G12 ECZ PRINCIPLES OF ACCOUNTS 2024 GCE PAPER 1 SOLUTIONS

Grade 12 ECZ Principles of Accounts 2024 GCE Paper 1 (7110/1)

Friday 2 August 2024 | 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

Friday **2 AUGUST 2024**

Additional Material(s):

Multiple choice Answer sheet
Soft pencil (type B or HB is recommended)
Soft eraser

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 using a **soft pencil** on the separate **Answer Sheet**.

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 and other electronic devices are **not allowed** in the examination room.

1 One prospect in the accounting profession is ...
- **A** architect.
- **B** artisan.
- **C** finance manager.
- **D** marketing manager.

2 The ... concept states that fixed assets should be recorded at cost value.
- **A** accruals
- **B** historical
- **C** matching
- **D** prudence

3 Most business organisations do **not** undertake ... transactions.
- **A** credit
- **B** cash
- **C** barter
- **D** bank

4 Which of the following best describes a credit transaction? It is an exchange of goods for ...
- **A** cash payment.
- **B** cheque payment.
- **C** other goods.
- **D** payment after two days.

5 The source document for the Petty Cash Book is the ...
- **A** debit note.
- **B** credit note.
- **C** petty cash voucher.
- **D** receipt cash voucher.

6 The book of original entry which records opening entries of a business is called ... Journal.
- **A** Cash
- **B** General
- **C** Purchase
- **D** Sales

7 John, the owner of a business, took goods from the business for private use. Which of the following would be the correct double entry for the transaction?

	Debit	**Credit**
A	Drawings Account	Purchases Account
B	Purchases Account	Drawings Account
C	Purchases Account	Stock Account
D	Stock Account	Purchases Account

8 Rent receivable account is an example of a ... Account.
- **A** Real
- **B** Personal
- **C** Nominal
- **D** Asset

9 Which one of the following books of prime entry may be treated as a ledger? ... Book.

- **A** Cash
- **B** Purchases
- **C** Returns Inwards
- **D** Returns Outwards

10 Rent receivable and discount allowed are recorded in the ... Ledger.

- **A** Real
- **B** Personal
- **C** General
- **D** Debtors

11 One purpose of the Trial Balance is that, it ...

- **A** assists in the calculation of capital.
- **B** assists in the preparation of final accounts.
- **C** shows the financial position of the firm.
- **D** shows the trading profit and loss of the firm.

12 The following balances were extracted from the ledger of Paul:

	K	N
Capital	2 000 000	00
Debtors	300 000	00
Creditors	500 000	00
Sales	700 000	00
Purchases	400 000	00
Bank Overdraft	200 000	00
Machinery	1 500 000	00
Wages	1 200 000	00

Calculate the total amounts for the Trial Balance.

- **A** K3 400 000.00
- **B** K3 700 000.00
- **C** K4 400 000.00
- **D** K4 700 000.00

13 When sales are greater than the cost of goods sold, the difference is ...

- **A** gross loss.
- **B** gross profit.
- **C** net loss.
- **D** net profit.

14 Which of the following is **not** a profit and loss item?

- **A** Allocated motor expenses
- **B** Allowance for depreciation
- **C** Depreciation of fixed assets
- **D** Distribution costs

15 Given the following: Fixed Assets K250 000.00, Current Assets K251 000.00 and Current Liabilities K93 000.00. Calculate the working capital.

- **A** K158 000.00
- **B** K274 000.00
- **C** K344 000.00
- **D** K367 000.00

16 A debit balance in the expense account means that the expense was ...

- **A** undercast.
- **B** unpaid.
- **C** prepaid.
- **D** overcast.

17 Income receivable owing is a ...

- **A** current liability.
- **B** long-term liability.
- **C** non current assets.
- **D** non fixed assets.

18 An asset which cost K4 000 000.00 had depreciated by K1 500 000.00. It was later sold at K2 000 000.00. What was the profit or loss on disposal of this asset?

- **A** Loss of K500 000.00
- **B** Loss of K1 000 000.00
- **C** Profit of K500 000.00
- **D** Profit of K1 000 000.00

19 An error where an item is entered in the wrong account of the same class is an error of ...

- **A** transposition.
- **B** principle.
- **C** omission.
- **D** commission.

20 Which of the following error would make a Trial Balance fail to agree?

- **A** A payment for electricity K204 000.00 was written as K240 000.00 in the books of accounts.
- **B** A sale of goods for K500 000.00 was completely omitted from the books of accounts.
- **C** Discount allowed and discount received were undercast by K2 000.00.
- **D** Purchases Day Book was overcast by K30 000.00 in the books of accounts.

21 The total of the Sales Day Book is K9 160 000.00. It has been entered in the Sales Account as K9 610 000.00. To correct this error the Suspense Account will be ...

- **A** credited with K450 000.00.
- **B** credited with K9 610 000.00.
- **C** debited with K450 000.00.
- **D** debited with K9 160 000.00.

22 Which one of the following is **not** responsible for the difference between the bank statement balance and cash book balance?

A Cheques paid in but not yet credited by the bank.

B Cheques paid out but not yet presented for payment.

C Equipment bought for cash from A.M Trading.

D Interest charged on an overdraft bank balance.

23 A bank overdraft in the revised cash book is shown by a ...

A credit balance.

B credit transfer.

C debit balance.

D direct transfer.

24 What is the purpose of a contra entry made in the purchases and sales ledger control accounts? To ...

A decrease the amount owed by credit customers and to credit suppliers.

B decrease the amount owed to credit suppliers.

C increase the amount owed by credit customers.

D increase the amount owed by credit customers and to credit suppliers.

25 Which one of the following is **not** a source of information for the Purchases Ledger Control Account?

A Cash Book

B Purchases Journal

C Purchases Returns Journal

D Sales Returns Journal

26 An account for a non profit making organisation which shows the movement of cash is the ... Account.

A Income and Expenditure

B Receipts and Payments

C Subscriptions

D Trading

27 The following information relates to Green Buffaloes Club:

1 January 2022: Owing to suppliers for refreshments K294 000.00.

31 December 2022: Owing to suppliers for refreshments K150 000.00.

During the year 2022: Payments to suppliers of refreshments K496 800.00.

Calculate the amount for purchases of refreshments for 2022.

A K352 800.00

B K493 680.00

C K496 800.00

D K648 800.00

28 When fixed assets are sold by a business, the amount realised is ...

A revenue receipt.

B revenue expenditure.

C capital receipt.

D capital expenditure.

29 Wages and salaries is an example of ...

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

30 The decrease in net worth is also referred to as ...

- **A** gross loss.
- **B** gross profit.
- **C** net loss.
- **D** net profit.

31 Most retailers who maintain their books on single entry merely keep a ... Book.

- **A** Cash
- **B** Purchases
- **C** Record
- **D** Sales

32 In the absence of a partnership agreement, the partners will be guided by the provisions of the ...

- **A** Companies Act.
- **B** Companies Act of 1890.
- **C** Partnership Act.
- **D** Partnership Act of 1890.

33 In partnership accounts, ... is debited to the partners' current accounts.

- **A** interest on capital
- **B** interest on drawings
- **C** share of interest
- **D** share of profit

34 Which of the following is **not** a type of stock under manufacturing accounts?

- **A** Opening stock of work in progress.
- **B** Opening stock of raw materials.
- **C** Closing stock of work in progress
- **D** Closing stock of purchased goods.

35 The total of direct materials, direct labour and direct expenses is ...

- **A** gross profit.
- **B** net profit.
- **C** prime cost.
- **D** production cost.

36 Calculate the cost of production from the following details:

Raw materials	K8 400 000.00
Wages	K5 600 000.00
Packing materials	K2 200 000.00
Factory overheads	K3 200 000.00

A K13 800 000.00
B K19 400 000.00
C K21 400 000.00
D K24 400 000.00

37 ... constitutes ethics in accounting.
A Accountability, dependence and money laundering.
B Discipline, honesty and integrity.
C Discipline, honesty and intelligence.
D Embezzlement, theft and money laundering.

38 Which of the following is the result of overlooking ethics in accounting?
A Bankruptcy
B Credibility
C Fraud
D Loss

39 The number of times the business replenishes its goods is ...
A rapidity of stock turnover.
B net profit as a percentage of turnover.
C gross profit margin.
D current ratio for stock.

40 The formula to calculate net profit margin is ...

A $\frac{\text{Net profit}}{\text{Capital}} \times 100.$

B $\frac{\text{Net profit}}{\text{Cost of Sales}} \times 100.$

C $\frac{\text{Net profit}}{\text{Gross Profit}} \times 100.$

D $\frac{\text{Net profit}}{\text{Turnover}} \times 100.$

Question 1. One prospect in the accounting profession is ...

A career path that follows the study of accounts is FINANCE MANAGER — a role responsible for managing an organisation's finances. Architect, artisan, and marketing manager belong to other professions.

Answer: C — finance manager.

Question 2. The ... concept states that fixed assets should be recorded at cost value.

The HISTORICAL COST concept requires assets to be recorded at their original purchase (cost) price, providing an objective and verifiable basis for measurement.

Answer: B — historical.

Question 3. Most business organisations do NOT undertake ... transactions.

BARTER (the direct exchange of goods for goods without money) is rarely used by modern businesses, which trade using cash, cheques (bank) and credit.

Answer: C — barter.

Question 4. Which of the following best describes a credit transaction? It is an exchange of goods for ...

In a credit transaction, goods are received now and PAID FOR LATER (e.g., after two days). Immediate cash or cheque settlement would make it a cash/bank transaction.

Answer: D — payment after two days.

Question 5. The source document for the Petty Cash Book is the ...

Each small payment from petty cash is supported by a PETTY CASH VOUCHER, which is the source document entered in the Petty Cash Book.

Answer: C — petty cash voucher.

Question 6. The book of original entry which records opening entries of a business is called the ... Journal.

Opening entries (the assets, liabilities and capital at the start) are recorded in the GENERAL Journal (Journal Proper).

Answer: B — General.

Question 7. John, the owner, took goods from the business for private use. What is the correct double entry?

Goods taken by the owner for own use are drawings of stock. The cost is removed from purchases: Dr Drawings Account; Cr Purchases Account.

Answer: A — Debit Drawings Account; Credit Purchases Account.

Question 8. Rent receivable account is an example of a ... Account.

Rent receivable is INCOME earned by the business. Income and expense accounts are NOMINAL accounts.

Answer: C — Nominal.

Question 9. Which one of the following books of prime entry may be treated as a ledger? ... Book.

The CASH Book is unique — it is both a book of prime entry (first record of cash/bank receipts and payments) AND a ledger account for Cash and Bank.

Answer: A — Cash.

Question 10. Rent receivable and discount allowed are recorded in the ... Ledger.

Rent receivable (income) and discount allowed (expense) are nominal accounts, which are kept in the GENERAL (Nominal) Ledger.

Answer: C — General.

Question 11. One purpose of the Trial Balance is that it ...

Once the Trial Balance proves the ledger arithmetic, its balances are used to ASSIST IN THE PREPARATION OF FINAL ACCOUNTS (Trading, P&L; and Balance Sheet).

Answer: B — assists in the preparation of final accounts.

Question 12. From Paul's ledger balances, calculate the total amounts for the Trial Balance.

Dr: Debtors K300,000 + Purchases K400,000 + Machinery K1,500,000 + Wages K1,200,000 = K3,400,000.

Cr: Capital K2,000,000 + Creditors K500,000 + Sales K700,000 + Bank Overdraft K200,000 = K3,400,000.

Answer: A — K3,400,000.00.

Question 13. When sales are greater than the cost of goods sold, the difference is ...

Sales – Cost of goods sold = GROSS PROFIT (when sales exceed cost of sales).

Answer: B — gross profit.

Question 14. Which of the following is NOT a profit and loss item?

The ALLOWANCE (provision) for depreciation — the accumulated amount — is a Balance Sheet item shown as a deduction from the asset. (The depreciation CHARGE for the year is the P&L; item.) Allocated motor expenses, the depreciation charge and distribution costs are all P&L; expenses.

Answer: B — Allowance for depreciation.

Question 15. Given Fixed Assets K250,000, Current Assets K251,000 and Current Liabilities K93,000, calculate the working capital.

Working Capital = Current Assets – Current Liabilities = K251,000 – K93,000 = K158,000. (Fixed assets are not part of working capital.)

Answer: A — K158,000.00.

Question 16. A debit balance in the expense account means that the expense was ...

After the year's expense is transferred to the Profit and Loss Account, a remaining DEBIT balance means the expense was PREPAID (paid in advance) — a current asset.

Answer: C — prepaid.

Question 17. Income receivable owing is a ...

Income receivable (accrued income) owed to the business is a current asset — i.e., a NON-FIXED asset (it is not a long-term/fixed asset and not a liability).

Answer: D — non fixed assets (a current asset).

Question 18. An asset costing K4,000,000 had depreciated by K1,500,000. It was sold at K2,000,000. What is the profit or loss on disposal?

Net book value = K4,000,000 – K1,500,000 = K2,500,000.

Sale proceeds K2,000,000 < NBV K2,500,000 → Loss = K2,500,000 – K2,000,000 = K500,000.

Answer: A — Loss of K500,000.00.

Question 19. An error where an item is entered in the wrong account of the SAME class is an error of ...

Posting to the wrong account of the same class (e.g., the wrong customer) is an error of COMMISSION. (A wrong-class posting would be an error of principle.)

Answer: D — commission.

Question 20. Which of the following errors would make a Trial Balance fail to agree?

When the Purchases Day Book is OVERCAST by K30,000, the Purchases Account (debit) is overstated by K30,000 while the individual creditor postings are correct — a one-sided effect, so the Trial Balance will not agree. Errors of original entry, omission, and equal undercasting on both sides leave the TB balanced.

Answer: D — Purchases Day Book was overcast by K30,000.00.

Question 21. The total of the Sales Day Book is K9,160,000 but was entered in the Sales Account as K9,610,000. To correct this error the Suspense Account will be ...

Sales was overstated by K9,610,000 – K9,160,000 = K450,000. To correct: Dr Sales K450,000; Cr Suspense K450,000 — so the Suspense Account is CREDITED with K450,000.

Answer: A — credited with K450,000.00.

Question 22. Which one of the following is NOT responsible for the difference between the bank statement balance and the cash book balance?

Uncredited lodgements, unpresented cheques, and bank interest/charges all cause a difference. EQUIPMENT BOUGHT FOR CASH from A.M Trading is an ordinary transaction recorded in the cash book in the normal way — it is not a reconciling difference.

Answer: C — Equipment bought for cash from A.M Trading.

Question 23. A bank overdraft in the revised cash book is shown by a ...

A bank overdraft means the business owes the bank — in the cash book this is a CREDIT BALANCE.

Answer: A — credit balance.

Question 24. What is the purpose of a contra entry made in the purchases and sales ledger control accounts? To ...

A contra (set-off) arises when the same party is both a debtor and a creditor; the smaller balance is offset. It DECREASES the amount owed BY the credit customer and the amount owed TO the credit supplier.

Answer: A — decrease the amount owed by credit customers and to credit suppliers.

Question 25. Which one of the following is NOT a source of information for the Purchases Ledger Control Account?

The Purchases Ledger Control Account uses the Cash Book (payments), the Purchases Journal (credit purchases) and the Purchases Returns Journal. The SALES Returns Journal relates to debtors/the sales ledger, not creditors.

Answer: D — Sales Returns Journal.

Question 26. An account for a non-profit making organisation which shows the movement of cash is the ... Account.

The RECEIPTS AND PAYMENTS Account is a summarised cash book for a club/society, showing all cash and bank received and paid.

Answer: B — Receipts and Payments.

Question 27. Green Buffaloes Club: owing to refreshment suppliers K294,000 (1 Jan 2022) and K150,000 (31 Dec 2022); payments to suppliers K496,800. Calculate purchases of refreshments for 2022.

Purchases = Payments + Closing creditors – Opening creditors = K496,800 + K150,000 – K294,000 = K352,800.

Answer: A — K352,800.00.

Question 28. When fixed assets are sold by a business, the amount realised is ...

Money received from the sale of a fixed asset is a CAPITAL RECEIPT (not trading income).

Answer: C — capital receipt.

Question 29. Wages and salaries is an example of ...

Wages and salaries are recurring running costs of the business — REVENUE EXPENDITURE.

Answer: B — revenue expenditure.

Question 30. The decrease in net worth is also referred to as ...

A fall in net worth (owner's capital) over a period is a NET LOSS.

Answer: C — net loss.

Question 31. Most retailers who maintain their books on single entry merely keep a ... Book.

Single-entry retailers usually keep only a CASH Book to record money received and paid, with little other recording.

Answer: A — Cash.

Question 32. In the absence of a partnership agreement, the partners will be guided by the provisions of the ...

Where there is no partnership agreement, the PARTNERSHIP ACT OF 1890 applies (equal profit sharing, no interest on capital, no salaries, etc.).

Answer: D — Partnership Act of 1890.

Question 33. In partnership accounts, ... is debited to the partners' current accounts.

INTEREST ON DRAWINGS is charged to the partners — debited to their current accounts. Interest on capital and share of profit are credited to the current accounts.

Answer: B — interest on drawings.

Question 34. Which of the following is NOT a type of stock under manufacturing accounts?

A manufacturer holds three kinds of stock: raw materials, work in progress, and finished goods. CLOSING STOCK OF PURCHASED GOODS is not a manufacturing-account stock category.

Answer: D — Closing stock of purchased goods.

Question 35. The total of direct materials, direct labour and direct expenses is ...

Direct materials + Direct labour + Direct expenses = PRIME COST.

Answer: C — prime cost.

Question 36. Calculate the cost of production: Raw materials K8,400,000; Wages K5,600,000; Packing materials K2,200,000; Factory overheads K3,200,000.

Cost of production = Raw materials + Wages + Packing (direct) materials + Factory overheads.

= K8,400,000 + K5,600,000 + K2,200,000 + K3,200,000 = K19,400,000.

Answer: B — K19,400,000.00.

Question 37. ... constitutes ethics in accounting.

Ethics in accounting is built on DISCIPLINE, HONESTY AND INTEGRITY. Money laundering, embezzlement and theft are unethical/criminal.

Answer: B — Discipline, honesty and integrity.

Question 38. Which of the following is the result of overlooking ethics in accounting?

Ignoring ethical principles leads to FRAUD (and other dishonest practices). Credibility is a result of GOOD ethics.

Answer: C — Fraud.

Question 39. The number of times the business replenishes its goods is ...

The number of times stock is sold and replaced in a period is the RAPIDITY (rate) OF STOCK TURNOVER.

Answer: A — rapidity of stock turnover.

Question 40. The formula to calculate net profit margin is ...

Net Profit Margin = (Net Profit ÷ Turnover) × 100 — net profit expressed as a percentage of sales/turnover.

Answer: D — (Net profit ÷ Turnover) × 100.

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