37. Which one of the following is NOT a danger of non-adherence to Ethics in Accounting?

The dangers of failing to adhere to accounting ethics include: Corruption (misuse of entrusted power), Fraud (deliberate deception for gain), and Embezzlement (theft of funds). INTEGRITY is a positive virtue — it is the quality of being honest and having strong moral principles. It is the ANTIDOTE to unethical behaviour, not a consequence of it.

Answer: C — Integrity.

Question 38. When accountants adhere to a professional code of ethics, this results in clients benefiting because decisions are made in their best interest. What is this benefit called?

When clients know that accountants are bound by a code of ethics and will always act in the client's best interest, the fundamental benefit is TRUST. Clients can rely on the accountant's work without worrying that self-interest or bias has influenced the advice or financial statements.

Answer: A — trust.

Question 39. Margin is ...

Margin (Gross Profit Margin) expresses gross profit as a percentage of SALES (selling price). It shows how much of each kwacha of revenue remains after covering the cost of goods sold. Contrast with Mark-up, which relates gross profit to COST price.

Answer: B — Gross Profit Percentage of Sales.

Question 40. Which percentage can be calculated from the details in a sole trader's Balance Sheet?

The Balance Sheet shows capital (owner's equity) and, indirectly, net profit (via capital changes or via comparison with P&L;). Return on Capital = Net Profit / Capital x 100 uses both the net profit figure and the capital figure — the capital is directly available from the Balance Sheet, making this the most directly derived ratio.

Answer: B — Net profit to capital.

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