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.
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:

<table>
<thead>
<tr>
<th></th>
<th>Dr (K)</th>
<th>Cr (K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>8 000</td>
<td></td>
</tr>
<tr>
<td>Drawings</td>
<td></td>
<td>2 000</td>
</tr>
<tr>
<td>Sales Returns</td>
<td></td>
<td>800</td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td>5 000</td>
</tr>
<tr>
<td>Opening Stock</td>
<td>1 000</td>
<td></td>
</tr>
<tr>
<td>Purchases Returns</td>
<td></td>
<td>1 500</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td>700</td>
</tr>
</tbody>
</table>

\[ \text{Totals} \quad 11 000 \quad 8 000 \]

Principles of Account/7110/1/2017

Turn over
The following information is available for Isaac's business:

<table>
<thead>
<tr>
<th></th>
<th>(K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>28 000</td>
</tr>
<tr>
<td>Stock 1/1/2015</td>
<td>10 000</td>
</tr>
<tr>
<td>Purchases</td>
<td>18 000</td>
</tr>
<tr>
<td>Stock 31/12/2015</td>
<td>15 000</td>
</tr>
<tr>
<td>Expenses</td>
<td>6 000</td>
</tr>
</tbody>
</table>

Calculate the gross profit.

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

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.  

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.  

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
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 concerned.

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.
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
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:

   \[
   \begin{array}{ll}
   \text{Direct Materials} & 2800 \\
   \text{Direct Labour} & 2200 \\
   \text{Indirect Expenses} & 800 \\
   \end{array}
   \]

   What is the amount of Prime Cost?
   A  K 5 000
   B  K 3 600
   C  K 4 200
   D  K 5 800
37 Which of the following words best describes ethics in accountancy?
   (i) Fraud
   (ii) Integrity
   (iii) Corruption
   (iv) Discipline
   (v) Embezzlement
   (vi) Honesty
   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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