G12 ECZ
PRINCIPLES OF ACCOUNTS
2017
PAPER 1
SOLUTIONS

Grade 12 ECZ Principles of Accounts 2017 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

Friday — **10 NOVEMBER 2017**

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.

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1 Accounting can be defined as a process of identifying, measuring and communicating ... information to permit informed judgment and decision by users of the information.

- **A** accounting
- **B** confidential
- **C** economic
- **D** transactional

2 What is meant by the historical cost principle?

- **A** Each transaction must have a debit and credit of equal value.
- **B** Reported profits are realistic and overstated.
- **C** Similar transactions should be recorded in the same way.
- **D** Transactions are recorded at actual cost.

3 Which one of the following is **not** an example of a business transaction?

- **A** Preparing financial reports.
- **B** Borrowing from the bank.
- **C** Sale of goods.
- **D** Purchase of goods.

4 Keelo buys goods from Rosa paying for them by cheque. What kind of transaction is this?

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

5 Which one of the following is both a book of prime entry and double entry? The ...

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

6 The Purchases Journal is the book where we record goods ...

- **A** sold on credit to make a profit.
- **B** sold by cheque to make a profit.
- **C** bought on credit and are meant for resale.
- **D** bought by cheque and are meant for resale.

7 The double entry rule states that for every ...

- **A** debit entry there must be a corresponding credit entry.
- **B** debit entry there must be a corresponding debit entry.
- **C** credit entry there must be a corresponding credit entry.
- **D** debit and credit balance there, must be a corresponding debit entry.

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8 Which ones below are the correct classes of accounts?

A Fictitious, Personal and Real Accounts

B Nominal, Real and Personal Accounts

C Personal, Fictitious and Nominal Accounts

D Real, Fictitious and Nominal Accounts

9 Which one of the following is **not** a Ledger?

A General Journal Ledger

B General Ledger

C Accounts Payable Ledger

D Accounts Receivable Ledger

10 The Creditors Ledger is the book in which … are kept.

A Suppliers' Accounts

B Real Accounts

C Nominal Accounts

D Customers' Accounts

11 Which of the following are reasons for preparing the Trial Balance? To …

(i) prove the arithmetic accuracy.

(ii) show all Ledger balances.

(iii) correct all errors.

(iv) see if the double entry rule has been followed.

(v) prepare the Suspense Account.

A (i), (iii) and (v)

B (i), (ii) and (iv)

C (ii), (iii) and (iv)

D (iii), (iv) and (v)

12 The following Trial Balance was written by an unqualified Bookkeeper. Prepare the correct one and show the totals:

	Dr (K)	Cr (K)
Sales	8 000	
Drawings	2 000	
Sales Returns		800
Purchases		5 000
Opening Stock	1 000	
Purchases Returns		1 500
Insurance		700
Totals	**11 000**	**8 000**

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	Dr (K)	Cr (K)
A	9 500	9 500
B	7 300	7 300
C	13 800	13 800
D	4 500	4 500

13 The following information is available for Isaac's business:

	(K)
Sales	28 000
Stock 1/1/2015	10 000
Purchases	18 000
Stock 31/12/2015	15 000
Expenses	6 000

Calculate the gross profit.

A K 20 000
B K 9 000
C K 15 000
D K 28 000

14 Net profit can be defined as …

A excess of sales over cost of goods sold.
B gross profit less operating expenses.
C sales less purchases.
D cost of goods sold plus opening stock.

15 The descending order in which current assets should be shown in the Balance Sheet is …

A Stock, debtors, bank, cash.
B Cash, bank, debtors, stock.
C Debtors, stock, bank, cash.
D Stock, debtors, cash, bank.

16 Bwalya Trading bought a machine on 1 July 2016 by cheque for K4, 000 and is estimated to last 10 years after which it will have a scrap value of K500. What is its Annual Depreciation?

A K2 000
B K 350
C K 200
D K 430

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17 Depreciation can be defined as the …

A appreciation of a fixed asset.

B appreciation of a current asset.

C value of a current asset.

D loss of value of a fixed asset.

18 An Error of Principle is made if …

A a transaction has completely been omitted.

B a transaction has been entered in both accounts with the wrong amount.

C an entry has been made in the wrong class of accounts.

D an entry has been made on the wrong side of the two accounts concernec

19 Errors corrected using the Suspense Account …

A are not exposed by the Trial Balance.

B prevent the Trial Balance from balancing.

C affect the Balance Sheet.

D are omitted in the Ledger.

20 Given that the total debit side of the Trial Balance is K18 900 and credit side is K22 000, what will be the opening balance on the Suspense Account?

A K3 100 on the credit side of Suspense Account

B K3 100 on the debit side of Suspense Account

C K3 000 on the debit side of Suspense Account

D K3 000 on the credit side of Suspense Account

21 Why is a Bank Reconciliation Statement prepared? To …

A check the arithmetic accuracy.

B show unpresented cheques lodged with the bank.

C show uncredited cheques lodged with the bank.

D verify the Cash Book balance and the Bank Statement balance.

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

A Bank Reconciliation Statement

B Bank Statement

C Cash Statement

D Statement of Account

23 What is the purpose of the Sales Ledger Control Account? To …

A calculate the amount owed to suppliers.

B calculate total sales.

C check the accuracy of the Sales Ledger

D make the Trial Balance totals agree.

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24 The Debtors Ledger Control Account is also known as …

- **A** Sales Ledger Control Account.
- **B** Purchases Ledger Control Account.
- **C** Creditors Ledger Control Account.
- **D** Total Creditors Account.

25 Which one of the following items is not entered in the Income and Expenditure Account?

- **A** Accumulated fund
- **B** Printing and stationery
- **C** Profit on sale of tickets
- **D** Subscriptions.

26 A club has a total membership of 50 and the annual subscription per member is K100. At the end of the year, the club's Cash Book shows that a total of K4 000 was received. How much is transferred to the Income and Expenditure Account?

- **A** K 5 000
- **B** K 4 000
- **C** K 1 000
- **D** K 6 000

27 What is a Capital Receipt?

- **A** Money spent when acquiring fixed assets.
- **B** Funds generated from the sale of fixed assets.
- **C** Funds generated from the sale of revenue expenditure.
- **D** Funds generated from the sale of purchases.

28 Which one of the following is a Revenue Expenditure?

- **A** A purchase of filing cabinets for the office
- **B** Illegal costs for purchase of property
- **C** Cost of extension to buildings
- **D** A quarterly electricity bill

29 Single entry records are mostly kept by all those who …

- **A** do not keep double entry records.
- **B** keep double entry records.
- **C** are sole traders in business.
- **D** are partners in business.

30 Which of the following items is used in sales calculation for single entry organizations?

- **A** Cash payment to creditors
- **B** Discount Allowed
- **C** Discount Received
- **D** Returns Outwards

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31 Which one of the following is correct?

- **A** Profit does not alter capital.
- **B** Profit reduces capital.
- **C** Capital can only come from profit.
- **D** Profit increases capital.

32 In the absence of a partnership agreement, how should capital be contributed?

- **A** All partners should contribute equally.
- **B** According to financial resources of the partners.
- **C** All partners should contribute according to sharing ratios.
- **D** Some partners should not be allowed to contribute.

33 An Appropriation Account is an account dealing with allocation of ... to partners.

- **A** capital
- **B** drawings
- **C** gross profit
- **D** net profit

34 In a manufacturing business, royalties on every item manufactured are regarded as ...

- **A** direct expenses.
- **B** indirect expenses.
- **C** part of raw materials used.
- **D** factory overhead expenses.

35 What do you understand by the term "work-in–progress"?

- **A** Value of goods purchased.
- **B** Value of finished goods on hand.
- **C** Sales less cost of goods sold.
- **D** Value of partly finished goods.

36 A manufacturing business extracts the following information from its books:

	K
Direct Materials	2 800
Direct Labour	2 200
Indirect Expenses	800

What is the amount of Prime Cost?

- **A** K 5 000
- **B** K 3 600
- **C** K 4 200
- **D** K 5 800

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37 Which of the following words best describes ethics in accountancy?

(i) Fraud
(ii) Integrity
(iii) Corruption
(iv) Discipline
(v) Embezzlement
(vi) Honest

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

38 Which one of the following is a danger of non adherence to ethics in accounting?

A Accountability
B Dependence
C Money laundering
D Trust

39 The amount a trader adds to their cost price is known as …

A margin.
B mark-up.
C net profit.
D turnover.

40 Normally goods and services are sold above cost price, the difference being …

A capital.
B loss.
C profit.
D turnover.

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Question 1. Accounting can be defined as a process of identifying, measuring and communicating ... information to permit informed judgment and decision by users of the information.

Accounting deals with ECONOMIC information — facts about financial transactions, resources, and obligations of a business entity. This economic data is identified, measured, and communicated (via financial statements) to help users make rational economic decisions.

Answer: C — economic.

Question 2. What is meant by the historical cost principle?

The Historical Cost Concept (Cost Principle) states that assets and transactions are recorded at their ORIGINAL purchase price (actual cost) at the time of the transaction — not at current market value, replacement cost, or estimated value. This provides an objective, verifiable basis for recording.

Answer: D — Transactions are recorded at actual cost.

Question 3. Which one of the following is NOT an example of a business transaction?

A business transaction involves the exchange of money or something of value — buying goods, borrowing money, or making a sale. Preparing financial reports is an internal accounting activity; it involves no exchange of value between parties and creates no financial obligation. It is therefore NOT a business transaction.

Answer: A — Preparing financial reports.

Question 4. Keebo buys goods from Rosa paying for them by cheque. What kind of transaction is this?

Payment by CHEQUE draws on the bank account rather than physical cash. This is classified as a BANK transaction — the bank account is debited when the cheque is presented. It is not a credit transaction (payment is immediate) and not a cash transaction (physical notes are not used).

Answer: A — Bank.

Question 5. Which one is both a book of prime entry and part of the double entry system?

Most books of prime entry (Sales Day Book, Purchases Day Book, Returns Books) are only the first point of recording — they are NOT part of the double entry ledger. The CASH BOOK is unique: it functions as both a book of prime entry for cash/bank receipts and payments AND as a ledger account for Cash and Bank.

Answer: A — Cash Book.

Question 6. The Purchases Journal is the book where we record goods ...

The Purchases Journal (Purchases Day Book) records all CREDIT purchases of goods intended for RESALE. It does not record cash purchases (those go to the Cash Book), nor does it record the purchase of assets (those go to the General Journal). Only goods bought on credit for resale appear here.

Answer: C — bought on credit and are meant for resale.

Question 7. The double entry rule states that for every ...

The foundation of double-entry bookkeeping is that every transaction has two equal and opposite entries: for every DEBIT entry made in one account, there must be a corresponding CREDIT entry of the same amount in another account. This ensures the accounting equation always balances.

Answer: A — debit entry there must be a corresponding credit entry.

Question 8. Which ones below are the correct classes of accounts?

Accounts in the double-entry system are classified into three types: PERSONAL accounts (accounts of individuals, debtors, creditors, and the owner), REAL accounts (accounts of tangible/intangible assets — cash, stock, machinery), and NOMINAL accounts (income, expenses, gains, losses). Fictitious accounts are not a standard classification.

Answer: B — Nominal, Real and Personal Accounts.

Question 9. Which one of the following is NOT a Ledger?

Ledgers are books that hold accounts where double entries are recorded — the General Ledger, Accounts Payable Ledger (creditors), and Accounts Receivable Ledger (debtors) are all ledgers. The GENERAL JOURNAL (Journal Proper) is a BOOK OF PRIME ENTRY — a day book for recording miscellaneous transactions before posting to the ledger. It is NOT a ledger itself.

Answer: A — General Journal Ledger.

Question 10. The Creditors Ledger is the book in which ... are kept.

The Creditors Ledger (Purchases Ledger) contains the individual personal accounts of all SUPPLIERS — the businesses or people from whom goods or services have been purchased on credit and payment is still owed. Each supplier's account shows the credit purchases, payments made, returns, and outstanding balance.

Answer: A — Suppliers' Accounts.

Question 11. Which of the following are reasons for preparing the Trial Balance?

The Trial Balance is extracted to: (i) PROVE the arithmetical accuracy of the ledger — if Dr = Cr totals, the double-entry is arithmetically correct; (ii) SHOW all ledger balances in one place for easy reference; (iv) VERIFY that the double-entry rule has been followed throughout the period.

(iii) 'Correct all errors' is WRONG — the TB does not correct errors; it only reveals some. (v) 'Prepare the Suspense Account' is a consequence of the TB failing to balance, not a PURPOSE of preparing it.

Answer: B — (i), (ii) and (iv).

Question 12. The following Trial Balance was written by an unqualified bookkeeper. Prepare the correct one and show the totals.

Items on wrong sides in the incorrect TB: Sales K8,000 shown on Dr (should be Cr); Sales Returns K800 shown on Cr (should be Dr); Purchases K5,000 shown on Cr (should be Dr); Insurance K700 shown on Cr (should be Dr).

Correct Dr: Drawings K2,000 + Opening Stock K1,000 + Sales Returns K800 + Purchases K5,000 + Insurance K700 = K9,500.

Correct Cr: Sales K8,000 + Purchases Returns K1,500 = K9,500. Totals agree.

Answer: A — Dr K9,500 / Cr K9,500.

Question 13. Isaac's business: Sales K28,000; Stock 1/1/2015 K10,000; Purchases K18,000; Stock 31/12/2015 K15,000; Expenses K6,000. Calculate the gross profit.

COGS = Opening Stock K10,000 + Purchases K18,000 - Closing Stock K15,000 = K13,000.

Gross Profit = Sales K28,000 - COGS K13,000 = K15,000.

Answer: C — K15,000.

Question 14. Net profit can be defined as ...

Net Profit is calculated in the Profit and Loss Account: it is the Gross Profit LESS all operating expenses (overheads, administration, selling costs, etc.). The formula: Net Profit = Gross Profit - Operating Expenses.

Answer: B — gross profit less operating expenses.

Question 15. The descending order in which current assets should be shown in the Balance Sheet is ...

Current assets are listed in DESCENDING order of liquidity — from MOST liquid (easiest to convert to cash) at the top to LEAST liquid at the bottom. Cash is the most liquid (it IS cash); bank is next (one step from cash); debtors require collection time; stock must be sold first before converting to cash.

Answer: B — Cash, bank, debtors, stock.

Question 16. Bwalya Trading bought a machine on 1 July 2016 for K4,000; estimated life 10 years; scrap value K500. What is its Annual Depreciation?

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

= (K4,000 - K500) / 10 = K3,500 / 10 = K350 per year.

Answer: B — K350.

Question 17. Depreciation can be defined as the ...

Depreciation is the systematic allocation of the cost of a fixed (non-current) asset over its useful life. It represents the LOSS IN VALUE of a fixed asset due to wear and tear, passage of time, obsolescence, or usage. It is an expense charged to the Profit and Loss Account each period.

Answer: D — loss of value of a fixed asset.

Question 18. An Error of Principle is made if ...

An Error of Principle occurs when a transaction is entered in the WRONG CLASS (type) of account — specifically when the distinction between capital and revenue is confused. For example, treating a fixed asset purchase (capital expenditure) as an expense (revenue expenditure), or crediting an asset account instead of an income account.

Answer: C — an entry has been made in the wrong class of accounts.

Question 19. Errors corrected using the Suspense Account ...

A Suspense Account is opened ONLY when the Trial Balance fails to balance — i.e., when errors have caused Dr ≠ Cr totals. These errors PREVENT the Trial Balance from balancing (one-sided entries, posting errors, transposition errors). The Suspense Account temporarily holds the difference until the errors are found and corrected.

Answer: B — prevent the Trial Balance from balancing.

Question 20. Total debit side of TB is K18,900; credit side is K22,000. What will be the opening balance on the Suspense Account?

The credit side is K3,100 MORE than the debit side (K22,000 - K18,900 = K3,100). To balance the TB, a Suspense Account is opened with a DEBIT balance of K3,100 — adding K3,100 to the debit column makes Dr = Cr.

Answer: B — K3,100 on the debit side of Suspense Account.

Question 21. Why is a Bank Reconciliation Statement prepared?

The Bank Reconciliation Statement is prepared to VERIFY (reconcile) the differences between two records of the bank balance: the bank balance shown in the firm's CASH BOOK and the balance shown on the BANK STATEMENT received from the bank. Differences arise from timing differences and bank-only items.

Answer: D — verify the Cash Book balance and the Bank Statement balance.

Question 22. Which statement is sent by the bank to its customers to verify the balance at the end of the month?

The BANK STATEMENT is a document sent by the bank to each account holder at regular intervals. It lists all transactions processed through the account (deposits, withdrawals, bank charges, interest) and shows the closing balance. The customer uses it to reconcile against their Cash Book.

Answer: B — Bank Statement.

Question 23. What is the purpose of the Debtors Ledger Control Account?

The Debtors Ledger Control Account (Sales Ledger Control Account) is a totals account whose balance should equal the sum of all individual debtor account balances in the Sales Ledger. Comparing the control account balance with the total of individual accounts CHECKS THE ACCURACY of the Sales Ledger — any difference reveals a posting error.

Answer: C — check the accuracy of the Sales Ledger.

Question 24. The Debtors Ledger Control Account is also known as ...

Debtors = customers who owe money to the business. The Debtors Ledger Control Account is also known as the SALES LEDGER CONTROL ACCOUNT — both names refer to the same account that summarises all individual debtor (customer) balances.

Answer: A — Sales Ledger Control Account.

Question 25. Which one of the following items is NOT entered in the Income and Expenditure Account?

The Income and Expenditure Account for a non-profit organisation records: income (subscriptions, donations, surplus from events) and expenditure (running costs). The ACCUMULATED FUND is the non-profit's equivalent of capital — it represents the net assets of the organisation and belongs on the Balance Sheet, not the I&E; Account.

Answer: A — Accumulated fund.

Question 26. A club has 50 members; annual subscription K100 each. Cash Book shows K4,000 received. How much is transferred to the Income and Expenditure Account?

Using accrual accounting, the I&E; Account recognises subscriptions EARNED for the period (regardless of when received). Total due for the year = 50 x K100 = K5,000. The K1,000 not yet received (in arrears) is a debtor on the Balance Sheet. The amount transferred to the I&E; Account is the full earned amount.

Answer: A — K5,000.

Question 27. What is a Capital Receipt?

Capital receipts arise from the disposal of long-term (fixed) assets or from raising long-term finance. The SALE OF FIXED ASSETS (e.g., selling old machinery, a building, or a vehicle) generates a capital receipt — it is a one-off, non-trading inflow related to the non-current asset base.

Answer: B — Funds generated from the sale of fixed assets.

Question 28. Which one of the following is a Revenue Expenditure?

Revenue expenditure is incurred in the day-to-day running of the business — regular, recurring costs that provide benefit within the current accounting period. A QUARTERLY ELECTRICITY BILL is a regular operating expense (revenue expenditure) that is charged to the Profit and Loss Account. Purchasing filing cabinets, extending buildings, and buying property are capital expenditures.

Answer: D — A quarterly electricity bill.

Question 29. Single entry records are mostly kept by all those who ...

Single entry (incomplete records) is a simplified recording system used by those who do NOT keep full double-entry records. Small traders and individuals who record only cash receipts and payments without maintaining a full ledger are typical users of single entry. The defining characteristic is the ABSENCE of double-entry discipline.

Answer: A — do not keep double entry records.

Question 30. Which of the following items is used in sales calculation for single entry organisations?

To find total credit sales in a single entry business, reconstruct the Debtors Control Account: Opening debtors + Credit sales = Receipts from debtors + Discount Allowed + Returns Inwards + Bad debts written off + Closing debtors. Rearranging gives: Credit sales = Receipts + Discount Allowed + Returns + Bad debts + Closing debtors - Opening debtors. DISCOUNT ALLOWED is an essential input in this formula.

Answer: B — Discount Allowed.

Question 31. Which one of the following is correct?

Net profit belongs to the owner of the business. When a business earns a profit, it is ADDED to the owner's capital (Capital Account: Cr Profit / Dr Drawings when withdrawn). Profit INCREASES capital. A net loss would decrease capital. Profit does not come exclusively from capital injections.

Answer: D — Profit increases capital.

Question 32. In the absence of a partnership agreement, how should capital be contributed?

Under the Partnership Act 1890, when partners have no specific agreement on capital contributions, the default is that all partners should contribute EQUALLY. This equal treatment also applies to profit-sharing (equal) and the right to participate in management.

Answer: A — All partners should contribute equally.

Question 33. An Appropriation Account is an account dealing with allocation of ... to partners.

After calculating net profit in the Profit and Loss Account, the Appropriation Account distributes (appropriates) that NET PROFIT among the partners according to the partnership agreement: partners' salaries, interest on capital, and residual profit share. It does not deal with gross profit (that is in the Trading Account).

Answer: D — net profit.

Question 34. In a manufacturing business, royalties on every item manufactured are regarded as a ...

A royalty paid per unit manufactured is directly traceable to each unit of production — it increases proportionally as more units are made. This makes it a DIRECT EXPENSE (prime cost component). Factory overhead expenses are those which cannot be traced directly to individual units of output.

Answer: A — direct expenses.

Question 35. What do you understand by the term 'work-in-progress'?

Work-in-progress (WIP) refers to goods that have entered the production process but are not yet complete — PARTLY FINISHED GOODS. They have had some materials and labour applied but are not ready for sale. WIP appears on the Manufacturing Account and Balance Sheet as a current asset.

Answer: D — Value of partly finished goods.

Question 36. Manufacturing business: Direct Materials K2,800; Direct Labour K2,200; Indirect Expenses K800. What is the Prime Cost?

Prime Cost = Direct Materials + Direct Labour + Direct Expenses (only DIRECT costs).

= K2,800 + K2,200 = K5,000.

Indirect Expenses (K800) are factory overheads — they are added AFTER prime cost to give the total cost of production. They are NOT included in prime cost.

Answer: A — K5,000.

Question 37. Which of the following words BEST describes ethics in accountancy?

Ethics in accountancy refers to the positive principles and values that govern professional behaviour. Integrity (ii) = being honest, transparent, and consistent in actions. Discipline (iv) = adhering to rules and professional standards. Honest (vi) = being truthful and avoiding deception.

Fraud (i), Corruption (iii), and Embezzlement (v) are VIOLATIONS of ethics — they describe what happens when ethics are NOT followed, not what ethics itself means.

Answer: C — (ii) Integrity, (iv) Discipline, and (vi) Honest.

Question 38. Which one of the following is a danger of non-adherence to ethics in accounting?

When accountants do not follow ethical standards, financial manipulation and concealment of illegal activities become possible. MONEY LAUNDERING — disguising illegally obtained money as legitimate income — is a direct danger enabled by unethical accounting practices (false records, fictitious transactions). Accountability and trust are consequences of GOOD ethics, not dangers.

Answer: C — Money laundering.

Question 39. The amount a trader adds to their cost price is known as ...

MARK-UP is the amount added to the cost price to arrive at the selling price. It is expressed as a percentage of COST: Mark-up % = Gross Profit / Cost x 100. This differs from MARGIN (which relates gross profit to SELLING PRICE). Turnover refers to total sales revenue.

Answer: B — mark-up.

Question 40. Normally goods and services are sold above cost price, the difference being ...

When a business sells goods for more than they cost, the difference between the selling price and cost price is PROFIT (gross profit before expenses). This is the fundamental purpose of trading — to generate profit by adding a mark-up above the cost of goods.

Answer: C — profit.

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