G12 ECZ
PRINCIPLES OF ACCOUNTS
2017 GCE
PAPER 1
SOLUTIONS

Grade 12 ECZ Principles of Accounts 2017 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

Monday **24 JULY 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.

1 The main purpose of accounting is to ...

A extract a Trial Balance.
B manage the business.
C keep accurate book-keeping records.
D complete double entry system.

2 According to the business entity assumption the business is different from the ...

A banker.
B customers.
C government.
D owners.

3 Mwamba exchanged salt for sugar. What type of transaction is this?

A Bank
B Barter
C Cash
D Credit

4 Which one of the following is a credit transaction?

A Purchase of goods for cash.
B Buying goods paying by cheque.
C Buying goods paying in 30 days time.
D An exchange of goods for goods.

5 If debtors are overcharged on the invoice, which document is sent to them to adjust the amount?

A Credit Note
B Debit Note
C Purchase Invoice
D Sales Invoice

6 The books of Prime Entry may also be called ... Books.

A Cash
B Bank
C Ledger
D Subsidiary

7 What would be the correct double entry to record commission received by cheque?

	Debit	**Credit**
A	Cash Account	Commission Received Account
B	Bank Account	Commission Received Account
C	Capital Account	Commission Received Account
D	Commission Received Account	Bank Account

8 What do we record in Nominal Accounts? Accounts for ...

A assets.

B customers.

C expenses.

D suppliers.

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

A Journal Ledger

B General Ledger

C Purchases Ledger

D Sales Ledger

10 ... Accounts are found in the Sales Ledger.

A Fictitious

B Nominal

C Personal

D Real

11 A business prepares a Trial Balance to ...

A calculate the profit and loss.

B show the financial position.

C check the arithmetical accuracy of the ledger.

D check the cash and bank balances.

12 The following Trial Balance was prepared by an inexperienced Book-keeper:

Trial Balance as at 30 June 2015

	Dr (K)	**Cr (K)**
Opening stock		1 000
Purchases	5 000	
Insurance	500	
Drawings		2 200
Purchases returns	1 500	
Sales	8 000	
Sales returns		800
Totals	15 000	4 000

Using the above information, redraft the Trial Balance to show the correct totals.

	Dr (K)	**Cr (K)**
A	7 300	7 300
B	3 000	3 000
C	13 800	13 800
D	9 500	9 500

13 Given that fixed assets are K330 000; current assets K280 000 and current liabilities K180 000, what are the net assets?

- **A** K 610 000
- **B** K 100 000
- **C** K 790 000
- **D** K 430 000

14 Carriage inwards can be defined as …

- **A** cost of goods sold.
- **B** expenses incurred on purchases.
- **C** transport charges on purchases.
- **D** transport charges on sales.

15 The main aim for preparing a Balance Sheet is to show …

- **A** value of current assets.
- **B** value of current liabilities.
- **C** the authenticity of the accounting equation.
- **D** the list of cash, bank, debtors and stock balances.

16 A machine was purchased on 1st January 2016 for K6,000 and had a scrap value of K1000. The life of the asset was 5 years under the straight line method. What will be the depreciation charge for the year ended 31 December 2016?

- **A** K 700
- **B** K 1 000
- **C** K 1 700
- **D** K 2 000

17 Depreciation is defined as the …

- **A** amount spent to buy a fixed asset.
- **B** salvage value of a fixed asset.
- **C** cost of a fixed asset consumed during its period of use.
- **D** amount of money spent on replacing assets.

18 Which one of the following errors is **not** revealed by the Trial Balance? Error of …

- **A** undercast.
- **B** reversal of entries.
- **C** overcast.
- **D** over valuing of stock.

19 Compensating errors are errors …

- **A** where an entry has been omitted.
- **B** which compensate or cancel each other.
- **C** made in the ledger.
- **D** made in the subsidiary books.

20 At the end of the financial year, it was discovered that the Purchases Returns Account had been undercast by K50. A Suspense Account was opened.

Which entries are required to correct this error?

A Credit Purchases Account, K50
Debit Purchases Returns Account, K50

B Credit Suspense Account, K50
Debit Purchases Returns Account, K50

C Debit Purchases Account, K50
Credit Purchases Returns Account, K50

D Debit Suspense Account, K50
Credit Purchases Returns Account, K50

21 A Bank Reconciliation Statement is prepared to …

A check the arithmetical accuracy of our work.
B verify the cash book balance and bank statement balance
C show unpresented cheques lodged with the bank.
D show uncredited cheques lodged with the bank.

22 Which one of the following is correct about a Bank Reconciliation Statement? It is …

A part of the double entry accounting records.
B not part of the double entry accounting records.
C prepared by a firm and sent to its bank.
D posted to the Nominal Ledger.

23 The total amount of discount received entered in the Purchases Ledger Control Account is obtained from the …

A Cash Book.
B General Ledger.
C Purchases Journal.
D Petty Cash Book.

24 A … Account is an account in the General Ledger that provides a summary of Debtors and Creditors Ledger.

A Bank
B Control
C Profit and Loss
D Trading

25 Which one of the following is **not** an item of the Receipts and Payments Account?

A Cheques paid out during the year
B Bank balances
C Receipts from sale of assets
D The Accumulated Fund

26 From the following information calculate the amount to be taken to the Income and Expenditure Account.

SUBSCRIPTIONS RECEIVED

		Dr (K)	Cr (K)
Balance	b/f	1 400	
Cash			1 400
Cash			14 350
Cash			1 200
Income and Expenditure		?	
Balance	c/d	13 750	
		16 950	16 950
Balance	b/d		13 750

A 1, 100
B 1, 700
C 1, 800
D 1, 080

27 Which one of the following is Capital Income?

A Cash received from the sale of office equipment
B Cheque received from the sale of stock
C Discounts received from trade creditors
D Rent received from tenants

28 Expenditure which is not spent on increasing value of fixed assets, but on running the business on a day-to-day basis is known as …

A Capital Expenditure.
B Interest Paid.
C Revenue Expenditure.
D Revenue Receipt.

29 Traders who do not keep double entry records maintain …

A single entry records.
B petty cash entry records.
C general journal records.
D cash book records.

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

A Discount received
B Cash payment to creditors
C Discount allowed
D Returns outwards

31 In the absence of drawings and additional capital, capital at the end less capital at start is equal to …

A gross worth.
B gross profit.
C net profit.
D net worth.

32 Where there is no partnership agreement the profits and losses must be shared …

A in the same proportion as capital.
B equally among the partners.
C after adjusting for interest on capital.
D in the same proportion as drawings.

33 Partnership formation must be formed by …

A partnership deed.
B agreement in writing.
C verbal agreement.
D articles of association.

34 The final figure produced in the Manufacturing Account and transferred to the trading account is called …

A direct cost.
B production cost.
C prime cost.
D indirect cost.

35 Work in Progress refers to …

A goods whose production process is not complete.
B goods for resale.
C services whose production process is not complete.
D goods sold on credit.

36 Calculate the cost of Raw Materials Consumed from the following information:

	K
Purchases	202 000
Opening stock	8 000
Direct wages	40 000
Closing stock	10 000
Depreciation of plant machinery	30 000

A K210 000
B K270 000
C K240 000
D K200 000

37 Which one of the following is **not** a characteristic of accountability?

A Accounting for one's actions and results

B Letting one's actions rise above their excuses

C Responsibility to perform a specific function

D Respecting the confidentiality of information

38 Which one of the following is **not** an ethical practice in an organization?

A Discipline

B incompetency

C Integrity

D Trustworthy

39 The amount a trader adds to his/ her selling price is known as …

A margin

B mark-up

C net profit

D turnover

40 The formula for calculating the current ratio is …

A $\frac{\text{Gross Profit}}{\text{sales}} \times 100$

B $\frac{\text{Net Sales}}{\text{Capital}} \times 100$

C $\frac{\text{Current Assets}}{\text{Current Liabities}}$

D $\frac{\text{Current Liabilitie s}}{\text{Current Assets}}$

Question 1. The main purpose of accounting is to ...

The core purpose of accounting is to maintain accurate, up-to-date financial records of all transactions. These records provide the foundation for all financial reporting and decision-making. Managing the business and preparing trial balances are uses of accounting information, not the main purpose itself.

Answer: C — keep accurate book-keeping records.

Question 2. According to the business entity assumption the business is different from the ...

The Business Entity Concept states that a business is a SEPARATE legal and accounting entity from its owners. The owner's personal assets, liabilities, and transactions are completely separate from those of the business. The business is treated as having its own identity distinct from the owner.

Answer: D — owners.

Question 3. Mwamba exchanged salt for sugar. What type of transaction is this?

Barter is the exchange of goods or services for other goods or services WITHOUT the use of money. Mwamba is trading salt directly for sugar — no money changes hands — making this a classic example of a barter transaction.

Answer: B — Barter.

Question 4. Which one of the following is a credit transaction?

A credit transaction is one where payment is deferred — the buyer takes possession of goods now but pays at a later date. Buying goods and paying in 30 days time means the obligation (debt) arises today but the cash payment is made 30 days later. Cash, cheque, and barter payments are all immediate settlement.

Answer: C — Buying goods paying in 30 days time.

Question 5. If debtors are overcharged on the invoice, which document is sent to them to adjust the amounts due?

When a seller has overcharged a customer, the seller issues a Credit Note to REDUCE the amount owed. The credit note cancels or reduces the original invoice amount. A debit note would INCREASE the amount owed.

Answer: A — Credit Note.

Question 6. The books of Prime Entry may also be called ... Books.

Books of Prime Entry (Sales Day Book, Purchases Day Book, Returns Books, Journal, Cash Book) are where transactions are first recorded before being posted to the ledger. They are also called Subsidiary Books — they are subsidiary to (supporting) the main ledger.

Answer: D — Subsidiary.

Question 7. What would be the correct double entry to record commission received by cheque?

Commission RECEIVED means income has been earned. The cheque received means the bank balance increases. Double entry: Dr Bank Account (asset increases) / Cr Commission Received Account (income recognised). The commission received account is credited because income has a credit nature.

Answer: B — Debit Bank Account; Credit Commission Received Account.

Question 8. What do we record in Nominal Accounts? Accounts for ...

Nominal accounts record income, expenses, gains, and losses — items that affect profit. They are temporary accounts closed to the Profit and Loss Account at year end. Examples: wages, rent, sales, discount received. Real accounts = assets; Personal accounts = individuals and organisations.

Answer: C — expenses.

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

A Ledger is a collection of accounts (General Ledger, Purchases Ledger, Sales Ledger). A Journal is a book of PRIME ENTRY — it is where transactions are first recorded chronologically, not a ledger. There is no such thing as a 'Journal Ledger' in accounting.

Answer: A — Journal Ledger.

Question 10. ... Accounts are found in the Sales Ledger.

The Sales Ledger (Debtors Ledger) contains the individual personal accounts of every customer who owes money to the business. These are personal accounts — accounts in the name of specific persons or organisations. Real accounts hold assets; nominal accounts hold income/expenses.

Answer: C — Personal.

Question 11. A business prepares a Trial Balance to ...

The primary purpose of the Trial Balance is to CHECK the arithmetical accuracy of the double-entry bookkeeping system — it verifies that the total of all debit balances equals the total of all credit balances. It does not calculate profit, show financial position, or check cash balances directly.

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

Question 12. The following Trial Balance was prepared by an inexperienced Book-keeper. Using the information, redraft the Trial Balance to show the correct totals.

Items on the WRONG sides in the incorrect TB: Opening Stock K1,000 (on Cr — should be Dr); Drawings K2,200 (on Cr — should be Dr); Purchases Returns K1,500 (on Dr — should be Cr); Sales K8,000 (on Dr — should be Cr); Sales Returns K800 (on Cr — should be Dr).

Correct Dr: Purchases K5,000 + Insurance K500 + Opening Stock K1,000 + Drawings K2,200 + Sales Returns K800 = K9,500.

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

Answer: D — K9,500 / K9,500.

Question 13. Given that fixed assets are K330,000; current assets K280,000 and current liabilities K180,000, what are the net assets?

Net Assets = Total Assets – Total Liabilities = (K330,000 + K280,000) – K180,000 = K610,000 – K180,000 = K430,000.

Answer: D — K430,000.

Question 14. Carriage inwards can be defined as ...

Carriage inwards refers specifically to the cost of transporting PURCHASED goods from the supplier to the buyer's premises. It is the freight and delivery charge incurred on incoming goods — it is added to purchases in the Trading Account. Carriage outwards is the cost of delivering goods to customers.

Answer: C — transport charges on purchases.

Question 15. The main aim for preparing a Balance Sheet is to show ...

The Balance Sheet is drawn up so that both sides are equal — Assets = Capital + Liabilities. This demonstrates the fundamental accounting equation is in balance and authentic. It proves that every kwacha of assets is funded either by the owner's capital or by liabilities owed to third parties.

Answer: C — the authenticity of the accounting equation.

Question 16. A machine was purchased on 1st January 2016 for K6,000 and had a scrap value of K1,000. The life of the asset was 5 years under the straight line method. What will be the depreciation charge for the year ended 31 December 2016?

Annual depreciation (straight line) = (Cost – Scrap Value) ÷ Useful Life = (K6,000 – K1,000) ÷ 5 = K5,000 ÷ 5 = K1,000 per year.

Answer: B — K1,000.

Question 17. Depreciation is defined as the ...

Depreciation is the systematic allocation of the cost of a fixed asset over its useful life — it represents the portion of the asset's cost that is 'consumed' (used up) in each accounting period. It is not a cash expense; it is a non-cash charge that reflects economic usage.

Answer: C — cost of a fixed asset consumed during its period of use.

Question 18. Which one of the following errors is NOT revealed by the Trial Balance? Error of ...

An error of complete reversal means both the debit and credit entries have been made, but on the WRONG sides (debit becomes credit and credit becomes debit). Both sides of the Trial Balance are affected by the same amount — total debits still equal total credits — so the error is not detected.

Answer: B — reversal of entries.

Question 19. Compensating errors are errors ...

Compensating errors occur when two or more separate errors cancel each other out — one error overstates the debit side by the same amount that another error overstates the credit side. Because they 'compensate' (offset) each other, the Trial Balance still balances despite the errors existing.

Answer: B — which compensate or cancel each other.

Question 20. At the end of the financial year, it was discovered that the Purchases Returns Account had been undercast by K50. A Suspense Account was opened. Which entries are required to correct this error?

Purchases Returns is a Cr account. Undercast means the Cr total was K50 too low, making the TB's Cr side K50 short. A Suspense Account was opened on the Cr side (Cr Suspense K50) to make the TB balance.

To correct: add the missing K50 to Purchases Returns (Cr Purchases Returns K50) and clear the Suspense (Dr Suspense K50).

Answer: D — Debit Suspense Account K50; Credit Purchases Returns Account K50.

Question 21. A Bank Reconciliation Statement is prepared to ...

The Bank Reconciliation Statement reconciles the business's Cash Book bank balance with the Bank Statement balance, which often differ due to timing differences (unpresented cheques, outstanding lodgements) or bank errors. It verifies that both records are consistent with each other.

Answer: B — verify the cash book balance and bank statement balance.

Question 22. Which one of the following is correct about a Bank Reconciliation Statement?

The Bank Reconciliation Statement is a MEMORANDUM document — it is prepared outside the double-entry bookkeeping system purely to explain differences between the Cash Book and Bank Statement. It is not posted to any ledger account and does not form part of the double-entry records.

Answer: B — not part of the double entry accounting records.

Question 23. 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 — the Cash Book has a dedicated Discount Received column. The total of this column for the period is posted to the debit of the Purchases Ledger Control Account (reducing what the business owes to suppliers).

Answer: A — Cash Book.

Question 24. A ... Account is an account in the General Ledger that provides a summary of Debtors and Creditors Ledgers.

Control Accounts (Sales Ledger Control Account and Purchases Ledger Control Account) are summary accounts in the General Ledger. Each control account holds the total of all individual accounts in the corresponding subsidiary ledger (Sales Ledger for debtors; Purchases Ledger for creditors).

Answer: B — Control.

Question 25. Which one of the following is NOT an item of the Receipts and Payments Account?

The Receipts and Payments Account records ALL actual cash/bank transactions: receipts (cheques received, cash, sale of assets) and payments (cheques paid, expenses), plus opening and closing bank balances. The Accumulated Fund is the non-profit equivalent of capital — it appears on the Balance Sheet, NOT in the Receipts and Payments Account.

Answer: D — The Accumulated Fund.

Question 26. From the following information calculate the amount to be taken to the Income and Expenditure Account (Subscriptions Account given).

Subscriptions Account layout: Dr side — Balance b/f (arrears from last year) K1,400 + I&E; transfer (?) + Balance c/d (advance for next year) K13,750. Cr side — Cash K1,400 + Cash K14,350 + Cash K1,200.

Cr total = K1,400 + K14,350 + K1,200 = K16,950. Dr total must also = K16,950.

I&E; = K16,950 – K1,400 – K13,750 = K1,800.

Answer: C — K1,800.

Question 27. Which one of the following is Capital Income?

Capital income (capital receipts) arises from non-trading, one-off transactions involving long-term assets. Selling a fixed asset (office equipment) generates a capital receipt. Sale of stock, discounts received, and rent received are all revenue income — arising from normal trading and operating activities.

Answer: A — Cash received from the sale of office equipment.

Question 28. Expenditure that is not spent on increasing value of fixed assets, but running the business on a day-to-day basis is known as ...

Revenue Expenditure is the cost of running the business on a day-to-day basis — it does not add to or improve fixed assets. Examples: wages, rent, utility bills, stationery. Capital Expenditure improves or acquires fixed assets and provides long-term benefit.

Answer: C — Revenue Expenditure.

Question 29. Traders who do not keep double entry records maintain ...

When a business does not maintain a full double-entry bookkeeping system (keeping only some records, often just a cash book or bank statements), it is said to keep single entry (incomplete) records. This is common among small sole traders who lack formal accounting training.

Answer: A — single entry records.

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

To find credit sales from incomplete records, reconstruct the Sales Ledger Control Account (SLCA): Opening Debtors + Credit Sales = Cash Received + Discount Allowed + Returns Inwards + Closing Debtors. Discount Allowed is a debit entry in the SLCA — it is used in the sales calculation formula.

Answer: C — Discount allowed.

Question 31. In the absence of drawings and additional capital, capital at the end less capital at start is equal to ...

Net Profit = Closing Capital – Opening Capital + Drawings – Additional Capital. If there are NO drawings and NO additional capital injected, then: Closing Capital – Opening Capital = Net Profit. The increase in capital over the period equals the profit earned.

Answer: D — net profit.

Question 32. Where there is no partnership agreement, the profits and losses must be shared ...

The Partnership Act (default rules) apply when no specific agreement exists. Under the Act, profits and losses are shared EQUALLY between partners — regardless of how much capital each partner contributed. Partners must explicitly agree otherwise in a Partnership Deed to deviate from this default.

Answer: B — equally among the partners.

Question 33. Partnership formation must be formed by ...

A partnership can legally come into existence based on a verbal agreement between two or more people to carry on business together with the aim of making profit. While a written Partnership Deed is strongly recommended (to avoid disputes), it is NOT legally required — a verbal agreement is sufficient to create a valid partnership.

Answer: C — verbal agreement.

Question 34. The final figure produced in the Manufacturing Account and transferred to the Trading Account is called ...

The Manufacturing Account calculates the total cost of goods manufactured during the period: Prime Cost + Factory Overheads = Cost of Production. This total cost of production is the figure transferred to the Trading Account (as the cost of goods available for sale, alongside stock movements).

Answer: B — production cost.

Question 35. Work in Progress refers to ...

Work in Progress (WIP) represents goods that have been started in the production process but have not yet been fully completed at the balance sheet date. They are partly finished goods — beyond raw materials but not yet finished goods. WIP is carried as a stock value in the Manufacturing Account.

Answer: A — goods whose production process is not complete.

Question 36. Calculate the cost of Raw Materials Consumed: Purchases K202,000; Opening stock K8,000; Direct wages K40,000; Closing stock K10,000; Depreciation of plant machinery K30,000.

Raw Materials Consumed = Opening Stock + Purchases – Closing Stock = K8,000 + K202,000 – K10,000 = K200,000.

Direct wages and depreciation of plant are NOT raw materials — they are direct labour and factory overhead respectively, added separately after raw materials consumed.

Answer: D — K200,000.

Question 37. Which one of the following is NOT a characteristic of accountability?

Accountability means being answerable and responsible for one's actions and results. Accounting for actions (A), letting actions speak without excuses (B), and responsibility to perform functions (C) are all characteristics of accountability. Respecting the CONFIDENTIALITY of information is a characteristic of the CONFIDENTIALITY principle — not of accountability.

Answer: D — Respecting the confidentiality of information.

Question 38. Which one of the following is NOT an ethical practice in an organization?

Ethical practices in an organisation include Discipline (A), Integrity (C), and Trustworthiness (D) — these are positive qualities that promote honest and responsible conduct. Incompetency (B) is a FAILURE of professional standards — a lack of skill or ability to perform duties properly — which is the opposite of an ethical practice.

Answer: B — incompetency.

Question 39. The amount a trader adds to his/her cost price to arrive at the selling price is known as ...

Mark-up is the amount added to the COST PRICE to calculate the selling price. Mark-up % = (Gross Profit ÷ Cost) × 100. Margin (or gross profit percentage) is the profit expressed as a percentage of the SELLING PRICE. Turnover is total sales revenue; net profit is profit after all expenses.

Answer: B — mark-up.

Question 40. The formula for calculating the current ratio is ...

Current Ratio = Current Assets ÷ Current Liabilities. It measures short-term liquidity — the ability to meet current obligations from current assets. A ratio above 1 means there are more current assets than current liabilities. Reversing the fraction (D) gives a ratio below 1 for a solvent business.

Answer: C — Current Assets / Current Liabilities.

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