G12 ECZ PRINCIPLES OF ACCOUNTS 2022 GCE PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2022 GCE Paper 1 (7110/1)

Tuesday 2 August 2022 | 1 hour | 40 multiple-choice questions

The full question paper appears first — worked answers follow.

EXAMINATIONS COUNCIL OF ZAMBIA

Examination for General Certificate of Education Ordinary Level

Principles of Accounts

7110/1

Paper 1

Tuesday 2 AUGUST 2022

Additional Materials:
Multiple choice Answer Sheet

Time: 1 hour

Marks: 40

Instructions to Candidates

1. Ensure that the **school/centre name and subject paper, subject code, paper number, centre code, your examination number** and the **year** are correctly printed and shaded on the Answer Sheet.
2. There are **forty** questions in this paper. Answer **all** questions.
3. For each question, there are **four** possible answers, **A, B, C** and **D.** Choose the **one** you consider correct and shade your choice in **soft pencil** on the separate Answer Sheet. You are required to use a soft pencil (Type B or HB is recommended) and a soft clean eraser.
4. Read the instructions on the Answer Sheet very carefully.

Information for Candidates

1. Each correct answer will score **one** mark. A mark will **not** be deducted for a wrong answer.
2. Non-programmable Calculators may be used.
3. Cell phones are **not allowed** in the examination room.

1 Which one of the following is **not** a job opportunity for someone who has studied accounts?

A Accounts Clerk
B Auditor
C Bursar
D Office Clerk

2 ... is the accounting concept that makes capital to be treated as a liability to the business.

A Business entity
B Consistency
C Going concern
D Objectivity

3 Which of the following are cash transactions?

(i) Bought goods, paying by cheque a month later.

(ii) Sold goods for cash.

(iii) Bought goods by cheque.

(iv) Sold goods, receiving cash a month later.

A (i) and (ii)
B (ii) and (iii)
C (iii) and (iv)
D (i) and (iv)

4 Explain the term 'business transaction'.

A A business meeting for directions
B An exchange of documents
C An exchange of goods and services for money
D The recording of information in the books of accounts

5 Which of the following are source documents for cash transactions?

(i) Receipts

(ii) Tickets

(iii) Invoices

(iv) Credit notes

A (i) and (iv)
B (ii) and (iii)
C (iii) and (iv)
D (i) and (ii)

6 Which one of the following is a subsidiary book where capital at start is calculated from?
... Journal.

A Cash
B General
C Purchases
D Sales

7 What is the role of double entry in accounts? To ...

A confirm the principle of duality.

B confirm the principle of single entry.

C show all transactions.

D track movement of value.

8 Which one of the following is the correct class of accounts for capital?

A Nominal

B Personal

C Real

D Subsidiary

9 The ledger is the main book of account where ... are completed.

A double entries

B calculations

C single entries

D transactions

10 The ledger in which impersonal accounts are kept is known as ... ledger.

A public

B private

C personal

D nominal

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

A accuracy of the business.

B arithmetical accuracy of the business.

C financial position of a business.

D profitability of a business.

12 The following Trial Balance was prepared by an incompetent book-keeper.
Trial Balance as at 30th June, 2020.

	DR (K)	CR (K)
Opening stock		100,000.00
Purchases	500,000.00	
Insurance	50,000.00	
Drawings		220,000.00
Purchases returns	~~150,000.00~~	
Sales	~~800,000.00~~	
Sales returns		80,000.00
	1,500,000.00	400,000.00

Redraft the Trial Balance and show the correct totals.

	DR (K)	CR (K)
A	300,000.00	300,000.00
B	730,000.00	730,000.00
C	950,000.00	950,000.00
D	1,380,000.00	1,380,000.00

13 How is net loss treated in the statement of financial position?

- **A** Added to capital
- **B** Added to liabilities
- **C** Subtracted from capital
- **D** Subtracted from liabilities

14 The Profit and Loss Account contains the following items **except** ...

- **A** carriage inwards.
- **B** motor expenses.
- **C** rent.
- **D** salaries.

15 Calculate the drawings figure, given opening capital K3,200,000.00 net loss K670,000.00 and closing capital K2,000,000.00.

- **A** K3,870,000.00
- **B** K2,530,000.00
- **C** K1,870,000.00
- **D** K 530,000.00

16 A firm bought a machine for K32,000.00. It was to be depreciated at the rate of 25% using the reducing balance method. What would be the remaining book value after 2 years?

- **A** K16,000.00
- **B** K18,000.00
- **C** K24,000.00
- **D** K36,000.00

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

- **A** Commission received accrued
- **B** Rent payable due
- **C** Rent receivable due
- **D** Stationery prepaid

18 A debit balance on the Rates Account after the transfer to Profit and Loss Account indicates ...

- **A** a liability and a prepayment.
- **B** a liability and an accrual.
- **C** an asset and a prepayment.
- **D** an asset and an accrual.

19 Which of the following errors would be shown by the Trial Balance?

- **A** Credit purchases from S. Pule completely omitted from the accounts
- **B** Cheque received from G. Lubasi debited to his account
- **C** Credit sales to F. Mataa entered in G.Mataa's account
- **D** Repairs to van debited to van account

20 Which of the following error affects the balancing of the Trial Balance?

A Addition
B Commission
C Omission
D Principle

21 A payment of wages by cash K3,000.00 has been entered only in the Wages Account. Show how the error would be corrected.

	Debit	**Credit**
A	Wages account	Suspense account
B	Suspense account	Wages account
C	Suspense account	Cash account
D	Cash account	Suspense account

22 A bank reconciliation starts with the debit balance shown in the Cash Book. How are uncredited lodgements and unpresented cheques shown in the Bank Reconciliation Statement?

	Uncredited lodgements	**Unpresented cheques**
A	Added	Added
B	Added	Deducted
C	Deducted	Added
D	Deducted	Deducted

23 Which of the following adjustment affects a Revised Cash Book?

A Unpresented cheques
B Uncredited cheques
C Delayed deposits
D Credit transfer

24 The total amount of money received from debtors is ... Account.

A debited to Sales
B debited to Sales Ledger Control
C credited to Sales
D credited to Sales Ledger Control

25 What is the purpose of Control Accounts? To calculate total ...

A accruals and prepayments.
B debtors and creditors.
C purchases and sales.
D receipts and payments.

26 Which one of the following will appear in a Receipts and Payments Account?

A Depreciation of fixed assets
B Opening bank balance
C Refreshment inventory
D Subscription accrued at year end

27 Kulukulu Netball Club shows the following:-
Equipment at end K350,000.00
New equipment bought during the year K100,000.00
Equipment at start K300,000.00

What amount will be charged to the Income and Expenditure Account as depreciation?

A K250,000.00
B K150,000.00
C K100,000.00
D K 50,000.00

28 Cash received from the sale of office equipment is classified as ...

A capital expenditure.
B capital receipt.
C revenue expenditure.
D revenue receipt.

29 In the business of Malasha, who owns a computer store, which of the following is **not** capital expenditure?

A Petrol for motor van
B Purchase of motor van
C Purchase of shop fixture
D Software updated

30 Which of the following is used in purchases calculation for single entry records?

A Bad debts
B Discount allowed
C Discount received
D Returns inwards

31 Which of the following is an advantage of single entry over double entry?

A Acceptable for tax purposes
B Easy preparation of trial balance
C Easy to ascertain financial position
D No accuracy is required

32 How is interest on a loan to a partner from the partnership business recorded in books? ... Account.

A Credited to the Current
B Credited to the Loan
C Debited to the Capital
D Debited to the Loan

33 Which of the following account in partnership is prepared for the distribution of profits? ... Account.

- **A** Trading
- **B** Current
- **C** Capital
- **D** Appropriation

34 Work in progress is the cost of ...

- **A** partly finished goods.
- **B** opening stock.
- **C** fully finished goods.
- **D** closing stock.

35 A manufacturing firm extracts the following information from its books. Calculate the prime cost. Direct materials K56,000.00, direct labour K44,000.00 and factory overheads K16,000.00.

- **A** K 72,000.00
- **B** K 84,000.00
- **C** K100,000.00
- **D** K116,000.00

36 In Manufacturing Account, a cost that cannot easily be traced to the item being manufactured is called ... cost.

- **A** manufacturing
- **B** prime
- **C** indirect
- **D** direct

37 Code of ethics for professional accountants require that an accountant should ...

- **A** act outside what is considered morally right in all professional business relationships.
- **B** be straightforward and honest in all professional business relationships.
- **C** take advantage of another without their knowledge or concern.
- **D** not be straightforward and honest in all professional dealings.

38 Which of the following is an ethical practice?

- **A** Corruption
- **B** Embezzlement
- **C** Fraud
- **D** Integrity

39 The ratio that measures the firm's ability to pay its creditors when they fall due is ... Ratio.

- **A** Creditor
- **B** Current
- **C** Debtor
- **D** Quick

40 What should be included in the calculation of the Liquid Asset Ratio?

- **A** Loan
- **B** Mortgage
- **C** Payables
- **D** Stock

Question 1. Which one of the following is NOT a job opportunity for someone who has studied accounts?

Accounts Clerk, Auditor, and Bursar all require accounting knowledge to perform their duties (recording, checking, and managing finances). An Office Clerk performs general clerical/administrative duties that do not specifically require the study of accounts.

Answer: D — Office Clerk.

Question 2. ...is the accounting concept that makes capital to be treated as a liability to the business.

The Business Entity (Separate Entity) concept treats the business as separate and distinct from its owner. Because the owner is a different 'person' from the business, the capital the owner invests is regarded as money the business OWES back to the owner — hence a liability of the business.

Answer: A — Business entity.

Question 3. Which of the following are cash transactions? (i) Bought goods, paying by cheque a month later; (ii) Sold goods for cash; (iii) Bought goods by cheque; (iv) Sold goods, receiving cash a month later.

A cash transaction is settled immediately. (ii) Sold goods for cash and (iii) Bought goods by cheque are both immediate settlements. (i) Paying a month later and (iv) receiving cash a month later are CREDIT transactions (settlement is deferred).

Answer: B — (ii) and (iii).

Question 4. Explain the term 'business transaction'.

A business transaction is an exchange of goods and services for money (or money's worth) between the business and another party. It must have a measurable financial value and affect the business's position.

Answer: C — An exchange of goods and services for money.

Question 5. Which of the following are source documents for cash transactions? (i) Receipts; (ii) Tickets; (iii) Invoices; (iv) Credit notes.

Cash transactions are evidenced by Receipts and Tickets (till slips). Invoices and Credit notes are source documents for CREDIT transactions (sales/purchases on credit and returns).

Answer: D — (i) and (ii).

Question 6. Which one of the following is a subsidiary book where capital at start is calculated from? ... Journal.

The opening capital (capital at start) is recorded through opening entries in the General Journal (Journal Proper). It is the book of prime entry used for items that do not fit the other day books, including opening balances.

Answer: B — General.

Question 7. What is the role of double entry in accounts? To ...

Double entry records two equal and opposite effects for every transaction (a debit and a credit). Its role is to confirm the principle of DUALITY — that every transaction has two aspects affecting two accounts.

Answer: A — confirm the principle of duality.

Question 8. Which one of the following is the correct class of accounts for capital?

The Capital Account represents the owner — a person. It is therefore a PERSONAL account (accounts of persons and organisations), not a nominal (income/expense) or real (asset) account.

Answer: B — Personal.

Question 9. The ledger is the main book of account where ... are completed.

Transactions first recorded in books of prime entry are posted to the ledger, where the DOUBLE ENTRIES are completed — each transaction has its debit and credit sides recorded in the relevant ledger accounts.

Answer: A — double entries.

Question 10. The ledger in which impersonal accounts are kept is known as the ... ledger.

Impersonal accounts (nominal accounts for income/expenses and real accounts for assets) are kept in the NOMINAL (General) Ledger. Personal accounts of debtors and creditors are kept in the sales and purchases ledgers respectively.

Answer: D — nominal.

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

A Trial Balance lists all ledger balances to verify that total debits equal total credits. It checks the ARITHMETICAL ACCURACY of the double-entry postings; it does not by itself show financial position or profitability.

Answer: B — arithmetical accuracy of the business.

Question 12. Redraft the Trial Balance prepared by an incompetent book-keeper (items on wrong sides) and show the correct totals.

Place each item on its correct side: Dr — Opening stock K100,000, Purchases K500,000, Insurance K50,000, Drawings K220,000, Sales returns K80,000 = K950,000.

Cr — Purchases returns K150,000, Sales K800,000 = K950,000.

Answer: C — K950,000.00 / K950,000.00.

Question 13. How is net loss treated in the statement of financial position?

A net loss reduces the owner's capital. In the statement of financial position (Balance Sheet) it is SUBTRACTED FROM CAPITAL (along with drawings).

Answer: C — Subtracted from capital.

Question 14. The Profit and Loss Account contains the following items EXCEPT ...

Carriage inwards is a cost of bringing in goods purchased — it belongs in the TRADING Account (part of cost of goods sold), not the Profit and Loss Account. Motor expenses, rent, and salaries are all P&L; (operating) expenses.

Answer: A — carriage inwards.

Question 15. Calculate the drawings figure, given opening capital K3,200,000, net loss K670,000 and closing capital K2,000,000.

Closing capital = Opening capital – Net loss – Drawings.

2,000,000 = 3,200,000 – 670,000 – Drawings = 2,530,000 – Drawings.

Drawings = 2,530,000 – 2,000,000 = K530,000.

Answer: D — K530,000.00.

Question 16. A firm bought a machine for K32,000 depreciated at 25% reducing balance. What is the book value after 2 years?

Year 1: 25% × K32,000 = K8,000 → NBV K24,000.

Year 2: 25% × K24,000 = K6,000 → NBV K18,000.

Answer: B — K18,000.00.

Question 17. Which of these would appear as a current liability in the Balance Sheet?

Rent payable due is an amount the business OWES (an accrued expense) — a current liability. Commission received accrued and rent receivable due are accrued INCOME (assets); stationery prepaid is a prepayment (asset).

Answer: B — Rent payable due.

Question 18. A debit balance on the Rates Account after the transfer to the Profit and Loss Account indicates ...

After charging the year's rates to P&L;, a remaining DEBIT balance means rates have been paid in advance — a PREPAYMENT, which is an ASSET (a current asset carried to next period).

Answer: C — an asset and a prepayment.

Question 19. Which of the following errors would be shown (detected) by the Trial Balance?

Debiting G. Lubasi when the entry should be a credit puts the amount on the wrong side — this is a single-sided/wrong-side error that makes total debits exceed total credits, so the Trial Balance will NOT balance and the error is revealed. Omission, commission, and principle errors leave the TB in balance.

Answer: B — Cheque received from G. Lubasi debited to his account.

Question 20. Which of the following errors affects the balancing of the Trial Balance?

Errors of commission, omission, and principle do not disturb the equality of debits and credits. An ADDITION (casting) error — adding up a column wrongly — changes a balance and so makes the Trial Balance fail to agree.

Answer: A — Addition.

Question 21. A payment of wages by cash K3,000 has been entered only in the Wages Account. Show how the error is corrected.

The correct entry is Dr Wages K3,000; Cr Cash K3,000. Only the Wages debit was made, so the Cash credit is missing and the Trial Balance is held by a Suspense Account. To correct: complete the missing credit to Cash and clear the Suspense.

Answer: C — Debit Suspense account; Credit Cash account.

Question 22. A bank reconciliation starts with the debit balance shown in the Cash Book. How are uncredited lodgements and unpresented cheques shown?

Starting from the Cash Book balance: unpresented cheques have reduced the Cash Book but not yet the bank, so the bank balance is higher — ADD them. Uncredited lodgements have increased the Cash Book but not yet the bank, so the bank balance is lower — DEDUCT them.

Answer: C — Uncredited lodgements Deducted; Unpresented cheques Added.

Question 23. Which of the following adjustments affects a Revised (updated) Cash Book?

The updated Cash Book is adjusted for items the business did not know about — bank charges, standing orders, direct debits, dishonoured cheques and CREDIT TRANSFERS. Unpresented cheques, uncredited cheques and delayed deposits are timing differences that go in the reconciliation statement, not the Cash Book.

Answer: D — Credit transfer.

Question 24. The total amount of money received from debtors is ... Account.

Cash/cheques received from debtors reduce the amount owed by debtors, so the total is CREDITED to the Sales Ledger Control (debtors control) Account.

Answer: D — credited to Sales Ledger Control.

Question 25. What is the purpose of Control Accounts? To calculate total ...

Control accounts summarise the subsidiary ledgers: the Sales Ledger Control gives total debtors and the Purchases Ledger Control gives total creditors. They provide a check on the individual accounts.

Answer: B — debtors and creditors.

Question 26. Which one of the following will appear in a Receipts and Payments Account?

A Receipts and Payments Account is a summary of the cash book — it shows only actual cash received and paid, including the OPENING BANK BALANCE. Depreciation, refreshment inventory, and accrued subscriptions are non-cash items that do not appear.

Answer: B — Opening bank balance.

Question 27. Kulukulu Netball Club: Equipment at end K350,000; new equipment bought during the year K100,000; Equipment at start K300,000. What is charged to the Income and Expenditure Account as depreciation?

Depreciation = (Equipment at start + Additions) – Equipment at end.

= (K300,000 + K100,000) – K350,000 = K400,000 – K350,000 = K50,000.

Answer: D — K50,000.00.

Question 28. Cash received from the sale of office equipment is classified as ...

Office equipment is a fixed asset. Money received from selling a fixed asset is a CAPITAL RECEIPT, not trading income.

Answer: B — capital receipt.

Question 29. In Malasha's computer store, which of the following is NOT capital expenditure?

Purchasing a motor van, shop fixtures, and acquiring/updating software (an intangible asset of the business systems) are capital expenditures — they create or enhance fixed assets. PETROL for the motor van is a recurring running cost — revenue expenditure.

Answer: A — Petrol for motor van.

Question 30. Which of the following is used in the purchases calculation for single entry records?

To compute credit purchases from incomplete records using a creditors (total) account, you use items affecting creditors — including DISCOUNT RECEIVED and returns outwards. Bad debts, discount allowed and returns inwards relate to debtors/sales.

Answer: C — Discount received.

Question 31. Which of the following is an advantage of single entry over double entry?

Single entry is simpler and less demanding to keep — it does not require the full rigour and accuracy of the double-entry system. (It cannot, however, easily produce a trial balance or show financial position, and is not preferred for tax.)

Answer: D — No accuracy is required.

Question 32. How is interest on a loan to a partner from the partnership business recorded in the books? ... Account.

When the partnership lends money to a partner and charges interest, the interest increases the amount the partner owes on that loan. It is therefore DEBITED TO THE LOAN account (with the income credited to the firm).

Answer: D — Debited to the Loan.

Question 33. Which account in a partnership is prepared for the distribution of profits?

The Appropriation Account follows the Profit and Loss Account and distributes (appropriates) the net profit among the partners — salaries, interest on capital, interest on drawings and share of residual profit.

Answer: D — Appropriation.

Question 34. Work in progress is the cost of ...

Work in progress (WIP) represents goods that are PARTLY FINISHED at the period end — production has started but is not yet complete.

Answer: A — partly finished goods.

Question 35. A manufacturing firm: direct materials K56,000, direct labour K44,000, factory overheads K16,000. Calculate the prime cost.

Prime cost = Direct materials + Direct labour + Direct expenses = K56,000 + K44,000 = K100,000. (Factory overheads are NOT part of prime cost — they are added later to give cost of production.)

Answer: C — K100,000.00.

Question 36. In a Manufacturing Account, a cost that cannot easily be traced to the item being manufactured is called ... cost.

A cost that cannot be traced directly to a specific unit of production is an INDIRECT cost (factory overhead) — e.g., factory rent, supervisor's salary.

Answer: C — indirect.

Question 37. The code of ethics for professional accountants requires that an accountant should ...

The fundamental principle of INTEGRITY requires an accountant to be straightforward and honest in all professional and business relationships.

Answer: B — be straightforward and honest in all professional business relationships.

Question 38. Which of the following is an ethical practice?

Corruption, embezzlement and fraud are all unethical. INTEGRITY (honesty and fair dealing) is the ethical practice.

Answer: D — Integrity.

Question 39. The ratio that measures the firm's ability to pay its creditors when they fall due is the ... Ratio.

The Current Ratio (current assets : current liabilities) measures whether a business has enough short-term assets to meet its current liabilities (creditors) as they fall due.

Answer: B — Current.

Question 40. What should be included in the calculation of the Liquid (Quick/Acid-Test) Asset Ratio?

The liquid asset ratio = (Current Assets – Stock) ÷ Current Liabilities. PAYABLES (creditors) are current liabilities and are included; STOCK is excluded; loans and mortgages are long-term, not current.

Answer: C — Payables.

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