

OBJECTIVE TESTS IN FINANCIAL ACCOUNTING

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Introduction

A multiple choice questionnaire (MCQ) style examination typically consists of 20/30 short statements, each of which is followed by a number of alternative answers. Only one answer is strictly correct. This allows the examiner to mark candidates' responses in an objective rather than subjective fashion. This style of examination question has recently been adopted by the Institute of Chartered Accountants in Ireland and is also used in third level institutions.

MCQs have a number of advantages over traditional examination formats. First, they allow the examiner to ask questions on every topic on the syllabus and thus test the candidates range of knowledge. Perhaps more importantly, correction of answers is entirely objective and comparatively easy. Large numbers of scripts can be objectively tested in a short space of time.

Objective tests can also be an effective teaching tool. The topics covered in each chapter are logically sequenced so that as the student progresses through the chapter they build up their knowledge and skills in relation to that topic. In addition, the book emphasises problem areas and attempts to help students avoid common mistakes in financial accounting. Thus the tutor can indicate the correct solution and also explain or seek responses as to why other plausible answers are incorrect to the given statement. Such a process should ensure greater understanding of the topic under discussion.

This book is suitable for students taking introductory financial accounting examinations of the professional accountancy bodies, third level accounting students or other students studying introductory financial accounting courses. The three revision examinations at the end of this book are reproduced with the kind permission of the Institute of Chartered Accountants in Ireland.

Before indicating their selected answer students are strongly advised to read the question carefully and to consider all the alternative answers.

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CHAPTER ONE

Components of the Balance Sheet: Assets, Liabilities and Capital

1. The balance sheet is intended to show:
 - (a) The nature of the business.
 - (b) The ownership of the business.
 - (c) The financial position of the business.
 - (d) The size of the business.
2. Categorise the following items as either assets (A) or liabilities (L) of the business on the following table:
 Item 1. Buildings.
 Item 2. Loan payable by the business.
 Item 3. Equipment. A.
 Item 4. Capital contributed by proprietor.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	A	A	L	L
(b)	A	L	A	L
(c)	A	A	A	A
(d)	A	L	A	A

3. Categorise the following items as tangible (T) or intangible (InT) assets on the following table:
 Item 1. Land.
 Item 2. Goodwill.
 Item 3. Patents and trademarks.
 Item 4. Quoted investments.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	InT	InT
(b)	T	InT	InT	InT
(c)	T	InT	InT	T
(d)	T	T	InT	T

4. Categorise the following items as either fixed (F) or current (C) assets of the company on the following table:
 Item1. Unquoted investment.
 Item 2. Loan by the company repayable to the company in one month.
 Item 3. Goodwill.
 Item 4. Furniture and fittings.

	ITEM1	ITEM 2	ITEM 3	ITEM 4
(a)	F	F	F	F
(b)	F	C	F	F
(c)	C	C	F	F
(d)	C	C	C	F

5. In the balance sheet fixed assets are classified separately from current assets because:
- Fixed assets always last indefinitely.
 - Fixed assets must be depreciated but current assets need not.
 - Fixed assets represent assets that are used for the long term in the business whereas current assets are used in the short term.
 - Fixed assets always remain unchanged but current assets are circulating and the balances change frequently.
6. In the balance sheet gross fixed assets are normally shown at which of the following bases?
- Historic cost.
 - Replacement cost.
 - Net realisable value.
 - Current value.
7. Which of the following shows current assets in order of liquidity, starting with the most liquid item?
- Cash, stock, debtors, bank.
 - Bank, cash, debtors, stock.
 - Cash, bank, stock, debtors.
 - Cash, bank, debtors, stock.
8. Categorise the following items as current (C) or long-term (LT) liabilities of the company on the following table:
- Item 1. Loan from A Ltd. repayable by the company in 15 months time.
 Item 2. Electricity bill outstanding.
 Item 3. Loan repayable in the year 2000.
 Item 4. Next year's portion of a five year term loan repayable in equal instalments.
- | | ITEM 1 | ITEM 2 | ITEM 3 | ITEM 4 |
|-----|--------|--------|--------|--------|
| (a) | C | C | LT | LT |
| (b) | C | C | LT | C |
| (c) | LT | C | LT | LT |
| (d) | LT | C | LT | C |
9. Which of the following is the odd one out?
- Loan receivable.
 - Loan payable.
 - Balance at bank.
 - Petty cash.
10. Which of the following statements is incorrect?
- Current assets will result in future benefits for more than one year.
 - Current liabilities are payable within one year.
 - Fixed assets will have a useful life of more than one year.
 - Capital invested in a business is usually invested for more than one year.
11. Working capital is the same as:
- Net current assets.
 - Fixed assets plus current assets.
 - Current assets plus current liabilities.
 - Owner's equity plus fixed and current assets.

12. Using the following information calculate working capital:
- | | |
|------------------|--------|
| Debtors | £2,000 |
| Bills receivable | £1,500 |
| Bank overdraft | £1,500 |
| Loan receivable | £ 500 |
| Creditors | £2,000 |
- (a) £ 500.
 (b) £1,500.
 (c) £(2,500).
 (d) £2,500.
13. If a firm's fixed assets exceed working capital by a multiple of two and capital amounts to £1,500 then, ignoring long term debt, net current assets are:
- (a) £ (500).
 (b) £ 500.
 (c) £1,000.
 (d) £3,000.
14. Which of the following bookkeeping equations is correct?
- (a) Liabilities = Capital + Assets.
 (b) Capital = Assets + Liabilities.
 (c) Capital = Assets - Liabilities.
 (d) Capital — Liabilities = Assets.
15. Capital of a business may increase by which one of the following transactions?
- (a) A decrease in the bank with a corresponding increase in fixed assets.
 (b) An increase in assets with a corresponding increase in liabilities.
 (c) A decrease in the bank with no decrease in liabilities.
 (d) An increase in assets with a smaller increase in liabilities.
16. Which of the following is the correct presentation for the heading to the balance sheet of a company at the financial year end?
- (a) Balance sheet for the period ending 31 December 19XX.
 (b) Balance sheet for the year ended 31 December 19XX.
 (c) Balance sheet as at 31 December 19XX.
 (d) Balance sheet during the year ended 31 December 19XX.
17. The transactions of an organisation are entered in ledger accounts. These accounts are best described collectively as:
- (a) The ledger.
 (b) The accounts.
 (c) The nominal ledger.
 (d) The final accounts.
18. Which of the following summarised balance sheets is incorrect?
- | | ASSETS | LIABILITIES | CAPITAL |
|-----|--------|-------------|----------|
| (a) | £1,245 | £(345) | £(900) |
| (b) | £9,875 | £(10,000) | £125 |
| (c) | £4,500 | £(4,400) | £100 |
| (d) | £3,650 | £(2,250) | £(1,400) |

19. Which of the following draft balance sheets is incorrect?

	COMPANY 1	COMPANY 2	COMPANY 3	COMPANY 4
	£	£	£	
Stock	230	1,214	687	54
Debtors	452	1,303	550	65
Bank	321	—	32	-
Capital	1,068	2,000	719	50
Long term loan	—	500	300	-
Creditors	375	1,079	650	86
Bank overdraft	—	236	300	33
Fixed assets	440	1,298	600	50

- (a) COMPANY 1
- (b) COMPANY 2
- (c) COMPANY 3
- (d) COMPANY 4

20. Which of the following is most indicative of the liquidity of a company?

- (a) The bank borrowings of the company.
- (b) The capital of the company:
- (c) The balance on the company's profit and loss account.
- (d) The working capital of the company.

CHAPTER TWO

Double Entry Convention and Ledger Accounts

1. Which of the following descriptions would be incorrect under the double entry convention?
 - (a) Increase asset, increase liability.
 - (b) Increase asset, decrease asset.
 - (c) Decrease asset, decrease liability.
 - (d) Decrease asset, increase liability.
2. There has been an increase in the bank account. The other effect of this transaction could be:
 - (a) Decrease the bank overdraft in the company's other bank account.
 - (b) Increase creditors.
 - (c) Increase in goodwill.
 - (d) Decrease in investments.
3. A sole trader's bank account balance has increased. This could be explained by:
 - (a) The debtors of the company decreasing.
 - (b) The purchase of fixed assets.
 - (c) The company repaying a term loan.
 - (d) The creditors of the company decreasing.
4. There has been an increase in the company's bank overdraft. This could be accounted for by:
 - (a) An increase in fixed assets.
 - (b) An increase in a long term loan.
 - (c) A decrease in debtors.
 - (d) An increase in creditors.
5. Which of the following transactions does not change the capital of a business?
 - (a) Owner pays a creditor of the company out of his own money.
 - (b) Owner takes money out of the company's bank account to pay his golf club subscription.
 - (c) Owner pays £100 into the business bank account to cover the cost of stock withdrawn by him from the business.
 - (d) Owner introduces a motor vehicle into the business.
6. Which of the following double entries is incorrect?
 - (a) Dr. Debtors.
Cr. Sales.
 - (b) Dr. Debtors.
Cr. Interest receivable.
 - (c) Dr. Sales returns.
Cr. Debtors.
 - (d) Dr. Debtors.
Cr. Discount allowed.

7. Which of the following double entries is incorrect?
- (a) Dr. Creditors.
Cr. Discount allowed.
 - (b) Dr. Creditors.
Cr. Returns outwards.
 - (c) Dr. Creditors.
Cr. Bank.
 - (d) Dr. Creditors.
Cr. Debtors.
8. Match the following double entry transactions with the appropriate narrative:
- A. Dr. Assets.
Cr. Liabilities.
 - B. Dr. Assets.
Cr. Capital.
 - C. Dr. Liabilities.
Cr. Assets.
 - D. Dr. Liabilities.
Cr. Capital.
- 1. Purchase of a fixed asset on credit.
 - 2. Contra entry between debtors and creditors.
 - 3. Discount received from creditor.
 - 4. Revaluation of a fixed asset.
- (a) D1 A2 C3 B4
 - (b) A1 C2 B3 D4
 - (c) A1 C2 D3 B4
 - (d) C1 A2 B3 D4
9. Which of the following double entry combinations is not possible?
- (a) Increase asset; Increase liability.
 - (b) Increase liability; Increase capital.
 - (c) Increase liability; Increase asset.
 - (d) Increase capital; Decrease liability.
10. Which of these double entries is not possible?
- (a) Dr. Bank.
Cr. Capital.
 - (b) Dr. Capital.
Cr. Drawings.
 - (c) Dr. Losses account.
Cr. Capital.
 - (d) Dr. Profit account.
Cr. Capital.
11. You have credited a debtor's account. Which of the following descriptions would not this entry?
- (a) Goods returned inwards.
 - (b) Contra transaction with creditors.
 - (c) Credit note received from supplier.
 - (d) Cash received from debtor.

12. You have debited a creditor's account. Which of the following descriptions would explain this entry?

(a) Purchased goods on credit.
 (b) Received money for credit sales.
 (c) Issued credit note to customer.
 (d) Goods returned out.

13. Which of the following entries is correctly described by the accompanying narrative?

	DEBIT	CREDIT
(a) Sold goods on credit.	Creditors.	Sales.
(b) Cash purchase of motor vehicle for re-sale.	Fixed Assets	Bank.
(c) Lent money to A Ltd.	A Ltd.	Loan account.
(d) Issued credit note to debtor.	Sales.	Debtors.

14. Which of the following entries is incorrectly described by the accompanying narrative?

	DEBIT	CREDIT
(a) Paid creditor by cheque.	Creditors.	Bank.
(b) Debtor paid us cheque.	Bank.	Debtors.
(c) Received term loan from the bank.	Bank.	Loan account.
(d) Bought goods on credit.	Creditors.	Bank.

15. Which of the following double entries is incorrect?

(a) Dr. Discount allowed Cr. Debtors.
 (b) Dr. Creditors Cr. Returns out.
 (c) Dr. Returns inwards Cr. Debtors.
 (d) Dr. Debtors Cr. Discount received.

16. A credit balance on the debtors account will not be explained by:

(a) Credit note issued after account cleared.
 (b) Overpayment by debtor.
 (c) Returns outwards not recorded.
 (d) Discount allowed recorded twice.

17. Which of the following statements is incorrect?

(a) The balance on a ledger account is either "brought down" or "carried down"
 (b) The "ledger" reference in the term "ledger account" can refer to the nominal ledger.
 (c) The balance on the ledger account is the difference between the opening and closing balances on the account.
 (d) The term "closing off the accounts" refers to the process of totalling the debit and credit side of the account to find the balance on the accounts.

18. Which of the following balances is incorrectly shown in the trial balance?

	DR.	CR.
(a) Stock	X	
(b) Patents and trademarks	X	
(c) Drawings	X	
(d) Investments		X

19. Which of the following balances is incorrectly shown in the trial balance?

	DR.	CR.
(a) Cash Account	X	
(b) Loan to A Ltd.		X
(c) Creditors		X
(d) Debtors	X	

20. If debtors of £300 are included in the trial balance on the credit side in error then the difference on the trial balance will be:

- (a) £300 debit.
- (b) £600 debit.
- (c) £300 credit.

CHAPTER THREE

The Trading Account and Accounting for Stock

1. The following information is available for Gringo & Sons for the year ending 31/12/19XX:
 Opening stock £ 10,000.
 Purchases £500,000.
 Closing stock £ 20,000.
 The cost of goods sold figure in the trading account is:
 (a) £500,000.
 (b) £490,000.
 (c) £510,000.
 (d) £530,000.
2. Which of the following statements is incorrect?
 (a) Opening stock appears as a debit balance in the preliminary trial balance (i.e. before year end adjustments).
 (b) The trial balance may contain a figure for purchases or for cost of goods sold but not both.
 (c) If the preliminary trial balance contains a figure for purchases then it will also include the opening stock amount and closing stock will be given by way of note to the trial balance.
 (d) The closing stock must be deducted from cost of goods sold and the resulting balance must be subtracted from sales to give gross profit.
3. Which of the following items will not normally be included in the trading account in addition to sales, purchases and opening and closing stock?
 (a) Carriage inwards.
 (b) Return outwards.
 (c) Carriage outwards.
 (d) Returns inwards.
4. Which of the following presentations relating to four independent companies is incorrect?

COMPANY 1		COMPANY 2	
Sales	10	Sales	10
Less: Returns outwards	(1)	Cost of sales:	
Cost of sales:		Opening stock	3
Opening stock	3	Purchases	5
Purchases	5	Less: Returns	(1)
Carriage in	<u>1</u>	Carriage in	<u>1</u>
	9		8
Less: Closing stock	(2) <u>(7)</u>	Less: Closing stock	(2) <u>(6)</u>
Gross profit	<u>2</u>		<u>4</u>

COMPANY 3

Sales	10	
Less: Cost of sales		
Cost of sales:	(7)	
Less: Closing stock	(2)	<u>5</u>
Gross profit		<u>2</u>

COMPANY 4

Sales	10
Cost of sales	(5)
Gross profit	<u>5</u>

- (a) Company 1.
 (b) Company 2.
 (c) Company 3.
 (d) Company 4.
5. Which of the following statements is correct?
 (a) Gross profit = Sales — Cost of sales + Other revenue
 (b) Gross profit = Sales + Other revenue — Cost of sales
 (c) Gross profit + Other revenue = Sales — (Opening stock + Purchases - Closing stock)
 (d) Gross profit = Sales — (Opening stock + Purchases — Closing stock).
6. What is the effect on the draft accounts if the closing stock is subsequently increased?
 (a) An increase in cost of sales and an increase in the stock figure in the balance sheet.
 (b) An increase in cost of sales, an increase in gross profit and an increase in the stock figure in the balance sheet.
 (c) An increase in closing stock in both the trading account and the balance sheet and an increase in gross profit.
 (d) An increase in cost of sales, a decrease in gross profit and an increase in stock in the balance sheet.
7. If closing stock is over-valued by 1300, and no subsequent adjustment is made, then the profit for the following accounting period will be:
 (a) £300 too much.
 (b) £300 too little.
 (c) £600 too much.
 (d) £600 too little
8. The figure for closing stock to be included in the accounts before year end adjustment is:
 (a) The amount in the stock ledger account at the year end.
 (b) The amount for stock shown in the preliminary trial balance.
 (c) The balance for stock as shown in the balance sheet of the previous accounting period.
 (d) The valuation based on stock-take.
9. Which of the following double entries is correct for the closing stock adjustment?
 (a) Dr. Stock.
 Cr. Trading account.
 (b) Dr. Trading Account.
 Cr. Stock.
 (c) Dr. Cost of Goods sold.
 Cr. Stock in the trading account.
14. Dr. Stock in next year's balance sheet.
 Cr. Trading account this year.

10. Which of the following is the odd one out?
- (a) Stock of stationery.
 - (b) Stock of heating oil.
 - © Stock of advertising literature.
 - (d) Stock of raw materials.
11. Which of the following would appear on the credit side of the trial balance?
- (a) Sales returns.
 - (b) Carriage inwards.
 - © Opening stock.
 - (d) Returns outwards.
12. Which of the following would not normally appear in the preliminary trial balance?
- (a) Purchases.
 - (b) Opening stock.
 - © Closing stock.
 - (d) Sales.
13. Calculate the gross profit/(loss) on the basis of the following information:
- | | |
|-------------------|-----|
| | £ |
| Sales | 500 |
| Purchases | 350 |
| Carriage in | 50 |
| Carriage out | 150 |
| Duty on purchases | 100 |
| Returns inwards | 75 |
| Returns out | 25 |
| Opening stock | 100 |
| Closing stock | 150 |
- (a) £(150).
 - (b) £Nil.
 - © £50.
 - (d) £(50).
14. Calculate gross profit on the basis of the following information:
- | | |
|---------------|-----|
| | £ |
| Sales | 500 |
| Cost of sales | 350 |
| Carriage out | 100 |
| Closing stock | 50 |
- (a) £100
 - (b) Nil
 - (c) £150
 - (d) £50
15. Which of the following statements is incorrect?
- (a) The higher closing stock the higher will be profits.
 - (b) The lower opening stock the lower will be profits.
 - (c) There will be no effect on profit if opening and closing stock are the same.
 - (d) The lower closing stock the lower will be profits.

16. Hi-Fi had 6 stereos on hand at the beginning of the period and had purchased an additional 30 at the same cost of £12 per unit as the opening stock. If 32 units were sold for £20 each what is the gross profit for the period?
- (a) £208.
 - (b) £280.
 - (c) £256.
 - (d) £288.
17. The owner of a business withdrew stock from the business for his own private use. The double entry to record this transaction is:
- (a) Dr. Capital.
Cr. Stock.
 - (b) Dr. Drawings.
Cr. Stock.
 - (c) Dr. Purchases.
Cr. Capital.
 - (d) Dr. Drawings.
Cr. Purchases.
18. Which of the following will not affect the trading account?
- (a) Purchase of a motor vehicle for re-sale.
 - (b) Carriage in on motor vehicle for re-sale.
 - (c) Duty on motor vehicle for re-sale.
 - (d) Purchase of a motor vehicle for use in the business.
19. Which of the following statements is incorrect?
- (a) Normal losses in stock value are written off in the trading account.
 - (b) Abnormal losses in stock value are written off in the profit and loss account.
 - (c) Losses in stock value are dealt with in the balance sheet with no effect on the trading or profit and loss account.
 - (d) All stock losses are written off when the loss is recognised.
20. Goods are sometimes sold on a sale or return basis. If such a sale has not been paid for at the year end, which of the following year end adjustments to be draft accounts will be necessary?
- (a) Dr. Sales.
Cr. Stock.
 - (b) Dr. Sales.
Cr. Debtors.
Cr. Stock.
 - (c) Dr. Stock.
Cr. Debtors.
 - (d) Dr. Sales.
Cr. Debtors.
Dr. Stock.
Cr. Trading account.

CHAPTER FOUR

Accruals and Prepayments

1. Which of the following statements is incorrect?
 - (a) The need for accrual and prepayment adjustments at the year end arises because the cash basis of accounting is used to record expense items during the year.
 - (b) In most businesses no accrual or prepayment adjustments are required for trade debtors or trade creditors because both these items are accounted for using the accruals basis of accounting.
 - (c) Accruals of expense items appear in the current assets section of the balance sheet.
 - (d) When an item of expense is owing at the year end an accrual adjustment is made.

2. Which of the following statements is incorrect?
 - (a) The appropriate accounting concept behind accrual and prepayment adjustments is the matching concept whereby revenues and their related expenses are accounted for in the profit and loss account of the same accounting period.
 - (b) Where an expense item has been overpaid at the year end a prepayment adjustment is made.
 - (c) An accrual and prepayment adjustment cannot both be made to the same ledger account at the same year end date.
 - (d) An accrual entry increases the expense for the period whereas a prepayment reduces the expense amount as shown in the preliminary trial balance.

3. Which of the following entries is correct where an expense is outstanding at the year end?
 - (a) Dr. Prepayments account Cr. Expense account.
 - (b) Dr. Accruals account Cr. Expense account.
 - (c) Dr. Expense account Cr. Accruals account.
 - (d) Dr. Expense account Cr. Prepayments account.

4. Which of the following expense ledger account presentations is correct?

ACCOUNT 1					
1 JAN.	ACCRUAL B/D	X	1 JAN.	PREPAID B/D	X
	BANK	X		P/L	X
31 DEC.	PREPAID C/D	<u>X</u>	31 DEC.	ACCRUAL C/D	X
		<u>X</u>			<u>X</u>

ACCOUNT 2					
1 JAN.	PREPAID B/D	X	1 JAN.	ACCRUAL B/D	X
	BANK	X		P/L	X
31 DEC.	ACCRUAL C/D	<u>X</u>	31 DEC.	PREPAID C/D	X
		<u>X</u>			<u>X</u>

ACCOUNT 3

1 JAN.	ACCRUAL B/D	X	1 JAN.	PREPAID B/D	X
	P/L	X		BANK	X
31 DEC.	PREPAID C/D	<u>X</u>	31 DEC.	ACCRUAL C/D	X
		<u>X</u>			<u>X</u>

ACCOUNT 4

1 JAN.	PREPAID B/D	X	1 JAN.	ACCRUAL B/D	X
	P/L	X		BANK	X
31 DEC.	ACCRUAL C/D	<u>X</u>	31 DEC.	PREPAID C/D	X
		<u>X</u>			<u>X</u>

- (a) Account 1.
 (b) Account 2.
 (c) Account 3.
 (d) Account 4.
5. Spineless & Co. made up its annual accounts to 31 December. The company rented premises for £100 per annum commencing from 1 January 19X7. The rent was payable quarterly in arrears. Actual payments were made by the company on 31 March, 2 July and 4 October 19X7 and on 6 January 19X8.
 The figure for rent in the preliminary trial balance at 31 December 19X7 was:
 (a) £100.
 (b) £75.
 (c) £125.
 (d) £300.
6. Rates are payable half-yearly in advance by Spatts. The first moiety of £1,500 for the year ending 30 March 19X2 was paid on 31 December 19X1 but the second moiety was outstanding at the year end. What is the charge for rates in the profit and loss account for the year ending 30 September 19X2?
 (a) £1,500.
 (b) £3,000.
 (c) £2,250.
 (d) £3,750.
7. A company manufactures CRUMPS under licence and must pay a royalty of £1 for each CRUMP sold. At the beginning of the year 50 CRUMPS were in stock and 30 were in stock at the end of the year. During the year 100 CRUMPS were made. What is the charge in the profit and loss account for royalties payable for the year?
 (a) £120.
 (b) £100.
 (c) £150.
 (d) £ 80.
8. Which of the following statements is incorrect?
 (a) Closing stock of stationery is recorded as a prepayment.
 (b) Accruals and prepayments are estimates and are normally not recorded with absolute accuracy.
 (c) If prepayments are greater than accruals this will be matched by a corresponding decrease in the bank balance.
 (d) A company using the accruals basis of accounting only will not have any prepayments.

9. The company paid £3,000 insurance during its first year of trading to 31 December 19X1. All premiums are paid in advance and relate to policies with renewal dates similar to the company's year end date except for:
POLICY 1: Annual premium £ 240. Renewal date 30 June 19X2. Premium paid 1 July 19X1.
POLICY 2: Annual premium £1,200. Renewal date 30 April 19X2. Premium paid 1 May 19X1.
The charge for insurance in the profit and loss is:
(a) £3,000.
(b) £2,280.
(c) £2,480.
(d) £2,580.
10. On 1 January 19XX the company paid rent of £4,620 for the year ended 31 December 19XX. This payment was 10% higher than the previous year. The charge for rent in the company's profit and loss account for the year ending 30 June 19XX is:
(a) £4,200.
(b) £4,410.
(c) £4,620.
(d) £4,389.
11. Indicate which of the following accounts is not a revenue account:
(a) Deposit interest.
(b) Rent receivable
(c) Investment income.
(d) Overdraft interest.
12. Which of the following types of business is the least likely to have accruals and prepayments of revenue items?
(a) A local soccer club.
(b) A lending institution.
(c) A property company.
(d) A manufacturing company.
13. Which of the following entries is correct where a revenue item has been received at the end of the financial year and relates to following year?
(a) Dr. Prepayments account. Cr. Revenue account.
(b) Dr. Revenue account. Cr. Prepayments account.
(c) Dr. Accruals account. Cr. Revenue account.
(d) Dr. Revenue account. Cr. Accruals account.
14. Which of the following is the odd one out?
(a) Prepaid insurance.
(b) Accrued light and heat.
(c) Accrued deposit interest.
(d) Accrued rent receivable.
15. If a revenue account has both a prepayment of £100 and an accrual of £50 at the end of the financial year then the credit in the profit and loss account will be:
(a) £150 more than the amount received during the year.
(b) £ 50 less than the amount received during the year.
(c) £ 50 more than the amount received during the year.
(d) £150 less than the amount received during the year.

16. Which of the following accounts would normally be the subject of an accrual or prepayment adjustment?
- (a) Debtors.
 - (b) Carriage inwards.
 - (c) Closing stock.
 - (d) Creditors.
17. The year end adjustment for interest receivable but not yet recorded by the company should be:
- (a) Dr. Accruals. Cr. Bank.
 - (b) Dr. Bank. Cr. Interest receivable.
 - (c) Dr. Interest receivable. Cr. Accruals.
 - (d) Dr. Sundry debtors. Cr. Interest receivable.
18. The company started subletting its buildings on 1 October 19X1. Rent for the half year ended 31 March 19X2 amounting to £600 was received on 31 October 19X1. The amount for rent receivable in the profit and loss account for the year ended 31 December 19X1 is:
- (a) £ 200.
 - (b) £1,200.
 - (c) £ 100.
 - (d) £ 300.
19. It is the company's first year of business. What is the figure for interest receivable in the profit and loss account for year 1 given the following information?
- Interest received £150
Interest accrued at the year end £ 80
- (a) £150.
 - (b) £ 80.
 - (c) £230.
 - (d) £ 70.
20. If a company has £10,000 on deposit for the entire year at a simple interest rate of 10% what is the figure for interest receivable in the profit and loss account if £50 was prepaid at the beginning of the year and £200 was accrued at the end of the year?
- (a) £ 850.
 - (b) £1,150.
 - (c) £1,000.
 - (d) £1,250.

CHAPTER FIVE

Bad Debts, Provisions and Recoveries

1. It has come to your attention that a bad debt has occurred and an accounting entry is needed to record this. Which of the following statements best describes this entry?
 - (a) Writing off a bad debt.
 - (b) Providing for a doubtful debt.
 - (c) Providing for bad debts.
 - (d) Charge for increase provision for bad debts.
2. The difference between a bad debt and a bad debt provision is described by all but which one of the following?
 - (a) A bad debt is a specific amount, a bad debt provision is an estimate.
 - (b) A bad debt provision account aims to write off the cost of future bad debts, a bad debt is a cost incurred in the present accounting period.
 - (c) The balance on the bad debt account is written off in the profit and loss account, the bad debt provision account is shown in the balance sheet as a deduction from debtors.
 - (d) The bad debt account and changes in the bad debt provision both directly affect the debtors account.
3. Which of the following statements is incorrect?
 - (a) The balance on the debtors control account in the trial balance is not affected by the balance on the bad debts account in the trial balance.
 - (b) The balance on the debtors control account is not affected by the provision for bad debts.
 - (c) A year end adjustment to write of bad debts reduces the debtors control account balance.
 - (d) The debtors balance in the balance sheet is the balance per the trial balance less the bad debt provision and the balance on the bad debt account.
4. Which of the following statements best describes the reasoning behind the bad debt provision?
 - (a) The bad debt provision aims to estimate the bad debts of an organisation.
 - (b) The bad debt provision writes off the bad debts of the company.
 - (c) The bad debt provision matches the estimated cost of bad debts against the revenue incurred in giving rise to the potential bad debts.
 - (d) The provision records bad debts without taking the debt out of the books of the company thus showing the full debt owing by the debtor.
5. The balance on the debtors control account is £3,000, the balance on the bad debt account is £500 and the balance on the provision for bad debts account is £200. The net figure for debtors in the balance sheet is:
 - (a) £3,000.
 - (b) £2,500.
 - (c) £2,300.
 - (d) £2,800.

6. The debtors control account balance is £12,640, the balance on the provision for bad debts account is £640, the balance on the bad debts account is £500 and the provision for bad debts is to be 5% of debtors. The bad debt provision adjustment in the profit and loss account is:
- (a) £607 Dr.
 - (b) £575 Dr.
 - (c) £ 33 Cr.
 - (d) £ 8 Cr.
7. The balance on the debtors control account is £5,000, the balance on the provision for bad debts account is £250 and the balance on the bad debts account is £500. You are to write off bad debts of £100 and to make a final provision of 5% of debtors. The total charge for, bad debts (including for the provision) in the profit and loss account is:
- (a) £570.
 - (b) £582.50.
 - (c) £557.50.
 - (d) £595.
8. The balance on the debtors account is £4,000, the balance on the bad debts account is £400 and on the bad debt provision account is £810. You are to write off bad debts of £200 and make a final provision for bad debts of 5%. What will be the balance on the debtors account in the nominal ledger after these adjustments?
- (a) £3,400.
 - (b) £3,800.
 - (c) £4,230.
 - (d) £3,610.
9. Which of the following methods of calculating the bad debt provision would be unacceptable?
- (a) As a % of sales.
 - (b) As a % of credit sales.
 - (c) As a % of cash sales.
 - (d) As a % of closing debtors.
10. The double entry for bad debts recovered should be:
- (a) Dr. Bad debts.
Cr. Debtors.
 - (b) Dr. Bad debts recovered.
Cr. Debtors.
 - (c) Dr. Bank.
Cr. Debtors.
 - (d) Dr. Bank.
Cr. Bad debts.
11. The balance on the debtors account is £6,000, on the bad debts account is £300 and on the provision for bad debts account is £285. If a bad debt of £300 is subsequently recovered what is the correct balance on the debtors account in the nominal ledger now?
- (a) £6,000.
 - (b) £5,700.
 - (c) £5,715.
 - (d) £5,415.

12. The balance on the bad debts account is £500. You are required to increase the provision for bad debts from £500 to £1,000, to write off additional bad debts of £500 and to record a bad debt recovered of £500. What is the final net charge for bad debts in the profit and loss account?
- (a) £2,000.
 - (b) £1,000.
 - (c) £1,500.
 - (d) £2,500.
13. The bad debt provision account is to be adjusted from £1,000 to £500. The appropriate double entry would be:
- (a) Dr. Bad debt provision.
Cr. Profit and loss account.
 - (b) Dr. Profit and loss account.
Cr. Bad debt provision.
 - (c) Dr. Bad debts.
Cr. Bad debt provision.
 - (d) Dr. Bad debt provision.
Cr. Debtors.
14. The recorded balance for trade debtors is £1,000, the balance on the bad debts account is £50 and on the bad debt provision account is £25. What is the balance on the debtors account in the normal ledger?
- (a) £1,000.
 - (b) £ 950.
 - (c) £ 925.
 - (d) £ 975.
15. The balance on the debtors account includes an amount owing from Z Ltd. of £500. Z Ltd. has recently been put into liquidation and the liquidator has indicated that he will only be able to make a distribution of 50p in the pound. This information will have which of the following effects?
- (a) Writing off £500 as a bad debt.
 - (b) Writing off £250 as a bad debt.
 - (c) No affect until the liquidator makes the first distribution and more accurate information is available.
 - (d) Writing off £250 as a bad debt and in addition providing for the debt in full in the amount of £500.
16. The net debtors in the balance sheet after a provision of 5% were £475,000 on 1 January. The net figure on 31 December was £546,000. You are to write off a debt of £4,000 and correct for £27,000 received from debtors recorded in error in sales. What would the closing balance on the bad debt provision account be if the policy to provide for 5% of debtors is continued?
- (a) £27,000.
 - (b) £25,750.
 - (c) £23,750.
 - (d) £26,937.50.

17. The balance on the debtors account is £5,000. A provision for discount allowed of 2% of debtors is made and the balance on this account is £100. What is the balance on the provision for bad debts account if bad debts of 5% of debtors are to be provided?
- (a) £250.
 - (b) £255.
 - (c) £245.
 - (d) £350.
18. A bad debt of £100 was recovered and this amount was credited to the debtors account. Which of the following adjusting entries is necessary given that the trial balance balances?
- (a) None.
 - (b) Dr. Bank.
Cr. Bad debt recovered.
 - (c) Dr. Bank.
Cr. Debtors.
 - (d) Dr. Debtors.
Cr. Bad debt recovered.
19. It is the company's policy to provide 5% of debtors against bad debts. What is the balance on the debtors account at 31 December 19X1 given the following information?
- | | |
|--------------------------------------|------|
| Debtors at 1 January 19X1 | £100 |
| Bad debt provision at 1 January 19X1 | £ 5 |
| Bad debts during the year | £ 10 |
| Credit sales for 19X1 | £960 |
| Cash receipts for 19X1 | £950 |
- (a) £ 90.
 - (b) £ 95.
 - (c) £100.
 - (d) £ 80.
20. A debtor had overpaid his account and a refund of £200 was made. Which of the following double entries correctly records the refund?
- (a) Dr. Bank. Cr. Debtors.
 - (b) Dr. Debtors. Cr. Bank.
 - (c) Dr. Debtors. Cr. Creditors.
 - (d) Dr. Creditors. Cr. Debtors.

CHAPTER SIX

Depreciation and Disposal of Fixed Assets

1. Depreciation is best described as:
 - (a) Writing off the cost of an asset over its estimated useful life.
 - (b) Matching the cost of a fixed asset to its related revenue generation period and writing it off accordingly.
 - (c) Writing off the cost of a fixed asset evenly over its useful life.
 - (d) Writing off the cost of a fixed asset over its estimated useful life in ever decreasing amounts.
2. Which one of the following items of information is not normally required in calculating depreciation?
 - (a) The cost of the fixed asset.
 - (b) The immaterial scrap value of the fixed asset at the end of its useful life.
 - (c) The useful life of the asset.
 - (d) The forecast revenue to be made through use of the fixed asset.
3. Which of the following methods of depreciation is best?
 - (a) Straight-line.
 - (b) Reducing balance.
 - (c) Equal annual instalments method.
 - (d) The method depends on the revenue generating profile of the asset.
4. Which is the odd one out?
 - (a) Aggregate depreciation.
 - (b) Accumulated depreciation.
 - (c) Provision for depreciation.
 - (d) Depreciation.
5. The initials N.B.V. stand for:
 - (a) Net book value i.e. Fixed asset cost + annual depreciation.
 - (b) Net book value i.e. Fixed asset cost — aggregate depreciation.
 - (c) Net book value i.e. Fixed asset cost + aggregate depreciation.
 - (d) Net book value i.e. Fixed asset cost - depreciation charge.
6. Which of the following year end presentations is suitable for the published accounts of a company given that the fixed assets cost £10,000, the accumulated depreciation at the beginning of the year was £5,000 and the depreciation charge for the year was £1,000?

	COST	ACCUMULATED DEPRECIATION	DEPRECIATION	NET BOOK VALUE
	£	£	£	£
(a)	10,000	5,000		5,000
(b)	10,000	5,000	1,000	4,000
(c)	10,000	6,000		4,000
(d)	10,000	4,000		6,000

7. An asset costs £1,000, has a useful life of 5 years and a scrap value of £200. The charge for depreciation, calculated on a straight-line basis, in year 2 is:
- (a) £200.
 - (b) £128.
 - (c) £160.
 - (d) £240.
8. The balance on the plant and machinery account at cost on 1 January 19X1 was £5,000. On 1 May plant costing £750 was sold. New machinery costing £3,000 was purchased on 1 September. Depreciation is charged, month by month, on a straight-line basis at 10% per annum and amounts for the year ending 31 December 19X1 to:
- (a) £625.
 - (b) £550.
 - (c) £525.
 - (d) £600.
9. Using the figures in question 8. above calculate depreciation, month by month, on a straight-line basis at 10% per annum on ONLY those assets in use at the end of the year.
- (a) £525.
 - (b) £550.
 - (c) £625.
 - (d) £800.
10. What is the charge for depreciation for the year ending 31 December 19X3 given the following information?
- | | |
|---------------------------------------|----------|
| Office Equipment — Cost at 1 Jan 19X3 | £4,956. |
| — Aggregate depreciation | £ ..896. |
| Addition on 1 May 19X3 | £ 315. |
- Depreciation rate: 20% per annum, reducing balance and on a month by month basis.
- (a) £875.
 - (b) £854.
 - (c) £812.
 - (d) £838.25.
11. The company charges depreciation at 20% per annum, month by month, using the reducing balance basis. What is the charge for depreciation for the year ending 30 June 19X5 given the following information?
- | | |
|---------------------------------|--------|
| Equipment — Cost at 1 July 19X4 | £8,025 |
| — Aggregate depreciation | £3,794 |
- Equipment costing £400 on 1 April 19X3 was traded in on 1 April 19X5 against a new asset costing £700. The only entry made was to record the net payment (after trade-in) of £550 in the asset account.
- (a) £790.
 - (b) £741.
 - (c) £866.
 - (d) £765.10.
12. Using the information in question 11, above, what is the correct balance on the equipment account at 30 June 19X5?
- (a) £7,075.
 - (b) £8,325.
 - (c) £7,775.
 - (d) £7,625.

13. Which of the following transactions would change the capital of a sole trader?
- (a) Purchase of a fixed asset for cash.
 - (b) Sale of a fixed asset for its book value.
 - (c) Purchase of a fixed asset on credit.
 - (d) Sale of fixed asset in excess of book value.
14. A company makes a loss on disposal of a fixed asset. Which of the following does not account for this loss?
- (a) An incorrect estimate of the material scrap value of the asset.
 - (b) An incorrect estimate of the useful life of the asset.
 - (c) Disposal of the asset for cash after the end of the useful life of the asset.
 - (d) Too low a rate of depreciation.
15. An asset, which cost £500 on 1 January 19X1, was depreciated on a straight-line basis at 20% per annum, month by month, and was sold on 1 April 19X3 for £250. What was the profit or loss on disposal?
- (a) £75 profit.
 - (b) £50 loss.
 - (c) £50 profit.
 - (d) £25 loss.
16. An asset cost £10,000 on 1 June 19X1, was depreciated on a straight-line basis, month by month, at 10% per annum and was traded in against a new asset on 1 February 19X9. The new asset cost £15,000 but the company only had to pay £12,000. What is the profit or loss on disposal?
- (a) £1,250 profit.
 - (b) £ 750 profit.
 - (c) £ 750 loss.
 - (d) £1,250 loss.
17. The double entry to record the value on trade-in of a fixed asset for a new asset is:
- (a) Dr. Bank account.
Cr. Disposal account.
 - (b) Dr. Bank account.
Cr. Fixed asset account.
 - (c) Dr. Fixed asset account.
Cr. Disposal account.
 - (d) Dr. Disposal account.
Cr. Fixed asset account.
18. A motor vehicle was purchased on 1 July 19X3 by trading in an existing vehicle. The trade-in is listed in the asset records as having a 5 equal years' useful life and costing £4,000 on 1 May 19X1. The company paid £4,500 for the new van whose list price is £5,500. What is the loss on disposal?
- (a) £1,766.66.
 - (b) £1,266.66.
 - (c) £ 766.66.
 - (d) £1,200.00.

19. An item of expenditure is either written off immediately to the profit and loss account or is capitalised on the balance sheet to be written off over its useful life. Which of the following is irrelevant in deciding whether to capitalise or write off the expenditure?
- (a) The improvement value, if any, of the expenditure.
 - (b) The ability of the asset to generate profit in future accounting periods.
 - (c) The likelihood of being able to recover the expenditure in future accounting periods.
 - (d) The date on which the expenditure is incurred.
20. Which of the following items of expenditure would not be capitalised?
- (a) A mine subject to depletion.
 - (b) A motor vehicle for re-sale.
 - (c) The cost of major re-wiring for a new computer.
 - (d) Site clearance costs prior to building a new factory.

CHAPTER SEVEN

Manufacturing Accounts

1. The final accounts of a manufacturing company include a manufacturing account and a profit and loss account. Analyse the following items as either appearing in the manufacturing (M) or the profit and loss (P/L) account:

Item 1. Depreciation of plant.

Item 2. Packing materials for distribution.

Item 3. Factory supervisor's wages.

Item 4. Depreciation of office building.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	M	M	M	P/L
(b)	M	P/L	M	P/L
(c)	M	M	M	M
(d)	P/L	P/L	M	P/L

2. Analyse the following items as appearing in either the manufacturing (M) or the profit and loss (P/L) account:

Item 1. Carriage inwards on raw material.

Item 2. Carriage outwards.

Item 3. Factory rent.

Item 4. Depreciation of photocopiers.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	M	M	M	M
(b)	M	M	M	P/L
(c)	M	M	P/L	P/L
(d)	M	P/L	M	P/L

3. A direct expense is one that can be traced to a specific unit of output. Which of the following are direct (D) or indirect (InD) expenses?

Item 1. Production royalties.

Item 2. Raw materials.

Item 3. Wages of production line operators.

Item 4. Wages of production supervisor.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	D	D	D	D
(b)	InD	D	D	D
(c)	InD	D	D	InD
(d)	D	D	D	InD

4. Classify the following as being direct (D) or indirect (InD) expenses:

Item 1. Raw material.

Item 2. Plant depreciation.

Item 3. Carriage in on raw materials.

Item 4. Light and heat.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	D	D	D	InD
(b)	D	InD	D	InD
(c)	InD	InD	D	InD
(d)	InD	D	D	InD

5. All direct costs are:

(a) Relevant costs.

(b) Manufacturing costs.

(c) Prime costs.

(d) Variable costs.

6. Variable costs are those costs whose totals vary in proportion to units of output. Classify the following as variable (V) or fixed (F):

Item 1. Raw materials.

Item 2. Factory rent.

Item 3. Hourly paid production labour.

Item 4. Production supervisor's salary.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	V	F	V	F
(b)	V	F	V	V
(c)	V	V	V	V
(d)	V	V	V	F

7. Classify the following as being part of factory overhead (F) or prime cost (P):

Item 1. Raw materials and direct labour.

Item 2. Raw material purchase returns.

Item 3. Factory cleaning materials.

Item 4. Plant repairs.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	F	F	F	F
(b)	P	P	F	F
(c)	P	F	F	F
(d)	P	P	F	P

8. Classify the following statements as being either true (T) or false (F):

Item 1. All direct costs are manufacturing costs.

Item 2. All direct costs are variable with level of output.

Item 3. All factory overhead items in the manufacturing account are indirect.

Item 4. Some factory overhead items vary with level of output while others do not change when production changes.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	F	T
(b)	T	F	T	T
(c)	T	T	T	T
(d)	F	T	T	T

9. Which of the following statements are true (T) or false (F)?
- Item 1. Some indirect expenses may be apportioned between the manufacturing account and the profit and loss account.
- Item 2. Selling and distribution expenses are non-manufacturing expenses.
- Item 3. Cost of production consists of prime cost and factory overhead.
- Item 4. Finished goods stock is dealt with in the manufacturing account.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	T	T
(b)	T	T	F	T
(c)	T	T	T	F
(d)	T	F	F	F

10. Finished goods stock is included in arriving at which of the following?
- (a) Prime cost.
- (b) Production cost of goods completed.
- (c) Cost of production.
- (d) Cost of goods sold.
11. Which of the following would not be included in calculating gross profit?
- (a) Opening work-in-progress stock.
- (b) Closing finished goods stock.
- (c) Closing raw material stock.
- (d) Opening stationery stock.

QUESTIONS 12 TO 14 ARE BASED ON THE FOLLOWING INFORMATION

	£
Stock- 1.1.19X2 – Raw material	80
– Work-in-progress	63
– Finished goods	430
Stock - 31.12.19X2 – Raw material	100
– Work-in-progress	43
– Finished goods	390
Raw materials purchases	820
Direct wages	400
Selling and distribution expenses	214
Bad debts	6
Sales	2,200

12. Prime cost is:
- (a) £1,220.
- (b) £ 800.
- (c) £1,200.
- (d) £1,414.
13. Cost of goods manufactured is:
- (a) £1,200.
- (b) £1,414.
- (c) £1,220.
- (d) £1,460.

- | | £ |
|----------------------------------|--------|
| Stocks 1.1.19X5 – Raw material | 750 |
| – Finished goods | 2,000 |
| Stocks 31.12.19X5 – Raw material | 500 |
| – Finished goods | 1,500 |
| Distribution expenses | 485 |
| Discount allowed | 980 |
| Purchase of raw materials | 1,750 |
| Salesmen's salaries | 1,200 |
| Carriage inwards | 500 |
| Indirect factory wages | 6,200 |
| Sales | 20,250 |
| Direct labour | 1,000 |

16. Gross profit is:
- (a) £ 9,565.
 - (b) £10,050.
 - (c) £10,550.
 - (d) £ 8,850.

- | | OPENING | CLOSING |
|------------------------------|---------|---------|
| | £ | £ |
| Stock - Raw material | 4,500 | 5,000 |
| Work-in-progress | 2,000 | 1,500 |
| Finished goods | 4,000 | 3,000 |
| Raw materials purchased | 50,000 | |
| Direct manufacturing wages | 20,000 | |
| Depreciation – Plant | 5,000 | |
| Motor vehicles | 2,000 | |
| Office equipment | 1,000 | |
| Carriage in on raw materials | 500 | |
| Royalties on goods sold | 900 | |

18. Prime manufacturing cost is:
- (a) £70,000.
 - (b) £69,500.
 - (c) £70,500.
 - (d) £71,400.
19. Production cost of goods completed is:
- (a) £77,500
 - (b) £77,000
 - (c) £75,500
 - (d) £77,000
20. Cost of goods sold is:
- (a) £76,500.
 - (b) £77,400.
 - (c) £78,400.
 - (d) £76,400.

CHAPTER EIGHT

Final Accounts of Sole Traders and Limited Companies

1. Expenditure can be classified as either revenue (R) or capital (C) expenditure. Categorise the following items accordingly on the following table:

- Item 1. Repair of motor vehicle.
 Item 2. Purchase of motor vehicle for re-sale.
 Item 3. Sales director's motor vehicle.
 Item 4. Replacement of old motor vehicle with latest model.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	R	R	R	R
(b)	R	R	R	C
(c)	R	R	C	C
(d)	R	C	C	C

2. Categorise the following as affecting either the balance sheet (B/S) or the profit and loss account (P/L) on the table below:

- Item 1. Repair of factory roof.
 Item 2. Major electrical re-wiring for new computer.
 Item 3. Site clearance costs prior to building new offices.
 Item 4. Purchase of plant for re-sale.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	P/L	P/L	P/L	P/L
(b)	P/L	P/L	B/S	P/L
(c)	P/L	B/S	B/S	P/L
(d)	P/L	B/S	P/L	B/S

3. Which of the following statements are true (T) or false (F)?

1. The capital of a sole trader is increased by profit and reduced by drawings.
 2. The capital of a sole trader can only increase by contributions from the owner of the business.
 3. Drawings can be of two types: goods and cash.
 4. The liability of a sole trader is unlimited.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	F	T
(b)	T	F	T	T
(c)	T	T	T	T
(d)	T	F	F	T

4. A sole trader has suffered a loss during an accounting period but his overdraft has decreased. A possible explanation for this change is:

- (a) Additional drawings.
 (b) Purchase of extra fixed assets.
 (c) Decrease in long term liabilities.
 (d) Longer period of credit received from suppliers.

9. Which of the following would not normally be dealt with in the appropriation account of a limited company?
- Directors' fees.
 - Interim ordinary dividend.
 - Proposed preference dividend.
 - Transfer to general reserve.
10. Companies occasionally revalue upwards their land and buildings. The double entry to record this transaction is:
- Dr. Land and buildings. Cr. Profit and loss account.
 - Dr. Revaluation surplus. Cr. Profit and loss account.
 - Dr. Land and buildings. Cr. Revaluation surplus.
 - Dr. Revaluation surplus. Cr. Land and buildings.
11. The shareholders' funds of a limited company include all of the following except:
- The share premium.
 - Surplus on revaluation.
 - Debentures.
 - General reserve.
12. The reserves of a limited company can be divided into capital (C) and revenue (R) reserves. Classify the following:
- | | |
|---------|-------------------------|
| Item 1. | Profit and loss. |
| Item 2. | Surplus on revaluation. |
| Item 3. | General reserve. |
| Item 4. | Share premium. |
- | | ITEM 1 | ITEM 2 | ITEM 3 | ITEM 4 |
|-----|--------|--------|--------|--------|
| (a) | R | R | R | R |
| (b) | R | C | R | R |
| (c) | R | R | C | C |
| (d) | R | C | R | C |
13. The balance on the share capital account of a limited company for fully paid up shares represents:
- The amount of cash received for the shares.
 - The market value of the shares.
 - The nominal value of the shares.
 - The amount at which the shares were issued.
14. The share premium is best described as:
- The excess of the market value of the shares over their nominal value.
 - The excess of the market value of the shares over their par value.
 - The excess of the nominal value of the shares issued over cash received.
 - The excess of cash received for shares over their nominal value.

15. The Companies Act requires that certain items be separately disclosed in the accounts. All the following must be disclosed except:
- Directors' emoluments.
 - Auditor's remuneration.
 - Advertising costs.
 - Debenture interest.
16. Certain items are required to be disclosed by the Companies Act, not by recording them in the profit and loss account or the balance sheet, but by showing them separately by way of note to the accounts. Which of following is not required to be disclosed in this way?
- Capital commitments.
 - Proposed dividends.
 - Arrears of preference dividend.
 - Contingent liabilities.
17. A contingent liability is best described as:
- An unrecorded liability of the company.
 - A liability which will only arise on the occurrence of a future event.
 - A liability which represents an obligation to make a payment in the future.
 - A liability the amount of which cannot be determined with substantial accuracy.
18. Shareholders' funds are represented by:
- The total cash of a limited company.
 - The total capital of a limited company.
 - The total share capital, capital and revenue reserves and long term debt of a company.
 - The issued share capital and reserves of a limited company.
19. Which of the following presentations of the capital section of the balance sheet is most in accordance with established accounting practice?
- | | | | |
|---------------------|-----------|---------------------|-----------|
| (a) COMPANY 1 | | (c) COMPANY 3 | |
| Share capital | 10 | Share capital | 10 |
| Share premium | 2 | Share premium | 2 |
| Revaluation reserve | 5 | General reserve | 3 |
| General reserve | 3 | Revaluation reserve | 5 |
| Profit and loss | <u>1</u> | Profit and loss | <u>1</u> |
| | 21 | | 21 |
| Debentures | <u>10</u> | Debentures | <u>10</u> |
| | <u>31</u> | | <u>31</u> |
| (b) COMPANY 2 | | (d) COMPANY 4 | |
| Share capital | 10 | Share capital | 10 |
| Revaluation reserve | 5 | Share premium | 2 |
| Share premium | 2 | Revaluation reserve | 5 |
| General reserve | 3 | Debentures | 10 |
| Profit and loss | <u>1</u> | General reserve | 3 |
| | 21 | Profit and loss | <u>1</u> |
| Debentures | <u>10</u> | | <u>31</u> |
| | <u>31</u> | | |
- Company 1.
 - Company 2.
 - Company 3.
 - Company 4.

20. You are told that a limited company has debentures of £36,260 in issue which are re-payable in equal instalments over the next 7 years. Indicate how would you treat this information in this year's accounts?
- (a) Write off £5,180 in the profit and loss account.
 - (b) Include £5,180 in current liabilities and £30,180 in long term liabilities.
 - (c) Write off £5,180 in the profit and loss account and include £30,180 in current liabilities.
 - (d) Show £36,260 in long term liabilities.

CHAPTER NINE

Miscellaneous Final Accounts

1. In the absence of a partnership agreement the Partnership Act 1890 states that partnership profits should be shared:
 - (a) On a basis to be decided by the partners.
 - (b) In the ratio of agreed capital balances.
 - (c) Equally amongst the partners.
 - (d) Depending on the amount of capital contributed by the partners.
2. The Partnership Act 1890 states that, in the absence of agreement to the contrary, advances to the business by the partners in addition to their agreed capital should bear interest at:
 - (a) 0%.
 - (b) 5%.
 - (c) 10%.
 - (d) 12.5%.
3. Which of the following should not appear in a partnership appropriation account?
 - (a) Manager's salary where the manager is also a partner in the business.
 - (b) Interest charged on drawings.
 - (c) Interest allowed on current account.
 - (d) Drawings.
4. Which of the following is the odd one out?
 - (a) Partners' salary.
 - (b) Interest allowed on capital accounts.
 - (c) Interest on drawings.
 - (d) Partners' bonus.
5. Which of the following double entries correctly records cash drawings by a partner?
 - (a) Dr. Drawings.
Cr. Profit and loss account.
 - (b) Dr. Drawings.
Cr. Profit and loss appropriation account.
 - (c) Dr. Drawings.
Cr. Bank account.
 - (d) Dr. Bank.
Cr. Drawings.

6. Partners' salary earned, interest on capital and partners' share of profit are all recorded by which of the following double entries?
- Dr. Profit and loss appropriation account.
Cr. Capital/current account.
 - Dr. Profit and loss account.
Cr. Capital/current account.
 - Dr. Profit and loss appropriation account.
Cr. Bank.
 - Dr. Drawings.
Cr. Profit and loss appropriation account.
7. Partners' interest on drawings is recorded by which of the following double entries?
- Dr. Profit and loss appropriation account.
Cr. Capital/current account.
 - Dr. Capital/current account.
Cr. Profit and loss appropriation account.
 - Dr. Profit and loss appropriation account.
Cr. Drawings.
 - Dr. Drawings.
Cr. Profit and loss appropriation account.
8. Goodwill is best calculated by measuring:
- Customer loyalty.
 - The popularity of the owners of the business.
 - The business's ability to make a better than average profit in the future.
 - The good relationship between the owners and customers of a business.
9. Though goodwill might exist, difficulty in its measurement means that it is only accounted for under which of the following circumstances?
- When a business, or part thereof, is purchased for an amount in excess of the net assets purchased.
 - When the owners of the business employ an accountant to calculate goodwill.
 - When the owners decide that goodwill is a very large and material amount and should be recorded.
 - When the business is making profits over the average and the owners recognise that goodwill exists.
10. Which of the following profit and loss appropriation account presentations is correct?
- | | | |
|--|----------|------------|
| (a) Gross profit | | X |
| Less: Expenses | X | |
| Partners' salary | X | |
| Interest on capital | <u>X</u> | (X) |
| Add: Interest on drawings | | <u>X</u> |
| Net profit to be distributed in profit sharing ratio | | <u>(X)</u> |
| | | |
| (b) Gross profit | | X |
| Less: Expenses | | <u>(X)</u> |
| Net profit to be appropriated | | X |
| Partners' salary | X | |
| Interest on capital | <u>X</u> | (X) |
| Add: Interest on drawings | | <u>X</u> |
| Net profit to be distributed in profit sharing ratio | | <u>(X)</u> |

(c) Gross profit		X	
Less: Expenses		<u>(X)</u>	
Net profit to be appropriated		X	
Partners' salary	X		
Interest on capital	X		
Interest on drawings	<u>X</u>	<u>(X)</u>	
Net profit to be distributed in profit sharing ratio		<u>(X)</u>	
(d) Gross profit		X	
Less: Expenses		<u>(X)</u>	
Net profit to be appropriated		X	
Less: Interest on drawings		<u>(X)</u>	
Add: Interest on capital		<u>X</u>	
Net profit to be distributed in profit sharing ratio		<u>(X)</u>	

11. Which of the following items of expenditure would not be included in the trading account of a farm?
- Livestock purchases.
 - Seed costs.
 - Land reclamation costs.
 - Fertilizer.

QUESTIONS 12 TO 14 ARE BASED ON THE FOLLOWING INFORMATION:

Livestock movements for the year:	Units	
Opening stock	88	Value: £17,440
Purchases	100	Cost £22,000
Death of a purchased animal	1	
Live births	7	
Closing stock: Purchased	99	
Home bred	4	

The upkeep costs for the year were £3,250. Sale proceeds for the year amounted to £37,000. The purchased livestock is to be valued at cost price. Home bred livestock is to be valued at market price less 20%. The market price at the end of the year was £300 per head.

12. How many livestock were sold during the year?
- 91.
 - 105.
 - 93.
 - 85.
13. The closing stock has a per unit valuation of:
- | | | | | |
|-----|---------------------|---------|---------------------|------|
| (a) | Purchased Livestock | £220 | Home bred livestock | £240 |
| (b) | " | £202 | " | £360 |
| (c) | " | £222.50 | " | £240 |
| (d) | " | £220 | " | £290 |
14. The gross profit on livestock sales is:
- £17,070.
 - £17,770.
 - £17,520.
 - £17,050.

20. In question 19 (on page 42) the debit balance of £300 in the client account and the credit balance of £300 owing to clients represent:
- (a) Monies held by the solicitors on behalf of clients and owing to clients.
 - (b) Monies owing by clients for expenses incurred by the solicitor on their behalf.
 - (c) Lodgements given to the solicitor by clients and outstanding in the bank.
 - (d) Fees charged by the solicitor and not yet paid by the client.

CHAPTER TEN

Introduction to Taxation

1. Which of the following taxes are assessed directly on the individual:
 - (a) Income tax.
 - (b) Corporation tax.
 - (c) Value added tax
 - (d) Customs and Excise duties.
2. Which of the following pairs is incorrect?
 - (a) Income tax: Tax on the income of individuals.
 - (b) Corporation tax: Tax on company profits.
 - (c) Value added tax: Tax on the sale of goods and services.
 - (d) Capital gains tax: Tax on inheritances and transfers.
3. Which of the following accounts will not normally appear in the books of a company?
 - (a) PAYE account.
 - (b) Value added tax account.
 - (c) Corporation tax account.
 - (d) Capital acquisitions tax account.
4. Which of the following would be considered to be an indirect tax?
 - (a) Income tax.
 - (b) Corporation tax.
 - (c) Capital gains tax.
 - (d) Value added tax.
5. The system of personal taxation is normally described as:
 - (a) A progressive system.
 - (b) A regressive system.
 - (c) A proportional system.
 - (d) A flat rate system.
6. Which of the following is not assessed to income tax?
 - (a) A company director.
 - (b) A self-employed individual.
 - (c) A limited company.
 - (d) A PAYE worker.
7. Which of the following statements correctly describes the treatment of PAYE taxation in the books of a company?
 - (a) PAYE is a tax on employees assessed on the company and is shown separately in the profit and loss account as an expense.
 - (b) PAYE is an expense over and above gross wages in the profit and loss account and is paid/owing to the Revenue.
 - (c) PAYE is a tax payable by the employees and is not part of the company's accounts.
 - (d) PAYE is a tax deducted from employees by the company and payable to the Revenue on the employees' behalf.

8. Which of the following double entries correctly records the payment of wages and the deduction of PAYE therefrom, given that wages payable are recorded gross:
- (a) Dr. Gross wages.
Cr. PAYE payable. Cr. Bank.
 - (a) Dr. PAYE expense account.
Dr. Gross wages.
Cr. PAYE payable.
Cr. Bank.
 - (b) Dr. PAYE expense account.
Cr. Wages payable.
 - (c) Dr. PAYE payable.
Cr. Wages payable.
9. The balance in the balance sheet for PAYE represents:
- (a) The expense of PAYE.
 - (b) A liability of the employees for PAYE owing.
 - (c) A liability of the company on behalf of the employees for PAYE.
 - (d) PAYE prepaid.
10. If gross wages were £100,000 in the profit and loss account for the year, the opening accrual on the wages account was £500 and the closing accrual was £1,000, what is the liability for PAYE given a single rate of 35%?
- (a) £35,000.
 - (b) £25,926.
 - (c) £35,175.
 - (d) £34,825.
11. The charge for wages in the profit and loss account is:
- (a) The gross wages + PAYE liability.
 - (b) The gross wages - PAYE liability.
 - (c) The net wages paid + PAYE liability.
 - (d) The net wages paid — PAYE liability.
12. Which of the following statements best describes the treatment of value added tax in company accounts?
- (a) Value added tax is an expense of the company arising from the sale of goods and services.
 - (b) Value added tax is a liability of the company calculated by reference to the manufacture of goods and the provision of services.
 - (c) Value added tax is levied on customers and is payable by the customer to the Revenue.
 - (d) Value added tax is collected by the company from customers on behalf of the Revenue and is payable to the Revenue.
13. Which of the following statements is incorrect?
- (a) If a company's VAT-able purchases exceed its VAT-able sales a value added tax refund may be due.
 - (b) A company's value added tax liability is reduced by VAT-able purchases.
 - (c) VAT-able purchases have no effect on the value added tax account.
 - (d) Most value added tax on purchases is recoverable from the Revenue by a company only when the company is registered for value added tax.

14. Which of the following double entries correctly adjusts for value added tax on sales if sales are initially recorded inclusive of tax by the company?
- (a) Dr. Value added tax expense.
Cr. Sales.
 - (b) Dr. Bank/Debtors.
Cr. Value added tax payable.
 - (c) Dr. Sales.
Cr. Value added tax payable.
 - (d) Dr. Value added tax expense.
Cr. Value added tax payable.
15. Companies are entitled to reclaim value added tax on purchases. Which of the following double entries correctly records this transaction?
- (a) Dr. Value added tax payable.
Dr. Purchases.
Cr. Creditors.
 - (b) Dr. Value added tax payable.
Cr. Purchases.
Cr. Creditors.
 - (c) Dr. Value added tax payable.
Cr. Value added tax expense.
 - (d) Dr. Purchases.
Cr. Creditors.
Cr. Value added tax payable.
16. What is the closing balance on the value added tax account if the opening liability was £1,000, invoiced sales were £125,000, invoiced purchases were £80,000 and the value added tax rate is 25%?
- (a) £10,000 Cr.
 - (b) £12,250 Cr.
 - (c) £ 8,000 Cr.
 - (d) £10,250 Cr.
17. Which of the following statements correctly describes the treatment of corporation tax in a company's books?
- (a) Corporation tax is a tax collected by the company and owing to the Revenue.
 - (b) Corporation tax is a liability of the company on behalf of shareholders to the Revenue.
 - (c) Corporation tax is an appropriation of profit of the company, based on company profits and is payable to the Revenue.
 - (d) Corporation tax is a tax on company profits and is collected on behalf of the Revenue from the shareholders of the company to be paid to the Revenue.
18. Which of the following double entries correctly accounts for corporation tax payable?
- (a) Dr. Profit and loss appropriation account.
Cr. Corporation tax payable.
 - (e) Dr. Sundry shareholders account.
Cr. Corporation tax payable.
 - (a) Dr. Profit and loss account.
Cr. Profit and loss appropriation account.
 - (b) Dr. Corporation tax account.
Cr. Profit and loss appropriation account.

19. Corporation tax is normally shown in the accounts in:
 - (a) The profit and loss appropriation account only.
 - (b) The profit and loss appropriation account and under current liabilities in the balance sheet.
 - (c) The profit and loss account only.
 - (d) The profit and loss account and under current liabilities in the balance sheet.

20. Which of the following statements is correct?
 - (a) PAYE, value added tax and corporation tax are normally included in long term liabilities in the balance sheet.
 - (b) PAYE and value added tax normally appear in current liabilities and corporation tax payable does not appear in the balance sheet.
 - (c) PAYE and value added tax normally appear in current liabilities and corporation tax appears in long term liabilities in the balance sheet.
 - (d) PAYE, value added tax and corporation tax normally appear in current liabilities and value added tax may occasionally appear as a current asset in the balance sheet.

CHAPTER ELEVEN

Accounting Concepts and Standards

1. SSAPs contain some of the accounting rules to be used in preparing financial statements. The letters SSAP stand for:
 - (a) Statement of standard accounting practice.
 - (b) Standard statements of accounting procedure.
 - (c) Standard solutions to accounting problems.
 - (d) Statement of solutions to accounting practice.
2. The SSAPs are published by a committee, the ASC, made up from members of various accountancy bodies. The letters ASC stand for:
 - (a) Auditing standards committee.
 - (b) Accounting standards committee.
 - (c) Accounting statements commission.
 - (d) Accounting standards and concepts.
3. Draft SSAPs are published by the ASC with a view to obtaining comments on the proposed accounting standard. This document is referred to as an:
 - (a) Examination document.
 - (b) Example draft.
 - (c) Explanation draft.
 - (d) Exposure draft.
4. SSAP 2 “Disclosure of accounting policies” refers to four fundamental accounting concepts. These are:
 - (a) Accruals, consistency, going concern and prudence.
 - (b) Accruals, conservatism, consistency and prudence.
 - (c) Accruals, conservatism, going concern and matching.
 - (d) Accruals, consistency, conservatism and materiality.
5. Which of the following concepts is the same as the “matching” concept?
 - (a) Accruals.
 - (b) Prudence.
 - (c) Going concern.
 - (d) Conservatism.
6. Some important accounting concepts are not referred to in SSAP 2. Which one of the following concepts is included?
 - (a) Historic cost concept.
 - (b) Money measurement concept.
 - (c) Prudence concept.
 - (d) Double entry convention.

7. The accruals concept is best described by which of the following?
 - (a) Providing for doubtful debts.
 - (b) Calculating profit as being the difference between receipts and payments.
 - (c) Calculating profit as being the difference between revenue and expenses.
 - (d) Using a similar method of depreciation each year.
8. The concept of conservatism applies in which of the following situations?
 - (a) Revaluation of fixed assets from £20,000 to £25,000.
 - (b) Providing for accrued deposit interest.
 - (c) Disclosing a government grant by way of note.
 - (d) Providing for bad debts.
9. The opposite of the accruals concept is the:
 - (a) Matching concept.
 - (b) Cash basis of accounting.
 - (c) Subjectivity concept.
 - (d) Money measurement concept.
10. Which of the following concepts overrides the other concepts when preparing financial statements?
 - (a) Accruals.
 - (b) Going concern.
 - (c) Conservatism.
 - (d) Objectivity.
11. At the end of a financial year, a company provides for an unrecorded expense. This adjustment is in accordance with which of the following concepts?
 - (a) Accruals concept.
 - (b) Consistency concept.
 - (c) Prudence concept.
 - (d) Materiality concept.
12. Fixed assets are normally stated at cost in the firm's balance sheet. This valuation method is used primarily because of:
 - (a) Prudence.
 - (b) Materiality.
 - (c) Matching.
 - (d) Objectivity.
13. At the end of a financial year, depreciation of fixed assets is written off to the profit and loss account. This adjustment is in accordance with the concept of:
 - (a) Objectivity.
 - (b) Materiality.
 - (c) Matching.
 - (d) Conservatism.
14. A company will not normally include goodwill on its balance sheet. This accounting treatment arises because of the:
 - (a) Prudence concept.
 - (b) Accruals concept.
 - (c) Objectivity concept.
 - (d) Consistency concept.

15. Capital expenditure in the amount of £10 has deliberately not been capitalised. This treatment is in accordance with the concept of:
- Accruals.
 - Money measurement.
 - Objectivity.
 - Materiality.
16. A government grant received on the purchase of a fixed asset is best:
- Classified as a capital reserve.
 - Written off in full to the profit and loss account when received.
 - Deducted from the cost of the fixed asset.
 - Shown only by way of note to the accounts.
17. In accordance with SSAP 9 “Accounting for stocks and work-in-progress”, stocks should be valued at the:
- Lower of cost and net realisable value.
 - Higher of cost and net realisable value.
 - Lower of cost and net replacement value.
 - Higher of cost and net replacement value.
18. SSAP 9 states that the stock valuation policy should be applied to each separate category of stock. The following analysis is provided:

CATEGORY	COST	NET REALISABLE VALUE	REPLACEMENT COST
	£	£	£
X	4,000	2,000	1,000
Y	2,000	4,000	3,000
Z	2,000	3,000	4,000

The correct stock valuation is:

- £6,000.
 - £7,000.
 - £8,000.
 - £9,000.
19. In accordance with the provisions of SSAP 10, “Statement of source and application of funds”, which of the following would be obliged to prepare a statement of source and application of funds?
- All limited companies.
 - All public and private companies.
 - Limited companies with annual net profit in excess of £25,000.
 - Limited companies with annual sales in excess of £25,000.
20. The accountancy profession, in accounting for changing prices, suggests the use of which of the following methods of accounting?
- Current cost accounting (CCA).
 - Constant purchasing power (CCP).
 - Historic cost (HC).
 - General price level (GPL).

CHAPTER TWELVE

Books of Original Entry

1. The books of original entry are written up from:
 - (a) Suppliers statements.
 - (b) Source documentation such as invoices, cheque stubbs etc.
 - (c) The trial balance.
 - (d) Debtors and creditors ledgers.
2. The monthly totals in the books of prime entry are recorded in the nominal ledger. This recording process is referred to as:
 - (a) Casting.
 - (b) Extraction.
 - (c) Balancing.
 - (d) Posting.
3. Which of the following is not a book of prime entry?
 - (a) Petty cash book.
 - (b) Wages book.
 - (c) General journal.
 - (d) Nominal ledger.
4. The main source of information for writing up the sales journal is:
 - (a) Invoices received.
 - (b) Invoices issued.
 - (c) Customer orders.
 - (d) Cash receipts.
5. The sales journal can alternatively be described as the:
 - (a) Sales day book.
 - (b) Sales cash book.
 - (c) Sales outwards book.
 - (d) Sales receipts book.
6. Credit notes issued by a firm will usually be entered in the:
 - (a) Sales journal.
 - (b) Purchase journal.
 - (c) Sales returns journal.
 - (d) Purchases returns journal.
7. Which of the following transactions would be recorded in the credit purchase journal of the firm?
 - (a) Purchase of trading goods for cash.
 - (b) Purchase of trading goods on credit.
 - (c) Purchase of a fixed asset for cash.
 - (d) Purchase of a fixed asset by cheque.

8. During an accounting period, a customer returned goods. This transaction should be recorded in which of the following books?
- Purchase returns journal.
 - Sales journal.
 - Purchases journal.
 - Sales returns journal.
9. Credit notes received should be entered in the:
- Purchases journal.
 - Sales journal.
 - Purchases returns journal.
 - Sales returns journal.
10. The function of the general journal is to:
- Record transactions not entered in other books of original entry.
 - Provide a detailed analysis of cash transactions.
 - Record discounts allowed and received.
 - Act as a work book for the debtors and creditors ledgers.
11. Which of the following types of transaction would not normally be recorded in the general journal?
- Year end adjusting entries.
 - Correction of errors.
 - Sales and purchases returns.
 - Disposal of fixed assets.
12. The total of the credit sales journal, (ignoring VAT) will be posted to the nominal ledger as follows:
- | DEBIT | CREDIT |
|-------------------------------|--------------------------|
| (a) Bank account | Sales account. |
| (b) Creditors control account | Sales account. |
| (c) Debtors control account | Sales account. |
| (d) Sales account | Debtors control account. |
13. The total of the credit purchases journal (ignoring VAT) may be recorded in the nominal ledger by:
- | DEBIT | CREDIT |
|-------------------------------|----------------------------|
| (a) Bank account | Purchases account. |
| (b) Purchases account | Bank account. |
| (c) Creditors control account | Purchases account. |
| (d) Purchases account | Creditors control account. |
14. In a business where sales are VAT-able, the monthly total posting of the sales day book could be:
- Debit sales account with £1,000, debit VAT account with £200 and credit debtors control account with £1,200.
 - Debit debtors control account with £1,000, debit VAT account with £200 and credit sales account with £1,200.
 - Debit debtors control account with £1,200 and credit sales account with £1,000 and credit VAT account with £200.
 - Debit sales account with £1,200 and credit debtors control account with £1,000 and credit VAT account with £200.

15. The following summarised information was extracted from the cheque payments book:

DISCOUNT	BANK	CREDITORS	WAGES
£	£	£	£
100	1,000	1,000	100

The posting to the nominal ledger is:

- Debit bank account with £1,100 and credit the creditors control account with £1,000 and credit wages account with £100.
- Debit creditors control account with £1,000 and debit discount received account with £100, credit bank account with £1,000 and credit wages account with £100.
- Debit creditors control account with £1,000 and debit wages account with £100; credit bank account with £1,000 and credit discount received account with £100.
- Debit creditors control account with £1,100 and debit wages account with £100; credit bank account with £1,000 and credit discount allowed account with £100.

16. The following summarised information was extracted from the cash receipts book:

DISCOUNT	BANK	DEBTORS	SALES
£	£	£	£
50	100	90	60

The posting to the nominal ledger is:

- Debit bank account with £150 and credit sales account with £60 and credit debtors control account with £90.
 - Debit sales account with £60 and debit debtors control account with £90; credit discount received account with £50 and credit bank account with £100.
 - Debit bank account with £100 and debit discount allowed with £50; credit debtors control account with £90 and credit sales account with £60.
 - Debit debtors control account with £90 and bank account with £100; credit sales account with £190.
17. Bad debts written off can be recorded in the general journal (ignoring narrative) as follows:
- Debit both individual debtor's and debtors control accounts and credit bad debts account.
 - Debit bad debts account and credit both individual debtors and debtors control accounts.
 - Debit individual debtor's account and credit debtors control account.
 - Debit bad debts account and credit individual debtor's account.
18. A customer purchased 100 units at a price of £10 each subject to a 10% trade discount and a 2% cash discount. If 10 units were returned immediately before payment the credit note issued will be recorded as follows:
- £88 debit to the individual debtors account in the debtors ledger and debtors control account and credit sales returns account.
 - £88 debit to sales returns account and credit individual debtors account in the debtors ledger and debtors control account.
 - £90 debit to the individual debtors account in the debtors ledger and debtors control account and credit sales returns account.
 - £90 debit in the sales returns account and credit the individual debtors account in the debtors ledger and credit debtors control account.

19. A customer purchases goods for £100 subject to a trade discount of 5% and a cash discount of 10%. If settlement is made immediately the cash discount allowed can be entered as follows:
- (a) £9.50 debit to discount allowed account and credit individual debtors account in the debtors ledger and credit debtors control account.
 - (b) £9.50 debit to individual debtors account in the debtors ledger and debtors control account and credit discount allowed account.
 - (c) £10.00 debit to discount allowed account and credit individual debtors account in the debtors ledger and debit debtors control account.
 - (d) £10.00 debit to debtors account in the debtors ledger and debtors control account and credit discount allowed account.
20. A company purchases goods for £2,000 subject to a trade discount of 10% and a cash discount of 5%. If settlement is made immediately the entries in the company's analysed cash book, will be:
- (a) Discount received column, £300, cheque payments column, £1,700 and creditors column, £2,000.
 - (b) Discount allowed column, £90, cheque payments column, £1,710 and creditors column, £1,800.
 - (c) Discount allowed column, £300, cheque payments column, £1,700 and creditors column, £2,000.
 - (d) Discount received column, £90, cheque payments column, £1,710 and creditors column, £1,800.

CHAPTER THIRTEEN

Control Accounts

1. Which of the following statements is incorrect?
 - (a) Debtors and creditors ledgers are part of the normal double entry accounting system.
 - (b) Separate debtors and creditors ledgers are maintained in addition to control accounts to facilitate the collection and payment of debts.
 - (c) A debtors ledger acts as a double check on the debtors control account.
 - (d) Debtors and creditors ledgers facilitate the correction of errors by a reconciliation of the listing of balances with the control account balances.
2. Debtors and creditors ledgers are best written up from the:
 - (a) Nominal ledger.
 - (b) Books of original entry.
 - (c) Source documentation such as invoices, cheque stubs etc.
 - (d) Customers orders.
3. Which of the following transactions would not be recorded in both the books of original entry and personal accounts?
 - (a) Credit sale.
 - (b) Cash receipt from debtor.
 - (c) Credit note issued.
 - (d) Wages paid.
4. Which of the following is the odd one out?
 - (a) Nominal ledger.
 - (b) Debtors ledger.
 - (c) Creditors ledger.
 - (d) Trial Balance.
5. The debtors ledger can best be described as:
 - (a) A working paper to facilitate the preparation of the trial balance.
 - (b) A collective term to describe individual customer accounts.
 - (c) A source document for posting.
 - (d) A book of original entry.

6. The following information relates to a company for an accounting period:

	£
Opening debtors	9,916
Cash sales	54,000
Credit sales	67,500
Credit sales returned	1,900
Bad debts written off	2,000
Discounts allowed	1,300
Discounts received	1,100
Refunds to credit customers	800
Cash received from customers	50,000

The closing balance on the debtors control account is:

- (a) £21,616.
 (b) £23,216.
 (c) £23,016.
 (d) £21,416.
7. The following information relates to a company for a recent accounting period:

	£
Opening debtors	5,100
Cash received from customers	49,000
Credit sales	63,000
Refunds to credit customers	2,000
Increase in bad debts provision	1,500
Discounts allowed	1,800
Customers' cheques dishonoured	30
Balances in debtors ledger set off against creditors ledger	3,000
Credit sales returns	1,000
Bad debts written off	2,000

The closing balance on the debtors control account is:

- (a) £13,270.
 (b) £13,330.
 (c) £11,830.
 (d) £11,330.
8. The following information relates to a company for a recent accounting period:

	£
Opening creditors	8,400
Credit purchases	58,000
Discounts allowed	1,000
Discounts received	2,000
Credit purchases returned	5,000
Refunds from suppliers	3,000
Payments to suppliers	47,000

The closing balance on the creditors control account is:

- (a) £14,400.
 (b) £15,400.
 (c) £16,400.
 (d) £ 9,400.

9. The following information relates to a company for a recent account period:

	£
Opening creditors	4,600
Discount received	1,000
Discount allowed	2,000
Credit purchases	54,000
Credit purchases returned	6,000
Refunds from credit suppliers	2,000
Payments to suppliers	39,000
Balances in creditors ledger set off against debtors ledger	1,000

The closing balance on the creditors control account is:

- (a) £ 8,600.
 (b) £ 9,600.
 (c) £13,600.
 (d) £12,600.
10. The following transactions have been recorded in the sales journal and cash receipts book:

SALES JOURNAL	£	
A. Anderson	75	
B. Bali	56	
C. Cooney	104	
CASH RECEIPTS BOOK (EXTRACT)		
CUSTOMER	DISCOUNT	BANK
	ALLOWED	
	£	£
A. Anderson	3	75
B. Bali	2	23
Cash Sales		30

The closing balance on the debtors control account is:

- (a) £105.
 (b) £110.
 (c) £135.
 (d) £140.
11. The following information has been recorded in the purchases journal and cheque payments book:

PURCHASES JOURNAL	£	
D. Dillon	250	
E. Egan	190	
F. Foster	210	
CHEQUE PAYMENTS BOOK (EXTRACT)		
SUPPLIER	DISCOUNT	BANK
	RECEIVED	
	£	£
D. Dillon	10	240
Cash Purchases		200
F. Foster	5	100

The closing balance on the creditors control account is:

- (a) £115.
 (b) £205.
 (c) £220.
 (d) £295.

12. The purchase of stock on credit was completely omitted from the books of a company. The appropriate correcting entry is:

DEBIT	CREDIT
(a) Purchases account.	Creditors control account.
(b) Purchases and individual creditors accounts.	Suspense account.
(c) Purchases account.	Individual creditors account.
(d) Purchases account.	Individual creditor and creditors control accounts.

13. A trader owes £90 to suppliers at the start and £80 at the end of an accounting period. Cash purchases of £15 and credit purchases of £400 were recorded. Discounts allowed of £45 and discounts received of £54 were given and received respectively. The amount paid to suppliers in respect of credit purchases was:

- (a) £346.
(b) £345.
(c) £360.
(d) £356.

14. A trader has debtors of £90 at the start and £150 at the end of an accounting period. During the period £30 was written off in respect of bad debts and £500 was received from debtors and £400 was paid to creditors. Credit sales for the period were:

- (a) £430.
(b) £490.
(c) £530.
(d) £590.

15. The following information relates to a company for a recent accounting year:

	£	£
Opening debtors and creditors	4,999	3,764
Credit sales and purchases	57,950	28,874
Cash sales and purchases	23,300	12,700
Discounts allowed and received	1,700	1,450
Credit returns in and out	3,400	2,300
Total receipts and payments	49,800	24,900

The closing balance on the debtors and creditors control accounts are:

- (a) Debtors £ 8,049 and creditors £3,988.
(b) Debtors £ 9,749 and creditors £5,438.
(c) Debtors £13,149 and creditors £7,739.
(d) Debtors £ 3,988 and creditors £8,049.
16. During an accounting period debtors increased by £7,000. Sales of £100,000 were recorded and were equally divided between cash and credit transactions. Cash received from debtors was:
- (a) £ 43,000.
(b) £ 57,000.
(c) £ 93,000.
(d) £107,000.

17. At the end of a financial year debtors were 20% greater than they were at the start. Credit sales during the year were equivalent to 10 times the amount of debtors at the start. If cash received from debtors amounted to £98,000, then closing debtors are:
- (a) £10,000.
 - (b) £12,000.
 - (c) £ 8,000.
 - (d) £15,000.
18. At the start of a financial year debtors and creditors were £5,000 and £6,000 respectively. At the end of the year both of these amounts had increased by 20%. Cheque payments to creditors were £11,000 and cash received from debtors was £15,000. Discounts allowed and received were £1,000 and £2,000.

Bad debts written off amounted to £2,000 and bad debts recovered were £4,000. Credit sales and purchases for the year were:

- (a) Purchases £14,200 and sales £19,000.
 - (b) Purchases £13,000 and sales £20,000.
 - (c) Purchases £15,000 and sales £14,000.
 - (d) Purchases £13,000 and sales £14,000.
19. During a financial year creditors increased by £10,000. Credit purchases amounted to £50,000 and cheque payments to creditors were £39,000. The apparent discrepancy on the control account can be explained by:
- (a) Unrecorded discount allowed.
 - (b) Unrecorded discount received.
 - (c) Unrecorded bad debts which should have been written off.
 - (d) Unrecorded credit purchases.
20. During a financial year debtors increased by £6,000. Credit sales amounted to £68,000 and receipts from debtors amounted to £61,000. The apparent discrepancy on the control account can be explained by:
- (a) Unrecorded discount allowed.
 - (b) Unrecorded discount received.
 - (c) Bad debts recovered and included in £61,000 above.
 - (d) Unrecorded credit sales.

CHAPTER FOURTEEN

Correction of Errors and Journal Entries

1. The correction of errors will initially be recorded in which of the following?
 - (a) Nominal ledger.
 - (b) Trial balance.
 - (c) Debtors or Creditors ledgers.
 - (d) General Journal.
2. Journal entries will always have:
 - (a) A supporting cheque stubb.
 - (b) A cash receipts voucher.
 - (c) A supporting entry in the debtors or creditors ledger.
 - (d) A narrative explaining the nature of the transaction or event.
3. The purchase of a fixed asset was incorrectly debited to the purchases account. This represents:
 - (a) An error of omission.
 - (b) An error of commission.
 - (c) An error of principle.
 - (d) A compensating error.
4. Which of the following errors will be highlighted by the trial balance?
 - (a) Sale proceeds of fixed asset credited to sales account.
 - (b) Wages expense debited to sales account.
 - (c) Incorrectly totalling the sales account.
 - (d) Completely omitting a sales transaction from the books.
5. An adjustment for prepaid rates was ignored when preparing the financial statements of a company. As a result:
 - (a) Both profit and net assets are overstated.
 - (b) Both net profit and net assets are understated.
 - (c) Net profit is understated and net assets are overstated.
 - (d) Net profit is overstated and net assets are understated.
6. If discount received in the amount of £50 was debited to the discount allowed account, then the net profit figure would be:
 - (a) £50 too much.
 - (b) £50 too little.
 - (c) £100 too little.
 - (d) £100 too much.
7. Stock withdrawn by the proprietor in the amount of £250 was not recorded. As a result the net profit is:
 - (a) Overstated by £250.
 - (b) Understated by £250.
 - (c) Understated by £500.
 - (d) Overstated by £500.

8. A bad debt recovered was incorrectly credited to the debtors control account. As a result:
 - (a) Net profit and debtors are overstated.
 - (b) Net profit and debtors are understated.
 - (c) Net profit is understated and debtors are overstated.
 - (d) Net profit is overstated and debtors are understated.
9. If the purchase of a fixed asset was debited to the purchases account then:
 - (a) Net profit would be overstated
 - (b) Net profit would be understated.
 - (c) Fixed assets would be overstated.
 - (d) Capital would be overstated.
10. The balance on P. Smith's account in the debtors ledger amounting to £100 was written off by a debit entry in P. Smith's account in the debtors ledger and a credit entry in the bad debts account. Which of the following entries correctly adjusts for this error?
 - (a) Debit P. Smith's account in the debtor's ledger and debit debtors control account and credit bad debts account. All entries in the amount of £100.
 - (b) Debit bad debts account and credit P. Smith's account in the debtors ledger. All entries in the amount of £200.
 - (c) Debit bad debts account with £200 and credit P. Smith's account in the debtors ledger with £200 and credit debtors control account with £100.
 - (d) Debit bad debts account and debtors control account, each with £200 and credit P. Smith's account in the debtors ledger with £200.
11. If closing stock at the end of an accounting period is overvalued by £1,000 and if no adjustment is subsequently made, the net profit in the following accounting period will be:
 - (a) £1,000 too much.
 - (b) £1,000 too little.
 - (c) £2,000 too much.
 - (d) £2,000 too little.
12. Bad debts were not provided for when preparing the financial statements of the firm. As a result:
 - (a) Both net profit and debtors are overstated.
 - (b) Both net profit and debtors are understated.
 - (c) Net profit is understated and debtors are overstated.
 - (d) Net profit is overstated and debtors are understated.
13. The debit side of a trial balance exceeds the credit side by £60. This error will temporarily be shown in the suspense account as:
 - (a) £60 debit.
 - (b) £60 credit.
 - (c) £120 debit.
 - (d) £120 credit.
14. The sales account of a company was overcast by £100 and the difference in the trial balance was recorded in a suspense account. The correcting entry is:

DEBIT		CREDIT	
(a) Sales account.	£100	Suspense account.	£100
(b) Suspense account.	£100	Sales account.	£100
(c) Sales account.	£200	Suspense account.	£200
(d) Suspense account.	£200	Sales account.	£200

15. Discount allowed in the amount of £40 was incorrectly credited to the discount received account. The resulting difference was transferred to a suspense account. The correcting entry is:

	DEBIT		CREDIT
(a)	Discount allowed account £40.	Suspense account	£40.
(b)	Discount received account £40.	Suspense account	£40.
(c)	Suspense account £80.	Discount received account	£80.
(d)	Discount allowed account £40.	Suspense account	£80.
	Discount received account £40.		

16. It was discovered after the preliminary trial balance was extracted that a bad debt recovered was credited to the debtors control account. The correcting entry is:

	DEBIT	CREDIT
(a)	Suspense account.	Bad debts recovered account.
(b)	Debtors control account.	Bad debts recovered account.
(c)	Debtors control account.	Suspense account
(d)	Bad debts recovered account.	Debtors control account.

17. Bank charges were completely omitted from the books of a company. The correcting entry is:

	DEBIT	CREDIT
(a)	Bank charges account.	Bank account.
(b)	Bank account.	Bank charges account.
(c)	Suspense account.	Bank account.
(d)	Bank account.	Suspense account.

18. When preparing a trading account of a company closing stock was overvalued by £1,000. The correcting entry to the draft accounts is:

	DEBIT	CREDIT
(a)	Net profit account.	Stock account.
(b)	Purchases account.	Stock account.
(c)	Cost of sales account.	Stock account.
(d)	Stock account.	Cost of sales account.

19. Fixed assets were depreciated in year two on a reducing balance method rather than on a straight line basis. The correcting entry is:

	DEBIT	CREDIT
(a)	Aggregate depreciation.	Depreciation.
(b)	Profit and loss.	Depreciation.
(c)	Aggregate depreciation.	Profit and loss.
(d)	Depreciation.	Aggregate depreciation.

20. At the end of a financial year it was discovered that a credit purchase transaction from J. Bloggs in the amount of £100 was omitted from the books. The appropriate journal entry (with narrative) is:

- (a) Debit purchases account with £100 and credit creditors control account with £100.
- (b) Debit J. Bloggs account in the creditors ledger with £100 and credit creditors control account with £100.
- (c) Debit purchases account with £100 and credit J. Bloggs account in the creditors ledger with £100.
- (d) Debit purchases account with £100 and credit both J. Bloggs account in the creditors ledger and creditors control account with £100.

CHAPTER FIFTEEN

Bank Reconciliation Statements

1. Which of the following items would normally appear on the bank statement before being entered in the cash book?
 - (a) Outstanding cheques.
 - (b) Outstanding lodgements.
 - (c) Bank charges.
 - (d) Cash sales lodged.
2. Which of the following items would normally be entered in the firm's cash book and subsequently checked against the bank statement?
 - (a) Lodgements.
 - (b) Dishonoured cheques.
 - (c) Bank charges.
 - (d) Bank overdraft interest.
3. Which of the following statements is correct? A bank reconciliation statement is usually:
 - (a) Prepared by the firm on a regular basis to check the accuracy of the cash book.
 - (b) Prepared by the bank as part of their checking system.
 - (c) Part of the double entry system of the company.
 - (d) Prepared by the firm to highlight a bank overdraft.
4. In preparing bank reconciliation statements there are two principal types of reconciling items, namely, those which require adjustment in the firm's cash book and those which do not. Which one of the following items do not require adjustment in the firm's cash book?
 - (a) Standing orders.
 - (b) Outstanding cheques.
 - (c) Bank charges.
 - (d) Error in the cash book.
5. A cheque written by you but not presented by the payee at the bank will be described on the reconciliation statement as:
 - (a) An outstanding lodgement.
 - (b) An outstanding cheque.
 - (c) A standing order.
 - (d) An error to be corrected.
6. A debit balance on the bank statement indicates that the firm has:
 - (a) Money in the bank.
 - (b) An overdraft.
 - (c) Lodgements.
 - (d) Dividends received.

7. When comparing the bank statement with the cash book you discover that a cheque presented for payment in the bank has been omitted from the cash book. This error will be:
 - (a) Shown as an outstanding cheque on the reconciliation statement.
 - (b) Shown as an outstanding lodgement on the reconciliation statement.
 - (c) Highlighted as an error to be corrected before a final reconciliation is prepared.
 - (d) Highlighted as an error to be corrected by the bank.
8. A cheque received from a customer was lodged but subsequently dishonoured. This dishonoured cheque would:
 - (a) Appear on the reconciliation statement as an outstanding lodgement.
 - (b) Appear on the reconciliation statement as an unrepresented cheque.
 - (c) Recorded as a debit entry in the firm's cash book before preparing a final reconciliation statement.
 - (d) Recorded as a credit entry in the firm's cash book before a final reconciliation is prepared.
9. An outstanding lodgement, when presented, will have the following impact on the bank statement if the firm is in overdraft:
 - (a) Increase the debit balance.
 - (b) Increase the credit balance.
 - (c) Decrease the debit balance.
 - (d) Decrease the credit balance.
10. When comparing the firm's cash book with the bank statement you discover that lodgements per the cash book have been overstated. This would be:
 - (a) Shown as an outstanding lodgement on the reconciliation statement.
 - (b) Shown as an outstanding cheque on the reconciliation statement.
 - (c) Corrected in the cash book before preparing a final reconciliation.
 - (d) Corrected on the bank statement.
11. A cheque will have the following impact on the bank overdraft per the bank statement when presented:
 - (a) Increase the debit balance per the bank statement.
 - (b) Increase the credit balance per the bank statement.
 - (c) Decrease the debit balance per the bank statement.
 - (d) Decrease the credit balance per the bank statement.
12. A direct debit is debited on the bank statement of a firm. This previously unrecorded transaction could be entered by the firm as:

DEBIT	CREDIT
(a) Bank account.	Cash account.
(b) Bank account.	Individual creditors accounts.
(c) Individual creditors and creditors control accounts.	Bank account.
(d) Creditors control account.	Bank account.
13. The entry to record bank charges can be expressed as:

DEBIT	CREDIT
(a) Bank account.	Bank charges account.
(b) Bank charges account.	Bank account.
(c) Bank charges account.	Cash account.
(d) Profit and loss account.	Bank account.

14. When comparing the bank statement with the cash book, you discover that bank interest payable in the amount of £15 had not been recorded by the firm. The bank overdraft in the books of the firm is:
- (a) Overstated by £15.
 - (b) Understated by £15.
 - (c) Overstated by £30.
 - (d) Understated by £30.
15. A firm's bank account was overdrawn by £100 per the bank statement. Outstanding lodgements of £500 and outstanding cheques of £200 were identified. The closing balance per the firm's cash book was:
- (a) £200 debit.
 - (b) £200 credit.
 - (c) £400 debit.
 - (d) £400 credit.
16. The closing balance on the bank statement was £100 less than the balance per the firm's cash book. Outstanding cheques amounting to £60 were identified. Outstanding lodgements must be:
- (a) £40.
 - (b) £60.
 - (c) £140.
 - (d) £160.
17. A firm's cash book showed a debit balance of £1,000. Outstanding cheques of £500 and outstanding lodgements of £400 were identified. The closing balance on the bank statement was:
- (a) £1,100 debit.
 - (b) £1,100 credit.
 - (c) £ 900 debit.
 - (d) £ 900 credit.
18. A bank statement shows a credit balance of £1,000. Comparison with the cash book to which it relates reveals the following differences:
- 1. Bank charges not yet entered in the cash book, £10.
 - 2. Outstanding cheques, £259.
 - 3. Outstanding lodgements, £638.
- Ignoring other differences the unadjusted cash book balance was:
- (a) £1,389 debit.
 - (b) £1,389 credit.
 - (c) £1,369 debit.
 - (d) £1,369 credit.
19. A firm's cash book reveals a debit balance of £850. Comparison with the bank statement to which it relates reveals the following differences:
- 1. Outstanding lodgements, £247.
 - 2. Bank charges not yet entered in the cash book, £24.
 - 3. Unpresented cheques, £652.

Ignoring other differences, the bank statement balance was:

- (a) £ 469.
- (b) £1,279.
- (c) £1,231.
- (d) £ 421.

20. A bank statement shows an overdraft of £1,000. Comparison with the cash book to which it relates highlights the following differences:
1. Unpresented cheques, £100.
 2. Outstanding lodgements, £2,000.
 3. Bank charges not yet entered in the cash book, £5.

Ignoring other differences, the unadjusted cash book balance was:

- (a) £ 895 credit.
- (b) £ 905 debit.
- (c) £2,895 credit.
- (d) £2,905 debit.

CHAPTER SIXTEEN

Ratio Analysis

1. The return on capital employed can be used to measure:
 - (a) Profitability.
 - (b) Gearing.
 - (c) Leverage.
 - (d) Solvency.
2. The term capital employed is usually calculated as the sum of:
 - (a) Ordinary share capital only.
 - (b) Ordinary and preference share capital only.
 - (c) Ordinary and preference share capital plus all reserves.
 - (d) Ordinary and preference share capital plus all reserves and long term liabilities.
3. Which of the following ratios would best be calculated using only year end rather than average figures?
 - (a) Stock turnover ratio.
 - (b) Debtor days.
 - (c) Return on shareholders' funds.
 - (d) Return on capital employed.
4. Which of the following is the correct ratio for return on capital employed?
 - (a) Profit after interest but before preference dividends.
Ordinary and preference share capital, reserves and debt.
 - (b) Profit after interest and preference dividends.
Ordinary and preference share capital and debt.
 - (c) Profit before interest and preference dividends.
Ordinary and preference share capital and debt.
 - (d) Profit before interest and preference dividends.
Ordinary share capital and reserves.
5. A company has shareholders' funds of £100,000 and 10% debentures in the amount of £50,000. If profit before interest amounted to £15,000, the return on capital employed is:
 - (a) 6.6%.
 - (b) 10%.
 - (c) 15%.
 - (d) 20%.

6. A company has capital employed of £150,000 and a long term debt-equity ratio of 50%. Debt carries a 10% rate of interest. If the profit before interest amounts to £15,000, then the return on shareholders' funds is:
- (a) 8%.
 - (b) 10%.
 - (c) 12%.
 - (d) 13%.
7. The gross assets of a company exceed its net assets by £2,000. If fixed assets amounting to £6,000 represents 75% of shareholders' funds, then current assets are:
- (a) £2,000.
 - (b) £4,000.
 - (c) £6,000.
 - (d) £8,000.
8. An abnormal increase in the gross profit ratio of a trader can be explained by which of the following?
- (a) Undervaluation of closing stock.
 - (b) Overvaluation of closing stock.
 - (c) Purchases overstated.
 - (d) Understatement of actual sales.
9. A fall in the gross profit ratio will not be explained by:
- (a) Theft of stock during the year.
 - (b) Undervaluation of closing stock.
 - (c) Overvaluation of closing stock.
 - (d) Stock written off as worthless during the year.
10. The stock turnover ratio is usually calculated by dividing:
- (a) Sales by average stock.
 - (b) Purchases by average stock.
 - (c) Cost of sales by average stock.
 - (d) Cost of sales by sales.
11. If opening stock is £6,000, closing stock is £10,000, sales are £80,000 and the mark-up on cost is 25%, then the stock turnover ratio is:
- (a) $10\frac{2}{3}$ times
 - (b) $7\frac{1}{2}$ times
 - (c) 8 times
 - (d) 10 times
12. During a financial year a company had average stock of £15,000 and a gross profit margin of 25%. If sales amounted to £120,000, the stock turnover ratio is:
- (a) 6 times
 - (b) $6\frac{4}{5}$ times
 - (c) 8 times
 - (d) 10 times

13. A company has credit sales of £108,000 and cash sales of £12,000. If the gross profit margin is 20%, with a 360 day year and an average period of credit allowed of 30 days, then debtors are:
 - (a) £8,000.
 - (b) £9,000.
 - (c) £10,000.
 - (d) £7,200.
14. During an accounting period the stock turnover ratio was 10 times per annum and the mark-up on cost was 20%. Assuming average stock of £15,000, debtors of £20,000 and that all sales were on credit, debtor days for the period assuming 360 days per annum were:
 - (a) 38 days (approx.)
 - (b) 40 days.
 - (c) 45 days.
 - (d) 48 days.
15. The known current assets of a firm consist of stock £5,000 and debtors of £4,000 but the bank balance is unknown. If the acid test ratio is 2:1 and current liabilities are £3,000, then the bank balance is:
 - (a) £2,000.
 - (b) £3,000.
 - (c) £3,500.
 - (d) A bank overdraft is indicated.
16. The current ratio is 2:1. Net current assets amounts to £2,000. Total current assets amount to:
 - (a) £1,000.
 - (b) £2,000.
 - (c) £4,000.
 - (d) £6,000.
17. The acid test ratio can be used to indicate:
 - (a) Profitability.
 - (b) Activity.
 - (c) Gearing.
 - (d) Liquidity.
18. A firm's current and acid test ratios are 2:1 and 1:1 respectively. If stock amounts to £10,000, then current liabilities are:
 - (a) £ 5,000.
 - (b) £10,000.
 - (c) £15,000.
 - (d) £20,000
19. The debt-equity ratio is calculated to indicate:
 - (a) Liquidity.
 - (b) Profitability.
 - (c) Gearing.
 - (d) Activity.
20. The net assets of a firm amount to £8,000 and net current assets are £3,000. If no long term debt exists then fixed assets are:
 - (a) £3,000.
 - (b) £5,000.
 - (c) £6,000.
 - (d) £11,000.

CHAPTER SEVENTEEN

Statement of Source and Application of Funds

1. A statement of source and application of funds is prepared primarily to show:
 - (a) Changes in the profitability of a business for an accounting period.
 - (b) The application of funds only for the period.
 - (c) All the sources of funds only of the business during the period.
 - (d) The total changes in funds of the business during the period.
2. The figure, “funds from operations”, shown in the funds flow statement is calculated as:
 - (a) Gross profit less all expenses including tax.
 - (b) Net profit after all expenses including dividends.
 - (c) Net profit after all expenses involving the movement of funds but before taxation and dividends.
 - (d) Net profit after those expenses involving the movement of funds and after taxation and dividends.
3. The profit to be included in preparing the funds flow statement needs to be adjusted for items included therein not involving the movement of funds. Which of the following is not one of these items?
 - (a) Depreciation.
 - (b) Goodwill written off.
 - (c) Bonus issue of shares.
 - (d) Profit on the sale of fixed assets.
4. A company generated a net profit before taxation of £25,560. This figure includes profit from the sale of fixed assets of £850, depreciation of £1,000 and wages of £4,000. Funds from operations are:
 - (a) £21,710.
 - (b) £25,710.
 - (c) £26,560.
 - (d) £25,410.
5. Which of the following would be a source of funds?
 - (a) Bonus issue of shares.
 - (b) Share issue at par.
 - (c) Revaluation of premises.
 - (d) Transfer to general reserve.
6. Which of the following is the odd one out in relation to its treatment in the funds flow statement?
 - (a) Issue of share capital.
 - (b) Sale of fixed asset.
 - (c) Receipt of government grant.
 - (d) Dividend received from investment.

7. A firm revalued its premises by £50,000 during the year and the revaluation reserve was utilised by way of bonus issue. In relation to the firm's funds flow statement this represents a:
- Source of funds.
 - Application of funds.
 - Funds from operations.
 - Neither a source or application of funds.

8. An application of funds would not include:
- Payment of taxation.
 - Purchase of fixed assets.
 - Repayment of loan.
 - Debenture issue.

9. A firm had the following transactions in its first year of business:

	£
Sales (90% collected during year)	1,500
Actual bad debts	60
Cash expenses including purchases	1,200
Payment of taxation	90
Additions to fixed assets	400
Proceeds from share issue	500
Depreciation of fixed assets	80
Long term loan received	50

The closing cash balance is:

- £150.
 - £130.
 - £210.
 - £170.
10. The following information is presented to you in respect of the year ended 31 December 19X4:

Sales	£350
Gross profit	30%
Net profit	10%
Increase in debtors	£10
Increase in creditors	£2
Increase in stock	£4
Total overheads	20% of sales
Depreciation charge	£20 (included in total overhead)

The funds from operations amounted to:

- £15.
 - £35.
 - £55.
 - £105.
11. The cost of a firm's fixed assets was £100 and £120 at the start and end of the year respectively. Depreciation of £40 was charged during the year and disposals at cost amounted to £10. The apparent discrepancy in the fixed asset account could be explained by:
- Additions to fixed assets.
 - Extra depreciation.
 - Fixed assets written off as worthless.
 - Sale of fixed assets.

12. The book values of a firm's fixed assets were made up as follows:

	OPENING	CLOSING
	£	£
Cost	560	830
Aggregate depreciation	230	315

During the year fixed assets costing £112 and with a book value of £38 were sold at a profit of £85. Depreciation of £159 was charged for the year. How much fixed assets were purchased during the year?

- (a) £482.
 (b) £308.
 (c) £382.
 (d) £408.
13. Based on the information in question 12 above, the aggregate depreciation of the fixed asset sold was:
- (a) £185.
 (b) £ 74.
 (c) £ 85.
 (d) £ 27.

QUESTIONS 14 TO 16 ARE BASED ON THE FOLLOWING INFORMATION:

The fixed assets of a company were recorded in the books as follows:

	OPENING	CLOSING
	£	£
Cost	6,723	7,418
Aggregate depreciation	2,946	3,572

During the year new fixed assets were purchased at a cost of £1,000 and fixed assets were sold at a loss of £100. Total depreciation for the year amounted to £700.

14. The cost of fixed assets sold was:
- (a) £305.
 (b) £695.
 (c) £1,695.
 (d) £1,795
15. The book value of the fixed assets sold was:
- (a) £231.
 (b) £678.
 (c) £974.
 (d) £1,098
16. The proceeds on disposal were:
- (a) £100.
 (b) £900.
 (c) £131.
 (d) £205.

17. Calculate the total dividends paid during the period given the following information:

	£
Interim dividend	5,000
Proposed final dividend	10,000
Dividend account-opening balance	6,000
-closing balance	10,000

- (a) £ 5,000.
(b) £ 6,000.
(c) £ 9,000.
(d) £11,000.
18. During the year the firm's total reserves increased by £10. The profit before tax was £20 and the tax rate was 40% thereon. The dividend for the year was:
- (a) £ 2.
(b) £ 4.
(c) £ 8.
(d) £10.
19. What is the tax paid during the year given the following information?
- | | |
|------------------------------|----|
| Taxation account — opening | £5 |
| balance | |
| closing balance | £7 |
| Taxation charge for the year | £7 |
- (a) £ 2.
(b) £ 5.
(c) £ 7.
(d) £12.
20. The closing balance on the taxation payable account is 50% greater than the opening balance. The profit and loss charge was £15 for the year. If all tax is paid yearly in arrears, the opening balance is:
- (a) £ 5.
(b) £10.
(c) £15.
(d) £20.

CHAPTER EIGHTEEN

Incomplete Records

1. Which of the following books is the most important when preparing accounts from incomplete records?
 - (a) Debtors ledger.
 - (b) Sales day book.
 - (c) Cash book.
 - (d) Creditors ledger.

2. You are provided with the following information regarding a small trader:

	OPENING	CLOSING	TOTAL
	£	£	£
Bank	1,100	3,000	
Cash on hands	100	200	
Debtors	2,000	3,000	
Creditors	1,000	2,000	
Cash received from customers			10,000
Payments to suppliers			7,000

What are the purchases and sales for the period?

- (a) Purchases £7,000 Sales £10,000.
 - (b) Purchases £8,000 Sales £11,000.
 - (c) Purchases £7,000 Sales £11,000.
 - (d) Purchases £8,000 Sales £10,000.
3. The following information relates to a retail company:

	OPENING	CLOSING	TOTAL
	£	£	£
Cash on hands	100	200	
Creditors	5,000	6,000	
Debtors	4,000	7,000	
Bank	2,000	3,000	
Lodgements for the period			44,000
Payments to suppliers			31,000
Bad debts written off			3,000
Discount allowed			2,000
Discount received			1,000
Contra entries in control accounts			4,000
Other cheque payments			12,000

What are the purchases and sales for the period?

- (a) Purchases £27,000 Sales £55,100
 - (b) Purchases £25,000 Sales £55,100
 - (c) Purchases £37,000 Sales £56,100
 - (d) Purchases £36,000 Sales £56,100

4. The following information relates to a trader's cash and bank transactions for an accounting period:

	CASH	BANK
	£	£
Payments to suppliers	1,000	48,000
Lodgements	?	?
Expenses	2,000	16,000
Opening balances	1,000	2,000
Closing balances	2,000	(2,000)

Receipts from customers during the year amounted to:

- (a) £62,000.
 (b) £63,000.
 (c) £64,000.
 (d) £65,000.
5. The amount paid for rent during the year ended 31 December 19X5 was £1,320 which represented a 10% increase on the payment for the previous year. If the prepayment on 1 January 19X5 was £600 then the expense for the year ended 31 December 19X5 is:
- (a) £ 660.
 (b) £1,260.
 (c) £1,320.
 (d) £1,920.
6. A trader's mark-up on cost is 25%. The gross margin is therefore:
- (a) 20%.
 (b) 25%.
 (c) 30%.
 (d) $33\frac{1}{3}\%$.
7. A trader has sales of £100,000 and a cost mark-up of 25%. If total expenses amount to 10% of cost of sales then net profit will be:
- (a) £ 8,000.
 (b) £12,000.
 (c) £17,500.
 (d) £18,500.
8. A firm maintained average stock of £10,000. The annual stock turnover rate is 12 times with a gross profit margin of 25%. The annual sales were:
- (a) £ 96,000.
 (b) £120,000.
 (c) £150,000.
 (d) £160,000.
9. A firm's opening and closing stock were £5,000 and £8,000 respectively. Total sales were £64,000. If the gross profit margin was 25%, then purchases were:
- (a) £39,000.
 (b) £45,000.
 (c) £51,000.
 (d) £55,000.

10. Tronic sells T.V.s to the general public at a gross profit margin of 25%. Tronic purchases the T.V.s from a wholesale distributor who charges a mark-up of 20%. If the T.V.s cost the wholesale manufacturer £100 each then how much does Tronic sell them for?
- £120.
 - £150.
 - £160.
 - £125.
11. Con Job sells widgets in returnable containers. These containers are included in stock at cost price less 25%. The containers are invoiced to customers at cost plus 50% and full credit is given when they are returned. During the first accounting period containers were invoiced to customers at £220 and returns for the period at invoiced price were £180. What is the value of returnable containers not yet returned to be included in the balance sheet at the period end?
- £20.
 - £15.
 - £40.
 - £30.
12. The entire stock of a trader was destroyed by fire. Opening stock at the beginning of the period was £1,950, cash purchases amounted to £2,100 and credit purchases amounted to £4,770. Sales for the period were £9,600. If the gross profit margin is 20% how much stock was destroyed?
- £ 780.
 - £1,140.
 - £ 820.
 - £2,700.
13. On the 24th of April Tom's shop was broken into and the entire stock was stolen with the exception of a quantity valued at cost at £980. During the period to 24th April total purchases paid for amounted to £9,800 though £420 of these goods were in transit and had not yet been received by Tom. £10,000 worth of sales were delivered to customers. If the mark-up on cost was 25% and there was no opening stock what is the value of goods stolen?
- £ 400.
 - £ 820.
 - £1,380.
 - £ 900.
14. Sonny Mac emigrated soon after resigning as manager of a business. He is suspected of having misappropriated shop funds. The following information related to his period as manager:
- | | OPENING | CLOSING | TOTAL |
|------------------------------|---------|---------|--------|
| | £ | £ | £ |
| Stock | 2,000 | 6,000 | |
| Bank | 10,000 | 20,000 | |
| Debtors | 5,000 | 6,000 | |
| Creditors | 3,200 | 5,000 | |
| Lodgements made by Sonny Mac | | | 54,000 |
| Payments to suppliers | | | 44,000 |
- If the gross profit margin is $33\frac{1}{3}\%$ then expected sales for the period were:
- £55,733.
 - £55,000.
 - £56,000.
 - £62,700.

15. Based on question 14 (on page 76) how much did Sonny Mac misappropriate?
- £7,331 (approx).
 - £Nil.
 - £5,000.
 - £7,700.

16. You are provided with the following information about the accounts of a small trader for an accounting period:

	OPENING	CLOSING	TOTAL
	£	£	£
Credit sales			70,000
Debtors	2,000	3,000	
Creditors	1,000	2,000	
Cash on hands	5,000	3,000	
Bank	(2,000)	3,000	
Payments to creditors			55,000

What is the cash deficiency?

- £12,000.
 - £10,000.
 - £11,000.
 - £15,000
17. Given a deficiency of capital of £10,000 and £12,000 at the beginning and end of a period respectively and net profit of £2,000 how much drawings were there during the period?
- £Nil.
 - £ 2,000.
 - £ 4,000.
 - £10,000.
18. A trader commenced business with a capital of £10,000. At the end of the financial year he had debtors of £5,000, creditors of £3,000, stock of £6,000, cash of £2,000 and fixed assets costing £8,000. If drawings were £3,000 and fixed assets are to be depreciated at 10% then what was the profit for the year after depreciation?
- £ 7,000.
 - £10,200.
 - £11,000.
 - £12,000.
19. A trader's capital increased by £5,000 during the accounting period. If drawings represented 20% of net profit then drawings amounted to:
- £1,000.
 - £1,250.
 - £8,331.
 - £ 750.
20. The materials, labour and overhead cost of a contract is £89,000. The net profit on the contract is to be 10% of the contract price. If, in addition to the £89,000 contract costs, the manager is to get a bonus of 10% of net profit after charging such bonus what price would you charge on the contract?
- £ 97,900.
 - £106,800.
 - £100,000.
 - £107,690.

CHAPTER NINETEEN

Examination Paper 1

(Time allowed 40 minutes)

The following multiple-choice section consists of 20 questions or statements, each one of which is followed by 4 possible answers. Only one of these answers is strictly correct.

REQUIREMENT

You are required to indicate clearly the most suitable answer to each of the following 20 questions. (Each question carries 1 mark)

N.B. Your answer should be presented on the specially designed form at the end of this book.

1. In SSAP 2 the four fundamental accounting concepts are stated as:
 - (a) materiality, accruals, matching and prudence.
 - (b) accruals, prudence, realisation and conservatism.
 - (c) consistency, prudence, revenue and dual aspect.
 - (d) accruals, consistency, conservatism and going concern.
2. S.S.A.P. represents:
 - (a) Statement of standard accounting practice.
 - (b) Standard solutions to accounting problems.
 - (c) Standard statement of auditing practice.
 - (d) Standard suggestions for accounting procedure.
3. Which of the following is the odd one out?
 - (a) Ordinary shares.
 - (b) Debentures.
 - (c) Preference shares.
 - (d) Revenue reserve.
4. The year-end adjustment for interest receivable but not yet recorded by the company should be recorded as:

DEBIT	CREDIT
-------	--------
5. A club has 100 members with a half-yearly subscription of £5. At the start of the year 10 members were in arrears for a full year. At the end of the year 6 members had paid for the following year and no members were in arrears. Annual subscription income is:
 - (a) £ 500.
 - (b) £1,000.
 - (c) £1,160.
 - (d) £ 580.

6. An opening credit balance on the light and heat account indicates:
 - (a) An accrual.
 - (b) A prepayment.
 - (c) A stock of heating oil.
 - (d) None of the above.
7. An outstanding lodgement, when presented, will have the following impact on a firm's overdraft on the bank statement:
 - (a) Increase the credit balance.
 - (b) Increase the debit balance.
 - (c) Decrease the credit balance.
 - (d) Decrease the debit balance.
8. A sole trader has debtors of £5,000, creditors of £4,000 and cash/bank resources of £3,000. His current ratio is 3:1. His closing stock figure is:
 - (a) £3,000.
 - (b) £4,000.
 - (c) £5,000.
 - (d) None of the above.
9. A machine cost £5,000 and was estimated to have depreciated by 10% at the end of its first year in use. The firm concerned had not made any provision for depreciation in respect of this machine and, as a result the firm's balance sheet shows:
 - (a) Assets and liabilities overstated.
 - (b) Capital and assets understated.
 - (c) Capital understated and assets overstated.
 - (d) Assets and capital overstated.
10. If a limited company declares a dividend of 1p per share and the issued share capital is half the authorised, then a shareholder who bought 100 shares of £1 each for £2 each will receive a dividend of:
 - (a) £1.
 - (b) £2.
 - (c) £3.
 - (d) £4.
11. Stock in trade is normally valued at:
 - (a) The lower of cost or net replacement value.
 - (b) The lower of F.I.F.O. or L.I.F.O.
 - (c) The lower of cost or net realisable value.
 - (d) None of the above.
12. A debit balance on a creditors account will not be explained by:
 - (a) Overpayment to creditor.
 - (b) Discount received was recorded twice.
 - (c) Underpayment to creditor.
 - (d) Returns of goods recorded at a value higher than their original purchase.
13. On 1st January 19X4, a company paid an insurance premium of £1,540 for the year ended 31st December 19X4. This payment was 10% higher than the corresponding payment in the previous year. The company's financial year ends on 30th June. In the company's profit and loss account for the year ended 30th June, 19X4, the charge for insurance would be:

- (a) £1,400.
(b) £1,470.
(c) £1,540.
(d) £1,463.
14. A bank statement shows an overdrawn balance of £1,000. Comparison with the bank account to which it relates reveals the following differences:
1. unpresented cheques £100.
 2. outstanding lodgements £2,000.
 3. bank charges not entered in bank account £5.
- Assuming no other differences, the unadjusted bank account balance must have been stated as:
- (a) £900 debit.
(b) £900 credit.
(c) £905 debit.
(d) £905 credit.
15. The purchase of a motor vehicle on credit for use in a business should be recorded by:
- | DEBIT | CREDIT |
|--------------------|----------------|
| (a) Purchases. | Creditors. |
| (b) Creditors. | Motor vehicle. |
| (c) Motor vehicle | Purchases. |
| (d) Motor vehicle. | Creditors. |
16. Which of the following is the odd one out?
- (a) Repairs.
(b) Legal fees for debt collection.
(c) Bad debts.
(d) Bad debts recovered.
17. Given the following figures: Sales £8,000; opening stock £1,000; closing stock £1,500; purchases £6,000; carriage inwards £500; carriage outwards £400, the cost of goods sold is:
- (a) £5,500.
(b) £6,000.
(c) £6,400.
(d) £5,000.
18. Credit notes issued by a firm should be entered in:
- (a) Sales account.
(b) Purchases account.
(c) Sales returns account.
(d) Purchase returns account.
19. Stock withdrawn by a sole trader for personal consumption should be recorded by:
- | DEBIT | CREDIT |
|------------------------------|--------------------|
| (a) Drawings account. | Stock account. |
| (b) Directors' fees account. | Stock account. |
| (c) Drawings account. | Purchases account. |
| (d) Directors' fees account. | Purchases account. |
20. If the purchase of a fixed asset was incorrectly transferred to purchases, then:
- (a) net profit would be understated.
(b) net profit would be overstated.
(c) fixed assets would be overstated.
(d) none of the above.

CHAPTER TWENTY

Examination Paper 2

(Time allowed 40 minutes)

The following multiple-choice section consists of 20 questions or statements, each one of which is followed by 4 possible answers. Only one of these answers is strictly correct.

REQUIREMENT

You are required to indicate clearly the most suitable answer to each of the following 20 questions: (Each question carries 1 mark)

N.B. Your answer should be presented on the specially designed form at the end of this book.

1. To write up the sales day book (sales journal) you need:
 - (a) Cash receipts.
 - (b) V.A.T. return.
 - (c) Suppliers invoice.
 - (d) None of the above.
2. A sole trader has debtors of £100 at the start, and £150 at the end of an accounting period. Cash sales of £950 were made during the year. Receipts from debtors amounted to £1,600. If the rate of V.A.T. was 25%, V.A.T. on annual sales was:
 - (a) £330.
 - (b) £520.
 - (c) £650.
 - (d) None of the above.
3. At the end of a financial year creditors were 10% greater than they were at the start. Credit purchases during the year were 10 times the amount of creditors at the start of the year. Payment to creditors amounted to £99,000 during the year. Ignoring all other transactions, creditors at the end of the year were:
 - (a) £ 10,000.
 - (b) £ 11,000.
 - (c) £100,000.
 - (d) £ 9,900.
4. Working capital is a term meaning:
 - (a) fixed assets plus current assets.
 - (b) current assets plus current liabilities.
 - (c) current assets minus current liabilities.
 - (d) capital less drawings for period.
5. A sole trader has sales of £5,000, total expenses of £2,000 and net profit equivalent to 10% of total expenses. His cost of sales is:
 - (a) £2,400.
 - (b) £2,600.
 - (c) £2,800.
 - (d) £3,000.

6. Which of the following transactions would be entered in the general journal?
- (a) Credit purchase of goods.
 - (b) Credit sale of goods.
 - (c) Discounts allowed.
 - (d) Disposal of fixed assets.
7. If opening stock is £6,000; closing stock £10,000; sales £80,000 and mark-up on cost is 25%, the stock turnover ratio is:
- (a) 5 times.
 - (b) 6 times.
 - (c) 7 times.
 - (d) 8 times.
8. Prime cost is a term which includes:
- (a) Direct labour only.
 - (b) Direct labour and direct materials.
 - (c) Direct labour, direct materials and factory overheads.
 - (d) Direct material only.
9. In the financial statements of a limited company which of the following would not appear in the appropriation account?
- (a) Dividends.
 - (b) Transfer to reserves.
 - (c) Taxation.
 - (d) Directors' fees.
10. The issued share capital of a company is:
- (a) Always equal to the authorised share capital.
 - (b) Always greater than the authorised share capital.
 - (c) Always greater than the nominal share capital.
 - (d) Always equal to the nominal share capital.
11. A direct debit appears on the bank statement of a firm. This transaction could be recorded by the firm in its nominal ledger as:
- | DEBIT | CREDIT |
|------------------------|--------------------|
| (a) Bank account | Cash account. |
| (b) Bank account | Creditors account. |
| (c) Creditors account | Bank account. |
| (d) None of the above. | |
12. Which of the following is the odd one out?
- (a) Bad debts.
 - (b) Bad debts recovered.
 - (c) Legal fees.
 - (d) Discount allowed.
13. An item of £15 for bank interest payable was posted as interest received. The bank overdraft in the books of the firm therefore is:
- (a) Overstated by £15.
 - (b) Understated by £15.
 - (c) Overstated by £30.
 - (d) Understated by £30.

14. Assuming sales income of £50,000 in each case given below, the highest gross profit would be provided by:
- (a) Purchases of £30,000 with closing stock £5,000 higher than opening stock.
 - (b) Average stock of £4,000 with a stock turnover ratio of 8 times.
 - (c) Mark-up on cost being 25%.
 - (d) Purchases of £35,000; closing stock of £12,000 which was 50% higher than opening stock.
15. A machine cost £10,000 and was estimated to have fallen in value by £1,000 at the end of its first year in use. The firm concerned had not made any provision for depreciation in respect of this machine and, as a result the firm's balance sheet shows:
- (a) Cash overstated by £1,000.
 - (b) Capital understated by £1,000.
 - (c) Capital overstated by £1,000.
 - (d) Fixed assets understated by £1,000.
16. A bank statement shows an overdraft of £500. Comparison with the bank account to which it relates reveals the following differences:
- 1. Outstanding lodgements, £100.
 - 2. Outstanding cheques, £200.
 - 3. Bank charges of £5 not entered in bank account.
- Assuming no other differences, the unadjusted bank account balance in the firm's books must be:
- (a) £595 debit.
 - (b) £595 credit.
 - (c) £600 credit.
 - (d) £605 credit.
17. At the end of a year debtors were 20% more than at the start. Credit sales of £180,000 were equivalent to 10 times closing debtors. Assuming no other transactions receipts from debtors were:
- (a) £183,000.
 - (b) £177,000.
 - (c) £180,000.
 - (d) None of the above.
18. Which of the following is the odd one out in respect of the financial statements of a club?
- (a) Accumulated fund.
 - (b) Deposit account.
 - (c) Bar stock.
 - (d) Subscriptions in arrears.
19. The share capital of a limited company consisted of 100,000 ordinary shares of 50p each and £5,000 of 10% preference shares. The directors proposed dividends on the preference shares and a 10p dividend per ordinary share. Total proposed dividends were equivalent to one-third of profits before appropriation. Retained profits for year were:
- (a) £21,000.
 - (b) £30,000.
 - (c) £41,000.
 - (d) £31,500.
20. Which of the following items is the odd one out?
- (a) Accruals concept.
 - (b) Consistency concept.
 - (c) Going concern concept.
 - (d) Limited liability concept.

CHAPTER TWENTY-ONE

Examination Paper 3

(Time allowed 40 minutes)

The following multiple-choice section consists of 20 questions or statements, each one of which is followed by 4 possible answers. Only one of these answers is strictly correct.

REQUIREMENT

You are required to indicate clearly the most suitable answer to each of the following 20 questions (Each question carries 1 mark)

N.B. Your answers should be presented on the specially designed form at the end of this book.

1. A balance sheet of a business is intended to show the:
 - (a) Nature of the business.
 - (b) Ownership of the business.
 - (c) Financial position of the business.
 - (d) Size of the business.
2. In a balance sheet, fixed assets are classified separately from current assets because:
 - (a) Fixed assets always last indefinitely.
 - (b) Fixed assets must be depreciated but current assets must not.
 - (c) Fixed assets have long term use and current assets have short term use.
 - (d) None of the above.
3. A machine was purchased for £5,000 and in addition £200 was paid for carriage inwards and a further £300 was paid to employees for installation purposes. After 6 months, the machine broke down and was repaired at a cost of £500. The machine is depreciated at 10% per annum on book-value.
In the balance sheet at the end of 12 months, the book value of the machine would be:
 - (a) £4,500.
 - (b) £4,950.
 - (c) £5,400.
 - (d) £6,000.
4. A debit entry in the bank account and a corresponding credit entry in the cash account records:
 - (a) Payment of bank charges.
 - (b) Lodgement of cash to the bank.
 - (c) Receipt of cash from bank.
 - (d) Cash sales.
5. Purchase of fixed assets on credit is recorded by:

DEBIT	CREDIT
(a) Fixed asset account	Creditors account.
(b) Purchases account	Creditors account.
(c) Fixed asset account	Debtors account.
(d) None of the above.	

6. A credit balance on a debtors account will not be explained by:
- (a) Overpayment by debtor.
 - (b) Returns outwards not recorded.
 - (c) Discount allowed recorded twice.
 - (d) Sales invoice understated when posting to the ledger although correct amount of cash received.
7. Which of the following is the odd one out?
- (a) Discount received account.
 - (b) Returns inwards account.
 - (c) Returns outwards account.
 - (d) Investment income account.
8. On a bank statement, a dishonoured cheque will be shown as:
- (a) A debit entry.
 - (b) A credit entry.
 - (c) A memorandum entry.
 - (d) Will not appear as an entry.
9. A bank statement shows an overdrawn balance of £500. Comparison with the bank account to which it relates reveals the following differences:
- 1. unpresented cheques £200.
 - 2. outstanding lodgements £900.
 - 3. bank charges not entered in bank account £5.
- Assuming no other differences, the unadjusted bank account balance must have been stated as:
- (a) £205 debit.
 - (b) £205 credit.
 - (c) £200 debit.
 - (d) £200 credit.
10. In the first year of trading a company paid a total of £1,500 in annual premiums on a number of insurance policies. Except for the following two policies, all payments refer specifically to the company's financial year ending 31st December 19X1.
- Policy 1 — Annual premium £120 to year ended 30th June 19X2.
- Policy 2 — Annual premium £600 to year ended 30th April 19X2. All premiums are paid in advance. The charge for insurance in the profit and loss account will be:
- (a) £ 840.
 - (b) £1,140.
 - (c) £1,240.
 - (d) None of the above.
11. If closing stock in one trading period is overvalued by £300 then, if no correction is made, the net profit in the subsequent trading period will be:
- (a) £300 too much.
 - (b) £300 too little.
 - (c) unaffected.
 - (d) £600 too little.

12. On 1st June 19X2 a company paid £2,640 for rent for the year ended 31st May, 19X3. This payment was 10% higher than the corresponding payment in the previous year. The company's financial year ends on 31st December. If the prepayment on 1 January 19X2 was £1,200, in the profit and loss account for the year ended 31st December, 19X2 the charge for rent would be:
- (a) £2,450.
 - (b) £2,540.
 - (c) £5,040.
 - (d) £2,520.
13. The concept that net profit is said to be the difference between revenues and expenses rather than receipts and payments is known as the:
- (a) Matching concept.
 - (b) Prudence concept.
 - (c) Realisation concept.
 - (d) Consistency concept.
14. A machine which cost £1,500, has an estimated useful life of 5 years. If the reducing balance method of depreciation is used rather than the fixed instalment method, the balance on the accumulated depreciation account after 3 years, using a 20% rate of depreciation per annum, will be:
- (a) £168 lower.
 - (b) £168 higher.
 - (c) £132 higher.
 - (d) £132 lower.
15. At the end of a financial year, debtors were 50% greater than they were at the start. Credit sales during the year were 12 times the amount of debtors at the end of the year. Receipts from debtors during the year amounted to £70,000. Ignoring all other transactions, debtors at the start of the year were:
- (a) £2,000.
 - (b) £3,000.
 - (c) £4,000.
 - (d) £5,000.
16. At the start of a financial year, a club's subscriptions account showed arrears of £40 and prepayments of £85. At the end of the year these amounts were £55 and £45 respectively. Subscription receipts during the year amounted to £575. Income from subscriptions should be shown in the income and expenditure account as:
- (a) £520.
 - (b) £630.
 - (c) £585.
 - (d) £610.
17. If a shareholder in a public company sells his shares, the capital of the company will:
- (a) Increase by the nominal value of the shares.
 - (b) Decrease by the nominal value of the shares.
 - (c) Increase by the amount received for the shares.
 - (d) Remain unchanged.

18. If a limited company declares a dividend of 10p per share and the issued share capital is half the authorised amount, then a shareholder who bought 1,000 shares of 50p each for 100p would be entitled to a dividend of:
- (a) £ 50.
 - (b) £100.
 - (c) £200.
 - (d) None of the above.
19. Which of the following would cause a change in the net worth of a sole trader?
- (a) Purchase of a fixed asset on credit.
 - (b) Sale of a fixed asset at book value for cash.
 - (c) Depreciation of a fixed asset.
 - (d) Purchase of a fixed asset for cash.
20. A manufacturing account is prepared to show:
- (a) Production costs paid during the period.
 - (b) Total cost of goods produced.
 - (c) Cost of goods sold.
 - (d) The gross profit on goods produced.

The Institute of Chartered Accountants in Ireland (adapted).

EXAMINATION PAPER 1

NAME (PLEASE PRINT)_____	Summary	%
SIGNATURE_____	Correct	
	Incorrect	
	N/A	
	Total	<u>20</u>
		<u>100</u>

QUESTION NO.

PLEASE INDICATE SELECTED ANSWER

1	(a)	(b)	(c)	(d)
2	(a)	(b)	(c)	(d)
3	(a)	(b)	(c)	(d)
4	(a)	(b)	(c)	(d)
5	(a)	(b)	(c)	(d)
6	(a)	(b)	(c)	(d)
7	(a)	(b)	(c)	(d)
8	(a)	(b)	(c)	(d)
9	(a)	(b)	(c)	(d)
10	(a)	(b)	(c)	(d)
11	(a)	(b)	(c)	(d)
12	(a)	(b)	(c)	(d)
13	(a)	(b)	(c)	(d)
14	(a)	(b)	(c)	(d)
15	(a)	(b)	(c)	(d)
16	(a)	(b)	(c)	(d)
17	(a)	(b)	(c)	(d)
18	(a)	(b)	(c)	(d)
19	(a)	(b)	(c)	(d)
20	(a)	(b)	(c)	(d)

EXAMINATION PAPER 2

NAME (PLEASE PRINT)_____	Summary	%
SIGNATURE_____	Correct	
	Incorrect	
	N/A	
	Total	<u>20</u>
		<u>100</u>

QUESTION NO.

PLEASE INDICATE SELECTED ANSWER

1	(a)	(b)	(c)	(d)
2	(a)	(b)	(c)	(d)
3	(a)	(b)	(c)	(d)
4	(a)	(b)	(c)	(d)
5	(a)	(b)	(c)	(d)
6	(a)	(b)	(c)	(d)
7	(a)	(b)	(c)	(d)
8	(a)	(b)	(c)	(d)
9	(a)	(b)	(c)	(d)
10	(a)	(b)	(c)	(d)
11	(a)	(b)	(c)	(d)
12	(a)	(b)	(c)	(d)
13	(a)	(b)	(c)	(d)
14	(a)	(b)	(c)	(d)
15	(a)	(b)	(c)	(d)
16	(a)	(b)	(c)	(d)
17	(a)	(b)	(c)	(d)
18	(a)	(b)	(c)	(d)
19	(a)	(b)	(c)	(d)
20	(a)	(b)	(c)	(d)

EXAMINATION PAPER 3

NAME (PLEASE PRINT)_____	Summary	%
SIGNATURE_____	Correct	
	Incorrect	
	N/A	
	Total	<u>20</u>
		<u>100</u>

QUESTION NO.

PLEASE INDICATE SELECTED ANSWER

1	(a)	(b)	(c)	(d)
2	(a)	(b)	(c)	(d)
3	(a)	(b)	(c)	(d)
4	(a)	(b)	(c)	(d)
5	(a)	(b)	(c)	(d)
6	(a)	(b)	(c)	(d)
7	(a)	(b)	(c)	(d)
8	(a)	(b)	(c)	(d)
9	(a)	(b)	(c)	(d)
10	(a)	(b)	(c)	(d)
11	(a)	(b)	(c)	(d)
12	(a)	(b)	(c)	(d)
13	(a)	(b)	(c)	(d)
14	(a)	(b)	(c)	(d)
15	(a)	(b)	(c)	(d)
16	(a)	(b)	(c)	(d)
17	(a)	(b)	(c)	(d)
18	(a)	(b)	(c)	(d)
19	(a)	(b)	(c)	(d)
20	(a)	(b)	(c)	(d)

CHAPTER ONE
Components of the Balance Sheet:
Assets, Liabilities and Capital

1. The balance sheet is intended to show:
 - (a) The nature of the business.
 - (b) The ownership of the business.
 - (c) The financial position of the business.
 - (d) The size of the business.
2. Categorise the following items as either assets (A) or liabilities (L) of the business on the following table:
Item 1. Buildings. **ASSET**
Item 2. Loan payable by the business. **LIABILITY**
Item 3. Equipment. A. **ASSET**
Item 4. Capital contributed by proprietor. **LIABILITY**

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	A	A	L	L
(b)	A	L	A	L
(c)	A	A	A	A
(d)	A	L	A	A

3. Categorise the following items as tangible (T) or intangible (InT) assets on the following table:
Item 1. Land. **TANGIBLE**
Item 2. Goodwill. **INTANGIBLE**
Item 3. Patents and trademarks. **INTANGIBLE**
Item 4. Quoted investments. **TANGIBLE**

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	InT	InT
(b)	T	InT	InT	InT
(c)	T	InT	InT	T
(d)	T	T	InT	T

4. Categorise the following items as either fixed (F) or current (C) assets of the company on the following table:
Item 1. Unquoted investment. **FIXED**
Item 2. Loan by the company repayable to the company in one month. **CURRENT**
Item 3. Goodwill. **FIXED**
Item 4. Furniture and fittings. **FIXED**

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	F	F	F	F
(b)	F	C	F	F
(c)	C	C	F	F
(d)	C	C	C	F

5. In the balance sheet fixed assets are classified separately from current assets because:
 - (a) Fixed assets always last indefinitely.
 - (b) Fixed assets must be depreciated but current assets need not.
 - (c) Fixed assets represent assets that are used for the long term in the business whereas current assets are used in the short term.
 - (d) Fixed assets always remain unchanged but current assets are circulating and the balances change frequently.

6. In the balance sheet gross fixed assets are normally shown at which of the following bases?
 - (a) Historic cost.
 - (b) Replacement cost.
 - (c) Net realisable value.
 - (d) Current value.

7. Which of the following shows current assets in order of liquidity (I.E., NEAREST TO CASH), starting with the most liquid item?
 - (a) Cash, stock, debtors, bank.
 - (b) Bank, cash, debtors, stock.
 - (c) Cash, bank, stock, debtors.
 - (d) Cash, bank, debtors, stock.

8. Categorise the following items as current (C) or long-term (LT) liabilities of the company on the following table:
 Item 1. Loan from A Ltd. repayable by the company in 15 months time. LONG-TERM
 Item 2. Electricity bill outstanding. CURRENT
 Item 3. Loan repayable in the year 2100. LONG-TERM
 Item 4. Next year's portion of a five year term loan repayable in equal instalments. CURRENT

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	C	C	LT	LT
(b)	C	C	LT	C
(c)	LT	C	LT	LT
(d)	LT	C	LT	C

9. Which of the following is the odd one out?
 - (a) Loan receivable. ASSET
 - (b) Loan payable. LIABILITY
 - (c) Balance at bank. ASSET
 - (d) Petty cash. ASSET

10. Which of the following statements is incorrect?
 - (a) Current assets will result in-future benefits for more than LESS THAN one year.
 - (b) Current liabilities are payable within one year.
 - (c) Fixed assets will have a useful life of more than one year.
 - (d) Capital invested in a business is usually invested for more than one year.

11. Working capital is the same as:

- (a) Net current assets.
- (b) Fixed assets plus current assets.
- (c) Current assets plus current liabilities.
- (d) Owner's equity plus fixed and current assets.

12. Using the following information calculate working capital:

Debtors	£2,000
Bills receivable	£1,500
Bank overdraft	£1,500
Loan receivable	£ 500
Creditors	£2,000

CURRENT ASSETS [2,000_{DEBTORS}+1,500_{BILLS RECEIVABLE}+500_{LOAN RECEIVABLE}]-
CURRENT LIABILITIES [1,500_{BANK OVERDRAFT}+2,000_{CREDITORS}]

- (a) £ 500.
- (b) £1,500.
- (c) £(2,500).
- (d) £2,500.

13. If a firm's fixed assets exceed working capital by a multiple of two and capital amounts to £1,500 then, ignoring long term debt, net current assets are:

USING THE BALANCE SHEET EQUATION

FIXED ASSETS (2 TIMES BIGGER)+ WORKING CAPITAL/NET CURRENT ASSETS (1 TIMES) = CAPITAL (PER QUESTION £1,500)(I.E. 3 TIMES)

£1,000_{FIXED ASSETS} + 500_{WORKING CAPITAL/NET CURRENT ASSETS} = 1,500_{CAPITAL PER Q}

- (a) £ (500).
- (b) £ 500.
- (c) £1,000.
- (d) £3,000.

14. Which of the following bookkeeping equations is correct?

- (a) Liabilities = Capital + Assets
- (b) Capital = Assets + Liabilities.
- (c) Capital = Assets – Liabilities.
- (d) Capital – Liabilities = Assets.

15. Capital of a business may increase by which one of the following transactions?

- (a) A decrease in the bank with a corresponding increase in fixed assets.
- (b) An increase in assets with a corresponding increase in liabilities.
- (c) A decrease in the bank with no decrease in liabilities.
- (d) An increase in assets with a smaller increase in liabilities.

16. Which of the following is the correct presentation for the heading to the balance sheet of a company at the financial year end?

- (a) Balance sheet for the period ending 31 December 19XX.
- (b) Balance sheet for the year ended 31 December 19XX.
- (c) Balance sheet AS AT 31 December 19XX.
- (d) Balance sheet during the year ended 31 December 19XX.

17. The transactions of an organisation are entered in ledger accounts. These accounts are best described collectively as:
- (a) The ledger.
 - (b) The accounts.
 - (c) The nominal ledger.
 - (d) The final accounts.

18. Which of the following summarised balance sheets is incorrect?

USING THE BALANCE SHEET EQUATION

ASSETS – LIABILITIES = CAPITAL

£4,500_{ASSETS} – 4,400_{LIABILITIES} = 100_{CAPITAL}

	ASSETS	LIABILITIES	CAPITAL	
(a)	£1,245	£(345)	£(900)	SHOULD BE PLUS £900
(b)	£9,875	£(10,000)	£125	SHOULD BE MINUS £(125)
(c)	£4,500	£(4,400)	£100	
(d)	£3,650	£(2,250)	£(1,400)	SHOULD BE PLUS £1,400

19. Which of the following draft balance sheets is incorrect?

	COMPANY 1	COMPANY 2	COMPANY 3	COMPANY 4
	£	£	£	£
Stock	230	1,214	687	54
Debtors	452	1,303	550	65
Bank	321	—	32	-
Capital	1,068	2,000	719	50
Long term loan	—	500	300	-
Creditors	375	1,079	650	86
Bank overdraft	—	236	300	33
Fixed assets	440	1,298	600	50

**FIXED ASSETS + CURRENT ASSETS [STOCK + DEBTORS + BANK] –
CURRENT LIABILITIES [CREDITORS+BANK OVERDRAFT] = CAPITAL +
LONG TERM LOANS**

**COMPANY 1: 440_{FIXED ASSETS} + CURRENT ASSETS [230_{STOCK} + 452_{DEBTORS} +
321_{BANK}] – CURRENT LIABILITIES [375_{CREDITORS}+0_{BANK OVERDRAFT}] = 1,068_{CAPITAL}
+ 0_{LONG TERM LOANS} ✓**

**COMPANY 2: 1,298_{FIXED ASSETS} + CURRENT ASSETS [1,214_{STOCK} + 1,303_{DEBTORS} +
0_{BANK}] – CURRENT LIABILITIES [1,079_{CREDITORS}+236_{BANK OVERDRAFT}] =
2,000_{CAPITAL} + 500_{LONG TERM LOANS} ✓**

**COMPANY 3: 600_{FIXED ASSETS} + CURRENT ASSETS [687_{STOCK} + 550_{DEBTORS} +
32_{BANK}] – CURRENT LIABILITIES [650_{CREDITORS}+300_{BANK OVERDRAFT}] = 719_{CAPITAL}
+ 300_{LONG TERM LOANS} ✗ DOES NOT TOT – OUT BY 100**

**COMPANY 4: 50_{FIXED ASSETS} + CURRENT ASSETS [54_{STOCK} + 65_{DEBTORS} + 0_{BANK}] –
CURRENT LIABILITIES [86_{CREDITORS}+33_{BANK OVERDRAFT}] = 50_{CAPITAL} + 0_{LONG TERM}
LOANS ✓**

- (a) COMPANY 1
- (b) COMPANY 2
- (c) COMPANY 3**
- (d) COMPANY 4

20. Which of the following is most indicative of the liquidity of a company?

- (a) The bank borrowings of the company **INDICATES LEVERAGE**
- (b) The capital of the company. **INDICATES CAPITAL**
- (c) The balance on the company's profit and loss account. **INDICATES PROFITS**
- (d) The working capital of the company. INDICATES LIQUIDITY I.E., EXCESS OF
CASH OR NEAR CASH ITEMS OVER CURRENT LIABILITIES**

CHAPTER TWO

Double Entry Convention and Ledger Accounts

1. Which of the following descriptions would be incorrect under the double entry convention?
 - (a) Increase asset DR, increase liability CR.
 - (b) Increase asset DR, decrease asset CR.
 - (c) Decrease asset CR, decrease liability DR.
 - (d) Decrease asset CR, increase liability CR.
2. There has been an increase in the bank account. The other effect of this transaction could be:
 - (a) Decrease the bank overdraft in the company's other bank account.
 - (b) Increase creditors.
 - (c) Increase in goodwill.
 - (d) Decrease in investments.
3. A sole trader's bank account balance has increased. This could be explained by:
 - (a) The debtors of the company decreasing. *If debtors are decreasing, this means they have paid back their debts, which means the company's cash / bank account balance has gone up*
 - (b) The purchase of fixed assets. *This would involve payment for the fixed assets, thus cash / bank account balance will have gone down*
 - (c) The company repaying a term loan. *Repayment of the loan will result in the bank account going down*
 - (d) The creditors of the company decreasing. *If creditors are decreasing, this means the company is paying back the creditors, which means cash / the bank account balance is going down*
4. There has been an increase in the company's bank overdraft. This could be accounted for by:
 - (a) An increase in fixed assets. *This would involve cash being paid for the fixed assets which could result in an increase in bank overdraft*
 - (b) An increase in a long term loan. *If the company borrows more, it would have more cash and the bank overdraft would decrease*
 - (c) A decrease in debtors. *If debtors decrease, this means the company got more cash from debtors which would result in a decrease in bank overdraft*
 - (d) An increase in creditors. *If creditors increase, this means that the company has not paid its creditors, in which case bank overdraft would not increase*

5. Which of the following transactions does not change the capital of a business?
- (a) Owner pays a creditor of the company out of his own money. *This equates to the owner putting more capital in the business*
 - (b) Owner takes money out of the company's bank account to pay his golf club subscription. *This would be recorded as drawings which would reduce capital*
 - (c) Owner pays £100 into the business bank account to cover the cost of stock withdrawn by him from the business. *As the owner has paid for the stock he withdrew, capital would not change*
 - (d) Owner introduces a motor vehicle into the business. *This equates to the owner putting more capital in the business*
6. Which of the following double entries is incorrect?
- (a) Dr. Debtors.
Cr. Sales.
 - (b) Dr. Debtors.
Cr. Interest receivable.
 - (c) Dr. Sales returns.
Cr. Debtors.
 - (d) Dr. Debtors.
Cr. Discount allowed. *Discount allowed is an expense, a debit, in the profit and loss account. Debtors would go down (be credited) if debtors received discount allowed*
7. Which of the following double entries is incorrect?
- (a) Dr. Creditors.
Cr. Discount allowed. *Discount is allowed to debtors not creditors. Discount is received from creditors.*
 - (b) Dr. Creditors.
Cr. Returns outwards.
 - (c) Dr. Creditors.
Cr. Bank.
 - (d) Dr. Creditors.
Cr. Debtors.

8. Match the following double entry transactions with the appropriate narrative:
- A. Dr. Assets.
Cr. Liabilities.
 - B. Dr. Assets.
Cr. Capital.
 - C. Dr. Liabilities.
Cr. Assets.
 - D. Dr. Liabilities.
Cr. Capital.
- 1. Purchase of a fixed asset on credit.
 - 2. Contra entry between debtors and creditors.
 - 3. Discount received from creditor. *Capital will go up (be credited) because discount received is a revenue item*
 - 4. Revaluation of a fixed asset. *Capital will go up (be credited) because the revaluation gain is a revenue item*
- | | | | | |
|-----|----|----|----|----|
| (a) | D1 | A2 | C3 | B4 |
| (b) | A1 | C2 | B3 | D4 |
| (c) | A1 | C2 | D3 | B4 |
| (d) | C1 | A2 | B3 | D4 |
9. Which of the following double entry combinations is not possible?
- (a) Increase asset; Increase liability.
 - (b) Increase liability; Increase capital. *Liabilities and capital are both credits. If both go up, there is no debit entry*
 - (c) Increase liability; Increase asset.
 - (d) Increase capital; Decrease liability.
10. Which of these double entries is not possible?
- (a) Dr. Bank.
Cr. Capital.
This could be explained by the owner putting more capital into the business
 - (b) Dr. Capital.
Cr. Drawings.
This could be explained by the balance on the Drawings account being set against the capital account
 - (c) Dr. Losses account.
Cr. Capital.
To transfer an account balance with losses (e.g., loss on disposal) to the capital account would involve Cr Losses (and Dr Capital)
 - (d) Dr. Profit account.
Cr. Capital.
This could be explained by a profit (say on the disposal account) being transferred to the capital account
11. You have credited a debtor's account. Which of the following descriptions would not this entry?
- (a) Goods returned inwards.
 - (b) Contra transaction with creditors.
 - (c) Credit note received from supplier. *A supplier would be a creditor, not a debtor*
 - (d) Cash received from debtor.

12. You have debited a creditor's account. Which of the following descriptions would explain this entry?
- Purchased goods on credit. *This would involve crediting creditors and debiting Purchases*
 - Received money for credit sales. *This would affect debtors not creditors*
 - Issued credit note to customer. *This would affect debtors not creditors*
 - Goods returned out. This is purchase returns, which would affect creditors – Dr Creditors, Cr Purchases/Purchase returns**
13. Which of the following entries is correctly described by the accompanying narrative?
- | | DEBIT | CREDIT |
|--|---------------------------|--------------------------------|
| (a) Sold goods on credit. | Creditors. | Sales. |
| | <i>Should be Debtors</i> | |
| (b) Cash purchase of motor vehicle for resale. | Fixed Assets. | Bank. |
| | <i>Should be stock</i> | |
| (c) Lent money to A Ltd. | A Ltd. | Loan |
| | <i>Should be Credited</i> | <i>Bank should be credited</i> |
| (d) Issued credit note to debtor. | Sales. | Debtors. |
14. Which of the following entries is incorrectly described by the accompanying narrative?
- | | DEBIT | CREDIT |
|---------------------------------------|-----------------------------------|-----------------------------------|
| (a) Paid creditor by cheque. | Creditors. | Bank. |
| (b) Debtor paid us cheque. | Bank. | Debtors. |
| (c) Received term loan from the bank. | Bank. | Loan account. |
| (d) Bought goods on credit. | Creditors. | Bank. |
| | <i>Should be Purchases</i> | <i>Should be Creditors</i> |
15. Which of the following double entries is incorrect?
- Dr. Discount allowed Cr. Debtors.
 - Dr. Creditors Cr. Returns out.
 - Dr. Returns inwards Cr. Debtors.
 - Dr. Debtors Cr. Discount received. *Discount is received from creditors not debtors***
16. A credit balance on the debtors account will not be explained by:
- Credit note issued after account cleared.
 - Overpayment by debtor.
 - Returns outwards not recorded. Returns outwards are purchase returns which would affect creditors not debtors**
 - Discount allowed recorded twice.

17. Which of the following statements is incorrect?

- (a) The balance on a ledger account is either “brought down” or “carried down”
- (b) The “ledger” reference in the term “ledger account” can refer to the nominal ledger.
- (c) The balance on the ledger account is the difference between the opening and closing balances on the account. *The balance on the ledger account is the closing balance – NOT the difference between the opening and closing balances*
- (d) The term “closing off the accounts” refers to the process of totalling the debit and credit side of the account to find the balance on the accounts.

18. Which of the following balances is incorrectly shown in the trial balance?

	DR.	CR.
(a) Stock	X	
(b) Patents and trademarks	X	
(c) Drawings	X	
(d) Investments		X

Investments are assets, and therefore debits

19. Which of the following balances is incorrectly shown in the trial balance?

	DR.	CR.
(a) Cash Account	X	
(b) Loan to A Ltd.		X

The loan is receivable from A Ltd, i.e., an asset, a debtor

(c) Creditors		X
(d) Debtors	X	

20. If debtors of £300 are included in the trial balance on the credit side in error then the difference on the trial balance will be:

- (a) £300 debit.
- (b) £600 debit.
Debtors should have been debited; Instead they were credited. The error would have led to £600 too many credits, with a difference of 600 debit in the suspense account (used to get the trial balance to balance. The correcting double entry is Dr Debtors 600 Cr Suspense account (thus eliminating the 600 debit)
- (c) £300 credit.
- (d) £600 credit.

CHAPTER THREE
The Trading Account and Accounting for Stock

1. The following information is available for Gringo & Sons for the year ending 31/12/19XX:
Opening stock £ 10,000.
Purchases £500,000.
Closing stock £ 20,000.
The cost of goods sold figure in the trading account is:
(a) £500,000.
(b) £490,000. *(10,000 Opening stock + 500,000 Purchases - 20 Closing stock)*
(c) £510,000.
(d) £530,000.
2. Which of the following statements is incorrect?
(a) Opening stock appears as a debit balance in the preliminary trial balance (i.e. before year end adjustments).
(b) The trial balance may contain a figure for purchases or for cost of goods sold but not both.
(c) If the preliminary trial balance contains a figure for purchases then it will also include the opening stock amount and closing stock will be given by way of note to the trial balance.
(d) The closing stock must be deducted from cost of goods sold and the resulting balance must be subtracted from sales to give gross profit. *If the trial balance contains "cost of goods sold", this means the closing stock adjustment has already been made*
3. Which of the following items will not normally be included in the trading account in addition to sales, purchases and opening and closing stock?
(a) Carriage inwards.
(b) Return outwards.
(c) Carriage outwards. *Carriage (or transport) outwards would be included in Selling and distribution expenses/Distribution costs, not in the trading account*
(d) Returns inwards.

4. Which of the following presentations relating to four independent companies is incorrect?

COMPANY 1

Sales	10
Less: Returns	(1)
Cost of sales:	
Opening stock	3
Purchases	5
Carriage in	<u>1</u>
	9
Less: Closing stock	<u>(2) (7)</u>
Gross profit	<u>2</u>

COMPANY 2

Sales	10
Cost of sales:	
Opening stock	3
Purchases	5
Less: Returns	(1)
Carriage in	<u>1</u>
	8
Less: Closing stock	<u>(2) (6)</u>
	<u>4</u>

COMPANY 3

Sales	10	10
Less: Cost of sales		
Cost of sales:	(7)	
Less: Closing stock	<u>(2)</u>	5 (7)
Gross profit	<u>2</u>	<u>3</u>

Closing stock has already been subtracted from cost of sales

COMPANY 4

Sales	10
Cost of sales	<u>(5)</u>
Gross profit	<u>5</u>

- (a) Company 1.
(b) Company 2.
(c) Company 3.
(d) Company 4.
5. Which of the following statements is correct?
- (a) Gross profit = Sales — Cost of sales + Other revenue (Other revenue is not part of gross profit)
(b) Gross profit = Sales + Other revenue — Cost of sales (Other revenue is not part of gross profit)
(c) Gross profit + Other revenue = Sales — (Opening stock + Purchases - Closing stock)
(Other revenue is not part of gross profit)
(d) Gross profit = Sales — (Opening stock + Purchases — Closing stock).
6. What is the effect on the draft accounts if the closing stock is subsequently increased?
- (a) An increase in cost of sales and an increase in the stock figure in the balance sheet.
Higher closing stock would result in a decrease in cost of sales
(b) An increase in cost of sales, an increase in gross profit and an increase in the stock figure in the balance sheet. *Higher closing stock would result in a decrease in cost of sales*
(c) An increase in closing stock in both the trading account and the balance sheet and an increase in gross profit.
(d) An increase in cost of sales, a decrease in gross profit and an increase in stock in the balance sheet. *Higher closing stock would result in a decrease in cost of sales*

7. If closing stock is over-valued by £300, and no subsequent adjustment is made, then the profit for the following accounting period will be:
- (a) £300 too much.
 - (b) £300 too little.
 - (c) £600 too much.
 - (d) £600 too little
8. The figure for closing stock to be included in the accounts before year end adjustment is:
- (a) The amount in the stock ledger account at the year end.
 - (b) The amount for stock shown in the preliminary trial balance.
 - (c) The balance for stock as shown in the balance sheet of the previous accounting period.
 - (d) The valuation based on stock-take.
9. Which of the following double entries is correct for the closing stock adjustment?
- (a) Dr. Stock.
Cr. Trading account.
 - (b) Dr. Trading Account.
Cr. Stock.
 - (c) Dr. Cost of Goods sold.
Cr. Stock in the trading account.
 - (d) Dr. Stock in next year's balance sheet.
Cr. Trading account this year.
10. Which of the following is the odd one out?
- (a) Stock of stationery. *This is a prepayment, not trading stock*
 - (b) Stock of heating oil. *This is a prepayment, not trading stock*
 - (c) Stock of advertising literature. *This is a prepayment, not trading stock*
 - (d) Stock of raw materials. *This is trading stock*
11. Which of the following would appear on the credit side of the trial balance?
- (a) Sales returns.
 - (b) Carriage inwards.
 - (c) Opening stock.
 - (d) Returns outwards.
12. Which of the following would not normally appear in the preliminary trial balance?
- (a) Purchases.
 - (b) Opening stock.
 - (c) Closing stock.
 - (d) Sales.

13. Calculate the gross profit/(loss) on the basis of the following information:

	£
Sales	500
Purchases	350
Carriage in	50
Carriage out	150
Duty on purchases	100
Returns inwards	75
Returns out	25
Opening stock	100
Closing stock	150

Workings

	£	£
<u>Sales</u>		
Sales	500	
Less: Returns inwards	<u>(75)</u>	
		425
<u>Cost of sales</u>		
Opening stock	100	
Purchases	350	
Less: Returns out	(25)	
Carriage (Transport) in	50	
Duty on purchases	<u>100</u>	
	575	
Closing stock	<u>(150)</u>	<u>425</u>
Gross profit		<u>Nil</u>

Carriage (Transport) out is a distribution not a trading account expense.

- (a) £(150).
- (b) £Nil.
- (c) £50.
- (d) £(50).

14. Calculate gross profit on the basis of the following information:

	£
Sales	500
Cost of sales	350
Carriage out	100
Closing stock	50

Workings

	£
Sales	500
Cost of sales	350
Carriage (Transport) out	100
Closing stock	50
Gross profit	<u>150</u>

*Carriage (Transport) out is a distribution not a trading account expense.
Closing stock has already been adjusted in arriving at costs of sales of £350*

- (a) £100
(b) Nil
(c) **£150**
(d) £50
15. Which of the following statements is incorrect?
(a) The higher closing stock the higher will be profits.
(b) The lower opening stock the lower will be profits.
(c) There will be no effect on profit if opening and closing stock are the same.
(d) **The lower closing stock the lower will be profits.**
16. Hi-Fi had 6 stereos on hand at the beginning of the period and had purchased an additional 30 at the same cost of £12 per unit as the opening stock. If 32 units were sold for £20 each what is the gross profit for the period?

Workings

Sales 32 Units x £20 = £640

Cost of sales = 6 Units + 30 Purchases – 4 Closing stock = 32 Units x £12/unit = £384

Gross profit = £640 – £384 = £256

Alternatively £20_{Selling price} - £12_{Cost} = £8_{Gross profit per unit} X 32_{Units} = £256

- (a) £208.
(b) £280.
(c) **£256.**
(d) £288.

17. The owner of a business withdrew stock from the business for his own private use. The double entry to record this transaction is:
- (a) Dr. Capital.
Cr. Stock.
 - (b) Dr. Drawings.
Cr. Stock.
 - (c) Dr. Purchases.
Cr. Capital.
 - (d) Dr. Drawings.
Cr. Purchases.
18. Which of the following will not affect the trading account?
- (a) Purchase of a motor vehicle for re-sale.
 - (b) Carriage in on motor vehicle for re-sale.
 - (c) Duty on motor vehicle for re-sale.
 - (d) Purchase of a motor vehicle for use in the business. *The motor vehicle will be capitalised in the balance sheet as part of fixed assets, not charged in the profit and loss account*
19. Which of the following statements is incorrect?
- (a) Normal losses in stock value are written off in the trading account.
 - (b) Abnormal losses in stock value are written off in the profit and loss account.
 - (c) Losses in stock value are dealt with in the balance sheet with no effect on the trading or profit and loss account.
 - (d) All stock losses are written off when the loss is recognised.
20. Goods are sometimes sold on a sale or return basis. If such a sale has not been paid for at the year end, which of the following year end adjustments to be draft accounts will be necessary?
- (a) Dr. Sales.
Cr. Stock.
 - (b) Dr. Sales.
Cr. Debtors.
Cr. Stock.
 - (c) Dr. Stock.
Cr. Debtors.
 - (d) Dr. Sales.
Cr. Debtors.
Dr. Stock.
Cr. Trading account.
- The sale on credit has to be reversed; the stock (to be returned) will be included in closing stock*

CHAPTER FOUR

Accruals and Prepayments

1. Which of the following statements is incorrect?
 - (a) The need for accrual and prepayment adjustments at the year end arises because the cash basis of accounting is used to record expense items during the year. *The need for accruals/prepayments arises because of the accruals (not cash) basis of accounting is used*
 - (b) In most businesses no accrual or prepayment adjustments are required for trade debtors or trade creditors because both these items are accounted for using the accruals basis of accounting. *Trade debtors and trade creditors have nothing to do with the accruals basis of accounting*
 - (c) Accruals of expense items appear in the current assets section of the balance sheet. *Accrual of expense items appear in the liabilities section of the balance sheet*
 - (d) When an item of expense is owing at the year end an accrual adjustment is made.
2. Which of the following statements is incorrect?
 - (a) The appropriate accounting concept behind accrual and prepayment adjustments is the matching concept whereby revenues and their related expenses are accounted for in the profit and loss account of the same accounting period.
 - (b) Where an expense item has been overpaid at the year end a prepayment adjustment is made.
 - (c) An accrual and prepayment adjustment cannot both be made to the same ledger account at the same year end date.
 - (d) An accrual entry increases the expense for the period whereas a prepayment reduces the expense amount as shown in the preliminary trial balance. *Accruals and prepayment year end adjustments are made after the preliminary trial balance is extracted.*
3. Which of the following entries is correct where an expense is outstanding at the year end?
 - (a) Dr. Prepayments account Cr. Expense account.
 - (b) Dr. Accruals account Cr. Expense account.
 - (c) Dr. Expense account Cr. Accruals account.
 - (d) Dr. Expense account Cr. Prepayments account.

4. Which of the following expense ledger account presentations is correct?

ACCOUNT 1					
1 JAN.	ACCRUAL B/D	X	1 JAN.	PREPAID B/D	X
	BANK	X		P/L	X
31 DEC.	PREPAID C/D	<u>X</u>	31 DEC.	ACCRUAL C/D	X
		<u>X</u>			<u>X</u>

The opening and closing prepayment and accrual are on the wrong side in Account 1

ACCOUNT 2					
1 JAN.	PREPAID B/D	X	1 JAN.	ACCRUAL B/D	X
	BANK	X		P/L	X
31 DEC.	ACCRUAL C/D	<u>X</u>	31 DEC.	PREPAID C/D	X
		<u>X</u>			<u>X</u>

ACCOUNT 3					
1 JAN.	ACCRUAL B/D	X	1 JAN.	PREPAID B/D	X
	P/L	X		BANK	X
31 DEC.	PREPAID C/D	<u>X</u>	31 DEC.	ACCRUAL C/D	X
		<u>X</u>			<u>X</u>

The P/L and Bank are on the wrong side in Account 3

ACCOUNT 4					
1 JAN.	PREPAID B/D	X	1 JAN.	ACCRUAL B/D	X
	P/L	X		BANK	X
31 DEC.	ACCRUAL C/D	<u>X</u>	31 DEC.	PREPAID C/D	X
		<u>X</u>			<u>X</u>

The P/L and Bank are on the wrong side in Account 4

- (a) Account 1.
(b) Account 2.
(c) Account 3.
(d) Account 4.

5. Spineless & Co. made up its annual accounts to 31 December. The company rented premises for £100 per annum commencing from 1 January 19X7. The rent was payable quarterly in arrears. Actual payments were made by the company on 31 March, 2 July and 4 October 19X7 and on 6 January 19X8.

The figure for rent in the preliminary trial balance at 31 December 19X7 was:

Workings

Rent balance = rent paid during the period = 3 quarters rent paid in period (31 March, 2 July and 4 October 19X7) = £25_{Rent per quarter} x 3 payments = £75

- (a) £100.
(b) £75.
(c) £125.
(d) £300.
6. Rates are payable half-yearly in advance by Spatts. The first moiety of £1,500 for the year ending 30 March 19X2 was paid on 31 December 19X1 but the second moiety was outstanding at the year end. What is the charge for rates in the profit and loss account for the year ending 30 September 19X2?

The charge for rates in the profit and loss account is the rates per annum (regardless of when the payments are made). The first moiety (i.e., half yearly amount) is £1,500, therefore rates per annum are £1,500 x 2 half yearly moieties.

- (a) £1,500.
(b) £3,000.
(c) £2,250.
(d) £3,750.
7. A company manufactures CRUMPS under licence and must pay a royalty of £1 for each CRUMP sold. At the beginning of the year 50 CRUMPS were in stock and 30 were in stock at the end of the year. During the year 100 CRUMPS were made. What is the charge in the profit and loss account for royalties payable for the year?

Workings

Opening stock + Purchases/Production – Closing stock = Sales

50_{Opening stock} + 100_{Production} – 30_{Closing stock} = 120_{Sales}

120_{Sales} x £1_{Royalty} = £120

- (a) £120.
(b) £100.
(c) £150.
(d) £ 80.

8. Which of the following statements is incorrect?
- (a) Closing stock of stationery is recorded as a prepayment.
 - (b) Accruals and prepayments are estimates and are normally not recorded with absolute accuracy.
 - (c) If prepayments are greater than accruals this will be matched by a corresponding decrease in the bank balance.
 - (d) A company using the accruals basis of accounting only will not have any prepayments.
9. The company paid £3,000 insurance during its first year of trading to 31 December 19X1.
All premiums are paid in advance and relate to policies with renewal dates similar to the company's year end date except for:
POLICY 1: Annual premium £ 240. Renewal date 30 June 19X2. Premium paid 1 July 19X1.
POLICY 2: Annual premium £1,200. Renewal date 30 April 19X2. Premium paid 1 May 19X1. The charge for insurance in the profit and loss is:

Workings

It is the first year of trading, so there are no opening balances

£3,000 paid – £120_{Prepayment of 6 months Policy 1} – £400_{Prepayment of 4 months Policy 2} = £2,480

- (a) £3,000.
 - (b) £2,280.
 - (c) £2,480.
 - (d) £2,580.
10. On 1 January 19XX the company paid rent of £4,620 for the year ended 31 December 19XX. This payment was 10% higher than the previous year. The charge for rent in the company's profit and loss account for the year ending 30 June 19XX is:

Workings

Rent 1 July – 31 December 19XW = £4,620 x 100%/110% = £4,200 x ½ = £2,100

Rent 1 January – 30 June 19XX = £4,620 x ½ = £2,310

Rent for 1 July 19XW – 30 June 19XX = £4,410

- (a) £4,200.
 - (b) £4,410.
 - (c) £4,620.
 - (d) £4,389.
11. Indicate which of the following accounts is not a revenue account:
- (a) Deposit interest.
 - (b) Rent receivable
 - (c) Investment income.
 - (d) Overdraft interest.

12. Which of the following types of business is the least likely to have accruals and prepayments of revenue items?
- (a) A local soccer club. *This type of business is unlikely to be a registered company, therefore is not legally required to apply the accruals method of accounting, therefore is more likely to use the cash basis of accounting which does not involve accruals and prepayment (of either revenue or expense items)*
- (b) A lending institution.
- (c) A property company.
- (d) A manufacturing company.
13. Which of the following entries is correct where a revenue item has been received at the end of the financial year and relates to following year?
- (a) Dr. Prepayments account. Cr. Revenue account.
- (b) Dr. Revenue account. Cr. Prepayments account. *Revenue must be reduced (i.e., debited); A prepayment of a revenue item must be recorded as owing back in the liabilities section of the balance sheet, until the revenue is earned*
- (c) Dr. Accruals account. Cr. Revenue account.
- (d) Dr. Revenue account. Cr. Accruals account.
14. Which of the following is the odd one out?
- (a) Prepaid insurance. *Debit prepayment in Assets in the balance sheet*
- (b) *Accrued light and heat. Credit accrued expense in Liabilities in the balance sheet*
- (c) Accrued deposit interest. *Debit accrued revenue in Assets in the balance sheet*
- (d) Accrued rent receivable. *Debit accrued revenue in Assets in the balance sheet*
15. If a revenue account has both a prepayment of £100 and an accrual of £50 at the end of the financial year then the credit in the profit and loss account will be:

Workings

Prepayment of a revenue item = more cash received than earned

Accrual of a revenue item = less cash received than earned

Thus £100 more cash and £50 less cash was received = net £50 more cash than earned

A notional T account for a revenue item shows that the bank (i.e., cash received) has to be £50 more than the revenue earned (i.e., the transfer to the profit and loss account) to get the T account to balance.

Revenue Account			
	To P/L	Assumed	BANK
		0	Assumed 50
31 DEC.	PREPAID C/D	<u>100</u>	31 DEC. ACCRUAL C/D
		<u>100</u>	<u>50</u>
			<u>100</u>

- (a) £150 more than the amount received during the year.
- (b) *£ 50 less than the amount received during the year.*
- (c) £ 50 more than the amount received during the year.
- (d) £150 less than the amount received during the year.

16. Which of the following accounts would normally be the subject of an accrual or prepayment adjustment?
- (a) Debtors.
 - (b) Carriage inwards.
 - (c) Closing stock.
 - (d) Creditors.
17. The year end adjustment for interest receivable but not yet recorded by the company should be:
- (a) Dr. Accruals. Cr. Bank. *Bank is not affected by year end adjustments*
 - (b) Dr. Bank. Cr. Interest receivable. *Bank is not affected by year end adjustments*
 - (c) Dr. Interest receivable. Cr. Accruals. *Interest receivable earned is credited to the revenue account*
 - (d) Dr. Sundry debtors. Cr. Interest receivable. *Interest receivable is an Asset in the balance sheet*
18. The company started subletting its buildings on 1 October 19X1. Rent for the half year ended 31 March 19X2 amounting to £600 was received on 31 October 19X1. The amount for rent receivable in the profit and loss account for the year ended 31 December 19X1 is:

Workings

Rent earned in the profit and loss account 1 October to 31 December 19X1 is 3 months' rent
i.e., $£600 \times \frac{3\text{Months}}{6\text{Months}} = £300$

- (a) £ 200.
 - (b) £1,200.
 - (c) £ 100.
 - (d) £ 300.
19. It is the company's first year of business. What is the figure for interest receivable in the profit and loss account for year 1 given the following information?
- Interest received £150
Interest accrued at the year end £ 80

Workings

Rent earned in the profit and loss account = interest received + interest accrued due at the year end, i.e., $£150 + £80 = £230$

- (a) £150.
- (b) £ 80.
- (c) £230.
- (d) £ 70.

20. If a company has £10,000 on deposit for the entire year at a simple interest rate of 10% what is the figure for interest receivable in the profit and loss account if £50 was prepaid at the beginning of the year and £200 was accrued at the end of the year?

Workings

Regardless of what cash was received or not, the interest earned in the profit and loss account has to be the amount on deposit by the rate of interest, i.e., £10,000 x 10%.

(While not required to answer the question), the T account for interest received is shown below. The cash received during the period must have been £750.

Interest Receivable/Earned Account				
		1 JAN	PREPAID B/D	50
			∴ BANK	750
31 DEC.	To P/L £100,000 x 10%	1,000	31 DEC. ACCRUAL C/D	<u>200</u>
		<u>1,000</u>		<u>1,000</u>

- (a) £ 850.
(b) £1,150.
(c) **£1,000.**
(d) £1,250.

CHAPTER FIVE
Bad Debts, Provisions and Recoveries

1. It has come to your attention that a bad debt has occurred and an accounting entry is needed to record this. Which of the following statements best describes this entry?
(a) Writing off a bad debt.
(b) Providing for a doubtful debt.
(c) Providing for bad debts.
(d) Charge for increase provision for bad debts.
2. The difference between a bad debt and a bad debt provision is described by all but which one of the following?
(a) A bad debt is a specific amount, a bad debt provision is an estimate.
(b) A bad debt provision account aims to write off the cost of future bad debts, a bad debt is a cost incurred in the present accounting period.
(c) The balance on the bad debt account is written off in the profit and loss account, the bad debt provision account is shown in the balance sheet as a deduction from debtors.
(d) The bad debt account and changes in the bad debt provision both directly affect the debtors account. *The bad debt provision account is a completely separate account to debtors. Bad debt provisions do not directly affect the debtors account.*
3. Which of the following statements is incorrect?
(a) The balance on the debtors control account in the trial balance is not affected by the balance on the bad debts account in the trial balance. *The double entry for bad debts is Dr Bad Debts Cr Debtors. If there is a balance on the bad debts account the other side of the entry would have affected the debtors account.*
(b) The balance on the debtors control account is not affected by the provision for bad debts.
(c) A year end adjustment to write of bad debts reduces the debtors control account balance.
(d) The debtors balance in the balance sheet is the balance per the trial balance less the bad debt provision and the balance on the bad debt account.

4. Which of the following statements best describes the reasoning behind the bad debt provision?
- (a) The bad debt provision aims to estimate the bad debts of an organisation. *This is incorrect. The bad debt provision aims to estimate the future bad debts likely to arise from the debtors balance in the year end balance sheet*
 - (b) The bad debt provision writes off the bad debts of the company. *This is incorrect. The bad debt account is used to write off bad debts*
 - (c) The bad debt provision matches the estimated cost of bad debts against the revenue incurred in giving rise to the potential bad debts. *This is the best wording because it reflects the objective of bad debts provisioning which is to match against revenue (Sales in this instances) the related expense (bad debts relating to those sales that have not yet happened and are estimated in the form of the provision)*
 - (d) The provision records bad debts without taking the debt out of the books of the company thus showing the full debt owing by the debtor. This is true, but does not describe the reasoning behind the bad debt provision.
5. The balance on the debtors control account is £3,000, the balance on the bad debt account is £500 and the balance on the provision for bad debts account is £200. The net figure for debtors in the balance sheet is:
- (a) £3,000. *If there is £500 in the bad debt account, then £300 must already have been Credited against Debtors. The balance on the bad debt provision account never affects the Debtors account*
 - (b) £2,500.
 - (c) £2,300.
 - (d) £2,800.
6. The debtors control account balance is £12,640, the balance on the provision for bad debts account is £640, the balance on the bad debts account is £500 and the provision for bad debts is to be 5% of debtors. The bad debt provision adjustment in the profit and loss account is:

Workings

Closing provision for bad debts = €12,640 @5%	£632
Opening provision for bad debts	£640
Provision need to be reduced, i.e., credited	<u>(8) Cr.</u>

The balance of £500 on the bad debts account does not affect the calculation. The double entry is Dr Bad Debts Cr Debtors. Thus, the £500 has already been credited against debtors.

- (a) £607 Dr.
- (b) £575 Dr.
- (c) £ 33 Cr.
- (d) £ 8 Cr.

7. The balance on the debtors control account is £5,000, the balance on the provision for bad debts account is £250 and the balance on the bad debts account is £500. You are to write off bad debts of £100 and to make a final provision of 5% of debtors. The total charge for bad debts (including for the provision) in the profit and loss account is:

Workings

Opening provision for bad debts (per question)	£250
Closing provision for bad debts ($\frac{£5,000_{\text{Debtors}}}{100} \times 5\%$)	£245
Provision need to be reduced, i.e., credited	(5)
Bad debts written off (£500 per question + £100 additional write off)	£600
Charge for bad debts in profit and loss account	<u>£595</u>

- (a) £570.
(b) £582.50.
(c) £557.50.
(d) **£595.**
8. The balance on the debtors account is £4,000, the balance on the bad debts account is £400 and on the bad debt provision account is £810. You are to write off bad debts of £200 and make a final provision for bad debts of 5%. What will be the balance on the debtors account in the nominal ledger after these adjustments?

Workings

Debtors per question	£4,000
Bad debt written off	<u>£(200)</u>
Closing debtors	<u>£3,800</u>

The bad debt provision account does not affect the debtors balance. The bad debts already written off of £400 has already been credited against debtors. Only the bad debt to be written off of £200 affects the debtors account.

- (a) £3,400.
(b) **£3,800.**
(c) £4,230.
(d) £3,610.
9. Which of the following methods of calculating the bad debt provision would be unacceptable?
- (a) As a % of sales.
(b) As a % of credit sales.
(c) **As a % of cash sales. Cash sales would not lead to a future bad debt**
(d) As a % of closing debtors.

10. The double entry for bad debts recovered should be:

- (a) Dr. Bad debts.
Cr. Debtors.
- (b) Dr. Bad debts recovered.
Cr. Debtors.
- (c) Dr. Bank.
Cr. Debtors.
- (d) Dr. Bank.

Cr. Bad debts. *Bad debts would be recovered in cash, thus Cr Bank. Only (c) or (d) can therefore be correct. The credit goes to the profit and loss account, either by Cr Bad debts or by Cr Bad debts recovered if a separate account is opened to record bad debts recovered. Debtors are not affected by bad debts recovered because the related/original bad debt has already been taken out of (i.e., Credited to) Debtors.*

11. The balance on the debtors account is £6,000, on the bad debts account is £300 and on the provision for bad debts account is £285. If a bad debt of £300 is subsequently recovered what is the correct balance on the debtors account in the nominal ledger now?

The bad debt provision account does not affect the debtors balance. The bad debts already written off of £300 has already been credited against debtors. Debtors are not affected by bad debts recovered because the related/original bad debt has already been taken out of (i.e., Credited to) Debtors.

- (a) £6,000.
- (b) £5,700.
- (c) £5,715.
- (d) £5,415.

12. The balance on the bad debts account is £500. You are required to increase the provision for bad debts from £500 to £1,000, to write off additional bad debts of £500 and to record a bad debt recovered of £500. What is the final net charge for bad debts in the profit and loss account?

Workings

Increase in provision for bad debts (£500 → £1,000)	£500
Bad debts already written off	£500
Write off additional bad debts	£500
Bad debt recovered	(£500)
Net charge for bad debts in profit and loss account	<u>£1,000</u>

- (a) £2,000.
- (b) £1,000.
- (c) £1,500.
- (d) £2,500.

13. The bad debt provision account is to be adjusted from £1,000 to £500. The appropriate double entry would be:

(a) Dr. Bad debt provision.
Cr. Profit and loss account.
(b) Dr. Profit and loss account.
Cr. Bad debt provision.
(c) Dr. Bad debts.
Cr. Bad debt provision.
(d) Dr. Bad debt provision.
Cr. Debtors. *The bad debt provision never affects debtors*

14. The recorded balance for trade debtors is £1,000, the balance on the bad debts account is £50 and on the bad debt provision account is £25. What is the balance on the debtors account in the normal ledger?

The bad debt provision account does not affect the debtors balance. The bad debts already written off of £50 has already been credited against debtors.

(a) £1,000.
(b) £ 950.
(c) £ 925.
(d) £ 975.

15. The balance on the debtors account includes an amount owing from Z Ltd. of £500. Z Ltd. has recently been put into liquidation and the liquidator has indicated that he will only be able to make a distribution of 50p in the pound. This information will have which of the following effects?

(a) Writing off £500 as a bad debt.
(b) Writing off £250 as a bad debt.
(c) No affect until the liquidator makes the first distribution and more accurate information is available.
(d) Writing off £250 as a bad debt and in addition providing for the debt in full in the amount of £500.

16. The net debtors in the balance sheet after a provision of 5% were £475,000 on 1 January. The net figure on 31 December was £546,000. You are to write off a debt of £4,000 and correct for £27,000 received from debtors recorded in error in sales. What would the closing balance on the bad debt provision account be if the policy to provide for 5% of debtors is continued?

Workings

1 January Net debtors €475,000 = 95%

1 January Gross debtors = €475,000 ÷ 95% = €500,000

1 January Provision = €25,000

31 December Net debtors €546,000

31 December Gross debtors €546,000_Q + 25,000_{Opening provision} = €571,000

31 December Gross debtors €571,000 – 4,000_{Bad debt write off} – 27,000_{Receipts from debtors}

31 December Gross debtors €540,000

31 December Closing provision for bad debts €540,000@5%= **27,000**

(a) **£27,000.**

(b) £25,750.

(c) £23,750.

(d) £26,937.50.

17. The balance on the debtors account is £5,000. A provision for discount allowed of 2% of debtors is made and the balance on this account is £100. What is the balance on the provision for bad debts account if bad debts of 5% of debtors are to be provided?

Workings

£5,000_{Debtors} @ 5%_{Provision for bad debts} = £250_{Provision for bad debts}

Discounts will be allowed to debtors, for example, for paying their balances due on time

No discount will be allowed to debtors who do not pay

Bad debt provisions are estimates of debtors who do not pay

Discount allow is not relevant to this calculation

(a) **£250.**

(b) £255.

(c) £245.

(d) £350.

18. A bad debt of £100 was recovered and this amount was credited to the debtors account. Which of the following adjusting entries is necessary given that the trial balance balances?

Bad debts recovered should not affect Debtors as the related/original bad debt was removed from (i.e., credited to) Debtors. The entry Dr Bank 100 [this is correct] Cr Debtors 100 [this is what is incorrect] is incorrect. To correct the mistake the following adjusting entry must be made: Dr Debtors Cr Bad debts/Bad debts recovered [depending on whether a separate Bad debt recovered account is opened]

- (a) None.
(b) Dr. Bank.
Cr. Bad debt recovered.
(c) Dr. Bank.
Cr. Debtors.
(d) Dr. Debtors.
Cr. Bad debt recovered.
19. It is the company's policy to provide 5% of debtors against bad debts. What is the balance on the debtors account at 31 December 19X1 given the following information?

Debtors at 1 January 19X1	£100
Bad debt provision at 1 January 19X1	£ 5
Bad debts during the year	£ 10
Credit sales for 19X1	£960
Cash receipts for 19X1	£950

<u>Workings</u>	<u>€</u>
Debtors at 1 January 19X1	100
Credit sales for 19X1	960
Cash receipts for 19X1	(950)
Bad debts during the year	(10)
Debtors at 31 December 19X1	<u>100</u>

- (a) £ 90.
(b) £ 95.
(c) £100.
(d) £ 80.
20. A debtor had overpaid his account and a refund of £200 was made. Which of the following double entries correctly records the refund?
- (a) Dr. Bank. Cr. Debtors.
(b) Dr. Debtors. Cr. Bank. *If a refund is made to Debtors, then cash will be paid out of the bank (i.e., credited)*
(c) Dr. Debtors. Cr. Creditors. *The entry has nothing to do with Creditors*
(d) Dr. Creditors. Cr. Debtors.

CHAPTER SIX

Depreciation and Disposal of Fixed Assets

1. Depreciation is best described as:
 - (a) Writing off the cost of an asset over its estimated useful life.
 - (b) Matching the cost of a fixed asset to its related revenue generation period and writing it off accordingly.
 - (c) Writing off the cost of a fixed asset evenly over its useful life.
 - (d) Writing off the cost of a fixed asset over its estimated useful life in ever decreasing amounts.
2. Which one of the following items of information is not normally required in calculating depreciation?
 - (a) The cost of the fixed asset.
 - (b) The immaterial scrap value of the fixed asset at the end of its useful life.
 - (c) The useful life of the asset.
 - (d) The forecast revenue to be made through use of the fixed asset.
3. Which of the following methods of depreciation is best?
 - (a) Straight-line.
 - (b) Reducing balance.
 - (c) Equal annual instalments method.
 - (d) The method depends on the revenue generating profile of the asset.
4. Which is the odd one out?
 - (a) Aggregate depreciation.
 - (b) Accumulated depreciation.
 - (c) Provision for depreciation.
 - (d) Depreciation. *This is the expense in the profit and loss account; the others are difference names for the balance in the balance sheet which is subtracted from the related asset*
5. The initials N.B.V. stand for:
 - (a) Net book value i.e. Fixed asset cost + annual depreciation.
 - (b) Net book value i.e. Fixed asset cost — aggregate depreciation.
 - (c) Net book value i.e. Fixed asset cost + aggregate depreciation.
 - (d) Net book value i.e. Fixed asset cost — depreciation charge.

6. Which of the following year end presentations is suitable for the published accounts of a company given that the fixed assets cost £10,000, the accumulated depreciation at the beginning of the year was £5,000 and the depreciation charge for the year was £1,000?

	COST £	ACCUMULATE DEPRECIATION £	DEPRECIATION £	NET VALUE £
(a)	10,000	5,000		5,000
(b)	10,000	5,000	1,000	4,000
(c)	10,000	6,000		4,000
(d)	10,000	4,000		6,000

7. An asset costs £1,000, has a useful life of 5 years and a scrap value of £200. The charge for depreciation, calculated on a straight-line basis, in year 2 is:

Workings

$$\begin{aligned} & \text{£1,000}_{\text{Cost of asset}} - \text{£200}_{\text{Residual value}} = \text{£800}_{\text{Depreciable amount}} \times 20\%_{\text{per annum (i.e., } 1/5^{\text{th}})} \\ & = \text{£160 per annum, Year 1 to Year 5} \end{aligned}$$

- (a) £200.
(b) £128.
(c) £160.
(d) £240.
8. The balance on the plant and machinery account at cost on 1 January 19X1 was £5,000. On 1 May plant costing £750 was sold. New machinery costing £3,000 was purchased on 1 September. Depreciation is charged, month by month, on a straight-line basis at 10% per annum and amounts for the year ending 31 December 19X1 to:

Workings

	Plant and machinery	£	Depreciation	£
01/01/19X1	Opening cost	5,000		
01/05/19X1	Disposal	(750)	@10% @ 4months/12months	25
		4,250	@10%	425
01/09/19X1	Addition	3,000	@10% @ 4months/12months	100
31/12/19X1	Closing cost	7,250		550

- (a) £625.
(b) £550.
(c) £525.
(d) £600.

9. Using the figures in question 8. above calculate depreciation, month by month, on a straight- line basis at 10% per annum on ONLY those assets in use at the end of the year.

Workings

		£	Depreciation	£
Plant and machinery				
01/01/19X1	Opening cost	5,000		
01/05/19X1	Disposal	(750)		
		4,250	@10%	425
01/09/19X1	Addition	3,000	@10% @ 4months/12months	100
31/12/19X1	Closing cost	<u>7,250</u>		<u>525</u>

(a) £525.

(b) £550.

(c) £625.

(d) £800.

10. What is the charge for depreciation for the year ending 31 December 19X3 given the following information?

Office Equipment — Cost at 1 January 19X3 £4,956.

 — Aggregate depreciation £ 896.

Addition on 1 May 19X3 £ 315.

Depreciation rate: 20% per annum, reducing balance and on a month by month basis.

Workings

	€	<u>Depreciation</u>
Office Equipment - Cost at 1 January 20X3	4,956	
- Aggregate depreciation	<u>(896)</u>	
Net book value	4,060	@20%=812
Addition	315	@20% x 8 months/12months=42
Depreciation = 812+42= €854		

(a) £875.

(b) £854.

(c) £812.

(d) £838.25.

11. The company charges depreciation at 20% per annum, month by month, using the reducing balance basis. What is the charge for depreciation for the year ending 30 June 19X5 given the following information?

Equipment — Cost at 1 July 19X4 £8,025
 — Aggregate depreciation £3,794

Equipment costing £400 on 1 April 19X3 was traded in on 1 April 19X5 against a new asset costing £700. The only entry made was to record the net payment (after trade-in) of £550 in the asset account.

Workings

Depreciation charge 20X4/X5	£
Equipment - Cost at 1 July 20X4	8,025
- Aggregate depreciation at 1 July 20X4	(3,794)
Net book value at 1 July 20X4	4,231
Disposal at net book value at 1 July 20X4 (included in opening balances) ($400 - 20_{400@20\% \times 3/12} - 76_{400-20@20\%}$)	(304)
① Depreciation equipment (net book value) after disposal	3,927 @20%=785.4
② Depreciation on disposal ($400 - 20 - 76 @ 20\% \times 9/12$)	46.0
③ Depreciation on additions ($700 @ 20\% \times 3/12$)	35.0
Depreciation charge = ①785.4 _{Equipment excluding additions and disposals} + ②46 _{Disposal} + ③35 _{Additions}	= 866.40

- (a) £790.
(b) £741.
(c) £866.
(d) £765.10.
12. Using the information in question 11, above, what is the correct balance on the equipment account at 30 June 19X5?

Workings

Equipment account (i.e., at cost) = $8,025_{\text{Opening balance}} - 400_{\text{Disposal}} + 700_{\text{Addition}} = €8,325$

- (a) £7,075.
(b) £8,325.
(c) £7,775.
(d) £7,625.
13. Which of the following transactions would change the capital of a sole trader?
- (a) Purchase of a fixed asset for cash. *The cost is capitalised in the balance sheet. There would be no effect on capital*
- (b) Sale of a fixed asset for its book value. *There would be no profit/loss on disposal that would change capital*
- (c) Purchase of a fixed asset on credit. *The cost is capitalised in the balance sheet. There would be no effect on capital*
- (d) Sale of fixed asset in excess of book value. *The profit on disposal would increase capital*

14. A company makes a loss on disposal of a fixed asset. Which of the following does not account for this loss?
- (a) An incorrect estimate of the material scrap value of the asset.
 - (b) An incorrect estimate of the useful life of the asset.
 - (c) Disposal of the asset for cash after the end of the useful life of the asset. *At the end of its useful life, the asset will be written down to zero. Disposal for cash will therefore results in a profit on disposal.*
 - (d) Too low a rate of depreciation.
15. An asset, which cost £500 on 1 January 19X1, was depreciated on a straight-line basis at 20% per annum, month by month, and was sold on 1 April 19X3 for £250. What was the profit or loss on disposal?

<u>Workings</u>	£
Asset at cost 1/1/19X1	500
Aggregate depreciation: 1/1/19X1-1/4/19X3 2 years, 3 months @ 20%	(225)
Net book value at date of disposal on 1/4/19X3	275
Proceeds on disposal	250
Loss on disposal	(25)

- (a) £75 profit.
 - (b) £50 loss.
 - (c) £50 profit.
 - (d) £25 loss.
16. An asset cost £10,000 on 1 June 19X1, was depreciated on a straight-line basis, month by month, at 10% per annum and was traded in against a new asset on 1 February 19X9. The new asset cost £15,000 but the company only had to pay £12,000. What is the profit or loss on disposal?

<u>Workings</u>	
Asset cost 1 June 19X1	10,000
Aggregate depreciation 1/6/19X1-1/3/19X9	(7,750)
£10,000 @ 10% @ 7 years 9 _{months} /12 _{months}	
Net book value	2,250
Trade in allowance	(3,000)
Profit on disposal	750

- (a) £1,250 profit.
- (b) £ 750 profit.
- (c) £ 750 loss.
- (d) £1,250 loss.

17. The double entry to record the value on trade-in of a fixed asset for a new asset is:
- (a) Dr. Bank account. *Cash was not received, a trade in allowance was received*
Cr. Disposal account.
 - (b) Dr. Bank account. *Cash was not received, a trade in allowance was received*
Cr. Fixed asset account.
 - (c) Dr. Fixed asset account. *The trade in allowance has to be recorded in fixed assets so that the full gross cost of the new asset before the trade-in allow is recorded*
Cr. Disposal account. *The trade in allowance represents proceeds of disposal.*
 - (d) Dr. Disposal account.
Cr. Fixed asset account.

18. A motor vehicle was purchased on 1 July 19X3 by trading in an existing vehicle. The trade-in is listed in the asset records as having a 5 equal years' useful life and costing £4,000 on 1 May 19X1. The company paid £4,500 for the new van whose list price is £5,500. What is the loss on disposal?

<u>Workings</u>	€
Motor vehicle at cost 1 May 19X1	4,000
Aggregate depreciation	
4,000 @ 20% ₅ year useful life X 2 _{years, 2} months	(1,733)
Net book value at date of disposal 1 July 19X3	2,267
Proceeds (Trade in value 5,500 _{List price} -4,500 _{paid})	1,000
Loss on disposal	<u>1,267</u>

- (a) £1,766.66.
 - (b) £1,266.66.
 - (c) £ 766.66.
 - (d) £1,200.00.
19. An item of expenditure is either written off immediately to the profit and loss account or is capitalised on the balance sheet to be written off over its useful life. Which of the following is irrelevant in deciding whether to capitalise or write off the expenditure?
- (a) The improvement value, if any, of the expenditure.
 - (b) The ability of the asset to generate profit in future accounting periods.
 - (c) The likelihood of being able to recover the expenditure in future accounting periods.
 - (d) The date on which the expenditure is incurred.
20. Which of the following items of expenditure would not be capitalised?
- (a) A mine subject to depletion.
 - (b) A motor vehicle for re-sale.
 - (c) The cost of major re-wiring for a new computer.
 - (d) Site clearance costs prior to building a new factory.

CHAPTER SEVEN

Manufacturing Accounts

1. The final accounts of a manufacturing company include a manufacturing account and a profit and loss account. Analyse the following items as either appearing in the manufacturing (M) or the profit and loss (P/L) account:

Item 1. Depreciation of plant.

Item 2. Packing materials for distribution.

Item 3. Factory supervisor's wages.

Item 4. Depreciation of office building.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	M	M	M	P/L
(b)	M	P/L	M	P/L
(c)	M	M	M	M
(d)	P/L	P/L	M	P/L

2. Analyse the following items as appearing in either the manufacturing (M) or the profit and loss (P/L) account:

Item 1. Carriage inwards on raw material.

Item 2. Carriage outwards.

Item 3. Factory rent.

Item 4. Depreciation of photocopiers.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	M	M	M	M
(b)	M	M	M	P/L
(c)	M	M	P/L	P/L
(d)	M	P/L	M	P/L

3. A direct expense is one that can be traced to a specific unit of output. Which of the following are direct (D) or indirect (InD) expenses?

Item 1. Production royalties.

Item 2. Raw materials.

Item 3. Wages of production line operators.

Item 4. Wages of production supervisor.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	D	D	D	D
(b)	InD	D	D	D
(c)	InD	D	D	InD
(d)	D	D	D	InD

4. Classify the following as being direct (D) or indirect (InD) expenses:

Item 1. Raw material.

Item 2. Plant depreciation.

Item 3. Carriage in on raw materials.

Item 4. Light and heat.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	D	D	D	InD
(b)	D	InD	D	InD
(c)	InD	InD	D	InD
(d)	InD	D	D	InD

5. All direct costs are:

(a) Relevant costs.

(b) Manufacturing costs.

(c) Prime costs.

(d) Variable costs.

6. Variable costs are those costs whose totals vary in proportion to units of output. Classify the following as variable (V) or fixed (F):

Item 1. Raw materials.

Item 2. Factory rent.

Item 3. Hourly paid production labour.

Item 4. Production supervisor's salary.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	V	F	V	F
(b)	V	F	V	V
(c)	V	V	V	V
(d)	V	V	V	F

7. Classify the following as being part of factory overhead (F) or prime cost (P):

Item 1. Raw materials and direct labour.

Item 2. Raw material purchase returns.

Item 3. Factory cleaning materials.

Item 4. Plant repairs.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	F	F	F	F
(b)	P	P	F	F
(c)	P	F	F	F
(d)	P	P	F	P

8. Classify the following statements as being either true (T) or false (F):

Item 1. All direct costs are manufacturing costs.

Item 2. All direct costs are variable with level of output.

Item 3. All factory overhead items in the manufacturing account are indirect.

Item 4. Some factory overhead items vary with level of output while others do not change when production changes.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	F	T
(b)	T	F	T	T
(c)	T	T	T	T
(d)	F	T	T	T

9. Which of the following statements are true (T) or false (F)?

Item 1. Some indirect expenses may be apportioned between the manufacturing account and the profit and loss account.

Item 2. Selling and distribution expenses are non-manufacturing expenses.

Item 3. Cost of production consists of prime cost and factory overhead.

Item 4. Finished goods stock is dealt with in the manufacturing account.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	T	T
(b)	T	T	F	T
(c)	T	T	T	F
(d)	T	F	F	F

10. Finished goods stock is included in arriving at which of the following?

(a) Prime cost.

(b) Production cost of goods completed.

(c) Cost of production.

(d) Cost of goods sold.

11. Which of the following would not be included in calculating gross profit?

(a) Opening work-in-progress stock.

(b) Closing finished goods stock.

(c) Closing raw material stock.

(d) Opening stationery stock. *This is not a production cost; it is a back-office profit and loss account item*

QUESTIONS 12 TO 14 ARE BASED ON THE FOLLOWING INFORMATION

	£
Stock- 1.1.19X2 – Raw material	80
– Work-in-progress	63
– Finished goods	430
Stock - 31.12.19X2 – Raw material	100
– Work-in-progress	43
– Finished goods	390
Raw materials purchases	820
Direct wages	400
Selling and distribution expenses	214
Bad debts	6
Sales	2,200

Workings

<u>Manufacturing account</u>	£
Direct materials:	
Opening stock of raw materials	80
Raw materials purchases	820
Closing stock of raw materials	<u>(100)</u>
	800
Direct wages	<u>400</u>
Prime cost	1,200
Opening stock of work in progress	63
Closing stock of work in progress	<u>(43)</u>
Production cost of goods completed	1,220
Opening stock of finished goods	430
Closing stock of finished goods	<u>(390)</u>
Cost of goods sold	<u><u>1,260</u></u>

12. Prime cost is:

- (a) £1,220.
- (b) £ 800.
- (c) **£1,200.**
- (d) £1,414.

13. Cost of goods manufactured is:

- (a) £1,200.
- (b) £1,414.
- (c) **£1,220.**
- (d) £1,460.

14. Cost of goods sold is:

- (a) £1,410.
- (b) £1,240.
- (c) **£1,260.**
- (d) £ 960.

QUESTIONS 15 TO 17 ARE BASED ON THE FOLLOWING INFORMATION

	£
Stocks 1.1.19X5 – Raw material	750
– Finished goods	2,000
Stocks 31.12.19X5 – Raw material	500
– Finished goods	1,500
Distribution expenses	485
Discount allowed	980
Purchase of raw materials	1,750
Salesmen's salaries	1,200
Carriage inwards	500
Indirect factory wages	6,200
Sales	20,25
Direct labour	1,000

Workings

<u>Manufacturing account</u>	€
Direct materials:	
Opening stock of raw materials	750
Raw materials purchases	1,750
Carriage (Transport) in	500
Closing stock of raw materials	<u>(500)</u>
	2,500
Direct labour	<u>1,000</u>
Prime cost	3,500
Factory wages of supervisors	<u>6,200</u>
Production cost of goods completed	<u>9,700</u>
Sales	20,250
Opening stock of finished goods	2,000
Production cost of goods completed	9,700
Closing stock of finished goods	<u>(1,500)</u>
Cost of goods sold	<u>(10,200)</u>
Gross profit	<u>10,050</u>

15. Prime cost is:

- (a) £3,500.
- (b) £3,000.
- (c) £4,000.
- (d) £3,250.

16. Gross profit is:

- (a) £ 9,565.
- (b) £10,050.
- (c) £10,550.
- (d) £ 8,850.

17. Cost of goods sold is:

- (a) £10,685.
- (b) £10,200.
- (c) £ 9,700.
- (d) £11,400.

QUESTIONS 18 TO 20 ARE BASED ON THE FOLLOWING INFORMATION

	OPENING	CLOSING
	£	£
Stock - Raw material	4,500	5,000
Work-in-progress	2,000	1,500
Finished goods	4,000	3,000
Raw materials purchased	50,000	
Direct manufacturing wages	20,000	
Depreciation – Plant	5,000	
Motor vehicles	2,000	
Office equipment	1,000	
Carriage in on raw materials	500	
Royalties on goods sold	900	

Workings

Manufacturing account

€

Direct materials:

Opening stock of raw materials	4,500	<i>Royalties on goods manufactured</i>
Raw materials purchases	50,000	<i>would be a manufacturing cost;</i>
Carriage (Transport) in	500	<i>Royalties on good sold is not a</i>
Closing stock of raw materials	<u>(5,000)</u>	<i>manufacturing cost;</i>
	50,000	
Direct manufacturing wages	<u>20,000</u>	
Prime cost	70,000	
Depreciation — Plant	<u>5,000</u>	
Total manufacturing cost	75,000	
Opening stock of work in progress	2,000	
Closing stock of work in progress	<u>(1,500)</u>	
Production cost of goods completed	75,500	
Opening stock of finished goods	4,000	
Closing stock of finished goods	<u>(3,000)</u>	
Cost of goods sold	<u>76,500</u>	

Profit and loss account item

Distribution costs (Royalty on sales)	<u>900</u>
---------------------------------------	------------

18. Prime manufacturing cost is:

- (a) **£70,000.**
- (b) £69,500.
- (c) £70,500.
- (d) £71,400.

19. Production cost of goods completed is:

- (a) £77,500
- (b) £77,000
- (c) **£75,500**
- (d) £77,000

20. Cost of goods sold is:

- (a) £76,500.
- (b) £77,400.
- (c) £78,400.
- (d) £76,400.

CHAPTER EIGHT

Final Accounts of Sole Traders and Limited Companies

1. Expenditure can be classified as either revenue (R) or capital (C) expenditure. Categorise the following items accordingly on the following table:

- Item 1. Repair of motor vehicle.
Item 2. Purchase of motor vehicle for re-sale.
Item 3. Sales director's motor vehicle.
Item 4. Replacement of old motor vehicle with latest model.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	R	R	R	R
(b)	R	R	R	C
(c)	R	R	C	C
(d)	R	C	C	C

2. Categorise the following as affecting either the balance sheet (B/S) or the profit and loss account (P/L) on the table below:

- Item 1. Repair of factory roof.
Item 2. Major electrical re-wiring for new computer.
Item 3. Site clearance costs prior to building new offices.
Item 4. Purchase of plant for re-sale.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	P/L	P/L	P/L	P/L
(b)	P/L	P/L	B/S	P/L
(c)	P/L	B/S	B/S	P/L
(d)	P/L	B/S	P/L	B/S

3. Which of the following statements are true (T) or false (F)?
- The capital of a sole trader is increased by profit and reduced by drawings.
 - The capital of a sole trader can only increase by contributions from the owner of the business.
 - Drawings can be of two types: goods and cash.
 - The liability of a sole trader is unlimited.

	ITEM 1	ITEM 2	ITEM 3	ITEM 4
(a)	T	T	F	T
(b)	T	F	T	T
(c)	T	T	T	T
(d)	T	F	F	T

4. A sole trader has suffered a loss during an accounting period but his overdraft has decreased. A possible explanation for this change is:
- Additional drawings.
 - Purchase of extra fixed assets.
 - Decrease in long term liabilities.
 - Longer period of credit received from suppliers.**

5. Calculate owner's equity based on the following information for the year ended 31.12.19X1:

	£
Goodwill	900
Quoted investments	2,430
Bank overdraft	170
Total rent paid for one year to 28.2.19X2	600
Debtors	5,320
Provision for bad debts	100
Stock 31.12.19X1	2,000
Loan to A. Person	1,500
Money owing to suppliers	4,750

<u>Workings</u>	£
<u>Fixed assets</u>	
Intangible fixed assets – Goodwill	900
Financial fixed assets – Quoted investments	<u>2,430</u>
	<u>3,330</u>
<u>Current assets</u>	
Stock 31.12.19X1	2,000
Debtors	5,320
Provision for bad debts	(100)
Loan to A. Person receivable	1,500
Rent prepayment ($\text{£}600 \times \frac{2\text{Months}}{12\text{Months}}$)	<u>100</u>
	<u>8,820</u>
<u>Current liabilities</u>	
Bank overdraft	(170)
Money owing to suppliers	<u>(4,750)</u>
	<u>(4,920)</u>
Owners' equity	<u>7,230</u>

- (a) £9,230.
(b) **£7,230.**
(c) £9,730.
(d) £6,230.

6. Calculate net profit for the year ending 31.12.19X3 using the following information:

	£
Sales	1,000
Cost of sales	630
Stock 1.1.19X3	170
Stock 31.12.19X3	100
Rent paid	150
Discount received	25
Returns in	50
Deposit interest received	75
Prepaid rent 31.12.19X3	15
Deposit interest accrued due 31.12.19X3	15

<u>Workings</u>	£
<u>Trading account</u>	
Sales	1,000
Returns in	<u>50</u>
Net sales	950
Cost of sales	<u>(630)</u>
Gross profit	320
<u>Profit and loss account</u>	
Rent paid	(150)
Discount received	25
Deposit interest received	<u>75</u>
Net profit	<u>270</u>

- (a) £400.
(b) £270.
 (c) £290.
 (d) £300.

7. What is the closing balance on the capital account given the following information?

	£
Assets at 1.1.19X1	2,300
Liabilities at 1.1.19X1	2,500
Profit for the year 19X1	1,000
Drawings for the year 19X1: Cash	500
Goods	200
Capital contributed during the year	5,000

<u>Workings</u>	£	£
Assets at 1.1.19X1	2,300	
Liabilities at 1.1.19X1	<u>2,500</u>	
Owners' equity at 1.1.19X1	(200)	
Profit for the year 19X1	1,000	
Drawings for the year 19X1: Cash	(500)	
Goods	<u>(200)</u>	
Retained profit for 20X1		300
Capital contributed during the year	<u>5,000</u>	<u>5,000</u>
Owners' equity at 31.12.19X1		<u>5,100</u>

- (a) £5,300.
(b) £5,100.
 (c) £5,500.
 (d) £5,600.

8. The regulations concerning the internal conduct and management of a limited company are contained in:
- (a) The annual accounts.
 (b) Minutes of the board of directors.
 (c) The memorandum of association of the company.
(d) The articles of association of the company.

9. Which of the following would not normally be dealt with in the appropriation account of a limited company?
 (a) Directors' fees.
 (b) Interim ordinary dividend.
 (c) Proposed preference dividend.
 (d) Transfer to general reserve.
10. Companies occasionally revalue upwards their land and buildings. The double entry to record this transaction is:
 (a) Dr. Land and buildings. Cr. Profit and loss account.
 (b) Dr. Revaluation surplus. Cr. Profit and loss account.
 (c) Dr. Land and buildings. Cr. Revaluation surplus. *Gains/surpluses on revaluations are unrealised. As such, they cannot be recorded in the profit and loss account. Instead they are recorded in a non-distributable reserve in the balance sheet.*
 (d) Dr. Revaluation surplus. Cr. Land and buildings.
11. The shareholders' funds of a limited company include all of the following except:
 (a) The share premium.
 (b) Surplus on revaluation.
 (c) Debentures. *Long term liabilities*
 (d) General reserve.
12. The reserves of a limited company can be divided into capital (C) and revenue (R) reserves. Classify the following:
 Item 1. Profit and loss.
 Item 2. Surplus on revaluation.
 Item 3. General reserve.
 Item 4. Share premium.
- | | ITEM 1 | ITEM 2 | ITEM 3 | ITEM 4 |
|-----|--------|--------|--------|--------|
| (a) | R | R | R | R |
| (b) | R | C | R | R |
| (c) | R | R | C | C |
| (d) | R | C | R | C |
13. The balance on the share capital account of a limited company for fully paid up shares represents:
 (a) The amount of cash received for the shares.
 (b) The market value of the shares.
 (c) The nominal value of the shares.
 (d) The amount at which the shares were issued.
14. The share premium is best described as:
 (a) The excess of the market value of the shares over their nominal value.
 (b) The excess of the market value of the shares over their par value.
 (c) The excess of the nominal value of the shares issued over cash received.
 (d) The excess of cash received for shares over their nominal value.

15. The Companies Act requires that certain items be separately disclosed in the accounts. All the following must be disclosed except:
- (a) Directors' emoluments.
 - (b) Auditor's remuneration.
 - (c) Advertising costs.
 - (d) Debenture interest.
16. Certain items are required to be disclosed by the Companies Act, not by recording them in the profit and loss account or the balance sheet, but by showing them separately by way of note to the accounts. Which of following is not required to be disclosed in this way?
- (a) Capital commitments.
 - (b) Proposed dividends. *At the time when this question was drafted, proposed dividends would have been recorded/charged in the profit and loss appropriation account. Under international accounting standards, they are no longer charged in the financial statements. Rather, they are disclosed as a memorandum disclosure item in the profit and loss account.*
 - (c) Arrears of preference dividend.
 - (d) Contingent liabilities.
17. A contingent liability is best described as:
- (a) An unrecorded liability of the company.
 - (b) A liability which will only arise on the occurrence of a future event.
 - (c) A liability which represents an obligation to make a payment in the future.
 - (d) A liability the amount of which cannot be determined with substantial accuracy.
18. Shareholders' funds are represented by:
- (a) The total cash of a limited company.
 - (b) The total capital of a limited company.
 - (c) The total share capital, capital and revenue reserves and long term debt of a company.
 - (d) The issued share capital and reserves of a limited company.

19. Which of the following presentations of the capital section of the balance sheet is most in accordance with established accounting practice?

(a) COMPANY 1		(c) COMPANY 3	
Share capital	10	Share capital	10
Share premium	2	Share premium	2
Revaluation reserve	5	General reserve	3
General reserve	3	Revaluation reserve	5
Profit and loss	<u>1</u>	Profit and loss	<u>1</u>
	21		21
Debentures	<u>10</u>	Debentures	<u>10</u>
	<u>31</u>		<u>31</u>
(b) COMPANY 2		(d) COMPANY 4	
Share capital	10	Share capital	10
Revaluation reserve	5	Share premium	2
Share premium	2	Revaluation reserve	5
General reserve	3	Debentures	10
Profit and loss	<u>1</u>	General reserve	3
	21	Profit and loss	<u>1</u>
Debentures	<u>10</u>		<u>31</u>
	<u>31</u>		

The capital / financed by section of the balance sheet (comprising Shareholders' funds/equity and long-term liabilities) is usually presented in the order: Capital, Long-term liabilities. Capital is presented in the order: Share capital, Share premium, Capital (non-distributable) reserves (e.g., revaluation reserve), Revenue reserves (distributable) (e.g., profit and loss account, general reserve). Debentures are long-term liabilities and do not form part of the capital / equity.

- (a) Company 1.
(b) Company 2.
(c) Company 3.
(d) Company 4.
20. You are told that a limited company has debentures of £36,260 in issue which are repayable in equal instalments over the next 7 years. Indicate how would you treat this information in this year's accounts?
- (a) Write off £5,180 in the profit and loss account.
(b) Include £5,180 in current liabilities and £30,180 in long term liabilities.
(c) Write off £5,180 in the profit and loss account and include £30,180 in current liabilities.
(d) Show £36,260 in long term liabilities.

CHAPTER NINE
Miscellaneous Final Accounts

1. In the absence of a partnership agreement the Partnership Act 1890 states that partnership profits should be shared:
 - (a) On a basis to be decided by the partners.
 - (b) In the ratio of agreed capital balances.
 - (c) Equally amongst the partners.
 - (d) Depending on the amount of capital contributed by the partners.
2. The Partnership Act 1890 states that, in the absence of agreement to the contrary, advances to the business by the partners in addition to their agreed capital should bear interest at:
 - (a) 0%.
 - (b) 5%. Section 24(3), Partnership Act 1890
 - (c) 10%.
 - (d) 12.5%.
3. Which of the following should not appear in a partnership appropriation account?
 - (a) Manager's salary where the manager is also a partner in the business.
 - (b) Interest charged on drawings.
 - (c) Interest allowed on current account.
 - (d) Drawings.
4. Which of the following is the odd one out?
 - (a) Partners' salary.
 - (b) Interest allowed on capital accounts.
 - (c) Interest on drawings.
 - (d) Partners' bonus.
5. Which of the following double entries correctly records cash drawings by a partner?
 - (a) Dr. Drawings.
Cr. Profit and loss account.
 - (b) Dr. Drawings.
Cr. Profit and loss appropriation account.
 - (c) Dr. Drawings.
Cr. Bank account.
 - (d) Dr. Bank.
Cr. Drawings.

6. Partners' salary earned, interest on capital and partners' share of profit are all recorded by which of the following double entries?
- (a) Dr. Profit and loss appropriation account.
Cr. Capital/current account.
 - (b) Dr. Profit and loss account.
Cr. Capital/current account.
 - (c) Dr. Profit and loss appropriation account.
Cr. Bank.
 - (d) Dr. Drawings.
Cr. Profit and loss appropriation account.
7. Partners' interest on drawings is recorded by which of the following double entries?
- (a) Dr. Profit and loss appropriation account.
Cr. Capital/current account.
 - (b) Dr. Capital/current account.
Cr. Profit and loss appropriation account.
 - (c) Dr. Profit and loss appropriation account.
Cr. Drawings.
 - (d) Dr. Drawings.
Cr. Profit and loss appropriation account.
8. Goodwill is best calculated by measuring:
- (a) Customer loyalty.
 - (b) The popularity of the owners of the business.
 - (c) The business's ability to make a better than average profit in the future.
 - (d) The good relationship between the owners and customers of a business.
9. Though goodwill might exist, difficulty in its measurement means that it is only accounted for under which of the following circumstances?
- (a) When a business, or part thereof, is purchased for an amount in excess of the net assets purchased.
 - (b) When the owners of the business employ an accountant to calculate goodwill.
 - (c) When the owners decide that goodwill is a very large and material amount and should be recorded.
 - (d) When the business is making profits over the average and the owners recognise that goodwill exists.

10. Which of the following profit and loss appropriation account presentations is correct?

(a) Gross profit		X
Less: Expenses	X	
Partners' salary	X	
Interest on capital	<u>X</u>	(X)
Add: Interest on drawings		<u>X</u>
Net profit to be distributed in profit sharing		(<u>X</u>)

(b) Gross profit		X
Less: Expenses		(X)
Net profit to be appropriated		X
Partners' salary	X	
Interest on capital	<u>X</u>	(X)
Add: Interest on drawings		<u>X</u>
Net profit to be distributed in profit sharing		(<u>X</u>)

(c) Gross profit		X
Less: Expenses		(X)
Net profit to be appropriated		X
Partners' salary	X	
Interest on capital	X	
Interest on drawings	<u>X</u>	(X)
Net profit to be distributed in profit sharing		(<u>X</u>)

(d) Gross profit		X
Less: Expenses		(X)
Net profit to be appropriated		X
Less: Interest on drawings		(X)
Add: Interest on capital		<u>X</u>
Net profit to be distributed in profit sharing		(<u>X</u>)

11. Which of the following items of expenditure would not be included in the trading account of a farm?

- (a) Livestock purchases.
- (b) Seed costs.
- (c) Land reclamation costs.
- (d) Fertilizer.

QUESTIONS 12 TO 14 ARE BASED ON THE FOLLOWING INFORMATION:

Livestock movements for the year:	Units	
Opening stock	88	Value: £17,440
Purchases	100	Cost £22,000
Death of a purchased animal	1	
Live births	7	
Closing stock: Purchased	99	
Home bred	4	

The upkeep costs for the year were £3,250. Sale proceeds for the year amounted to £37,000. The purchased livestock is to be valued at cost price. Home bred livestock is to be valued at market price less 20%. The market price at the end of the year was £300 per head.

12. How many livestock were sold during the year?

Workings

$$88_{\text{Opening stock}} + 100_{\text{Purchases}} + 7_{\text{Live births}} - 1_{\text{Death}} - 99_{\text{Closing stock}} - 4_{\text{Closing stock}} = 91_{\text{Sales}}$$

(a) 91.

(b) 105.

(c) 93.

(d) 85.

13. The closing stock has a per unit valuation of:

	Purchased	£220	Home bred	£240
(a)	Livestock		livestock	
(b)	"	£202	"	£360
(c)	"	£222.50	"	£240
(d)	"	£220	"	£290

14. The gross profit on livestock sales is:

<u>Workings</u>	£	£	£
Sales			37,000
Cost of sales			
Opening stock		17,440	
Purchases		22,000	
Up-keep costs		<u>3,250</u>	
		42,690	
Closing stock: 99 x £220/head	21,780		
4 x £300 @ 80% 100%-20%	<u>960</u>	(22,740)	19,950
Gross profit			<u>17,050</u>

(a) £17,070.

(b) £17,770.

(c) £17,520.

(d) £17,050.

15. At the end of the year an account is prepared summarising cash and non-cash transactions of a not-for-profit organisation such as a sports club. This account is called:
(a) The receipts and payments account.
(b) The profit and loss account.
(c) The surplus and deficiency account.
(d) The income and expenditure account.
16. A club has 100 members and the annual membership subscription is £10. At the beginning of the year 3 members had paid in advance and 5 were in arrears with their subscriptions. At the end of the year 1 member had paid the annual subscription in advance and 4 members were in arrears. What is the subscription income for the year?
(a) £1,000. *Regardless of who has/had not paid, the income for the year is $100_{\text{Members}} \times £10_{\text{Annual membership fee}}$*
(b) £ 990.
(c) £1,050.
(d) £ 950.
17. Based on the information in question 16 above, what is the amount of cash received for subscription income for the year?

Workings

Subscriptions account					
01.01.19X1	Bal b/d 5 x £10	50	01.01.19X1	Bal b/d 3 x £10	30
19X1	To I/E	1,000	19X1	∴ Bank	990
31.12.19X1	Bal c/d 1 x £10	10	31.12.19X1	Bal c/d 4 x £10	40
		<u>1,060</u>			<u>1,060</u>

- (a) £1,000.
(b) £ 990.
(c) £1,050.
(d) £ 950.
18. If a club runs a drinks bar the profits are normally accounted for by:
(a) Inclusion of the bar sales and bar expenses in the club's income and expenditure account.
(b) Inclusion of the gross profit on bar trading activities in the income section of the club's income and expenditure account.
(c) Inclusion of cash receipts and cash expenditure in the club's income and expenditure account.
(d) Inclusion of the surplus of cash received over expenditure in the income and expenditure account.

19. A and B are in partnership as solicitors. The trial balance of the partnership was as follows:

	Dr.	Cr.
Capital account — A		250
— B		230
Fees charged to clients		1,070
Sums due to clients for money held on their behalf		300
Sundry expenses	437	
Furniture and fittings	247	
Disbursements on behalf of clients not yet charged to them	282	
Bank — Client account	300	
Office account	538	
Sundry creditors		77
Debtors	123	
	<u>£1,927</u>	<u>£1,927</u>

Workings

Profit and loss account

Fees charged to clients	1,070
Sundry expenses	<u>(437)</u>
Net profit	<u>£633</u>

Balance sheet (not require for solution, included for completeness)

Fixed assets

Furniture & Fittings	<u>247</u>
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Current assets

Debtors	123
Disbursements receivable from clients	282
Bank – Client account	300
– Office account	<u>538</u>
	<u>1,243</u>

Current liabilities

Client monies due to clients	(300)
Sundry creditors	<u>(77)</u>
	<u>(377)</u>

Total net assets of the partnership	<u>1,113</u>
-------------------------------------	--------------

Partners' capital – Opening balance (250+230)	480
Net profit for year	<u>633</u>
Partners' capital – Closing balance	<u>1,113</u>

The net profit of the partnership is:

- (a) £333.
- (b) £541.
- (c) £633.**
- (d) £351.

20. In question 19 (on page 42) the debit balance of £300 in the client account and the credit balance of £300 owing to clients represent:
- (a) Monies held by the solicitors on behalf of clients and owing to clients.
 - (b) Monies owing by clients for expenses incurred by the solicitor on their behalf.
 - (c) Lodgements given to the solicitor by clients and outstanding in the bank.
 - (d) Fees charged by the solicitor and not yet paid by the client.

CHAPTER TEN
Introduction to Taxation

1. Which of the following taxes are assessed directly on the individual:
(a) **Income tax.**
(b) Corporation tax.
(c) Value added tax
(d) Customs and Excise duties.
2. Which of the following pairs is incorrect?
(a) Income tax: Tax on the income of individuals.
(b) Corporation tax: Tax on company profits.
(c) Value added tax: Tax on the sale of goods and services.
(d) **Capital gains tax: Tax on inheritances and transfers.**
3. Which of the following accounts will not normally appear in the books of a company?
(a) PAYE account.
(b) Value added tax account.
(c) Corporation tax account.
(d) **Capital acquisitions tax account.**
4. Which of the following would be considered to be an indirect tax?
(a) Income tax.
(b) Corporation tax.
(c) Capital gains tax.
(d) **Value added tax.**
5. The system of personal taxation is normally described as:
(a) A progressive system.
(b) **A regressive system.**
(c) A proportional system.
(d) A flat rate system.
6. Which of the following is not assessed to income tax?
(a) A company director.
(b) A self-employed individual.
(c) **A limited company.**
(d) A PAYE worker.

7. Which of the following statements correctly describes the treatment of PAYE taxation in the books of a company?
 - (a) PAYE is a tax on employees assessed on the company and is shown separately in the profit and loss account as an expense.
 - (b) PAYE is an expense over and above gross wages in the profit and loss account and is paid/owing to the Revenue.
 - (c) PAYE is a tax payable by the employees and is not part of the company's accounts.
 - (d) PAYE is a tax deducted from employees by the company and payable to the Revenue on the employees' behalf.

8. Which of the following double entries correctly records the payment of wages and the deduction of PAYE therefrom, given that wages payable are recorded gross:
 - (a) Dr. Gross wages.
Cr. PAYE payable. Cr. Bank.
 - (a) Dr. PAYE expense account. *Gross wages include PAYE, which is not a separate expense.*
Dr. Gross wages.
Cr. PAYE payable.
Cr. Bank.
 - (b) Dr. PAYE expense account.
Cr. Wages payable.
 - (c) Dr. PAYE payable.
Cr. Wages payable.

9. The balance in the balance sheet for PAYE represents:
 - (a) The expense of PAYE.
 - (b) A liability of the employees for PAYE owing.
 - (c) A liability of the company on behalf of the employees for PAYE.
 - (d) PAYE prepaid.

10. If gross wages were £100,000 in the profit and loss account for the year, the opening accrual on the wages account was £500 and the closing accrual was £1,000, what is the liability for PAYE given a single rate of 35%?

Workings

			Wages		
			01.01.19X1	Bal b/d	500
19X1	Bank £99,500 @ 65%	64,675	19X1	P/L	100,000
19X1	PAYE £99,500 @ 35%	34,825			
31.12.19X1	Bal c/d	1,000			
		<u>100,500</u>			<u>100,500</u>

- (a) £35,000.
- (b) £25,926.
- (c) £35,175.
- (d) £34,825.

11. The charge for wages in the profit and loss account is:
- (a) The gross wages + PAYE liability.
 - (b) The gross wages - PAYE liability.
 - (c) The net wages paid + PAYE liability.
 - (d) The net wages paid — PAYE liability.
12. Which of the following statements best describes the treatment of value added tax in company accounts?
- (a) Value added tax is an expense of the company arising from the sale of goods and services.
 - (b) Value added tax is a liability of the company calculated by reference to the manufacture of goods and the provision of services.
 - (c) Value added tax is levied on customers and is payable by the customer to the Revenue.
 - (d) Value added tax is collected by the company from customers on behalf of the Revenue and is payable to the Revenue.
13. Which of the following statements is incorrect?
- (a) If a company's VAT-able purchases exceed its VAT-able sales a value added tax refund may be due.
 - (b) A company's value added tax liability is reduced by VAT-able purchases.
 - (c) VAT-able purchases have no effect on the value added tax account.
 - (d) Most value added tax on purchases is recoverable from the Revenue by a company only when the company is registered for value added tax.
14. Which of the following double entries correctly adjusts for value added tax on sales if sales are initially recorded inclusive of tax by the company?
- (a) Dr. Value added tax expense.
Cr. Sales.
 - (b) Dr. Bank/Debtors.
Cr. Value added tax payable.
 - (c) Dr. Sales.
Cr. Value added tax payable.
 - (d) Dr. Value added tax expense.
Cr. Value added tax payable.
15. Companies are entitled to reclaim value added tax on purchases. Which of the following double entries correctly records this transaction?
- (a) Dr. Value added tax payable.
Dr. Purchases.
Cr. Creditors.
 - (b) Dr. Value added tax payable.
Cr. Purchases.
Cr. Creditors.
 - (c) Dr. Value added tax payable.
Cr. Value added tax expense.
 - (d) Dr. Purchases.
Cr. Creditors.
Cr. Value added tax payable.

16. What is the closing balance on the value added tax account if the opening liability was £1,000, invoiced sales were £125,000, invoiced purchases were £80,000 and the value added tax rate is 25%?

Workings

Value Added Tax Account					
			01.01.19X1	Bal b/d	1,000
19X1	Purchases	16,000	19X1	Sales	25,000
	£80,000 x 25/125			£125,000 Sales x 25/125	
31.12.19X1	Bal c/d	<u>10,000</u>			
		<u>26,000</u>			<u>26,000</u>

- (a) £10,000 Cr.
(b) £12,250 Cr.
(c) £ 8,000 Cr.
(d) £10,250 Cr.
17. Which of the following statements correctly describes the treatment of corporation tax in a company's books?
(a) Corporation tax is a tax collected by the company and owing to the Revenue.
(b) Corporation tax is a liability of the company on behalf of shareholders to the Revenue.
(c) Corporation tax is an appropriation of profit of the company, based on company profits and is payable to the Revenue.
(d) Corporation tax is a tax on company profits and is collected on behalf of the Revenue from the shareholders of the company to be paid to the Revenue.
18. Which of the following double entries correctly accounts for corporation tax payable?
(a) Dr. Profit and loss appropriation account.
Cr. Corporation tax payable.
(e) Dr. Sundry shareholders account.
Cr. Corporation tax payable.
(a) Dr. Profit and loss account.
Cr. Profit and loss appropriation account.
(b) Dr. Corporation tax account.
Cr. Profit and loss appropriation account.
19. Corporation tax is normally shown in the accounts in:
(a) The profit and loss appropriation account only.
(b) The profit and loss appropriation account and under current liabilities in the balance sheet.
(c) The profit and loss account only.
(d) The profit and loss account and under current liabilities in the balance sheet.

Re Q18 & Q19, if corporate tax is conceptualised as an expense of the business, it is viewed as being charged in the profit and loss account. This would imply (d) is the correct answer in Q19. A more old fashioned conceptualisation is to view taxation as an appropriation of net profit. This is clearly the perspective in Q18, and for consistency (b) is shown as the correct solution to Q19.

20. Which of the following statements is correct?
- (a) PAYE, value added tax and corporation tax are normally included in long term liabilities in the balance sheet.
 - (b) PAYE and value added tax normally appear in current liabilities and corporation tax payable does not appear in the balance sheet.
 - (c) PAYE and value added tax normally appear in current liabilities and corporation tax appears in long term liabilities in the balance sheet.
 - (d) PAYE, value added tax and corporation tax normally appear in current liabilities and value added tax may occasionally appear as a current asset in the balance sheet.

Value added tax is occasionally a debit/asset/recoverable from the taxation authorities where VAT-able purchases exceed VAT-able sales

CHAPTER ELEVEN

Accounting Concepts and Standards

1. SSAPs contain some of the accounting rules to be used in preparing financial statements. The letters SSAP stand for:
(a) Statement of standard accounting practice.
(b) Standard statements of accounting procedure.
(c) Standard solutions to accounting problems.
(d) Statement of solutions to accounting practice.
2. The SSAPs are published by a committee, the ASC, made up from members of various accountancy bodies. The letters ASC stand for:
(a) Auditing standards committee.
(b) Accounting standards committee.
(c) Accounting statements commission.
(d) Accounting standards and concepts.
3. Draft SSAPs are published by the ASC with a view to obtaining comments on the proposed accounting standard. This document is referred to as an:
(a) Examination document.
(b) Example draft.
(c) Explanation draft.
(d) Exposure draft.
4. SSAP 2 “Disclosure of accounting policies” refers to four fundamental accounting concepts. These are:
(a) Accruals, consistency, going concern and prudence.
(b) Accruals, conservatism, consistency and prudence.
(c) Accruals, conservatism, going concern and matching.
(d) Accruals, consistency, conservatism and materiality.
5. Which of the following concepts is the same as the “matching” concept?
(a) Accruals.
(b) Prudence.
(c) Going concern.
(d) Conservatism.
6. Some important accounting concepts are not referred to in SSAP 2. Which one of the following concepts is included?
(a) Historic cost concept.
(b) Money measurement concept.
(c) Prudence concept.
(d) Double entry convention.

7. The accruals concept is best described by which of the following?
(a) Providing for doubtful debts.
(b) Calculating profit as being the difference between receipts and payments.
(c) Calculating profit as being the difference between revenue and expenses.
(d) Using a similar method of depreciation each year.
8. The concept of conservatism applies in which of the following situations?
(a) Revaluation of fixed assets from £20,000 to £25,000.
(b) Providing for accrued deposit interest.
(c) Disclosing a government grant by way of note.
(d) Providing for bad debts.
9. The opposite of the accruals concept is the:
(a) Matching concept.
(b) Cash basis of accounting.
(c) Subjectivity concept.
(d) Money measurement concept.
10. Which of the following concepts overrides the other concepts when preparing financial statements?
(a) Accruals.
(b) Going concern.
(c) Conservatism.
(d) Objectivity.
11. At the end of a financial year, a company provides for an unrecorded expense. This adjustment is in accordance with which of the following concepts?
(a) Accruals concept.
(b) Consistency concept.
(c) Prudence concept.
(d) Materiality concept.
12. Fixed assets are normally stated at cost in the firm's balance sheet. This valuation method is used primarily because of:
(a) Prudence.
(b) Materiality.
(c) Matching.
(d) Objectivity.
13. At the end of a financial year, depreciation of fixed assets is written off to the profit and loss account. This adjustment is in accordance with the concept of:
(a) Objectivity.
(b) Materiality.
(c) Matching.
(d) Conservatism.

14. A company will not normally include goodwill on its balance sheet. This accounting treatment arises because of the:
 - (a) Prudence concept.
 - (b) Accruals concept.
 - (c) Objectivity concept.
 - (d) Consistency concept.
15. Capital expenditure in the amount of £10 has deliberately not been capitalised. This treatment is in accordance with the concept of:
 - (a) Accruals.
 - (b) Money measurement.
 - (c) Objectivity.
 - (d) Materiality.
16. A government grant received on the purchase of a fixed asset is best:
 - (a) Classified as a capital reserve.
 - (b) Written off in full to the profit and loss account when received.
 - (c) Deducted from the cost of the fixed asset.
 - (d) Shown only by way of note to the accounts.
17. In accordance with SSAP 9 “Accounting for stocks and work-in-progress”, stocks should be valued at the:
 - (a) Lower of cost and net realisable value.
 - (b) Higher of cost and net realisable value.
 - (c) Lower of cost and net replacement value.
 - (d) Higher of cost and net replacement value.

18. SSAP 9 states that the stock valuation policy should be applied to each separate category of stock. The following analysis is provided:

CATEGORY	COST	NET REALISABLE VALUE	REPLACEMENT COST
	£	£	£
X	4,000	2,000	1,000
Y	2,000	4,000	3,000
Z	2,000	3,000	4,000

Workings

CATEGORY	COST	NET REALISABLE VALUE	LOWER AMOUNT
	£	£	£
X	4,000	2,000	2,000
Y	2,000	4,000	2,000
Z	2,000	3,000	<u>2,000</u>
			<u>6,000</u>

The correct stock valuation is:

- (a) £6,000.
(b) £7,000.
(c) £8,000.
(d) £9,000.
19. In accordance with the provisions of SSAP 10, "Statement of source and application of funds", which of the following would be obliged to prepare a statement of source and application of funds?
- (a) All limited companies.
(b) All public and private companies.
(c) Limited companies with annual net profit in excess of £25,000.
(d) Limited companies with annual sales in excess of £25,000.
20. The accountancy profession, in accounting for changing prices, suggests the use of which of the following methods of accounting?
- (a) Current cost accounting (CCA).
(b) Constant purchasing power (CCP).
(c) Historic cost (HC).
(d) General price level (GPL).

CHAPTER TWELVE

Books of Original Entry

1. The books of original entry are written up from:
 - (a) Suppliers statements.
 - (b) Source documentation such as invoices, cheque stubbs etc.
 - (c) The trial balance.
 - (d) Debtors and creditors ledgers.
2. The monthly totals in the books of prime entry are recorded in the nominal ledger. This recording process is referred to as:
 - (a) Casting.
 - (b) Extraction.
 - (c) Balancing.
 - (d) Posting.
3. Which of the following is not a book of prime entry?
 - (a) Petty cash book.
 - (b) Wages book.
 - (c) General journal.
 - (d) Nominal ledger.
4. The main source of information for writing up the sales journal is:
 - (a) Invoices received.
 - (b) Invoices issued.
 - (c) Customer orders.
 - (d) Cash receipts.
5. The sales journal can alternatively be described as the:
 - (a) Sales day book.
 - (b) Sales cash book.
 - (c) Sales outwards book.
 - (d) Sales receipts book.
6. Credit notes issued by a firm will usually be entered in the:
 - (a) Sales journal.
 - (b) Purchase journal.
 - (c) Sales returns journal.
 - (d) Purchases returns journal.
7. Which of the following transactions would be recorded in the credit purchase journal of the firm?
 - (a) Purchase of trading goods for cash.
 - (b) Purchase of trading goods on credit.
 - (c) Purchase of a fixed asset for cash.
 - (d) Purchase of a fixed asset by cheque.

8. During an accounting period, a customer returned goods. This transaction should be recorded in which of the following books?
- (a) Purchase returns journal.
 - (b) Sales journal.
 - (c) Purchases journal.
 - (d) Sales returns journal.
9. Credit notes received should be entered in the:
- (a) Purchases journal.
 - (b) Sales journal.
 - (c) Purchases returns journal.
 - (d) Sales returns journal.
10. The function of the general journal is to:
- (a) Record transactions not entered in other books of original entry.
 - (b) Provide a detailed analysis of cash transactions.
 - (c) Record discounts allowed and received.
 - (d) Act as a work book for the debtors and creditors ledgers.
11. Which of the following types of transaction would not normally be recorded in the general journal?
- (a) Year end adjusting entries.
 - (b) Correction of errors.
 - (c) Sales and purchases returns.
 - (d) Disposal of fixed assets.
12. The total of the credit sales journal, (ignoring VAT) will be posted to the nominal ledger as follows:
- | DEBIT | CREDIT |
|-------------------------------|--------------------------|
| (a) Bank account | Sales account. |
| (b) Creditors control account | Sales account. |
| (c) Debtors control account | Sales account. |
| (d) Sales account | Debtors control account. |
13. The total of the credit purchases journal (ignoring VAT) may be recorded in the nominal ledger by:
- | DEBIT | CREDIT |
|-------------------------------|----------------------------|
| (a) Bank account | Purchases account. |
| (b) Purchases account | Bank account. |
| (c) Creditors control account | Purchases account. |
| (d) Purchases account | Creditors control account. |

14. In a business where sales are VAT-able, the monthly total posting of the sales day book could be:
- (a) Debit sales account with £1,000, debit VAT account with £200 and credit debtors control account with £1,200.
 - (b) Debit debtors control account with £1,000, debit VAT account with £200 and credit sales account with £1,200.
 - (c) Debit debtors control account with £1,200 and credit sales account with £1,000 and credit VAT account with £200.
 - (d) Debit sales account with £1,200 and credit debtors control account with £1,000 and credit VAT account with £200.

15. The following summarised information was extracted from the cheque payments book:

DISCOUNT	BANK	CREDITORS	WAGES
£	£	£	£
100	1,000	1,000	100

The posting to the nominal ledger is:

- (a) Debit bank account with £1,100 and credit the creditors control account with £1,000 and credit wages account with £100.
- (b) Debit creditors control account with £1,000 and debit discount received account with £100, credit bank account with £1,000 and credit wages account with £100.
- (c) Debit creditors control account with £1,000 and debit wages account with £100; credit bank account with £1,000 and credit discount received account with £100. *In effect there are two double entries here: Dr Creditors £1,000; Cr Bank £900, Cr Discount received £100 + Dr Wages £100 Cr Bank £100*
- (d) Debit creditors control account with £1,100 and debit wages account with £100; credit bank account with £1,000 and credit discount allowed account with £100.

16. The following summarised information was extracted from the cash receipts book:

DISCOUNT	BANK	DEBTORS	SALES
£	£	£	£
50	100	90	60

The posting to the nominal ledger is:

- (a) Debit bank account with £150 and credit sales account with £60 and credit debtors control account with £90.
- (b) Debit sales account with £60 and debit debtors control account with £90; credit discount received account with £50 and credit bank account with £100.
- (c) Debit bank account with £100 and debit discount allowed with £50; credit debtors control account with £90 and credit sales account with £60. *In effect there are two double entries here: Dr Bank £40; Dr Discount allowed £50; Cr Debtors £90 + Dr Bank £60 Cr Sales £60*
- (d) Debit debtors control account with £90 and bank account with £100; credit sales account with £190.

17. Bad debts written off can be recorded in the general journal (ignoring narrative) as follows:
- (a) Debit both individual debtor's and debtors control accounts and credit bad debts account.
 - (b) Debit bad debts account and credit both individual debtors and debtors control accounts.
 - (c) Debit individual debtor's account and credit debtors control account.
 - (d) Debit bad debts account and credit individual debtor's account.
18. A customer purchased 100 units at a price of £10 each subject to a 10% trade discount and a 2% cash discount. If 10 units were returned immediately before payment the credit note issued will be recorded as follows:
- (a) £88 debit to the individual debtors account in the debtors ledger and debtors control account and credit sales returns account.
 - (b) £88 debit to sales returns account and credit individual debtors account in the debtors ledger and debtors control account.
 - (c) £90 debit to the individual debtors account in the debtors ledger and debtors control account and credit sales returns account.
 - (d) £90 debit in the sales returns account and credit the individual debtors account in the debtors ledger and credit debtors control account.
19. A customer purchases goods for £100 subject to a trade discount of 5% and a cash discount of 10%. If settlement is made immediately the cash discount allowed can be entered as follows:
- (a) £9.50 debit to discount allowed account and credit individual debtors account in the debtors ledger and credit debtors control account.
 - (b) £9.50 debit to individual debtors account in the debtors ledger and debtors control account and credit discount allowed account.
 - (c) £10.00 debit to discount allowed account and credit individual debtors account in the debtors ledger and debit debtors control account.
 - (d) £10.00 debit to debtors account in the debtors ledger and debtors control account and credit discount allowed account.
20. A company purchases goods for £2,000 subject to a trade discount of 10% and a cash discount of 5%. If settlement is made immediately the entries in the company's analysed cash book, will be:

Workings

Trade discount is $£2,000 \times 10\% = 200$. The net liability due (Creditors) is therefore £1,800, If this is settled immediately another 5% discount will be received, i.e., $£1,800 \times 5\% = £90$. Thus, the net settlement / payment will be $£1,800 - 90 = £1,710$.

- (a) Discount received column, £300, cheque payments column, £1,700 and creditors column, £2,000.
- (b) Discount allowed column, £90, cheque payments column, £1,710 and creditors column, £1,800.
- (c) Discount allowed column, £300, cheque payments column, £1,700 and creditors column, £2,000.
- (d) Discount received column, £90, cheque payments column, £1,710 and creditors column, £1,800.

CHAPTER THIRTEEN

Control Accounts

1. Which of the following statements is incorrect?
(a) Debtors and creditors ledgers are part of the normal double entry accounting system.
(b) Separate debtors and creditors ledgers are maintained in addition to control accounts to facilitate the collection and payment of debts.
(c) A debtors ledger acts as a double check on the debtors control account.
(d) Debtors and creditors ledgers facilitate the correction of errors by a reconciliation of the listing of balances with the control account balances.
2. Debtors and creditors ledgers are best written up from the:
(a) Nominal ledger.
(b) Books of original entry.
(c) Source documentation such as invoices, cheque stubbs etc.
(d) Customers orders.
3. Which of the following transactions would not be recorded in both the books of original entry and personal accounts?
(a) Credit sale.
(b) Cash receipt from debtor.
(c) Credit note issued.
(d) Wages paid.
4. Which of the following is the odd one out?
(a) Nominal ledger.
(b) Debtors ledger.
(c) Creditors ledger.
(d) Trial Balance.
5. The debtors ledger can best be described as:
(a) A working paper to facilitate the preparation of the trial balance.
(b) A collective term to describe individual customer accounts.
(c) A source document for posting.
(d) A book of original entry.

6. The following information relates to a company for an accounting period:

	£
Opening debtors	9,916
Cash sales	54,000
Credit sales	67,500
Credit sales returned	1,900
Bad debts written off	2,000
Discounts allowed	1,300
Discounts received	1,100
Refunds to credit customers	800
Cash received from customers	50,000

The closing balance on the debtors control account is:

Workings

Debtors Control Account					
01.01.19X1	Bal b/d	9,916	19X1	Credit sales returned	1,900
19X1	Credit sales	67,500	19X1	Bad debts written off	2,000
			19X1	Discount allowed	1,300
			19X1	Refunds to customers	800
			19X1	Bank	50,000
			31.12.19X1	Bal c/d	<u>21,416</u>
		<u>77,416</u>			<u>77,416</u>

- (a) £21,616.
(b) £23,216.
(c) £23,016.
(d) £21,416.

7. The following information relates to a company for a recent accounting period:

	£
Opening debtors	5,100
Cash received from customers	49,000
Credit sales	63,000
Refunds to credit customers	2,000
Increase in bad debts provision	1,500
Discounts allowed	1,800
Customers' cheques dishonoured	30
Balances in debtors ledger set off against creditors ledger	3,000
Credit sales returns	1,000
Bad debts written off	2,000

The closing balance on the debtors control account is:

Workings

Debtors Control Account					
01.01.19X1	Bal b/d	5,100	19X1	Bank	49,000
19X1	Credit sales	63,000	19X1	Discount allowed	1,800
19X1	Refunds to customers	2,000	19X1	Contra creditors	3,000
19X1	Customer cheques dishonoured	30	19X1	Credit sales returns	1,000
				Bad debts written off	2,000
		<u>70,130</u>	31.12.19X1	Bal c/d	<u>13,330</u>
					<u>70,130</u>

- (a) £13,270.
(b) £13,330.
(c) £11,830.
(d) £11,330.

8. The following information relates to a company for a recent accounting period:

	£
Opening creditors	8,400
Credit purchases	58,000
Discounts allowed	1,000
Discounts received	2,000
Credit purchases returned	5,000
Refunds from suppliers	3,000
Payments to suppliers	47,000

The closing balance on the creditors control account is:

Workings

Creditors Control Account					
19X1	Discount received	2,000	01.01.19X1	Bal b/d	8,400
19X1	Purchase returns	5,000	19X1	Credit purchases	58,000
19X1	Payments	47,000	19X1	Refunds from suppliers	3,000
	Bal c/d	<u>15,400</u>			
		<u>69,400</u>			<u>69,400</u>

- (a) £14,400.
(b) £15,400.
(c) £16,400.
(d) £ 9,400.

9. The following information relates to a company for a recent account period:

	£
Opening creditors	4,600
Discount received	1,000
Discount allowed	2,000
Credit purchases	54,000
Credit purchases returned	6,000
Refunds from credit suppliers	2,000
Payments to suppliers	39,000
Balances in creditors ledger set off against debtors ledger	1,000

The closing balance on the creditors control account is:

Workings

Creditors Control Account					
19X1	Discount received	1,000	01.01.19X1	Bal b/d	4,600
19X1	Purchase returns	6,000	19X1	Credit purchases	54,000
19X1	Payments	39,000	19X1	Refunds from suppliers	2,000
19X1	Contra - Debtors	1,000			
	Bal c/d	<u>13,600</u>			
		<u>60,600</u>			<u>60,600</u>

- (a) £ 8,600.
(b) £ 9,600.
(c) £13,600.
(d) £12,600.

10. The following transactions have been recorded in the sales journal and cash receipts book:

SALES JOURNAL	£	
A. Anderson	75	
B. Bali	56	
C. Cooney	104	
CASH RECEIPTS BOOK (EXTRACT)		
CUSTOMER	DISCOUNT	BANK
	ALLOWED	
	£	£
A. Anderson	3	75
B. Bali	2	23
Cash Sales		30

The closing balance on the debtors control account is:

Workings

Debtors Control Account					
01.01.19X1	Bal b/d	Nil	19X1	Discount allowed	5
19X1	Credit sales	235	19X1	Bank (75+23)	98
	(75+56+104)				
		<u>235</u>	31.12.19X1	Bal c/d	<u>132</u>
					<u>235</u>

- (a) £105.
(b) £110.
(c) £135.
(d) £140.

11. The following information has been recorded in the purchases journal and cheque payments book:

PURCHASES JOURNAL		£
D. Dillon		250
E. Egan		190
F. Foster		210
CHEQUE PAYMENTS BOOK (EXTRACT)		
SUPPLIER	DISCOUNT RECEIVED	BANK
	£	£
D. Dillon	10	240
Cash Purchases		200
F. Foster	5	100

The closing balance on the creditors control account is:

Workings

Creditors Control Account					
19X1	Discount received	15	01.01.19X1	Bal b/d	Nil
19X1	Payments	340	19X1	Credit purchases	650
	(240+100)			(250+190+210)	
	Bal c/d	295			
		<u>650</u>			<u>650</u>

- (a) £115.
(b) £205.
(c) £220.
(d) £295.
12. The purchase of stock on credit was completely omitted from the books of a company. The appropriate correcting entry is:

DEBIT	CREDIT
(a) Purchases account.	Creditors control account.
(b) Purchases and individual creditors accounts.	Suspense account.
(c) Purchases account.	Individual creditors account.
(d) Purchases account.	Individual creditor and creditors control accounts.

13. A trader owes £90 to suppliers at the start and £80 at the end of an accounting period. Cash purchases of £15 and credit purchases of £400 were recorded. Discounts allowed of £45 and discounts received of £54 were given and received respectively. The amount paid to suppliers in respect of credit purchases was:

Workings

Creditors Control Account					
19X1	Discount received	54	01.01.19X1	Bal b/d	90
19X1	∴ Payments	356	19X1	Credit purchases	400
	Bal c/d	<u>80</u>			
		<u>490</u>			<u>490</u>

- (a) £346.
(b) £345.
(c) £360.
(d) £356.

14. A trader has debtors of £90 at the start and £150 at the end of an accounting period. During the period £30 was written off in respect of bad debts and £500 was received from debtors and £400 was paid to creditors. Credit sales for the period were:

Workings

Debtors Control Account					
01.01.19X1	Bal b/d	90	19X1	Discount allowed	30
19X1	∴ Credit sales	490	19X1	Bank	400
		<u>580</u>	31.12.19X1	Bal c/d	<u>150</u>
					<u>580</u>

- (a) £430.
(b) £490.
(c) £530.
(d) £590.

15. The following information relates to a company for a recent accounting year:

	£	£
Opening debtors and creditors	4,999	3,764
Credit sales and purchases	57,950	28,874
Cash sales and purchases	23,300	12,700
Discounts allowed and received	1,700	1,450
Credit returns in and out	3,400	2,300
Total receipts and payments	49,800	24,900

The closing balance on the debtors and creditors control accounts are:

Workings

Debtors Control Account					
01.01.19X1	Bal b/d	4,999	19X1	Discount allowed	1,700
19X1	∴ Credit sales	57,950	19X1	Credit returns in	3,400
			19X1	Bank	49,800
			31.12.19X1	Bal c/d	8,049
		<u>62,949</u>			<u>62,949</u>

Workings

Creditors Control Account					
19X1	Discount received	1,450	01.01.19X1	Bal b/d	3,764
19X1	Credit returns out	2,300	19X1	Credit purchases	28,874
19X1	Payments	24,900			
	Bal c/d	3,988			
		<u>32,638</u>			<u>32,638</u>

- (a) Debtors £ 8,049 and creditors £3,988.
 (b) Debtors £ 9,749 and creditors £5,438.
 (c) Debtors £13,149 and creditors £7,739.
 (d) Debtors £ 3,988 and creditors £8,049.

16. During an accounting period debtors increased by £7,000. Sales of £100,000 were recorded and were equally divided between cash and credit transactions. Cash received from debtors was:

- (a) £ 43,000.
 (b) £ 57,000.
 (c) £ 93,000.
 (d) £107,000.

17. At the end of a financial year debtors were 20% greater than they were at the start. Credit sales during the year were equivalent to 10 times the amount of debtors at the start. If cash received from debtors amounted to £98,000, then closing debtors are:

			£
Debtors b/d	X		10,000
Credit sales	10X		100,000
Cash received	<u>(9.8X)</u>	$\therefore x = £10,000$	<u>(98,000)</u>
Debtors c/d	<u>1.2X</u>		<u>12,000</u>

- (a) £10,000.
(b) £12,000.
(c) £ 8,000.
(d) £15,000.
18. At the start of a financial year debtors and creditors were £5,000 and £6,000 respectively. At the end of the year both of these amounts had increased by 20%. Cheque payments to creditors were £11,000 and cash received from debtors was £15,000. Discounts allowed and received were £1,000 and £2,000. Bad debts written off amounted to £2,000 and bad debts recovered were £4,000. Credit sales and purchases for the year were:

Workings

Debtors Control Account					
01.01.19X1	Bal b/d	5,000	19X1	Bank	15,000
19X1	$\therefore$ Credit sales	19,000	19X1	Discount allowed	1,000
			19X1	Bad debts	2,000
			31.12.19X1	Bal c/d (5,000 @ 1.2)	<u>6,000</u>
		<u>24,000</u>			<u>24,000</u>

Workings

Creditors Control Account					
19X1	Payments	11,000	01.01.19X1	Bal b/d	6,000
19X1	Discount received	2,000	19X1	Credit purchases	14,200
19X1					
	Bal c/d (6,000 @ 1.2)	<u>7,200</u>			
		<u>20,200</u>			<u>20,200</u>

- (a) Purchases £14,200 and sales £19,000.
(b) Purchases £13,000 and sales £20,000.
(c) Purchases £15,000 and sales £14,000.
(d) Purchases £13,000 and sales £14,000.

19. During a financial year creditors increased by £10,000. Credit purchases amounted to £50,000 and cheque payments to creditors were £39,000. The apparent discrepancy on the control account can be explained by:
- (a) Unrecorded discount allowed. *This will affect debtors not creditors*
 - (b) Unrecorded discount received. *The closing creditors in this situation would be too high; instead it is too low.*
 - (c) Unrecorded bad debts which should have been written off. *This will affect debtors not creditors*
 - (d) Unrecorded credit purchases. *With credit purchases of £50,000 and payments of £39,000, the creditors balance should have gone up by £11,000. It only increased by £10,000. This suggests there are unrecorded credit purchases*
20. During a financial year debtors increased by £6,000. Credit sales amounted to £68,000 and receipts from debtors amounted to £61,000. The apparent discrepancy on the control account can be explained by:
- (a) Unrecorded discount allowed. *Unrecorded discount allowed would explain the discrepancy: £68,000_{Credit sales} - £61,000_{Receipts from debtors} - £1,000_{Discount allowed} = £6,000_{Increase in debtors}*
 - (b) Unrecorded discount received. *This will affect creditors not debtors*
 - (c) Bad debts recovered and included in £61,000 above. *Bad debts recovered credited incorrectly to debtors would make the discrepancy worse, not explain it*
 - (d) Unrecorded credit sales. *Unrecorded credit sales would make the discrepancy worse, not explain it*

CHAPTER FOURTEEN

Correction of Errors and Journal Entries

1. The correction of errors will initially be recorded in which of the following?
 - (a) Nominal ledger.
 - (b) Trial balance.
 - (c) Debtors or Creditors ledgers.
 - (d) General Journal.
2. Journal entries will always have:
 - (a) A supporting cheque stubb.
 - (b) A cash receipts voucher.
 - (c) A supporting entry in the debtors or creditors ledger.
 - (d) A narrative explaining the nature of the transaction or event.
3. The purchase of a fixed asset was incorrectly debited to the purchases account. This represents:
 - (a) An error of omission. *This type of error arises when something is left out*
 - (b) An error of commission. *An error of commission is where a proper double entry is recorded but in the wrong account*
 - (c) An error of principle.
 - (d) A compensating error.
4. Which of the following errors will be highlighted by the trial balance?
 - (a) Sale proceeds of fixed asset credited to sales account. *Sales proceeds should be credited to the disposal account. This is an error of commission and will not lead to an error on the trial balance*
 - (b) Wages expense debited to sales account. *Wages should be debited to the wages account. This is an error of commission and will not lead to an error on the trial balance*
 - (c) Incorrectly totalling the sales account. *This will lead to a difference in the trial balance*
 - (d) Completely omitting a sales transaction from the books. *This is an error of omission. As both the debit entry and the credit entry are omitted, there will be no difference highlighted in the trial balance*
5. An adjustment for prepaid rates was ignored when preparing the financial statements of a company. As a result:
 - (a) Both profit and net assets are overstated.
 - (b) Both net profit and net assets are understated. *The adjustment Dr Prepayments (Balance sheet, Current asset), Credit Expense Account (profit and loss account) was omitted. As a result, current assets are understated, expenses are overstated and therefore profit is understated*
 - (c) Net profit is understated and net assets are overstated.
 - (d) Net profit is overstated and net assets are understated.

6. If discount received in the amount of £50 was debited to the discount allowed account, then the net profit figure would be:
- (a) £50 too much.
 - (b) £50 too little.
 - (c) £100 too little. *Discount received should be credited to the Discount received account. To correct for the error, Dr Suspense account £100; Cr Discount allowed £50, Cr Discount received £50.*
 - (d) £100 too much.
7. Stock withdrawn by the proprietor in the amount of £250 was not recorded. As a result the net profit is:
- (a) Overstated by £250.
 - (b) Understated by £250. *The double entry omitted was Dr Drawings, Cr Purchases. As purchases are overstated by £250, profit will be understated by £250.*
 - (c) Understated by £500.
 - (d) Overstated by £500.
8. A bad debt recovered was incorrectly credited to the debtors control account. As a result:
- (a) Net profit and debtors are overstated.
 - (b) Net profit and debtors are understated. *Bad debt recovered should be credited to the profit and loss account, not debtors. The double entry to correct the error is Dr Debtors, Cr Bad debt recovered. Thus, debtors are understated and net profit is understated*
 - (c) Net profit is understated and debtors are overstated.
 - (d) Net profit is overstated and debtors are understated.
9. If the purchase of a fixed asset was debited to the purchases account then:
- (a) Net profit would be overstated
 - (b) Net profit would be understated.
 - (c) Fixed assets would be overstated. *Fixed assets would be understated*
 - (d) Capital would be overstated. *Purchase of fixed assets has no effect on capital*

10. The balance on P. Smith's account in the debtors ledger amounting to £100 was written off by a debit entry in P. Smith's account in the debtors ledger and a credit entry in the bad debts account. Which of the following entries correctly adjusts for this error?

Workings

Incorrect entry		Correct entry	
Dr P. Smith	100	Dr Bad debts	100
Cr Bad debts	100	Cr Debtors Control account	100
		Cr P. Smith	100

Two errors were made: (i) The Debtors control account was not properly recorded and (ii) debits were recorded as credits and vice versa in P. Smith's account and in the Bad debts account. The correction for (ii) requires double the amount of the error.

- (a) Debit P. Smith's account in the debtor's ledger and debit debtors control account and credit bad debts account. All entries in the amount of £100.
- (b) Debit bad debts account and credit P. Smith's account in the debtors ledger. All entries in the amount of £200.
- (c) Debit bad debts account with £200 and credit P. Smith's account in the debtors ledger with £200 and credit debtors control account with £100.
- (d) Debit bad debts account and debtors control account, each with £200 and credit P. Smith's account in the debtors ledger with £200.
11. If closing stock at the end of an accounting period is overvalued by £1,000 and if no adjustment is subsequently made, the net profit in the following accounting period will be:
- (a) £1,000 too much.
- (b) £1,000 too little.
- (c) £2,000 too much.
- (d) £2,000 too little.
12. Bad debts were not provided for when preparing the financial statements of the firm. As a result:
- (a) Both net profit and debtors are overstated.
- (b) Both net profit and debtors are understated.
- (c) Net profit is understated and debtors are overstated.
- (d) Net profit is overstated and debtors are understated.
13. The debit side of a trial balance exceeds the credit side by £60. This error will temporarily be shown in the suspense account as:
- (a) £60 debit.
- (b) £60 credit.
- (c) £120 debit.
- (d) £120 credit.

14. The sales account of a company was overcast by £100 and the difference in the trial balance was recorded in a suspense account. The correcting entry is:

DEBIT		CREDIT	
(a)	Sales account. £100	Suspense account.	£100
(b)	Suspense account.	Sales account.	£100
(c)	Sales account.	Suspense account.	£200
(d)	Suspense account.	Sales account.	£200

15. Discount allowed in the amount of £40 was incorrectly credited to the discount received account. The resulting difference was transferred to a suspense account. The correcting entry is:

Workings

Incorrect entry		Correct entry		Correction	
Dr Suspense	80			Dr Discount allowed	40
Cr Discount received	40	Dr Discount allowed	40	Dr Discount received	40
Cr Debtors	40	Cr Debtors	40	Cr Suspense	80

(assume this side of the double entry is entered correctly)

DEBIT		CREDIT	
(a)	Discount allowed account £40.	Suspense account	£40.
(b)	Discount received account £40.	Suspense account	£40.
(c)	Suspense account £80.	Discount received account	£80.
(d)	Discount allowed account £40.	Suspense account	£80.
	Discount received account £40		

16. It was discovered after the preliminary trial balance was extracted that a bad debt recovered was credited to the debtors control account. The correcting entry is:

DEBIT		CREDIT	
(a)	Suspense account.	Bad debts recovered account.	
(b)	Debtors control account.	Bad debts recovered account.	
(c)	Debtors control account.	Suspense account	
(d)	Bad debts recovered account.	Debtors control account.	

Bad debts recovered should be credited to the
Bad debt recovered account, not to Debtors

17. Bank charges were completely omitted from the books of a company. The correcting entry is:

DEBIT		CREDIT	
(a)	Bank charges account.	Bank account.	
(b)	Bank account.	Bank charges account.	
(c)	Suspense account.	Bank account.	
(d)	Bank account.	Suspense account.	

18. When preparing a trading account of a company closing stock was overvalued by £1,000. The correcting entry to the draft accounts is:

DEBIT	CREDIT
(a) Net profit account.	Stock account.
(b) Purchases account.	Stock account.
(c) Cost of sales account.	Stock account.
(d) Stock account.	Cost of sales account.

19. Fixed assets were depreciated in year two on a reducing balance method rather than on a straight line basis. The correcting entry is:

Reducing balance depreciation in Year 2 is lower than depreciation in Year 2 on a straight-line basis. Therefore, the depreciation charge in Year 2 has to be increased as does aggregate depreciation.

DEBIT	CREDIT
(a) Aggregate depreciation.	Depreciation.
(b) Profit and loss.	Depreciation.
(c) Aggregate depreciation.	Profit and loss.
(d) Depreciation.	Aggregate depreciation.

20. At the end of a financial year it was discovered that a credit purchase transaction from J. Bloggs in the amount of £100 was omitted from the books. The appropriate journal entry (with narrative) is:

- (a) Debit purchases account with £100 and credit creditors control account with £100.
- (b) Debit J. Bloggs account in the creditors ledger with £100 and credit creditors control account with £100.
- (c) Debit purchases account with £100 and credit J. Bloggs account in the creditors ledger with £100.
- (d) Debit purchases account with £100 and credit both J. Bloggs account in the creditors ledger and creditors control account with £100.

CHAPTER FIFTEEN

Bank Reconciliation Statements

1. Which of the following items would normally appear on the bank statement before being entered in the cash book?
 - (a) Outstanding cheques.
 - (b) Outstanding lodgements.
 - (c) Bank charges.**
 - (d) Cash sales lodged.
2. Which of the following items would normally be entered in the firm's cash book and subsequently checked against the bank statement?
 - (a) Lodgements.**
 - (b) Dishonoured cheques.
 - (c) Bank charges.
 - (d) Bank overdraft interest.
3. Which of the following statements is correct? A bank reconciliation statement is usually:
 - (a) Prepared by the firm on a regular basis to check the accuracy of the cash book.**
 - (b) Prepared by the bank as part of their checking system.
 - (c) Part of the double entry system of the company.
 - (d) Prepared by the firm to highlight a bank overdraft.
4. In preparing bank reconciliation statements there are two principal types of reconciling items, namely, those which require adjustment in the firm's cash book and those which do not. Which one of the following items do not require adjustment in the firm's cash book?
 - (a) Standing orders.
 - (b) Outstanding cheques.**
 - (c) Bank charges.
 - (d) Error in the cash book.
5. A cheque written by you but not presented by the payee at the bank will be described on the reconciliation statement as:
 - (a) An outstanding lodgement.
 - (b) An outstanding cheque.**
 - (c) A standing order.
 - (d) An error to be corrected.
6. A debit balance on the bank statement indicates that the firm has:
 - (a) Money in the bank.
 - (b) An overdraft.**
 - (c) Lodgements.
 - (d) Dividends received.

7. When comparing the bank statement with the cash book you discover that a cheque presented for payment in the bank has been omitted from the cash book. This error will be:
- (a) Shown as an outstanding cheque on the reconciliation statement.
 - (b) Shown as an outstanding lodgement on the reconciliation statement.
 - (c) Highlighted as an error to be corrected before a final reconciliation is prepared.
 - (d) Highlighted as an error to be corrected by the bank.

8. A cheque received from a customer was lodged but subsequently dishonoured. This dishonoured cheque would:

A dishonoured cheque arises when (i) a cheque received by a company, for example, from a customer, and is lodged and (ii) is recorded as a receipt in the bank statement and (iii) a few days later the receipt is removed from the company's bank account when the cheque bounces or is dishonoured by the customer's bank

- (a) Appear on the reconciliation statement as an outstanding lodgement.
 - (b) Appear on the reconciliation statement as an unpresented cheque.
 - (c) Recorded as a debit entry in the firm's cash book before preparing a final reconciliation statement.
 - (d) Recorded as a credit entry in the firm's cash book before a final reconciliation is prepared.
9. An outstanding lodgement, when presented, will have the following impact on the bank statement if the firm is in overdraft:
- (a) Increase the debit balance.
 - (b) Increase the credit balance.
 - (c) Decrease the debit balance.
 - (d) Decrease the credit balance.
10. When comparing the firm's cash book with the bank statement you discover that lodgements per the cash book have been overstated. This would be:
- (a) Shown as an outstanding lodgement on the reconciliation statement.
 - (b) Shown as an outstanding cheque on the reconciliation statement.
 - (c) Corrected in the cash book before preparing a final reconciliation.
 - (d) Corrected on the bank statement.
11. A cheque will have the following impact on the bank overdraft per the bank statement when presented:
- (a) Increase the debit balance per the bank statement.
 - (b) Increase the credit balance per the bank statement.
 - (c) Decrease the debit balance per the bank statement.
 - (d) Decrease the credit balance per the bank statement.
12. A direct debit is debited on the bank statement of a firm. This previously unrecorded transaction could be entered by the firm as:
- | DEBIT | CREDIT |
|--|--------------------------------|
| (a) Bank account. | Cash account. |
| (b) Bank account. | Individual creditors accounts. |
| (c) Individual creditors and creditors control accounts. | Bank account. |
| (d) Creditors control account. | Bank account. |

13. The entry to record bank charges can be expressed as:

DEBIT	CREDIT
(a) Bank account.	Bank charges account.
(b) Bank charges account.	Bank account.
(c) Bank charges account.	Cash account.
(d) Profit and loss account.	Bank account.

14. When comparing the bank statement with the cash book, you discover that bank interest payable in the amount of £15 had not been recorded by the firm. The bank overdraft in the books of the firm is:

- (a) Overstated by £15.
- (b) Understated by £15.**
- (c) Overstated by £30.
- (d) Understated by £30.

15. A firm's bank account was overdrawn by £100 per the bank statement. Outstanding lodgements of £500 and outstanding cheques of £200 were identified. The closing balance per the firm's cash book was:

<u>Workings</u>	£
Bank reconciliation	
Balance per bank account in books	200
Add: Outstanding cheques	200
Less: Outstanding lodgements	<u>(500)</u>
Balance per bank statement	<u>(100)</u>

- (a) £200 debit.**
- (b) £200 credit.
- (c) £400 debit.
- (d) £400 credit.

16. The closing balance on the bank statement was £100 less than the balance per the firm's cash book. Outstanding cheques amounting to £60 were identified. Outstanding lodgements must be:

<u>Workings</u>	£
Bank reconciliation	
Balance per bank account in books	Assumed 200
Add: Outstanding cheques	60
Less: Outstanding lodgements	<u>(160)</u>
Balance per bank statement	<u>100</u>

- (a) £40.
- (b) £60.
- (c) £140.
- (d) £160.**

17. A firm's cash book showed a debit balance of £1,000. Outstanding cheques of £500 and outstanding lodgements of £400 were identified. The closing balance on the bank statement was:

Workings

Bank reconciliation	£
Balance per bank account in books	1,000
Add: Outstanding cheques	500
Less: Outstanding lodgements	(400)
Balance per bank statement	<u>1,100</u>

- (a) £1,100 debit.
(b) £1,100 credit.
(c) £ 900 debit.
(d) £ 900 credit.
18. A bank statement shows a credit balance of £1,000. Comparison with the cash book to which it relates reveals the following differences:
1. Bank charges not yet entered in the cash book, £10.
 2. Outstanding cheques, £259.
 3. Outstanding lodgements, £638.

Ignoring other differences the unadjusted cash book balance was:

Workings

Bank reconciliation	£
Balance per bank account in books	1,389
Add: Outstanding cheques	259
Less: Outstanding lodgements	(638)
Bank charges not in cash book	<u>(10)</u>
Balance per bank statement	<u>1,000</u>

- (a) £1,389 debit.
(b) £1,389 credit.
(c) £1,369 debit.
(d) £1,369 credit.

19. A firm's cash book reveals a debit balance of £850. Comparison with the bank statement to which it relates reveals the following differences:
1. Outstanding lodgements, £247.
 2. Bank charges not yet entered in the cash book, £24.
 3. Unpresented cheques, £652.

Ignoring other differences, the bank statement balance was:

Workings

Bank reconciliation	£
Balance per bank account in books	850
Add: Outstanding cheques	652
Less: Outstanding lodgements	(247)
Bank charges not in cash book	<u>(24)</u>
Balance per bank statement	<u>1,231</u>

- (a) £ 469.
(b) £1,279.
(c) **£1,231.**
(d) £ 421.
20. A bank statement shows an overdraft of £1,000. Comparison with the cash book to which it relates highlights the following differences:
1. Unpresented cheques, £100.
 2. Outstanding lodgements, £2,000.
 3. Bank charges not yet entered in the cash book, £5.

Ignoring other differences, the unadjusted cash book balance was:

<u>Workings</u>	£
Bank reconciliation	
Balance per bank account in books	905
Add: Outstanding cheques	100
Less: Outstanding lodgements	(2,000)
Bank charges not in cash book	<u>(5)</u>
Balance per bank statement	<u>(1,000)</u>

- (a) £ 895 credit.
(b) **£ 905 debit.**
(c) £2,895 credit.
(d) £2,905 debit.

CHAPTER SIXTEEN

Ratio Analysis

1. The return on capital employed can be used to measure:
(a) Profitability.
(b) Gearing.
(c) Leverage.
(d) Solvency.
2. The term capital employed is usually calculated as the sum of:
(a) Ordinary share capital only.
(b) Ordinary and preference share capital only.
(c) Ordinary and preference share capital plus all reserves.
(d) Ordinary and preference share capital plus all reserves and long term liabilities.
3. Which of the following ratios would best be calculated using only year end rather than average figures?
(a) Stock turnover ratio.
(b) Debtor days.
(c) Return on shareholders' funds.
(d) Return on capital employed.
4. Which of the following is the correct ratio for return on capital employed?
(a) Profit after interest but before preference dividends.
Ordinary and preference share capital, reserves and debt.
(b) Profit after interest and preference dividends.
Ordinary and preference share capital and debt.
(c) Profit before interest and preference dividends.
Ordinary and preference share capital and debt.
(d) Profit before interest and preference dividends.
Ordinary share capital and reserves.
5. A company has shareholders' funds of £100,000 and 10% debentures in the amount of £50,000. If profit before interest amounted to £15,000, the return on capital employed is:
(a) 6.6%.
(b) 10%. $\frac{£15,000 \text{ Profit before interest}}{£100,000 \text{ Shareholders' funds/Equity} + £50,000 \text{ Debt}}$
(c) 15%.
(d) 20%.

6. A company has capital employed of £150,000 and a long term debt-equity ratio of 50%. Debt carries a 10% rate of interest. If the profit before interest amounts to £15,000, then the return on shareholders' funds is:

Workings

Shareholders' funds (100%) + Debt (50%) = £150,000

∴ Shareholders' funds (100%) = £100,000

Return on shareholders' funds = $\frac{£15,000 - £5,000}{£100,000} \times 100\%$
= 10%

- (a) 8%.
(b) 10%.
(c) 12%.
(d) 13%.
7. The gross assets of a company exceed its net assets by £2,000. If fixed assets amounting to £6,000 represents 75% of shareholders' funds, then current assets are:

Workings

Gross assets (Fixed assets + Current Assets) £2,000 > Net Assets (Fixed assets + Current Assets - Liabilities)

∴ Liabilities = £2,000

£6,000 = 75% Shareholders' funds ∴ Shareholders' funds = £8,000

Net assets = shareholders' funds (the balance sheet equation)

Fixed assets + Current Assets – Liabilities = Shareholders' funds

£6,000 Fixed assets + ??? Current assets – £2,000 Liabilities = £8,000 Shareholders' funds

∴ Current assets = £4,000

- (a) £2,000.
(b) £4,000.
(c) £6,000.
(d) £8,000.
8. An abnormal increase in the gross profit ratio of a trader can be explained by which of the following?
- (a) Undervaluation of closing stock. *This would decrease profits*
(b) Overvaluation of closing stock. *The higher the closing stock the higher the profit*
(c) Purchases overstated. *This would decrease profits*
(d) Understatement of actual sales. *This would decrease profits*
9. A fall in the gross profit ratio will not be explained by:
- (a) Theft of stock during the year.
(b) Undervaluation of closing stock.
(c) Overvaluation of closing stock. *The higher the closing stock the higher the profit*
(d) Stock written off as worthless during the year.

10. The stock turnover ratio is usually calculated by dividing:
- (a) Sales by average stock.
 - (b) Purchases by average stock.
 - (c) Cost of sales by average stock.
 - (d) Cost of sales by sales.
11. If opening stock is £6,000, closing stock is £10,000, sales are £80,000 and the mark-up on cost is 25%, then the stock turnover ratio is:

Workings

Sales ($\equiv 125\%$)	£80,000
Cost of sales ($\equiv 100\%$)	<u>£(64,000)</u>
Gross profit ($\equiv 25\%$ mark up on cost of sales)	<u>£16,000</u>
Stock turnover = cost of sales/average stock	
$= £64,000 / (£6,000_{\text{Opening stock}} + £10,000_{\text{Closing stock}}) \div 2 = 8 \text{ times}$	

- (a) $10\frac{2}{3}$ times
 - (b) $7\frac{1}{2}$ times
 - (c) 8 times
 - (d) 10 times
12. During a financial year a company had average stock of £15,000 and a gross profit margin of 25%. If sales amounted to £120,000, the stock turnover ratio is:

Workings

Sales ($\equiv 100\%$)	£120,000
Cost of sales ($\equiv 75\%$)	<u>£(90,000)</u>
Gross profit ($\equiv 25\%$ margin on sales)	<u>£30,000</u>
Stock turnover = cost of sales/average stock	
$= £90,000 / (£15,000_{\text{Average stock}}) = 6 \text{ times}$	

- (a) 6 times
- (b) $6\frac{4}{5}$ times
- (c) 8 times
- (d) 10 times

13. A company has credit sales of £108,000 and cash sales of £12,000. If the gross profit margin is 20%, with a 360 day year and an average period of credit allowed of 30 days, then debtors are:

Workings

Sales = £120,000_{£108,000 Credit sales + £12,000 Cash sales}

£120,000 = 360 days' sales

Debtors = 30 days' sales = £120,000_{Sales} x 30_{Days}/360_{Days} =
= £10,000

- (a) £8,000.
(b) £9,000.
(c) £10,000.
(d) £7,200.
14. During an accounting period the stock turnover ratio was 10 times per annum and the mark-up on cost was 20%. Assuming average stock of £15,000, debtors of £20,000 and that all sales were on credit, debtor days for the period assuming 360 days per annum were:

Workings

Average stock = £15,000

Stock turnover ratio = 10 times

= £15,000_{Average stock} x 10 times = £150,000_{Cost of sales}

Sales (120%) – Cost of sales (100%) = Gross profit (Mark-up on cost 20%)

£180,000_{Sales (120%)} – £150,000_{Cost of sales (100%)} = £30,000_{Gross profit (Mark-up 20%)}

£20,000_{Debtors}/£180,000_{Sales} x 360_{Days per annum} = 40 days

- (a) 38 days (approx.)
(b) 40 days.
(c) 45 days.
(d) 48 days.
15. The known current assets of a firm consist of stock £5,000 and debtors of £4,000 but the bank balance is unknown. If the acid test ratio is 2:1 and current liabilities are £3,000, then the bank balance is:

Workings

Acid-test ratio: Current assets – Stock/Current Liabilities = 2:1

Acid-test ratio: Current assets (£4,000_{Debtors} + £???_{Bank}) – £5,000_{Stock} = £6,000/£3,000_{Current}

Liabilities = 2:1

∴ Bank = £7,000

- (a) £2,000.
(b) £3,000.
(c) £3,500.
(d) A bank overdraft is indicated.

16. The current ratio is 2:1. Net current assets amounts to £2,000. Total current assets amount to:

Workings

Current ratio: Current assets / Current Liabilities = 2:1

Net current assets = £2,000 ($2_{\text{Current assets}} - 1_{\text{Current liabilities}} \equiv 1_{\text{Net current assets}}$)

$\frac{£4,000_{\text{Current assets}}}{£2,000_{\text{Current liabilities}}} = 2:1$

∴ Current assets = £4,000

- (a) £1,000.
(b) £2,000.
(c) £4,000.
(d) £6,000.
17. The acid test ratio can be used to indicate:
(a) Profitability.
(b) Activity.
(c) Gearing.
(d) Liquidity.
18. A firm's current and acid test ratios are 2:1 and 1:1 respectively. If stock amounts to £10,000, then current liabilities are:

Workings

Current ratio: Current assets / Current Liabilities = 2:1

Acid-test ratio: Current assets – Stock / Current Liabilities = 1:1

∴ Stock = 1 (Current assets + Stock = 2; Current assets – Stock = 1)

Current liabilities = 1

∴ Current liabilities = £10,000

- (a) £ 5,000.
(b) £10,000.
(c) £15,000.
(d) £20,000
19. The debt-equity ratio is calculated to indicate:
(a) Liquidity.
(b) Profitability.
(c) Gearing.
(d) Activity.

20. The net assets of a firm amount to £8,000 and net current assets are £3,000. If no long term debt exists then fixed assets are:

Workings

Net assets (Fixed assets and net current assets) = £8,000

Net assets (£???_{Fixed assets} + £3,000_{Net current assets}) = £8,000

∴ Fixed assets = £5,000

- (a) £3,000.
(b) £5,000.
(c) £6,000.
(d) £11,000.

CHAPTER SEVENTEEN
Statement of Source and Application of Funds

1. A statement of source and application of funds is prepared primarily to show:
 - (a) Changes in the profitability of a business for an accounting period.
 - (b) The application of funds only for the period.
 - (c) All the sources of funds only of the business during the period.
 - (d) The total changes in funds of the business during the period.
2. The figure, "funds from operations", shown in the funds flow statement is calculated as:
 - (a) Gross profit less all expenses including tax.
 - (b) Net profit after all expenses including dividends.
 - (c) Net profit after all expenses involving the movement of funds but before taxation and dividends.
 - (d) Net profit after those expenses involving the movement of funds and after taxation and dividends.
3. The profit to be included in preparing the funds flow statement needs to be adjusted for items included therein not involving the movement of funds. Which of the following is not one of these items?
 - (a) Depreciation.
 - (b) Goodwill written off.
 - (c) Bonus issue of shares.
 - (d) Profit on the sale of fixed assets.
4. A company generated a net profit before taxation of £25,560. This figure includes profit from the sale of fixed assets of £850, depreciation of £1,000 and wages of £4,000. Funds from operations are:

<u>Workings</u>	<u>£</u>
Net profit before taxation	25,560
Adjustment for non-cash items	
Add back: Depreciation	1,000
Deduct: Profit on disposal	<u>(850)</u>
	<u>25,710</u>

- (a) £21,710.
- (b) £25,710.
- (c) £26,560.
- (d) £25,410.

5. Which of the following would be a source of funds?
- (a) Bonus issue of shares. *Bonus issues are for “free” – they generate no cash*
 - (b) Share issue at par. *Issuing shares at par will generate cash in the amount of the nominal value of the shares*
 - (c) Revaluation of premises. *Revaluations increase the book value of assets in the financial statements but do not generate cash until the asset is subsequently sold*
 - (d) Transfer to general reserve. *This is a book entry generating no cash*
6. Which of the following is the odd one out in relation to its treatment in the funds flow statement?
- (a) Issue of share capital.
 - (b) Sale of fixed asset. *All four alternatives generate cash; a profit or loss on the sale of fixed assets will be included in profit and will have to be adjusted for. The cash on disposal will be included as a cash inflow from investing activities*
 - (c) Receipt of government grant.
 - (d) Dividend received from investment.
7. A firm revalued its premises by £50,000 during the year and the revaluation reserve was utilised by way of bonus issue. In relation to the firm's funds flow statement this represents a:
- (a) Source of funds.
 - (b) Application of funds.
 - (c) Funds from operations.
 - (d) *Neither a source or application of funds. Revaluations do not generate cash. Bonus issues of shares are for “free” and do not generate cash*
8. An application of funds would not include:
- (a) Payment of taxation.
 - (b) Purchase of fixed assets.
 - (c) Repayment of loan.
 - (d) *Debenture issue. This will raise finance/cash*

9. A firm had the following transactions in its first year of business:

	£
Sales (90% collected during year)	1,500
Actual bad debts	60
Cash expenses including purchases	1,200
Payment of taxation	90
Additions to fixed assets	400
Proceeds from share issue	500
Depreciation of fixed assets	80
Long term loan received	50

<u>Workings</u>	£
Cash flow statement	
Profit before tax ($1,500_{\text{Sales}} - (1,200_{\text{Expenses}} + 60_{\text{Bad debts}} + 80_{\text{Depreciation}})$)	160
Adjustment for non-cash items	
Add back: Depreciation	80
Movement in working capital – Increase in Debtors (£1,500 @ 10%)	(90)
= $150 - 60_{\text{Bad debt written off}}$	<u>150</u>
Payment of taxation	<u>(90)</u>
	60
Investing activities:	
- Additions to fixed assets	<u>(400)</u>
	(340)
Financing activities:	
- Proceeds from share issue	500
- Long term loan received	<u>50</u>
Cash inflow	<u>550</u>
	<u>210</u>

The closing cash balance is:

- (a) £150.
- (b) £130.
- (c) £210.**
- (d) £170.

10. The following information is presented to you in respect of the year ended 31 December 19X4:

Sales	£350
Gross profit	30%
Net profit	10%
Increase in debtors	£10
Increase in creditors	£2
Increase in stock	£4
Total overheads	20% of sales
Depreciation charge	£20 (included in total overhead)

The funds from operations amounted to:

<u>Workings</u>	£
Cash flow statement	
Profit before tax (350 _{Sales} @ 10% Net profit)	35
Adjustment for non-cash items	
Add back: Depreciation	20
Movement in working capital	
Increase in stock	(4)
Increase in debtors	(10)
Increase in creditors	<u>2</u>
	<u>43</u>

- (a) £15.
(b) £35.
(c) £55.
(d) £105.
11. The cost of a firm's fixed assets was £100 and £120 at the start and end of the year respectively. Depreciation of £40 was charged during the year and disposals at cost amounted to £10. The apparent discrepancy in the fixed asset account could be explained by:
- (a) Additions to fixed assets. ($£100_{\text{Opening balance Net book value}} - 40_{\text{Depreciation during year}} - 10_{\text{Disposal at cost}} = £50 + £70_{\text{Additions to fixed assets}} = 120_{\text{Closing balance}}$)
- (b) Extra depreciation.
(c) Fixed assets written off as worthless.
(d) Sale of fixed assets.

12. The book values of a firm's fixed assets were made up as follows:

	OPENING	CLOSING
	£	£
Cost	560	830
Aggregate depreciation	230	315

During the year fixed assets costing £112 and with a book value of £38 were sold at a profit of £85. Depreciation of £159 was charged for the year. How much fixed assets were purchased during the year?

Workings

£

❶ Reconciling fixed assets @ cost:

$$560_{\text{Opening fixed assets at cost}} - 112_{\text{Disposal at cost}} + ??? [\therefore 382]_{\text{Additions}} = 830_{\text{Closing fixed assets at cost}}$$

❷ Reconciling fixed assets @ net book value:

$$(560 - 230 = 330)_{\text{Opening fixed assets at NBV}} - 38_{\text{Disposal at NBV}} - 159_{\text{Depreciation}} + ??? [\therefore 382]_{\text{Additions}} = (830 - 315 = 515)_{\text{Closing fixed assets at NBV}}$$

❸ Reconciling fixed assets @ aggregate depreciation:

$$230_{\text{Opening fixed assets at aggregate depreciation}} - 112 - 38 = 74_{\text{Disposal at aggregate depreciation}} + 159_{\text{Depreciation}} = 315_{\text{Closing fixed assets at aggregate depreciation}}$$

- (a) £482.
(b) £308.
(c) £382.
(d) £408.
13. Based on the information in question 12 above, the aggregate depreciation of the fixed asset sold was:
- (a) £185.
(b) £ 74.
(c) £ 85.
(d) £ 27.

QUESTIONS 14 TO 16 ARE BASED ON THE FOLLOWING INFORMATION:

The fixed assets of a company were recorded in the books as follows:

	OPENING	CLOSING
	£	£
Cost	6,723	7,418
Aggregate depreciation	2,946	3,572

During the year new fixed assets were purchased at a cost of £1,000 and fixed assets were sold at a loss of £100. Total depreciation for the year amounted to £700.

Workings

£

① Reconciling fixed assets @ cost:

$6,723_{\text{Opening fixed assets at cost}} + 1,000_{\text{Additions}} - ??? [\therefore 305]_{\text{Disposal at cost}} = 7,418_{\text{Closing fixed assets at cost}}$

② Reconciling fixed assets @ net book value:

$(6,723 - 2,946 = 3,777)_{\text{Opening fixed assets at NBV}} + 1,000_{\text{Additions}} - ??? [\therefore 231]_{\text{Disposal at NBV}} - 700_{\text{Depreciation}} = (7,418 - 3,572 = 3,846)_{\text{Closing fixed assets at NBV}}$

③ Reconciling fixed assets @ aggregate depreciation:

$2,946_{\text{Opening fixed assets at aggregate depreciation}} - ??? [\therefore 74]_{\text{Disposal at aggregate depreciation}} + 700_{\text{Depreciation}} = 3,572_{\text{Closing fixed assets at aggregate depreciation}}$

14. The cost of fixed assets sold was:

- (a) £305.
- (b) £695.
- (c) £1,695.
- (d) £1,795

15. The book value of the fixed assets sold was:

- (a) £231.
- (b) £678.
- (c) £974.
- (d) £1,098

16. The proceeds on disposal were:

- (a) £100.
- (b) £900.
- (c) £131. ($231_{\text{Net Book Value of asset disposed of}} - 100_{\text{Loss on disposal}} = 131_{\text{Cash received on disposal}}$)
- (d) £205.

17. Calculate the total dividends paid during the period given the following information:

	£
Interim dividend	5,000
Proposed final dividend	10,000
Dividend account-opening balance	6,000
-closing balance	10,000

Workings

$$6,000_{\text{Opening balance}} + 5,000_{\text{Interim dividend}} + 10,000_{\text{Proposed final dividend}} - ??? [\therefore 11,000]_{\text{Dividends paid}} \\ = 10,000_{\text{Closing balance}}$$

- (a) £ 5,000.
(b) £ 6,000.
(c) £ 9,000.
(d) £11,000.

18. During the year the firm's total reserves increased by £10. The profit before tax was £20 and the tax rate was 40% thereon. The dividend for the year was:

Workings

$$\text{Nil}_{\text{Opening balance assumed}} + 20_{\text{Profit}} - 8_{\text{Taxation on profit @ 40\%}} - ??? [\therefore 2]_{\text{Dividends}} = 10_{\text{Closing balance}}$$

- (a) £ 2.
(b) £ 4.
(c) £ 8.
(d) £10.

19. What is the tax paid during the year given the following information?

Taxation account — opening balance	£5
— closing balance	£7
Taxation charge for the year	£7

Workings

$$5_{\text{Opening balance}} + 7_{\text{Taxation charge for year}} - ??? [\therefore 5]_{\text{Taxation paid}} = 7_{\text{Closing balance}}$$

- (a) £ 2.
(b) £ 5.
(c) £ 7.
(d) £12.

20. The closing balance on the taxation payable account is 50% greater than the opening balance. The profit and loss charge was £15 for the year. If all tax is paid yearly in arrears, the opening balance is:

Workings

15Taxation charge for year = closing balance = 150% opening balance

∴ Opening balance = 10

10Opening balance + 15Taxation charge for year – ??? [∴ 10] Taxation paid = 15Closing balance

(a) £ 5.

(b) £10.

(c) £15.

(d) £20.

CHAPTER EIGHTEEN

Incomplete Records

- Which of the following books is the most important when preparing accounts from incomplete records?
 - Debtors ledger.
 - Sales day book.
 - Cash book. The cash book can be cross checked against the bank statements**
 - Creditors ledger.
- You are provided with the following information regarding a small trader:

	OPENING	CLOSING	TOTAL
	£	£	£
Bank	1,100	3,000	
Cash on hands	100	200	
Debtors	2,000	3,000	
Creditors	1,000	2,000	
Cash received from			10,000
Payments to suppliers			7,000

What are the purchases and sales for the period?

Workings

$$1,000_{\text{Opening balance creditors}} - 7,000_{\text{Payments to creditors}} + ??? [\therefore 8,000]_{\text{Credit purchases}} = 2,000_{\text{Closing balance creditors}}$$

$$2,000_{\text{Opening balance debtors}} - 10,000_{\text{Received from debtors}} + ??? [\therefore 11,000]_{\text{Credit sales}} = 3,000_{\text{Closing balance debtors}}$$

- | | | |
|-----|-------------------------|-----------------------|
| (a) | Purchases £7,000 | Sales £10,000. |
| (b) | Purchases £8,000 | Sales £11,000. |
| (c) | Purchases £7,000 | Sales £11,000. |
| (d) | Purchases £8,000 | Sales £10,000. |

3. The following information relates to a retail company:

	OPENING	CLOSING	TOTAL
	£	£	£
Cash on hands	100	200	
Creditors	5,000	6,000	
Debtors	4,000	7,000	
Bank	2,000	3,000	
Lodgements for the period			44,000
Payments to suppliers			31,000
Bad debts written off			3,000
Discount allowed			2,000
Discount received			1,000
Contra entries in control accounts			4,000
Other cheque payments			12,000

What are the purchases and sales for the period?

Workings

5,000 Opening balance creditors – 31,000 Payments to creditors – 1,000 Discount received – 4,000 Contra entry + ???
[∴ 37,000] Credit purchases = 6,000 Closing balance creditors

Cash received

100 Opening cash + 2,000 Opening bank + 44,000 Lodgements – 31,000 Payments to suppliers – 12,000 Other
cheque payments + ??? [∴ 100] Cash receipts = 200 Closing cash + 3,000 Closing bank

4,000 Opening balance debtors – [44,000 + 100] Received from debtors – 2,000 Discount received – 4,000 Contra entry
– 3,000 Bad debt + ??? [∴ 56,100] Credit sales = 7,000 Closing balance debtors

- (a) Purchases £27,000 Sales £55,100
- (b) Purchases £25,000 Sales £55,100
- (c) Purchases £37,000 Sales £56,100
- (d) Purchases £36,000 Sales £56,100

4. The following information relates to a trader's cash and bank transactions for an accounting period:

	CASH	BANK
	£	£
Payments to suppliers	1,000	48,000
Lodgements	?	?
Expenses	2,000	16,000
Opening balances	1,000	2,000
Closing balances	2,000	(2,000)

Cash received

$$1,000_{\text{Opening cash}} + 2,000_{\text{Opening bank}} - 49,000_{\text{Payments to suppliers}} - 18,000_{\text{Other payments}} + ??? \\ [\therefore 63,000]_{\text{Receipts from customers}} = 1,000_{\text{Closing cash}} + (2,000)_{\text{Closing bank}}$$

Receipts from customers during the year amounted to:

- (a) £62,000.
(b) £63,000.
(c) £64,000.
(d) £65,000.
5. The amount paid for rent during the year ended 31 December 19X5 was £1,320 which represented a 10% increase on the payment for the previous year. If the prepayment on 1 January 19X5 was £600 then the expense for the year ended 31 December 19X5 is:

Workings

Rent Account					
01.01.19X5	Bal b/d	600	19X5	Rent expense → P/L	1,260
19X5	Bank	<u>1,320</u>	31.12.19X5	Bal c/d	<u>660</u>
		<u>1,920</u>			<u>1,920</u>

- (a) £ 660.
(b) £1,260. $(600_{\text{1st six months}} \times \frac{100}{110} \times \frac{6}{12} + 660_{\text{2nd six months}} \times \frac{6}{12})$
(c) £1,320.
(d) £1,920.
6. A trader's mark-up on cost is 25%. The gross margin is therefore:

Workings

	Mark-up	Margin
Sales	125%	100%
Cost of sales	<u>(100%)</u>	<u>(80%)</u>
Gross margin	<u>25%</u>	<u>20%</u>

- (a) 20%.
(b) 25%.
(c) 30%.
(d) $33\frac{1}{3}\%$.

7. A trader has sales of £100,000 and a cost mark-up of 25%. If total expenses amount to 10% of cost of sales then net profit will be:

Workings

	£	Mark-up
Sales	100,000	125%
Cost of sales	<u>(80,000)</u>	100%
Gross margin	20,000	25%
Expenses	<u>(8,000)</u>	
Net profit	<u>12,000</u>	

- (a) £ 8,000.
(b) £12,000.
(c) £17,500.
(d) £18,500.
8. A firm maintained average stock of £10,000. The annual stock turnover rate is 12 times with a gross profit margin of 25%. The annual sales were:

Workings

Average stock £10,000 x 12 times turnover = £120,000 cost of sales
If gross profit margin is 25%, cost of sales $\equiv$ 75%
 $\therefore$ Sales = £120,000 $\div$ 75% = £160,000

- (a) £ 96,000.
(b) £120,000.
(c) £150,000.
(d) £160,000.
9. A firm's opening and closing stock were £5,000 and £8,000 respectively. Total sales were £64,000. If the gross profit margin was 25%, then purchases were:

Workings

		£
Sales	100%	64,000
Cost of sales		
Opening stock	5,000	
Purchases	51,000	
Closing stock	<u>(8,000)</u>	
	75%	<u>(48,000)</u>
Gross profit	25%	<u>16,000</u>

- (a) £39,000.
(b) £45,000.
(c) £51,000.
(d) £55,000.

10. Tronic sells T.V.s to the general public at a gross profit margin of 25%. Tronic purchases the T.V.s from a wholesale distributor who charges a mark-up of 20%. If the T.V.s cost the wholesale manufacturer £100 each then how much does Tronic sell them for?

Workings

	Wholesaler		Tronic	
Sales	120%	Derived £120	100%	Derived £160
Cost of sales	100%	Given £100	75%	£120
Gross profit	20%		25%	

- (a) £120.
(b) £150.
(c) £160.
(d) £125.
11. Con Job sells widgets in returnable containers. These containers are included in stock at cost price less 25%. The containers are invoiced to customers at cost plus 50% and full credit is given when they are returned. During the first accounting period containers were invoiced to customers at £220 and returns for the period at invoiced price were £180. What is the value of returnable containers not yet returned to be included in the balance sheet at the period end?

Workings

Sales price	150%	Invoiced £220
		Returns (180)
Cost	100%	Stock at invoiced price 40
Inventory	75%	Stock at balance sheet valuation $40 \times 75/150$ 20

- (a) £20.
(b) £15.
(c) £40.
(d) £30.

12. The entire stock of a trader was destroyed by fire. Opening stock at the beginning of the period was £1,950, cash purchases amounted to £2,100 and credit purchases amounted to £4,770. Sales for the period were £9,600. If the gross profit margin is 20% how much stock was destroyed?

<u>Workings</u>	£	£
Sales		100% 9,600
Opening stock	1,950	
Cash purchases	2,100	
Credit purchases	<u>4,770</u>	
	8,820	
Closing stock	<u>???(1,140)</u>	
= Cost of sales		80% (7,680)

- (a) £ 780.
(b) £1,140.
(c) £ 820.
(d) £2,700.

13. On the 24th of April Tom's shop was broken into and the entire stock was stolen with the exception of a quantity valued at cost at £980. During the period to 24th April total purchases paid for amounted to £9,800 though £420 of these goods were in transit and had not yet been received by Tom. £10,000 worth of sales were delivered to customers. If the mark-up on cost was 25% and there was no opening stock what is the value of goods stolen?

<u>Workings</u>	£	£
Sales		125% 10,000
Opening stock	Nil	
Cash purchases	9,800	
Closing stock	<u>???(1,800)</u>	
= Cost of sales		100% (8,000)
Goods stolen		
Closing stock	1,800	
Less: Goods in transit	(420)	
Less: Goods not stolen	<u>(980)</u>	
	<u>400</u>	

- (a) £ 400.
(b) £ 820.
(c) £1,380.
(d) £ 900.

14. Sonny Mac emigrated soon after resigning as manager of a business. He is suspected of having misappropriated shop funds. The following information related to his period as manager:

	OPENING £	CLOSING £	TOTAL £
Stock	2,000	6,000	
Bank	10,000	20,000	
Debtors	5,000	6,000	
Creditors	3,200	5,000	
Lodgements made by Sonny			54,000
Payments to suppliers			44,000

If the gross profit margin is $33\frac{1}{3}\%$ then expected sales for the period were:

Workings

(W₁) Purchases: £3,200_{Opening creditors} - £44,000_{Payments to suppliers} + ??? [∴ £45,800]_{Purchases} =
£5,000_{Closing creditors}

	£	£
Sales		100% 62,700 (W ₂)
Opening stock	2,000	
Purchases (W ₁)	45,800	
Closing stock	<u>(6,000)</u>	
= Cost of sales		66.67% (41,800)

(W₃) Receipts from debtors: £5,000_{Opening debtors} + £62,700_{Sales} - ??? [∴ £61,700]_{Receipts from debtors} =
£6,000_{Closing debtors}

(W₄) Misappropriation: £61,700_{Receipts} - £54,000_{Lodgements made} = £7,700

- (a) £55,733.
(b) £55,000.
(c) £56,000.
(d) £62,700.
15. Based on question 14 (on page 76) how much did Sonny Mac misappropriate?
(a) £7,331 (approx).
(b) £Nil.
(c) £5,000.
(d) £7,700.

16. You are provided with the following information about the accounts of a small trader for an accounting period:

	OPENING £	CLOSING £	TOTAL £
Credit sales			70,000
Debtors	2,000	3,000	
Creditors	1,000	2,000	
Cash on hands	5,000	3,000	
Bank	(2,000)	3,000	
Payments to creditors			55,000

What is the cash deficiency?

Workings

(W₁) Receipts from debtors: £2,000_{Opening debtors} + £70,000_{Credit sales} - ??? [∴ £69,000]_{Receipts from debtors} = £3,000_{Closing debtors}

(W₂) Bank + cash: £3,000_{Opening Bank + Cash (5)-2} - £55,000_{Payments to suppliers} + £69,000_{Receipts from debtors} - ??? [∴ £11,000]_{Cash deficiency} = £6,000_{Closing Bank + Cash 3+3}

- (a) £12,000.
- (b) £10,000.
- (c) £11,000.
- (d) £15,000

17. Given a deficiency of capital of £10,000 and £12,000 at the beginning and end of a period respectively and net profit of £2,000 how much drawings were there during the period?

Workings

£(10,000)_{Opening capital} + £2,000_{Profit} - ??? [∴ £4,000]_{Drawings} = £(12,000)_{Closing capital}

- (a) £Nil.
- (b) £ 2,000.
- (c) £ 4,000.
- (d) £10,000.

18. A trader commenced business with a capital of £10,000. At the end of the financial year he had debtors of £5,000, creditors of £3,000, stock of £6,000, cash of £2,000 and fixed assets costing £8,000. If drawings were £3,000 and fixed assets are to be depreciated at 10% then what was the profit for the year after depreciation?

Workings

Net assets	£
Fixed assets (8,000 _{Cost} - 800 _{Aggregate depreciation})	7,200
Stock	6,000
Debtors	5,000
Cash	2,000
Creditors	<u>(3,000)</u>
	<u>17,200</u>
Opening capital	10,000
Profit for period	10,200
Drawings	<u>(3,000)</u>
Closing capital	<u>17,200</u>

- (a) £ 7,000.
(b) £10,200.
(c) £11,000.
(d) £12,000.

19. A trader's capital increased by £5,000 during the accounting period. If drawings represented 20% of net profit then drawings amounted to:

Workings

£5,000 = Retained profit after drawings

= Profit before drawings 100% – Drawings 20% = 80% of profit before drawings

Profit before drawings = £5,000 ÷ 80% = £6,250

Drawings = £6,250 x 20% = £1,250

- (a) £1,000.
(b) £1,250.
(c) £8,331.
(d) £ 750.

20. The materials, labour and overhead cost of a contract is £89,000. The net profit on the contract is to be 10% of the contract price. If, in addition to the £89,000 contract costs, the manager is to get a bonus of 10% of net profit after charging such bonus what price would you charge on the contract?

<u>Workings</u>		£
Contract costs	Derived by working backwards 89%	89,000
Bonus 10% of 10% Net profit	1%	<u>1,000</u>
Total contract costs	Derived 90%	90,000
Net profit	Given in Q 10%	<u>10,000</u>
Contract price	100%	<u>100,000</u>

- (a) £ 97,900.
(b) £106,800.
(c) £100,000.
(d) £107,690.

CHAPTER NINETEEN
Examination Paper 1
(Time allowed 40 minutes)

The following multiple-choice section consists of 20 questions or statements, each one of which is followed by 4 possible answers. Only one of these answers is strictly correct.

REQUIREMENT

You are required to indicate clearly the most suitable answer to each of the following 20 questions. (Each question carries 1 mark)

N.B. Your answer should be presented on the specially designed form at the end of this book.

1. In SSAP 2 the four fundamental accounting concepts are stated as:
 - (a) materiality, accruals, matching and prudence.
 - (b) accruals, prudence, realisation and conservatism.
 - (c) consistency, prudence, revenue and dual aspect.
 - (d) accruals, consistency, conservatism and going concern.
2. S.S.A.P. represents:
 - (a) Statement of standard accounting practice.
 - (b) Standard solutions to accounting problems.
 - (c) Standard statement of auditing practice.
 - (d) Standard suggestions for accounting procedure.
3. Which of the following is the odd one out?
 - (a) Ordinary shares.
 - (b) Debentures. *Long-term liability, not shareholders' funds / equity*
 - (c) Preference shares.
 - (d) Revenue reserve.
4. The year-end adjustment for interest receivable but not yet recorded by the company should be recorded as:

DEBIT	CREDIT
(a) Interest account.	Prepayments.
(b) Accruals.	Interest account.
(c) Prepayments.	Interest account.
(d) Interest account.	Accruals.
5. A club has 100 members with a half-yearly subscription of £5. At the start of the year 10 members were in arrears for a full year. At the end of the year 6 members had paid for the following year and no members were in arrears. Annual subscription income is:
 - (a) £ 500. *Regardless of who has/had not paid, the income for the year is 100Members × £5Annual membership fee*
 - (b) £1,000.
 - (c) £1,160.
 - (d) £ 580.

6. An opening credit balance on the light and heat account indicates:
(a) An accrual.
(b) A prepayment.
(c) A stock of heating oil.
(d) None of the above.
7. An outstanding lodgement, when presented, will have the following impact on a firm's overdraft on the bank statement:
(a) Increase the credit balance.
(b) Increase the debit balance.
(c) Decrease the credit balance.
(d) Decrease the debit balance.
8. A sole trader has debtors of £5,000, creditors of £4,000 and cash/bank resources of £3,000. His current ratio is 3:1. His closing stock figure is:
- Current ratio = Current assets/Current liabilities
Current liabilities = £4,000 = 1
Current assets = 3 = £4,000 x 3 = £12,000
Current assets = ??? [∴ £4,000] Stock £5,000 Debtors + £3,000 Bank + Cash = £12,000
- (a) £3,000.
(b) £4,000.
(c) £5,000.
(d) None of the above.
9. A machine cost £5,000 and was estimated to have depreciated by 10% at the end of its first year in use. The firm concerned had not made any provision for depreciation in respect of this machine and, as a result the firm's balance sheet shows:
(a) Assets and liabilities overstated.
(b) Capital and assets understated.
(c) Capital understated and assets overstated.
(d) Assets and capital overstated.
10. If a limited company declares a dividend of 1p per share and the issued share capital is half the authorised, then a shareholder who bought 100 shares of £1 each for £2 each will receive a dividend of:
(a) £1. 100 shares x 1p/share
(b) £2.
(c) £3.
(d) £4.
11. Stock in trade is normally valued at:
(a) The lower of cost or net replacement value.
(b) The lower of F.I.F.O. or L.I.F.O.
(c) The lower of cost or net realisable value.
(d) None of the above.

12. A debit balance on a creditors account will not be explained by:
- Overpayment to creditor.
 - Discount received was recorded twice.
 - Underpayment to creditor.**
 - Returns of goods recorded at a value higher than their original purchase.
13. On 1st January 19X4, a company paid an insurance premium of £1,540 for the year ended 31st December 19X4. This payment was 10% higher than the corresponding payment in the previous year. The company's financial year ends on 30th June. In the company's profit and loss account for the year ended 30th June, 19X4, the charge for insurance would be:

Workings

Insurance Account						
01.07.19X3	Bal b/d	$\text{£}1,540 \times 100/110 \times 6/12$	700	19X4	Insurance expense → P/L	1,470
01.01.19X4	Bank		<u>1,540</u>	30.06.19X4	Bal c/d $\text{£}1,540 \times 6/12$	<u>770</u>
			<u>2,240</u>			<u>2,240</u>

- £1,400.
 - £1,470.**
 - £1,540.
 - £1,463.
14. A bank statement shows an overdrawn balance of £1,000. Comparison with the bank account to which it relates reveals the following differences:
- unpresented cheques £100.
 - outstanding lodgements £2,000.
 - bank charges not entered in bank account £5.
- Assuming no other differences, the unadjusted bank account balance must have been stated as:

<u>Workings</u>	£
Bank reconciliation	
Balance per bank account in books	905
Add: Outstanding cheques	100
Less: Outstanding lodgements	(2,000)
Bank charges not in cash book	<u>(5)</u>
Balance per bank statement	<u>(1,000)</u>

- £900 debit.
 - £900 credit.
 - £905 debit.**
 - £905 credit.
15. The purchase of a motor vehicle on credit for use in a business should be recorded by:
- | | |
|---------------------------|-------------------|
| DEBIT | CREDIT |
| (a) Purchases. | Creditors. |
| (b) Creditors. | Motor vehicle. |
| (c) Motor vehicle | Purchases. |
| (d) Motor vehicle. | Creditors. |

16. Which of the following is the odd one out?
- (a) Repairs.
 - (b) Legal fees for debt collection.
 - (c) Bad debts.
 - (d) Bad debts recovered. This is a revenue item; the others are expenses
17. Given the following figures: Sales £8,000; opening stock £1,000; closing stock £1,500; purchases £6,000; carriage inwards £500; carriage outwards £400, the cost of goods sold is:

<u>Workings</u>		£
Cost of sales	Opening stock	1,000
	Purchases	6,000
	Carriage (transport) in	500
	Closing stock	<u>(1,500)</u>
		<u>6,000</u>

Carriage (transport) outwards is not a trading account item. It is a distribution costs in the profit and loss account

- (a) £5,500.
 - (b) £6,000.
 - (c) £6,400.
 - (d) £5,000.
18. Credit notes issued by a firm should be entered in:
- (a) Sales account.
 - (b) Purchases account.
 - (c) Sales returns account.
 - (d) Purchase returns account.
19. Stock withdrawn by a sole trader for personal consumption should be recorded by:
- | DEBIT | CREDIT |
|------------------------------|--------------------|
| (a) Drawings account. | Stock account. |
| (b) Directors' fees account. | Stock account. |
| (c) Drawings account. | Purchases account. |
| (d) Directors' fees account. | Purchases account. |
20. If the purchase of a fixed asset was incorrectly transferred to purchases, then:
- (a) net profit would be understated.
 - (b) net profit would be overstated.
 - (c) fixed assets would be overstated.
 - (d) none of the above.

The Institute of Chartered Accountants in Ireland (adapted).

CHAPTER TWENTY
Examination Paper 2
(Time allowed 40 minutes)

The following multiple-choice section consists of 20 questions or statements, each one of which is followed by 4 possible answers. Only one of these answers is strictly correct.

REQUIREMENT

You are required to indicate clearly the most suitable answer to each of the following 20 questions: (Each question carries 1 mark)

N.B. Your answer should be presented on the specially designed form at the end of this book.

1. To write up the sales day book (sales journal) you need:
 - (a) Cash receipts.
 - (b) V.A.T. return.
 - (c) Suppliers invoice.
 - (d) None of the above.
2. A sole trader has debtors of £100 at the start, and £150 at the end of an accounting period. Cash sales of £950 were made during the year. Receipts from debtors amounted to £1,600. If the rate of V.A.T. was 25%, V.A.T. on annual sales was:

Workings

Debtors Account					
01.01.19X1	Bal b/d	100	19X1	Bank	1,600
19X1	Credit sales	<u>1,650</u>	31.12.19X1	Bal c/d	<u>150</u>
		<u>1,750</u>			<u>1,750</u>

Total sales = £1,650_{Credit sales} + £950_{Cash sales} = £2,600

VAT on sales = 2,600 x 25/125 = £520

- (a) £330.
- (b) £520.
- (c) £650.
- (d) None of the above.

3. At the end of a financial year creditors were 10% greater than they were at the start. Credit purchases during the year were 10 times the amount of creditors at the start of the year. Payment to creditors amounted to £99,000 during the year. Ignoring all other transactions, creditors at the end of the year were:

Workings

Creditors Account							
19X1	Payment to creditors	9.9	99,000	01.01.19X1	Bal b/d	1	10,000
31.12.19X1	Bal b/d	<u>1.1</u>	<u>11,000</u>	19X1	Credit purchases	<u>10</u>	<u>100,000</u>
		<u>11.0</u>	<u>110,000</u>			<u>11</u>	<u>110,000</u>

- (a) £ 10,000.
(b) £ 11,000.
(c) £100,000.
(d) £ 9,900.
4. Working capital is a term meaning:
(a) fixed assets plus current assets.
(b) current assets plus current liabilities.
(c) current assets minus current liabilities.
(d) capital less drawings for period.
5. A sole trader has sales of £5,000, total expenses of £2,000 and net profit equivalent to 10% of total expenses. His cost of sales is:

Workings

Net profit = 10% £10,000.

$\text{£5,000}_{\text{Sales}} - \text{???} [\text{£2,800}]_{\text{Cost of sales}} - \text{£2,000}_{\text{Expenses}} = \text{£200}_{\text{Profit}}$

- (a) £2,400.
(b) £2,600.
(c) £2,800.
(d) £3,000.
6. Which of the following transactions would be entered in the general journal?
(a) Credit purchase of goods.
(b) Credit sale of goods.
(c) Discounts allowed.
(d) Disposal of fixed assets.

7. If opening stock is £6,000; closing stock £10,000; sales £80,000 and mark-up on cost is 25%, the stock turnover ratio is:

Workings

Sales = 125%; Cost of sales = 100%

$\text{£80,000}_{\text{Sales}} \times 100/125 = \text{£64,000}_{\text{Cost of sales}}$

Stock turnover = cost of sales / average stock = $\text{£64,000} / [6,000 + 10,000] / 2 = 8,000$
= 8 times

- (a) 5 times.
(b) 6 times.
(c) 7 times.
(d) 8 times.
8. Prime cost is a term which includes:
(a) Direct labour only.
(b) Direct labour and direct materials.
(c) Direct labour, direct materials and factory overheads.
(d) Direct material only.
9. In the financial statements of a limited company which of the following would not appear in the appropriation account?
(a) Dividends.
(b) Transfer to reserves.
(c) Taxation.
(d) Directors' fees.
10. The issued share capital of a company is:
(a) Always equal to the authorised share capital. *Issued share capital would usually be less than the authorised share capital*
(b) Always greater than the authorised share capital. *Issued share capital cannot exceed authorised share capital*
(c) Always greater than the nominal share capital. *Issued share capital is always recorded at the nominal value of the shares. If shares are issued at more than their nominal value, the excess is recorded in a share premium account. It is unlawful to issue shares at less than their nominal value.*
(d) Always equal to the nominal share capital.
11. A direct debit appears on the bank statement of a firm. This transaction could be recorded by the firm in its nominal ledger as:
- | DEBIT | CREDIT |
|------------------------|--------------------|
| (a) Bank account | Cash account. |
| (b) Bank account | Creditors account. |
| (c) Creditors account | Bank account. |
| (d) None of the above. | |
12. Which of the following is the odd one out?
(a) Bad debts.
(b) Bad debts recovered. This is a revenue item; the others are expense items
(c) Legal fees.
(d) Discount allowed.

13. An item of £15 for bank interest payable was posted as interest received. The bank overdraft in the books of the firm therefore is:
 (a) Overstated by £15.
 (b) Understated by £15.
 (c) Overstated by £30.
 (d) Understated by £30. *If a debit is posted as a credit, the error is double the amount of the error*
14. Assuming sales income of £50,000 in each case given below, the highest gross profit would be provided by:
 (a) Purchases of £30,000 with closing stock £5,000 higher than opening stock.
 $\text{£50,000}_{\text{Sales}} - \text{£30,000}_{\text{Purchases}} - 5,000_{\text{Closing stock}} = \text{£25,000}_{\text{Cost of sales}} = \text{£25,000}_{\text{Gross profit}}$
 (b) Average stock of £4,000 with a stock turnover ratio of 8 times. $\text{£50,000}_{\text{Sales}} - \text{£4,000}_{\text{Average stock}} \times 4 \text{ Times} = \text{£16,000}_{\text{Cost of sales}} = \text{£34,000}_{\text{Gross profit}}$
 (c) Mark-up on cost being 25%. $\text{£50,000}_{\text{Sales}} \div 125\% = \text{£10,000}_{\text{Gross profit}}$
 (d) Purchases of £35,000; closing stock of £12,000 which was 50% higher than opening stock. $\text{£50,000}_{\text{Sales}} - \text{£35,000} - 12,000 = \text{£23,000}_{\text{Cost of sales}} = \text{£27,000}_{\text{Gross profit}}$
15. A machine cost £10,000 and was estimated to have fallen in value by £1,000 at the end of its first year in use. The firm concerned had not made any provision for depreciation in respect of this machine and, as a result the firm's balance sheet shows:
 (a) Cash overstated by £1,000.
 (b) Capital understated by £1,000.
 (c) Capital overstated by £1,000.
 (d) Fixed assets understated by £1,000.
16. A bank statement shows an overdraft of £500. Comparison with the bank account to which it relates reveals the following differences:
 1. Outstanding lodgements, £100.
 2. Outstanding cheques, £200.
 3. Bank charges of £5 not entered in bank account.
 Assuming no other differences, the unadjusted bank account balance in the firm's books must be:

Workings

Bank reconciliation	£
Balance per bank account in books	(595)
Add: Outstanding cheques	200
Less: Outstanding lodgements	(100)
Bank charges not in cash book	(5)
Balance per bank statement	<u>(500)</u>

- (a) £595 debit.
 (b) £595 credit.
 (c) £600 credit.
 (d) £605 credit.

17. At the end of a year debtors were 20% more than at the start. Credit sales of £180,000 were equivalent to 10 times closing debtors. Assuming no other transactions receipts from debtors were:

Workings

		Debtors Account			
01.01.19X1	Bal b/d $\frac{£18,000 \times 100}{120}$	15,000	19X1	Bank	177,000
19X1	Credit sales	<u>180,000</u>	31.12.19X1	Bal c/d $\frac{£180,000 \times 1}{10}$	<u>18,000</u>
		<u>195,000</u>			<u>195,000</u>

- (a) £183,000.
(b) **£177,000.**
(c) £180,000.
(d) None of the above.
18. Which of the following is the odd one out in respect of the financial statements of a club?
(a) **Accumulated fund.**
(b) Deposit account.
(c) Bar stock.
(d) Subscriptions in arrears.
19. The share capital of a limited company consisted of 100,000 ordinary shares of 50p each and £5,000 of 10% preference shares. The directors proposed dividends on the preference shares and a 10p dividend per ordinary share. Total proposed dividends were equivalent to one-third of profits before appropriation. Retained profits for year were:

Workings

$100,000 \text{ Ordinary shares} \times 10\text{p} = £10,000 \text{ Ordinary dividend}$ + $£5,000 @ 10\% = £500 \text{ Preference dividend}$
 Total dividends $£10,000 + £500 = £10,500$
 Retained profit: $£10,500 \times 3 = £31,500$ Profit before appropriation - Dividends =
 £30,000 Retained profit

- (a) £21,000.
(b) **£30,000.**
(c) £41,000.
(d) £31,500.
20. Which of the following items is the odd one out?
(a) Accruals concept.
(b) Consistency concept.
(c) Going concern concept.
(d) **Limited liability concept. Legal concept; the others are accounting principles**

The Institute of Chartered Accountants in Ireland (adapted).

CHAPTER TWENTY-ONE
Examination Paper 3
(Time allowed 40 minutes)

The following multiple-choice section consists of 20 questions or statements, each one of which is followed by 4 possible answers. Only one of these answers is strictly correct.

REQUIREMENT

You are required to indicate clearly the most suitable answer to each of the following 20 questions
(Each question carries 1 mark)

N.B. Your answers should be presented on the specially designed form at the end of this book.

1. A balance sheet of a business is intended to show the:
(a) Nature of the business.
(b) Ownership of the business.
(c) Financial position of the business.
(d) Size of the business.
2. In a balance sheet, fixed assets are classified separately from current assets because:
(a) Fixed assets always last indefinitely.
(b) Fixed assets must be depreciated but current assets must not.
(c) Fixed assets have long term use and current assets have short term use.
(d) None of the above.
3. A machine was purchased for £5,000 and in addition £200 was paid for carriage inwards and a further £300 was paid to employees for installation purposes. After 6 months, the machine broke down and was repaired at a cost of £500. The machine is depreciated at 10% per annum on book-value.
In the balance sheet at the end of 12 months, the book value of the machine would be:

<u>Workings</u>	£
Machine cost	5,000
Carriage (Transport) in	200
Installation costs	<u>300</u>
Total cost	<u>5,500</u>
Aggregate depreciation	
£5,500 @ 10%	<u>(550)</u>
Net book value	<u>4,950</u>

Repairs are not capitalised, i.e., recorded in the balance sheet as part of the cost of a fixed asset

- (a) £4,500.
 - (b) £4,950.
 - (c) £5,400.
 - (d) £6,000.
4. A debit entry in the bank account and a corresponding credit entry in the cash account records:
- (a) Payment of bank charges.
 - (b) Lodgement of cash to the bank.
 - (c) Receipt of cash from bank.
 - (d) Cash sales.
5. Purchase of fixed assets on credit is recorded by:
- | DEBIT | CREDIT |
|-------|--------|
|-------|--------|
6. A credit balance on a debtors account will not be explained by:
- (a) Overpayment by debtor.
 - (b) Returns outwards not recorded. *Returns outwards are purchase returns and relate to creditors and therefore would not affect the debtors account*
 - (c) Discount allowed recorded twice.
 - (d) Sales invoice understated when posting to the ledger although correct amount of cash received.
7. Which of the following is the odd one out?
- (a) Discount received account. *Cr.*
 - (b) Returns inwards account. *Dr.*
 - (c) Returns outwards account. *Cr.*
 - (d) Investment income account. *Cr.*

8. On a bank statement, a dishonoured cheque will be shown as:

Workings

A dishonoured cheque arises when (i) a cheque received by a company, for example, from a customer, and is lodged and (ii) is recorded as a receipt in the bank statement and (iii) a few days later the receipt is removed from the company's bank account when the cheque bounces or is dishonoured by the customer's bank

Debits and credits on the bank statement are the opposite to the company's own bank statement

Entry on receipt of cheque	Company books	Bank statement
Bank	Dr	Cr
Debtor	Cr	
Entry when cheque bounces		
Debtor	Dr	
Bank	Cr	<u>DR</u>

- (a) A debit entry.
(b) A credit entry.
(c) A memorandum entry.
(d) Will not appear as an entry.

9. A bank statement shows an overdrawn balance of £500. Comparison with the bank account to which it relates reveals the following differences:
1. unpresented cheques £200.
 2. outstanding lodgements £900.
 3. bank charges not entered in bank account £5.
- Assuming no other differences, the unadjusted bank account balance must have been stated as:

Workings

Bank reconciliation	£
Balance per bank account in books	205
Add: Outstanding cheques	200
Less: Outstanding lodgements	(900)
Bank charges not in cash book	<u>(5)</u>
Balance per bank statement	<u>(500)</u>

- (a) £205 debit.
(b) £205 credit.
(c) £200 debit.
(d) £200 credit.

10. In the first year of trading a company paid a total of £1,500 in annual premiums on a number of insurance policies. Except for the following two policies, all payments refer specifically to the company's financial year ending 31st December 19X1.
Policy 1 — Annual premium £120 to year ended 30th June 19X2.
Policy 2 — Annual premium £600 to year ended 30th April 19X2.
All premiums are paid in advance. The charge for insurance in the profit and loss account will be:

Workings

			Insurance Account		
01.01.19X1	Bal b/d	Nil	19X1	Insurance expense → P/L	1,240
19X1	Bank	<u>1,500</u>	31.12.19X1	Bal c/d $\text{£}120 \times 6/12 + 600 \times 4/12$	<u>260</u>
		<u>1,500</u>			<u>1,500</u>

- (a) £ 840.
(b) £1,140.
(c) **£1,240.**
(d) None of the above.
11. If closing stock in one trading period is overvalued by £300 then, if no correction is made, the net profit in the subsequent trading period will be:
(a) £300 too much.
(b) **£300 too little.**
(c) unaffected.
(d) £600 too little.
12. On 1st June 19X2 a company paid £2,640 for rent for the year ended 31st May, 19X3. This payment was 10% higher than the corresponding payment in the previous year. The company's financial year ends on 31st December. If the prepayment on 1 January 19X2 was £1,200, then in the profit and loss account for the year ended 31st December, 19X2 the charge for rent would be:

Workings

			Rent Account		
01.01.19X2	Bal b/d	1,200	19X2	Rent expense → P/L	2,520
19X2	Bank	<u>2,640</u>	31.12.19X2	Bal c/d	<u>1,320</u>
		<u>3,840</u>			<u>3,840</u>

- (a) £2,450.
(b) £2,540.
(c) £5,040.
(d) **£2,520.**
13. The concept that net profit is said to be the difference between revenues and expenses rather than receipts and payments is known as the:
(a) **Matching concept.**
(b) Prudence concept.
(c) Realisation concept.
(d) Consistency concept.

14. A machine which cost £1,500, has an estimated useful life of 5 years. If the reducing balance method of depreciation is used rather than the fixed instalment method, the balance on the accumulated depreciation account after 3 years, using a 20% rate of depreciation per annum, will be:

(a) £168 lower. *Reducing balance depreciation is lower than depreciation from Year 2 onwards compared with straight-line depreciation (fixed instalment method). Therefore, the aggregate depreciation will be lower under reducing balance depreciation compared with straight line depreciation.*
(b) £168 higher.
(c) £132 higher.
(d) £132 lower.

15. At the end of a financial year, debtors were 50% greater than they were at the start. Credit sales during the year were 12 times the amount of debtors at the end of the year. Receipts from debtors during the year amounted to £70,000. Ignoring all other transactions, debtors at the start of the year were:

Workings

Debtors Account							
01.01.19X1	Bal b/d	0.67	4,000	19X1	Bank	11.67	70,000
19X1	Credit sales	<u>12.00</u>	<u>72,000</u>	31.12.19X1	Bal c/d	<u>1.00</u>	<u>6,000</u>
		<u>12.67</u>	<u>76,000</u>			<u>12.67</u>	<u>76,000</u>

- (a) £2,000.
(b) £3,000.
(c) £4,000.
(d) £5,000.
16. At the start of a financial year, a club's subscriptions account showed arrears of £40 and prepayments of £85. At the end of the year these amounts were £55 and £45 respectively. Subscription receipts during the year amounted to £575. Income from subscriptions should be shown in the income and expenditure account as:

Workings

Subscriptions account					
01.01.19X1	Bal b/d 5 x £10	40	01.01.19X1	Bal b/d	85
19X1	∴ To I/E	630	19X1	Bank	575
31.12.19X1	Bal c/d 1 x £10	<u>45</u>	31.12.19X1	Bal c/d	<u>55</u>
		<u>715</u>			<u>715</u>

- (a) £520.
(b) £630.
(c) £585.
(d) £610.

17. If a shareholder in a public company sells his shares, the capital of the company will:
- (a) Increase by the nominal value of the shares.
 - (b) Decrease by the nominal value of the shares.
 - (c) Increase by the amount received for the shares.
 - (d) Remain unchanged. *Share transactions between individuals do not affect the company's financial statements. Only when company's issue new shares are the financial statements affected.*
18. If a limited company declares a dividend of 10p per share and the issued share capital is half the authorised amount, then a shareholder who bought 1,000 shares of 50p each for 100p would be entitled to a dividend of:
- (a) £ 50.
 - (b) £100. *1000 shares x 10p*
 - (c) £200.
 - (d) None of the above.
19. Which of the following would cause a change in the net worth of a sole trader?
- (a) Purchase of a fixed asset on credit. *This does not affect the income statement*
 - (b) Sale of a fixed asset at book value for cash. *Disposal at book value means no profit, no loss and would therefore not change capital/net worth*
 - (c) Depreciation of a fixed asset.
 - (d) Purchase of a fixed asset for cash. *This does not affect the income statement*
20. A manufacturing account is prepared to show:
- (a) Production costs paid during the period. *There is no evidence from the manufacturing account whether items have been paid for or not*
 - (b) Total cost of goods produced.
 - (c) Cost of goods sold. *This appears in the trading account, not the manufacturing account*
 - (d) The gross profit on goods produced. *This (gross profit on good sold) appears in the trading account, not the manufacturing account*

The Institute of Chartered Accountants in Ireland (adapted).