

# Accounting Multiple choice Past Paper

## June 2021

O LEVEL

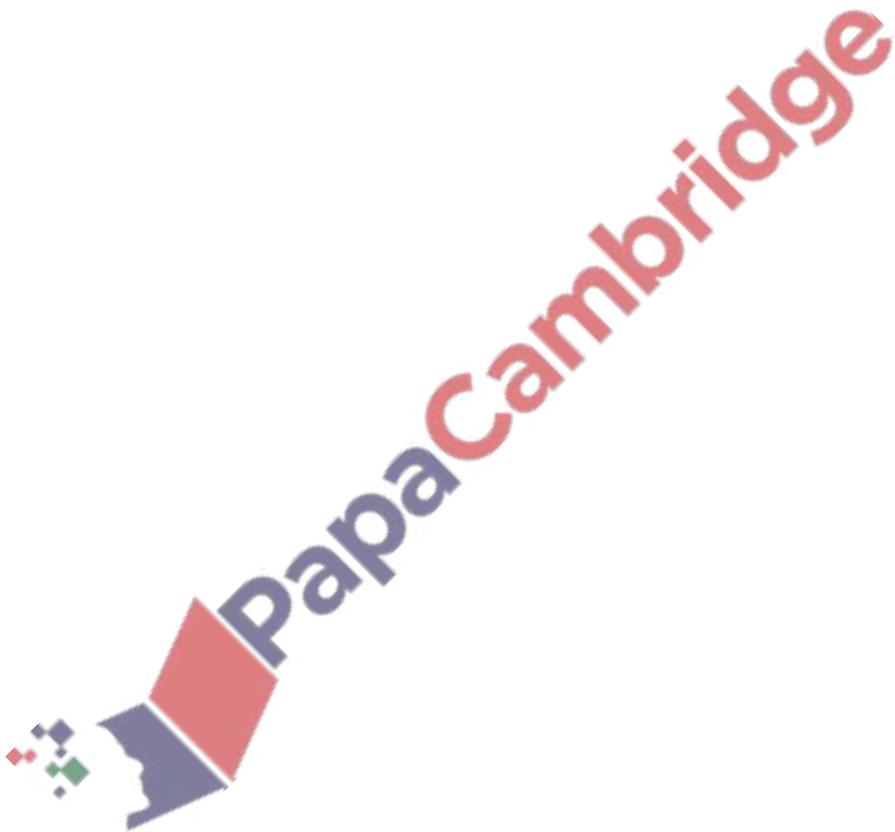


Questions and Answers

**EXPLAINED**

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1 Which statements about book-keeping and accounting are correct?

- 1 Accounting is performed periodically rather than daily.
- 2 Accounting relies on having accurate book-keeping records.
- 3 Book-keeping includes the preparation of financial statements.
- 4 Book-keeping involves the recording of financial transactions.

**A** 1, 2 and 4      **B** 1 and 3      **C** 2, 3 and 4      **D** 2 and 4 only

2 What increases owner's capital?

- A** bank loan extended from five to ten years
- B** purchase of inventory on credit
- C** purchase of machinery by cheque
- D** transfer of vehicle to business from private use

3 William paid \$500 in cash to Sonia for rent.

How did Sonia record this?

	account debited	account credited
<b>A</b>	cash	rent receivable
<b>B</b>	rent receivable	cash
<b>C</b>	rent receivable	William
<b>D</b>	William	rent receivable

4 Abdul buys all his machinery on credit. He provided the following information.

	at 30 April 2020 \$	at 30 April 2021 \$
machinery at cost	30 000	42 000
amounts owing to suppliers of machinery	19 000	?

During the year Abdul paid \$25 000 to the suppliers of his machinery.

How much did he owe them on 30 April 2021?

**A** \$6000      **B** \$13 000      **C** \$17 000      **D** \$32 000

- 5 Shula's financial year ends on 31 March. On 1 April 2021 there was a credit balance of \$100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

- A Shula had paid \$100 to Yasmin.  
B Shula owed \$100 to Yasmin.  
C Yasmin had paid \$100 to Shula.  
D Yasmin owed \$100 to Shula.
- 6 Hasina buys radios from Nazneen at a list price of \$10 each. Hasina bought 12 radios and was offered 20% trade discount and 4% cash discount. Two radios were faulty and were returned to Nazneen.

What was the total of the credit note issued by Nazneen?

- A \$15.36      B \$16.00      C \$19.20      D \$20.00

- 7 Jameel sold goods on credit.

Where did he first record the invoice he issued?

- A general journal  
B general ledger  
C sales journal  
D sales ledger
- 8 Which statements about a three-column cash book are correct?

- 1 It contains ledger accounts for bank and cash.  
2 It contains ledger accounts for discounts allowed and received.  
3 It records transactions before they are recorded in the ledgers.

- A 1 and 2      B 1 and 3      C 2 and 3      D 3 only

- 9 Which statement is **not** true about a trial balance?

- A It is a list of ledger account balances at a certain date.  
B It can assist in finding arithmetical errors.  
C It is part of the double entry system.  
D It is useful in preparing financial statements.

10 Which error is an error of original entry?

- A sale of surplus office equipment on credit to Janet for \$230 entered as \$320 in both the disposal account and Janet's account
- B sale of surplus office equipment on credit to Janet for \$230 entered in the office equipment account and Jason's account
- C sale of surplus office equipment on credit to Janet for \$230 entered in the sales account and Janet's account
- D sale of surplus office equipment on credit to Janet for \$230 not entered in any accounts

11 A cheque, \$85, received from Shakeel, was credited to the account of Shamz.

Which journal entry corrects this error?

		debit \$	credit \$
<b>A</b>	bank Shakeel	85	85
<b>B</b>	Shakeel Shamz	85	85
<b>C</b>	Shamz bank	85	85
<b>D</b>	Shamz Shakeel	85	85

12 Jamal's bank statement at 1 May 2021 showed a bank overdraft of \$1460.

At that date there were unpresented cheques of \$385 and uncredited deposits of \$255.

What was the cash book balance on 1 May 2021?

- A \$1330 credit
- B \$1330 debit
- C \$1590 credit
- D \$1590 debit

13 What is included in a purchases ledger control account?

- A cash purchases
- B debts written off as irrecoverable
- C discount allowed
- D goods returned to credit suppliers

- 14 Javid's sales ledger control account had a debit balance of \$12 000. Interest on an overdue account, \$40, and discount allowed, \$150, had been omitted.

What was the correct balance on the sales ledger control account?

- A \$11 810      B \$11 890      C \$12 110      D \$12 190

- 15 Which statements about capital expenditure are correct?

- 1 It is money spent on day-to-day business operations.
- 2 It is money spent on purchasing non-current assets.
- 3 It is recorded in the statement of financial position.
- 4 It includes expenses relating to non-current assets.

- A 1 and 3      B 1 and 4      C 2 and 3      D 2 and 4

- 16 Nia sold equipment with a net book value of \$200. The proceeds of the sale, \$250, were credited to the sales account and debited in the cash book.

What was the **effect** of this error on Nia's gross profit and profit for the year?

	gross profit	\$	profit for the year	\$
<b>A</b>	overstated	50	overstated	50
<b>B</b>	overstated	200	understated	250
<b>C</b>	overstated	250	overstated	200
<b>D</b>	understated	250	understated	200

- 17 Why does a business provide for depreciation on non-current assets?

- A to charge the **cost** of non-current assets against profit in the year of purchase  
 B to ensure that **non-current** assets appear at book value in the statement of financial position  
 C to ensure that the matching principle is applied when preparing financial statements  
 D to retain cash in the business for replacement of non-current assets

- 18 A machine with an original cost of \$10 000 had been depreciated for two years at the rate of 10% per annum using the straight-line basis. It was then sold for cash with the loss on disposal amounting to \$700.

A replacement machine was bought on the same day for \$12 400 cash.

What was the net decrease in the cash balance?

- A \$3700      B \$5100      C \$11700      D \$13100

- 19 Why would a bakery business **not** include a value for inventory of stationery in the statement of financial position?
- A It was expected it would be used in the next few months.
- B It was purchased regularly and paid for in cash.
- C It was not for resale.
- D It was of very low value.

- 20 Shilpa's financial year ends on 30 April. On 31 March 2021 she wrote off a debt owed by Tahir as irrecoverable.

Which entry did Shilpa make on 31 March 2021?

	debit	credit
A	income statement	Tahir
B	irrecoverable debts	income statement
C	irrecoverable debts	Tahir
D	Tahir	irrecoverable debts

- 21 How should inventory be valued?

- A cost
- B higher of cost and net realisable value
- C lower of cost and net realisable value
- D net realisable value

- 22 James is an accountant and operates as a sole trader.

Which items would **not** appear in his statement of financial position?

- 1 long-term loan
- 2 retained earnings
- 3 trade payables

- A 1 and 2      B 1 and 3      C 2 only      D 2 and 3

23 Zaha is a consultant who receives fees from clients.

How would Zaha calculate his profit for the year?

- A fees received – cost of sales
- B fees received – cost of sales + expenses
- C fees received + expenses
- D fees received – expenses

24 What is added to owner's capital to calculate capital employed?

- A current assets
- B current liabilities
- C non-current assets
- D non-current liabilities

25 What is an advantage of forming a partnership?

- A Decisions have to be recognised by all partners.
- B Each partner is responsible for actions of other partners.
- C Profits have to be shared among the partners.
- D Responsibilities can be shared between the partners.

26 Ann and Ben are in partnership sharing profits and losses equally.

They provided the following information for the year ended 30 April 2021.

	\$
profit for the year	20 000
interest on capital: Ann	5 000
Ben	4 000
drawings: Ann	8 000
Ben	7 000

What was Ben's share of the residual profit?

- A \$5500
- B \$10 000
- C \$13 000
- D \$14 500

27 Which statement about a receipts and payments account is **incorrect**?

- A It includes amounts prepaid at the end of the year.
- B It shows the surplus for the year.
- C Non-monetary items are excluded.
- D The balance represents cash and bank balances.

28 How does a manufacturer calculate prime cost?

- A direct material + direct labour
- B direct material + direct labour + direct expenses
- C direct material + direct labour + direct expenses + factory overheads
- D direct material + direct labour + factory overheads

29 Nula provided the following information for the year ended 31 March 2021.

	\$
drawings for the year	3 900
net assets at 1 April 2020	60 500
net assets at 31 March 2021	72 275

What was the profit or loss for the year ended 31 March 2021?

- A \$7875 loss
- B \$7875 profit
- C \$15 675 loss
- D \$15 675 profit

30 A trader provided the following information.

	\$
cost of sales	80 000
expenses	4 000
profit for the year	16 000

What was the profit margin?

- A 16%
- B 20%
- C 21.05%
- D 26.67%

31 A trader provided the following information.

	\$	\$
revenue		3600
opening inventory	100	
purchases	<u>2600</u>	
	2700	
closing inventory	<u>300</u>	<u>2400</u>
gross profit		<u>1200</u>

It was found that the closing inventory should have been \$400.

What was the correct rate of inventory turnover?

- A 6 times
- B 8 times
- C 9.2 times
- D 14.4 times

32 Sally's business has reached the overdraft limit set by the bank of \$1500 and is not able to pay its debts when they fall due.

Sally is considering the following proposals.

- 1 asking the bank to increase the bank overdraft limit to \$2000
- 2 borrowing \$2000 from a relative and paying the money back in six months
- 3 obtaining a loan from the bank of \$2000 repayable in two years
- 4 paying \$2000 from Sally's personal bank account into the business bank account

Which proposals will improve the working capital of the business?

- A 1 and 2
- B 1 and 4
- C 2 and 3
- D 3 and 4

33 Company X and Company Y provided the following information.

	Company X	Company Y
gross margin	36.7%	42.6%
profit margin	5.4%	5.4%

Which statement is correct?

- A Both companies earned the same amount of profit for the year.
- B Company X had a better gross margin than Company Y.
- C Company Y had a larger proportion of expenses than Company X.
- D The cost of sales of Company X was lower than that of Company Y.

34 The current ratio of X is 2 : 1. The current ratio of Y is 1.3 : 1.

What does a comparison of these ratios show?

- A X has fewer liabilities than Y.
- B X has more liquidity than Y.
- C Y has fewer current assets than X.
- D Y has more inventory than X.

35 Which international accounting objectives are described by the following statements?

- 1 Information in financial statements must be free from material error and bias.
- 2 Users must be able to identify differences and similarities between information in different financial statements.

	statement 1	statement 2
A	comparability	understandability
B	reliability	comparability
C	reliability	understandability
D	understandability	reliability

# Answers

EXPLAINED



1. Which statements about book-keeping and accounting are correct?
- 1 Accounting is performed periodically rather than daily.
  - 2 Accounting relies on having accurate book-keeping records.
  - 3 Book-keeping includes the preparation of financial statements.
  - 4 Book-keeping involves the recording of financial transactions.
- A 1, 2 and 4                      B 1 and 3  
 C 2, 3 and 4                      D 2 and 4 only

**Book-keeping involves the collection, recording, storage and retrieval of financial transactions of a business.**

**Accounting is the process of collecting, recording, classifying, summarising, analysing, interpreting and communicating financial data in order to allow the users of accounting information to make informed judgements and decisions.**

*Answer: A*

2. What increases owner's capital?
- A bank loan extended from five to ten years
  - B purchase of inventory on credit
  - C purchase of machinery by cheque
  - D transfer of vehicle to business from private use

**From an accounting point of view, the owner is regarded as a separate entity from the business. Therefore, when the owner supplies a business with resources, the business now owes the owner for these resources. This is the owner's capital. When the owner transfers resources such as a vehicle from his private account to the business, it increases the owner's capital to the business.**

*Answer: D*

3. William paid \$500 in cash to Sonia for rent. How did Sonia record this?

	account debited	account credited
A	cash	rent receivable
B	rent receivable	cash
C	rent receivable	William
D	William	rent receivable

**Rent paid by William is an income for Sonia. Cash asset will be Debited and rent receivable or income will be credited**

*Answer: A*

4. Abdul buys all his machinery on credit. He provided the following information.

	at 30 April 2020 \$	at 30 April 2021 \$
machinery at cost	30 000	42 000
amounts owing to suppliers of machinery	19 000	?

During the year Abdul paid \$25 000 to the suppliers of his machinery.

How much did he owe them on 30 April 2021?

- A \$6000                      B \$13 000  
 C \$17 000                      D \$32 000

**Abdul owes \$6000 to the suppliers of machinery on 30 April 2021.**

Suppliers A/c			
	\$		\$
<b>Bank c/d</b>	<b>25 000</b>	<b>b/d</b>	<b>19 000</b>
	<b>6 000</b>	<b>Machinery</b>	<b>12 000</b>
		<b>(\$42 000 - \$30 000)</b>	
	<b>31 000</b>		<b>31 000</b>

*Answer: A*

5. Shula's financial year ends on 31 March. On 1 April 2021 there was a credit balance of \$100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

- A Shula had paid \$100 to Yasmin.  
 B Shula owed \$100 to Yasmin.  
 C Yasmin had paid \$100 to Shula  
 D Yasmin owed \$100 to Shula.

**The personal accounts of all the credit suppliers of the business are maintained in the purchases ledger. The purpose of this ledger is to provide information about how many trade payables the business has and the value of the debts owing to them at any point of time.**

**The total of the closing (credit) balances in all the trade payables accounts, at the end of the financial year, makes up the trade payables figure in the statement of financial position. Yasmin has a credit balance of \$100 in Shula's purchase ledger. Yasmin is a trade payable for Shula. Thus Shula owed \$100 to Yasmin.**

*Answer: B*

6. Hasina buys radios from Nazneen at a list price of \$10 each. Hasina bought 12 radios and was offered 20% trade discount and 4% cash discount. Two radios were faulty and were returned to Nazneen. What was the total of the credit note issued by Nazneen?

- A \$15.36                      B \$16.00  
 C \$19.20                      D \$20.00

**Cost of 2 faulty radios - Trade discount  
 (2 X \$10) - 20% (20) = \$16.**

*Answer: B*

7. Jameel sold goods on credit.  
 Where did he first record the invoice he issued?

- A general journal  
 B general ledger  
 C sales journal  
 D sales ledger

**Sales journal is a book of prime entry where credit sales are recorded. Only credit sales are entered in the sales journal. The entries are made from copies of the sales invoices sent to customers.**

*Answer: C*

8. Which statements about a three-column cash book are correct?

- 1 It contains ledger accounts for bank and cash.  
 2 It contains ledger accounts for discounts allowed and received.  
 3 It records transactions before they are recorded in the ledgers.

- A 1 and 2                      B 1 and 3  
 C 2 and 3                      D 3 only

**The three-column cash book has an extra money column to record discounts, so it has discounts, cash and bank columns on the debit side as well as on the credit side. This is to avoid too many entries being made in the nominal (general) ledger, where discounts accounts are maintained.**

*Answer: B*

9. Which statement is not true about a trial balance? A

A It is a list of ledger account balances at a certain date.

B It can assist in finding arithmetical errors.

C It is part of the double entry system.

D It is useful in preparing financial statements.

**A trial balance is a statement that lists account names and their balances, recorded in debit and credit columns, on a certain day. If the trial balance does not balance, an error has been made. The trial balance is the source from which the financial statements are prepared. It is not a part of double entry system.**

*Answer: C*

10. Which error is an error of original entry?

A sale of surplus office equipment on credit to Janet for \$230 entered as \$320 in both the disposal account and Janet's account

B sale of surplus office equipment on credit to Janet for \$230 entered in the office equipment account and Jason's account

C sale of surplus office equipment on credit to Janet for \$230 entered in the sales account and Janet's account

D sale of surplus office equipment on credit to Janet for \$230 not entered in any accounts

**Casting means totalling. Therefore, if a total is overcast, it has been incorrectly added up to give a sum that is greater than it should be. Undercasting is when a column of figures has been incorrectly added up to give a total that is less than it should be. An error of original entry occurs when the debit and credit entry are overcasted or undercasted by the same amount.**

**Bonus example: If a credit sale for \$176 was entered in the sales journal as \$167, then a debit entry of \$167 would be recorded in the customer's account in the sales ledger and a credit entry of \$167 would be entered in the sales account in the general ledger. The debit entry is \$167; the credit entry is \$167. The debit and credit entries agree.**

*Answer A*

11. A standing order paid for rent has not been entered into the accounting records of a business.  
Which statement is correct?
- A Because the payment was made automatically, no additional entries are required in the accounting records.
- B Because the payment was made automatically, only an entry in the rent account is required.
- C Entries are required in the cash book and in the bank reconciliation statement.
- D Entries are required in the cash book and in the nominal (general) ledger.

**Double entry has not been passed in the accounting records. Standing order payment will be recorded in the cash book. Rent will be recorded in the ledger account in nominal ledger.**

*Answer: D*

12. The bank statement of a business had a credit balance of \$2690 on 1 October 2021. At that date cheques totalling \$850 had not yet been presented for payment.  
What was the bank balance in the cash book on 1 October 2021?

- A \$1840 credit      B \$1840 debit  
C \$3540 credit      D \$3540 debit

**Cash book balance + unrepresented cheque = \$2690 balance as per bank statement.**

**Cash book balance = \$2690 - \$850 = \$1840 debit**

*Answer: B*

13. A trader has purchased new business premises. What are examples of capital expenditure?
- 1 cost of heating and lighting the new premises
  - 2 cost of purchasing the new premises
  - 3 legal costs of purchasing the new premises
  - 4 office furniture purchased for use in the new premises
- A 1 and 2 only      B 1, 2 and 4  
C 2, 3 and 4      D 3 and 4 only

**Capital expenditure is money spent to purchase or improve a productive asset with the intention of increasing its efficiency or capacity to generate income for more than one accounting period. Revenue expenditure is expenditure incurred in the day-to-day running of the business.**

**Option 1 is related to revenue expenditures.**

**Option 2, 3 and 4 are related to non current assets. The one-off costs incurred in the acquisition of non-current assets should also be included as capital expenditure, for example, transportation costs, legal fees, purchasing new furniture and installation costs.**

*Answer C*

14. Two companies each purchased a motor vehicle for \$10 000 at the beginning of year 1. Company G used the straight-line method of depreciation at a rate of 15% per annum, while Company H used the reducing balance method at a rate of 20% per annum.  
What was the difference in the depreciation charge between the two companies for year 2?
- A \$100 greater for G  
B \$100 greater for H  
C \$500 greater for G  
D \$500 greater for H

**[Topic 4j]**

**Company G**

**Year 1 depreciation = \$10 000 × 15% = \$1500**

**Year 2 depreciation = \$10 000 × 15% = \$1500**

**Company H**

**Year 1 depreciation = \$10 000 × 20% = \$2000**

**Year 2 depreciation = book value year 1 (\$10 000 - \$2000) × 20% = \$1600**

**Depreciation charge in year 2 is greater for company H**

*Answer: B*

15. At the end of the financial year Mui had prepaid rent of \$1500.  
How should she record this?
- A credit \$1500 in the rent account and carry down as a credit balance
- B credit \$1500 in the rent account and carry down as a debit balance
- C debit \$1500 in the rent account and carry down as a credit balance
- D debit \$1500 in the rent account and carry down as a debit balance .\*

**Prepaid rent is recorded on the credit side of the rent account as it is the rent of the next year. It is brought forward on the debit side of the account.**

*Answer: B*

16. After preparing draft financial statements at the end of her first year of trading, Lucy discovered two errors.
- 1 Damaged inventory had been valued at cost price, \$340. It was expected to sell for \$180.

2 100 items which had been expected to sell for \$12 each had been valued at their cost price of \$7 each. Carriage inwards of \$1 for each item had not been included in the cost.

What was the effect of these errors on the gross profit?

- A overstated \$60            B overstated \$240  
C understated \$60        D understated \$240

1 **Inventory overcasted by \$160 (\$340 \$180) Gross profit overcasted by \$160.**

2 **Carriage inwards undercasted by \$100 (100 X \$1) Gross profit undercasted by \$100**

**Overall effect = Gross profit overcasted by \$60.**

*Answer. A*

17. Which is an advantage and a disadvantage of operating as a sole trader?

	advantage	disadvantage
A	gains all the profit	bears all the risk
B	gains all the profit	controls the decision-making
C	provides all the capital	bears all the risk
D	provides all the capital	controls the decision-making

**A sole trader is an unincorporated business owned and operated by one person who trades (buys and sells goods). A sole trader does not have to share profits. A sole trader has unlimited liability, which means their personal assets are at risk if the business should cease trading.**

*Answer. A*

18. What is shown in the capital and liabilities section of a statement of financial position of a business?

- A how the resources are being used by the business  
B the working capital of the business  
C total amounts owed by and to the business  
D where the resources of the business have come from

**Option A is about assets , option B is current asset minus current liabilities . Option C is trade receivable and trade payables.**

*Answer: D*

19. John maintains a full set of accounting records. Why does he also prepare a statement of financial position?

- A to calculate the profit for the year  
B to check if assets equal capital plus liabilities  
C to show the transactions which took place during the year  
D to summarise what the business owns and what it owes

**Statement of financial position shows the authenticity of the accounting equation**

**Assets = capital + liabilities, i.e resources, investment and payables of the business.**

*Answer D*

20. A sole trader paid off the business's overdraft using his own personal funds.

How did this affect the statement of financial position?

	liabilities	capital	assets
A	no effect	increase	increase
B	decrease	increase	increase
C	decrease	increase	no effect
D	decrease	no effect	increase

**Whenever the sole trader uses his personal funds to pay liabilities of the business his investment increases in the business**

**Entry: Bank overdraft Debit.**

**Capital Credit**

*Answer C*

21. Hassin found that he needed help to run his business. He decided to take a partner rather than employ an assistant.

Why did he decide to take a partner?

- 1 An assistant would not interfere with how the shop was run.  
2 An assistant would not share risk.  
3 A partner would introduce some additional capital.  
4 A partner would take a share of the profit.
- A 1 and 3                      B 1 and 4  
C 2 and 3                      D 2 and 4



## O LEVEL ACCOUNTING

26. A sports club has 100 members and the annual subscription is \$60.

During the year ended 31 August 2021:

- 12 members paid their outstanding subscription from the previous financial year
- 10 members paid their subscription in advance for the following financial year.

On 31 August 2021, subscriptions for the current financial year were still outstanding from 8 members.

What was the total amount received from members during the year ended 31 August 2021?

- A \$5160
- B \$5640
- C \$6600
- D \$6840

<b>Subscription</b>	
2020/2021	\$
<b>Bank</b>	
<b>(bal. figure)</b>	<b>6840</b>
<b>Annual c/d</b>	
<b>60 X 8</b>	<b>480</b>
	<b>7320</b>
<b>2020/2021</b>	<b>\$</b>
<b>Accrued b/d</b>	<b>720</b>
<b>(12 X 60)</b>	
<b>Income &amp; expenditure account</b>	
<b>(100 x 60)</b>	<b>6000</b>
<b>prepared c/d</b>	
<b>(10 X 60)</b>	<b>600</b>
	<b>7320</b>

Answer: D

27. Beth provided the following information.

	1 January	31 December
net assets	\$28000	\$24000

Her drawings during the year amounted to \$3000.

What was Beth's profit or loss for the year?

- A \$1000 loss
- B \$1000 profit
- C \$7000 loss
- D \$7000 profit

**Profit for the year = closing capital - opening capital + drawings**

**Beth's profit or loss = \$24 000 - \$28 000 + \$3000 - loss \$1000**

Answer: A

28. Roshan's sales for his first year of trading were \$55 000. His gross profit margin was 20%. The closing inventory was \$3200.

What were the purchases for the year?

- A \$41 250
- B \$44 000
- C \$44 450
- D \$47 200

**Gross Profit = \$55 000 x 20% = \$11 000**

**purchases = cost of sales - closing inventory**

**= (\$55 000 - \$11 000) + \$3200 = \$47 200**

Answer: D

29. Which information is required to calculate the return on capital employed for a sole trader?

- A gross profit, non-current liabilities, owner's capital
- B gross profit, non-current liabilities, working capital
- C operating profit for the year, non-current liabilities, owner's capital
- D operating profit for the year, non-current liabilities, working capital

**The return on capital employed (ROCE) ratio measures how efficiently a business uses the money invested in it. It is used to gauge the value gained by the business from the use of its assets and liabilities.**

**Return on capital employed**

**= operating profit for the year**

**capital employed**

**= operating profit for the year**

**non-current liabilities + owner's capital**

Answer: C

30. What is the best indicator of the liquidity of a business?

- A current ratio
- B liquid (acid test) ratio
- C return on capital employed
- D working capital

**The liquid ratio, also called the acid test ratio, measures the business' ability to meet its current liabilities with its most liquid assets. Therefore, the ratio excludes inventory from its current assets. This is because inventory is two stages away from being converted into cash: it has to be sold first and then money has to be collected from trade receivables.**

**Liquid ratio = Current assets - Inventory**  
**Current liabilities**

Answer: B

31. A business provided the following information about its gross margin.

Year 1	40%
Year 2	38%
Year 3	35%

What could explain the changes in the gross margin?

- A Cost of sales is decreasing.  
 B Expenses are decreasing.  
 C Quantity of goods sold is decreasing.  
 D Selling price is decreasing.

**Gross profit margin is decreasing in the following years. This means cost of sales is increasing and selling price is decreasing.**

*Answer D*

32. Sam and Rob each own a trading business. The income of each business is solely from the sale of goods. They provided the following information for the year ended 30 June 2020.

	Sam	Rob
return on capital employed	12%	10%
gross margin	25%	30%
profit margin	14%	12%
current ratio	2.8:1	1.2:1

Which statement is correct?

- A Rob will find it easy to pay his current liabilities.  
 B Rob's expenses are a higher proportion of his sales.  
 C Sam is not employing his capital effectively.  
 D Sam's goods are sold at a higher price.

**Sams expenses are  $25\% - 14\% = 11\%$**

**Rob's expenses are  $30\% - 12\% = 18\%$**

**Thus rob's expenses are higher proportion of his sales.**

*Answer B*

33. Why would the owner of a business want to see his financial statements at the end of the year?

- to assess the performance and progress of the business
- to determine the market value of the non-current assets
- to make informed decisions for the following years

- A 1 only  
 B 1 and 3  
 C 2 only  
 D 2 and 3

**Financial statements are made up of an income statement and a statement of financial position. The main aim of the owner to review the financial statement of his business is to assess the performance and progress of the business.**

*Answer. B*

34. Charlie is a car dealer. Joe wanted a new car and went to Charlie's car showroom.

On Monday Joe took a car for a test drive and decided to buy it.

On Tuesday Joe arranged to pay for the car by cheque.

On Wednesday Joe collected the car and received an invoice.

On Thursday Joe's cheque was cleared by the bank.

On which day was Charlie able to account for the profit on the sale?

- A Monday  
 B Tuesday  
 C Wednesday  
 D Thursday

**When the customer is sent a sales invoice, it indicates that sales have taken place. In this case Charlie has sent an invoice to Joe so now he can account for the profit on the sale.**

*Answer C*

35. Which accounting objective requires that financial information is provided in time for a decision to be made?

- A comparability  
 B relevance  
 C reliability  
 D understandability

**For financial statements to be relevant, the information they contain should be timely and useful for decision making.**

*Answer: B*

# Time: 1 hour 15 minutes

# Questions

Cambridge O LEVEL



There are thirty five  
questions on this paper.  
Answer all questions.

1 Which statement is correct?

- A The accountant prepares the trial balance and the book-keeper prepares the financial statements.
- B The accountant writes up the journals and the book-keeper writes up the ledger accounts.
- C The book-keeper writes up the journals and the accountant prepares the trial balance.
- D The book-keeper writes up the ledger accounts and the accountant prepares the financial statements.

2 Which formulas may be used for the accounting equation?

- 1 assets = owner's equity minus liabilities
- 2 liabilities = assets minus owner's equity
- 3 owner's equity = assets plus liabilities
- 4 owner's equity plus liabilities = assets

- A 1 and 2      B 1 and 3      C 2 and 4      D 3 and 4

3 Goods purchased on credit from Zamir were returned by Ashwin.

Which entries should Zamir make to record this?

	account debited	account credited
<b>A</b>	Ashwin	purchase returns
<b>B</b>	purchase returns	Zamir
<b>C</b>	sales returns	Ashwin
<b>D</b>	Zamir	sales returns

4 During her first financial year, a trader paid \$1800 for insurance and \$3200 for rent.

At the end of the financial year, she transferred insurance of \$1500 and rent of \$3600 to the income statement.

What do the balances remaining on the accounts at the end of the financial year represent?

	insurance account	rent account
<b>A</b>	accrued expense	accrued expense
<b>B</b>	accrued expense	prepaid expense
<b>C</b>	prepaid expense	accrued expense
<b>D</b>	prepaid expense	prepaid expense

- 5 Leah bought goods, \$8000, less 15% trade discount. She later returned half of these goods as they were faulty.

Which document did Leah issue to the supplier for the returned goods?

- A credit note for \$3400  
 B debit note for \$3400  
 C credit note for \$4000  
 D debit note for \$4000
- 6 What is a cheque counterfoil used for?
- A to make a credit entry in the bank column of a cash book  
 B to make a debit entry in the bank column of a cash book  
 C to send a payment to a supplier  
 D to send proof of payment to a customer
- 7 Farouk sells goods on credit. A cheque from Khalid, a credit customer, was dishonoured by the bank.

How should Farouk record this?

	account to be debited	account to be credited
A	bank	Khalid
B	irrecoverable debts	Khalid
C	Khalid	bank
D	Khalid	irrecoverable debts

- 8 Why does a supplier offer trade discount?
- A to avoid irrecoverable debts  
 B to encourage bulk buying  
 C to encourage payment in cash  
 D to reward prompt payment

- 9 Ann maintains a petty cash book using the imprest system.

Which statement is **not** correct?

- A A petty cash book can be maintained by a junior member of staff.
- B At any time petty cash vouchers plus the petty cash balance are equal to the imprest amount.
- C The chief cashier is not asked continually for small sums of money.
- D The number of entries in the cash book increases because of the large number of small cash payments.

- 10 A sales invoice for \$800 was incorrectly recorded in the sales journal as \$1800.

How did this error affect the trial balance?

- A The trial balance balanced but both totals were overstated by \$1000.
- B The trial balance balanced but both totals were understated by \$1000.
- C The trial balance did not balance because the credits were overstated by \$1000.
- D The trial balance did not balance because the debits were understated by \$1000.

- 11 A standing order paid for rent has not been entered into the accounting records of a business.

Which statement is correct?

- A Because the payment was made automatically, no additional entries are required in the accounting records.
- B Because the payment was made automatically, only an entry in the rent account is required.
- C Entries are required in the cash book and in the bank reconciliation statement.
- D Entries are required in the cash book and in the nominal (general) ledger.

- 12 The bank statement of a business had a credit balance of \$2690 on 1 October 2021. At that date cheques totalling \$850 had not yet been presented for payment.

What was the bank balance in the cash book on 1 October 2021?

- A \$1840 credit
- B \$1840 debit
- C \$3540 credit
- D \$3540 debit

**13** A trader has purchased new business premises.

What are examples of capital expenditure?

- 1 cost of heating and lighting the new premises
- 2 cost of purchasing the new premises
- 3 legal costs of purchasing the new premises
- 4 office furniture purchased for use in the new premises

**A** 1 and 2 only    **B** 1, 2 and 4    **C** 2, 3 and 4    **D** 3 and 4 only

**14** Two companies each purchased a motor vehicle for \$10 000 at the beginning of year 1. Company G used the straight-line method of depreciation at a rate of 15% per annum, while Company H used the reducing balance method at a rate of 20% per annum.

What was the difference in the depreciation charge between the two companies for year 2?

- A** \$100 greater for G
- B** \$100 greater for H
- C** \$500 greater for G
- D** \$500 greater for H

**15** At the end of the financial year Mui had prepaid rent of \$1500.

How should she record this?

- A** credit \$1500 in the rent account and carry down as a credit balance
- B** credit \$1500 in the rent account and carry down as a debit balance
- C** debit \$1500 in the rent account and carry down as a credit balance
- D** debit \$1500 in the rent account and carry down as a debit balance



- 16 After preparing draft financial statements at the end of her first year of trading, Lucy discovered two errors.
- 1 Damaged inventory had been valued at cost price, \$340. It was expected to sell for \$180.
  - 2 100 items which had been expected to sell for \$12 each had been valued at their cost price of \$7 each. Carriage inwards of \$1 for each item had not been included in the cost.

What was the **effect** of these errors on the gross profit?

- A overstated \$60  
 B overstated \$240  
 C understated \$60  
 D understated \$240
- 17 Which is an advantage and a disadvantage of operating as a sole trader?

	advantage	disadvantage
<b>A</b>	gains all the profit	bears all the risk
<b>B</b>	gains all the profit	controls the decision-making
<b>C</b>	provides all the capital	bears all the risk
<b>D</b>	provides all the capital	controls the decision-making

- 18 What is shown in the capital and liabilities section of a statement of financial position of a business?
- A how the resources are being used by the business  
 B the working capital of the business  
 C total amounts owed by and to the business  
 D where the resources of the business have come from
- 19 John maintains a full set of accounting records.

Why does he also prepare a statement of financial position?

- A to calculate the profit for the year  
 B to check if assets equal capital plus liabilities  
 C to show the transactions which took place during the year  
 D to summarise what the business owns and what it owes

- 20 A sole trader paid off the business's overdraft using his own personal funds.

How did this affect the statement of financial position?

	liabilities	capital	assets
<b>A</b>	no effect	increase	increase
<b>B</b>	decrease	increase	increase
<b>C</b>	decrease	increase	no effect
<b>D</b>	decrease	no effect	increase

- 21 Hassin found that he needed help to run his business. He decided to take a partner rather than employ an assistant.

Why did he decide to take a partner?

- 1 An assistant would not interfere with how the shop was run.
- 2 An assistant would not share risk.
- 3 A partner would introduce some additional capital.
- 4 A partner would take a share of the profit.

- A** 1 and 3      **B** 1 and 4      **C** 2 and 3      **D** 2 and 4

- 22 Anwar is a sole trader making annual profits of \$24 000. He decides to admit Dilip as a partner. They agree that Anwar would receive a salary, and profits and losses would be shared equally.

The forecast appropriation account for the partnership's first year of trading is:

	\$
profit for the year	50 000
salary Anwar	<u>10 000</u>
profit available for distribution	<u>40 000</u>

By how much will Anwar's total income increase?

- A** \$1000      **B** \$6000      **C** \$16 000      **D** \$26 000

23 BCD Limited provided the following information.

	\$
ordinary shares	300 000
retained earnings	200 000
debentures	170 000

How much was the equity and the capital employed?

	equity \$	capital employed \$
<b>A</b>	300 000	470 000
<b>B</b>	300 000	670 000
<b>C</b>	500 000	470 000
<b>D</b>	500 000	670 000

24 The issued share capital of CD Limited consists of ordinary shares.

Retained earnings were \$86 000 on 1 September 2020 and \$88 500 on 31 August 2021.

The company made a profit during the year of \$26 000 and made a transfer to general reserve of \$5000.

What was the total ordinary share dividend paid during the year?

**A** \$18 500      **B** \$23 500      **C** \$28 500      **D** \$33 500

25 A sports club was formed on 1 August 2020. During the year ended 31 July 2021 the club purchased equipment costing \$5000, paying by cheque.

In which of the club's financial statements did this appear?

	receipts and payments account	income and expenditure account	statement of financial position
<b>A</b>	✓	✓	
<b>B</b>	✓		✓
<b>C</b>		✓	✓
<b>D</b>			✓

- 26 A sports club has 100 members and the annual subscription is \$60.

During the year ended 31 August 2021:

12 members paid their outstanding subscription from the previous financial year

10 members paid their subscription in advance for the following financial year.

On 31 August 2021, subscriptions for the current financial year were still outstanding from 8 members.

What was the total amount received from members during the year ended 31 August 2021?

- A \$5160                      B \$5640                      C \$6600                      D \$6840

- 27 Beth provided the following information.

	1 January	31 December
net assets	\$28 000	\$24 000

Her drawings during the year amounted to \$3000.

What was Beth's profit or loss for the year?

- A \$1000 loss  
 B \$1000 profit  
 C \$7000 loss  
 D \$7000 profit

- 28 Roshan's sales for his first year of trading were \$55 000. His gross profit margin was 20%. The closing inventory was \$3200.

What were the purchases for the year?

- A \$41 250                      B \$44 000                      C \$44 450                      D \$47 200

- 29 Which information is required to calculate the return on capital employed for a sole trader?

- A gross profit, non-current liabilities, owner's capital  
 B gross profit, non-current liabilities, working capital  
 C operating profit for the year, non-current liabilities, owner's capital  
 D operating profit for the year, non-current liabilities, working capital

30 What is the best indicator of the liquidity of a business?

- A current ratio
- B liquid (acid test) ratio
- C return on capital employed
- D working capital

31 A business provided the following information about its gross margin.

Year 1 40%

Year 2 38%

Year 3 35%

What could explain the changes in the gross margin?

- A Cost of sales is decreasing.
  - B Expenses are decreasing.
  - C Quantity of goods sold is decreasing.
  - D Selling price is decreasing.
- 32 Sam and Rob each own a trading business. The income of each business is solely from the sale of goods. They provided the following information for the year ended 30 June 2020.

	Sam	Rob
return on capital employed	12%	10%
gross margin	25%	30%
profit margin	14%	12%
current ratio	2.8 : 1	1.2 : 1

Which statement is correct?

- A Rob will find it easy to pay his current liabilities.
- B Rob's expenses are a higher proportion of his sales.
- C Sam is not employing his capital effectively.
- D Sam's goods are sold at a higher price.

**33** Why would the owner of a business want to see his financial statements at the end of the year?

- 1 to assess the performance and progress of the business
- 2 to determine the market value of the non-current assets
- 3 to make informed decisions for the following years

**A** 1 only      **B** 1 and 3      **C** 2 only      **D** 2 and 3

**34** Charlie is a car dealer. Joe wanted a new car and went to Charlie's car showroom.

On Monday Joe took a car for a test drive and decided to buy it.

On Tuesday Joe arranged to pay for the car by cheque.

On Wednesday Joe collected the car and received an invoice.

On Thursday Joe's cheque was cleared by the bank.

On which day was Charlie able to account for the profit on the sale?

- A** Monday
- B** Tuesday
- C** Wednesday
- D** Thursday

**35** Which accounting objective requires that financial information is provided in time for a decision to be made?

- A** comparability
- B** relevance
- C** reliability
- D** understandability



# Answers

EXPLAINED



Accounting Multiple choice Past Paper  
O level November 2021

1. Which statement is correct?

- A The accountant prepares the trial balance and the book-keeper prepares the financial statements.
- B The accountant writes up the journals and the book-keeper writes up the ledger accounts.
- C The book-keeper writes up the journals and the accountant prepares the trial balance
- D The book-keeper writes up the ledger accounts and the accountant prepares the financial statements.

*Book-keeping involves the collection, recording, storage and retrieval of financial transactions of a business.*

*Accounting is the process of collecting, recording, classifying, summarising, analysing, interpreting and communicating financial data in order to allow the users of accounting information to make informed judgements and decisions.*

Answer: D

2. Which formulas may be used for the accounting equation?

- 1 assets - owner's equity minus liabilities
- 2 liabilities = assets minus owner's equity
- 3 owner's equity = assets plus liabilities
- 4 owner's equity plus liabilities = assets

- A 1 and 2
- B 1 and 3
- C 2 and 4
- D 3 and 4

Accounting equation is a formula that is used to illustrate the relationship between the assets, liabilities and owner's equity of a business. It shows that all the assets of a business are provided or funded either by the owner or the trade payables or other creditors of the business. Accounting equation is:

**Assets = owner's equity plus liabilities**  
**or Liabilities = assets minus owner's equity**  
**or Owners equity + liabilities = assets**

Answer: C

3. Goods purchased on credit from Zamir were returned by Ashwin. Which entries should Zamir make to record this?

	account debited	account credited
A	Ashwin	purchase returns
B	purchase returns	Zamir
C	sales returns	Ashwin
D	Zamir	sales returns

**Ashwin is a customer for Zamir. Zamir had sold goods to Ashwin. The entry for sales returns in Zamir books will be as follows.**

**Sales returns Debit**

**Ashwin Credit**

Answer: C

4. During her first financial year, a trader paid \$1800 for insurance and \$3200 for rent.

At the end of the financial year, she transferred insurance of \$1500 and rent of \$3600 to the income statement.

What do the balances remaining on the accounts at the end of the financial year represent?

	insurance account	rent account
A	accrued expense	accrued expense
B	accrued expense	prepaid expense
C	prepaid expense	accrued expense
D	prepaid expense	prepaid expense

**A prepaid expense is an expense paid in advance, for the next financial year. She paid \$300 in advance for insurance. This is a prepaid expense.**

**An accrued expense is an expense owing either at the beginning or at the end of the financial year. \$400 was accrued for rent expense as she paid \$3200 instead of \$3600.**

Answer C

5. Leah bought goods, \$8000, less 15% trade discount. She later returned half of these goods as they were faulty.

Which document did Leah issue to the supplier for the returned goods?

- A credit note for \$3400
- B debit note for \$3400
- C credit note for \$4000
- D debit note for \$4000

A credit note is issued by a supplier to a customer acknowledging the receipt of goods returned and letting the customer know the value of full allowance being given for goods returned.

A debit note is a document issued by a customer to a supplier when returning goods originally bought on credit. A debit note is a request to the seller to reduce the total of the original invoice and issue a credit note; therefore, no entries are made in the accounting records when a debit note is received for returns

Leah is returning her purchases. This will decrease her liability. Decrease in liability is Debited. So Leah will issue a debit note to the supplier.

Answer: B

6. What is a cheque counterfoil used for?

- A to make a credit entry in the bank column of a cash book
- B to make a debit entry in the bank column of a cash book
- C to send a payment to a supplier
- D to send proof of payment to a customer

**Cheques are issued for payments. Counterfoils are used to enter those payments on the credit side of the bank column in the cash book.**

Answer A

7. Farouk sells goods on credit. A cheque from Khalid, a credit customer, was dishonoured by the bank. How should Farouk record this?

	account to be debited	account to be credited
A	bank	Khalid
B	irrecoverable debts	Khalid
C	Khalid	bank
D	Khalid	irrecoverable debts

A cheque is dishonoured by a bank when they return it to the drawer, unpaid. The most common reason why a cheque is dishonoured is because there are insufficient funds in the drawer's account to pay the cheque

**Receipts from Khalid a credit customer would be recorded in Farouk's books as**

**Bank DEBIT**

**Khalid CREDIT**

**When the cheque is dishonoured then the receipts in Farouk's books need to be cancelled.**

**Khalid DEBIT**  
**Bank CREDIT**

Answer: C

8. Why does a supplier offer trade discount?

- A to avoid irrecoverable debts
- B to encourage bulk buying
- C to encourage payment in cash
- D to reward prompt payment

**A trade discount is given to customers who buy in bulk. It is a deduction on the list price**

Answer B

9. Ann maintains a petty cash book using the imprest system.

Which statement is not correct?

- A A petty cash book can be maintained by a junior member of staff.
- B At any time petty cash vouchers plus the petty cash balance are equal to the imprest amount.
- C The chief cashier is not asked continually for small sums of money.
- D The number of entries in the cash book increases because of the large number of small cash payments.

**An imprest or float is a fixed amount of money with which the petty cashier starts an accounting period. When maintaining a petty cash book, it is not necessary to record small cash payments individually in either the cash book or the ledger. This reduces the number of entries in the cash book.**

Answer D

10. A sales invoice for \$800 was incorrectly recorded in the sales journal as \$1800.

How did this error affect the trial balance?

- A The trial balance balanced but both totals were overstated by \$1000.
- B The trial balance balanced but both totals were understated by \$1000.
- C The trial balance did not balance because the credits were overstated by \$1000.
- D The trial balance did not balance because the debits were understated by \$1000.

**The sales journal was overstated by \$1000.**

**This means sales were overstated by \$1000 on Credit side and Trade receivables overstated by \$1000 on the Debit side.**

Answer: A

11. A standing order paid for rent has not been entered into the accounting records of a business.  
Which statement is correct?
- A Because the payment was made automatically, no additional entries are required in the accounting records.
- B Because the payment was made automatically, only an entry in the rent account is required.
- C Entries are required in the cash book and in the bank reconciliation statement.
- D Entries are required in the cash book and in the nominal (general) ledger.

**Double entry has not been passed in the accounting records. Standing order payment will be recorded in the cash book. Rent will be recorded in the ledger account in nominal ledger.**

*Answer: D*

12. The bank statement of a business had a credit balance of \$2690 on 1 October 2021. At that date cheques totalling \$850 had not yet been presented for payment.  
What was the bank balance in the cash book on 1 October 2021?

- A \$1840 credit      B \$1840 debit  
C \$3540 credit      D \$3540 debit

**Cash book balance + unrepresented cheque = \$2690 balance as per bank statement.**

**Cash book balance = \$2690 - \$850 = \$1840 debit**

*Answer: B*

13. A trader has purchased new business premises. What are examples of capital expenditure?
- 1 cost of heating and lighting the new premises
  - 2 cost of purchasing the new premises
  - 3 legal costs of purchasing the new premises
  - 4 office furniture purchased for use in the new premises
- A 1 and 2 only      B 1, 2 and 4  
C 2, 3 and 4      D 3 and 4 only

**Capital expenditure is money spent to purchase or improve a productive asset with the intention of increasing its efficiency or capacity to generate income for more than one accounting period. Revenue expenditure is expenditure incurred in the day-to-day running of the business.**

**Option 1 is related to revenue expenditures.**

**Option 2, 3 and 4 are related to non current assets. The one-off costs incurred in the acquisition of non-current assets should also be included as capital expenditure, for example, transportation costs, legal fees, purchasing new furniture and installation costs.**

*Answer C*

14. Two companies each purchased a motor vehicle for \$10 000 at the beginning of year 1. Company G used the straight-line method of depreciation at a rate of 15% per annum, while Company H used the reducing balance method at a rate of 20% per annum.  
What was the difference in the depreciation charge between the two companies for year 2?
- A \$100 greater for G  
B \$100 greater for H  
C \$500 greater for G  
D \$500 greater for H

**Company G**

**Year 1 depreciation = \$10 000 × 15% = \$1500**

**Year 2 depreciation = \$10 000 × 15% = \$1500**

**Company H**

**Year 1 depreciation = \$10 000 × 20% = \$2000**

**Year 2 depreciation = book value year 1 (\$10 000 - \$2000) × 20% = \$1600**

**Depreciation charge in year 2 is greater for company H**

*Answer: B*

15. At the end of the financial year Mui had prepaid rent of \$1500.

How should she record this?

- A credit \$1500 in the rent account and carry down as a credit balance
- B credit \$1500 in the rent account and carry down as a debit balance
- C debit \$1500 in the rent account and carry down as a credit balance
- D debit \$1500 in the rent account and carry down as a debit balance .\*

**Prepaid rent is recorded on the credit side of the rent account as it is the rent of the next year. It is brought forward on the debit side of the account.**

*Answer: B*

16. After preparing draft financial statements at the end of her first year of trading, Lucy discovered two errors.

- 1 Damaged inventory had been valued at cost price, \$340. It was expected to sell for \$180.

2 100 items which had been expected to sell for \$12 each had been valued at their cost price of \$7 each. Carriage inwards of \$1 for each item had not been included in the cost.

What was the effect of these errors on the gross profit?

- A overstated \$60            B overstated \$240  
C understated \$60        D understated \$240

- 1 **Inventory overcasted by \$160 (\$340 - \$180)  
Gross profit overcasted by \$160.**  
2 **Carriage inwards undercasted by \$100 (100 X \$1)  
Gross profit undercasted by \$100  
Overall effect = Gross profit overcasted by \$60.**

Answer. A

17. Which is an advantage and a disadvantage of operating as a sole trader?

	advantage	disadvantage
A	gains all the profit	bears all the risk
B	gains all the profit	controls the decision-making
C	provides all the capital	bears all the risk
D	provides all the capital	controls the decision-making

A sole trader is an unincorporated business owned and operated by one person who trades (buys and sells goods). A sole trader does not have to share profits. A sole trader has unlimited liability, which means their personal assets are at risk if the business should cease trading.

Answer. A

18. What is shown in the capital and liabilities section of a statement of financial position of a business?

- A how the resources are being used by the business  
B the working capital of the business  
C total amounts owed by and to the business  
D where the resources of the business have come from

Option A is about assets, option B is current asset minus current liabilities. Option C is trade receivable and trade payables.

Answer: D

19. John maintains a full set of accounting records. Why does he also prepare a statement of financial position?

- A to calculate the profit for the year  
B to check if assets equal capital plus liabilities  
C to show the transactions which took place during the year  
D to summarise what the business owns and what it owes

Statement of financial position shows the authenticity of the accounting equation

Assets = capital + liabilities, i.e resources, investment and payables of the business.

Answer D

20. A sole trader paid off the business's overdraft using his own personal funds. How did this affect the statement of financial position?

	liabilities	capital	assets
A	no effect	increase	increase
B	decrease	increase	increase
C	decrease	increase	no effect
D	decrease	no effect	increase

Whenever the sole trader uses his personal funds to pay liabilities of the business his investment increases in the business

Entry: Bank overdraft Debit.

Capital Credit

Answer C

21. Hassin found that he needed help to run his business. He decided to take a partner rather than employ an assistant.

Why did he decide to take a partner?

- 1 An assistant would not interfere with how the shop was run.  
2 An assistant would not share risk.  
3 A partner would introduce some additional capital.  
4 A partner would take a share of the profit.

- A 1 and 3                      B 1 and 4  
C 2 and 3                      D 2 and 4



## O LEVEL ACCOUNTING

26. A sports club has 100 members and the annual subscription is \$60.

During the year ended 31 August 2021:

- 12 members paid their outstanding subscription from the previous financial year
- 10 members paid their subscription in advance for the following financial year.

On 31 August 2021, subscriptions for the current financial year were still outstanding from 8 members.

What was the total amount received from members during the year ended 31 August 2021?

- A \$5160                      B \$5640  
C \$6600                      D \$6840

Subscription	
2020/2021	\$
<b>Bank</b> <b>(bal. figure)</b>	<b>6840</b>
<b>balance c/d (accrual)</b> <b>60 X 8</b>	<b>480</b>
	<b>7320</b>
2020/2021	\$
<b>balance b/d</b> <b>(12 X 60)</b>	<b>720</b>
<b>Income &amp; expenditure account</b> <b>(100 x 60)</b>	<b>6000</b>
<b>balance c/d (prepaid)</b> <b>(10 X 60)</b>	<b>600</b>
	<b>7320</b>

Answer: D

27. Beth provided the following information.

	1 January	31 December
net assets	\$28000	\$24000

Her drawings during the year amounted to \$3000.

What was Beth's profit or loss for the year?

- A \$1000 loss                      B \$1000 profit  
C \$7000 loss                      D \$7000 profit

**Profit for the year = closing capital - opening capital + drawings**

$$\text{Beth's profit or loss} = \$24\,000 - \$28\,000 + \$3000 = \text{loss } \$1000$$

Answer: A

28. Roshan's sales for his first year of trading were \$55 000. His gross profit margin was 20%. The closing inventory was \$3200.

What were the purchases for the year?

- A \$41 250                      B \$44 000  
C \$44 450                      D \$47 200

$$\text{Gross Profit} = \$55\,000 \times 20\% = \$11\,000$$

$$\text{purchases} = \text{cost of sales} - \text{closing inventory}$$

$$= (\$55\,000 - \$11\,000) + \$3200 = \$47\,200$$

Answer: D

29. Which information is required to calculate the return on capital employed for a sole trader?

- A gross profit, non-current liabilities, owner's capital  
B gross profit, non-current liabilities, working capital  
C operating profit for the year, non-current liabilities, owner's capital  
D operating profit for the year, non-current liabilities, working capital

**The return on capital employed (ROCE) ratio measures how efficiently a business uses the money invested in it. It is used to gauge the value gained by the business from the use of its assets and liabilities.**

**Return on capital employed**

$$= \frac{\text{operating profit for the year}}{\text{capital employed}}$$

$$= \frac{\text{operating profit for the year}}{\text{non-current liabilities} + \text{owner's capital}}$$

$$\text{non-current liabilities} + \text{owner's capital}$$

Answer: C

30. What is the best indicator of the liquidity of a business?

- A current ratio  
B liquid (acid test) ratio  
C return on capital employed  
D working capital

**The liquid ratio, also called the acid test ratio, measures the business' ability to meet its current liabilities with its most liquid assets. Therefore, the ratio excludes inventory from its current assets. This is because inventory is two stages away from being converted into cash: it has to be sold first and then money has to be collected from trade receivables.**

$$\text{Liquid ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

Answer: B

31. A business provided the following information about its gross margin.

Year 1	40%
Year 2	38%
Year 3	35%

What could explain the changes in the gross margin?

- A Cost of sales is decreasing.  
 B Expenses are decreasing.  
 C Quantity of goods sold is decreasing.  
 D Selling price is decreasing.

**Gross profit margin is decreasing in the following years. This means cost of sales is increasing and selling price is decreasing.**

*Answer D*

32. Sam and Rob each own a trading business. The income of each business is solely from the sale of goods. They provided the following information for the year ended 30 June 2020.

	Sam	Rob
return on capital employed	12%	10%
gross margin	25%	30%
profit margin	14%	12%
current ratio	2.8:1	1.2:1

Which statement is correct?

- A Rob will find it easy to pay his current liabilities.  
 B Rob's expenses are a higher proportion of his sales.  
 C Sam is not employing his capital effectively.  
 D Sam's goods are sold at a higher price.

**Sams expenses are  $25\% - 14\% = 11\%$**

**Rob's expenses are  $30\% - 12\% = 18\%$**

**Thus rob's expenses are higher proportion of his sales.**

*Answer B*

33. Why would the owner of a business want to see his financial statements at the end of the year?

- to assess the performance and progress of the business
- to determine the market value of the non-current assets
- to make informed decisions for the following years

- A 1 only  
 B 1 and 3  
 C 2 only  
 D 2 and 3

**Financial statements are made up of an income statement and a statement of financial position. The main aim of the owner to review the financial statement of his business is to assess the performance and progress of the business.**

*Answer. B*

34. Charlie is a car dealer. Joe wanted a new car and went to Charlie's car showroom.

On Monday Joe took a car for a test drive and decided to buy it.

On Tuesday Joe arranged to pay for the car by cheque.

On Wednesday Joe collected the car and received an invoice.

On Thursday Joe's cheque was cleared by the bank.

On which day was Charlie able to account for the profit on the sale?

- A Monday  
 B Tuesday  
 C Wednesday  
 D Thursday

**When the customer is sent a sales invoice, it indicates that sales have taken place. In this case Charlie has sent an invoice to Joe so now he can account for the profit on the sale.**

*Answer C*

35. Which accounting objective requires that financial information is provided in time for a decision to be made?

- A comparability  
 B relevance  
 C reliability  
 D understandability

**For financial statements to be relevant, the information they contain should be timely and useful for decision making.**

*Answer: B*

# O Level Accounting MCQs Explained

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Questions and Answers

**EXPLAINED**

# The Double Entry System of Book-keeping

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

## The Double Entry System of Book-keeping

8

### Multiple Choice Questions

1. What is the accounting equation ?

- A** assets + liabilities = capital  
**B** assets - liabilities = capital  
**C** capital + assets = liabilities  
**D** capital - assets = liabilities

*Running balance account shows the balance after each transaction.*

*Answer: A*

U10/P1/Q1]

*The fundamental accounting equation states that assets should always be equal to capital plus liabilities.*

*Answer: B*

2. Zafar returns goods bought on credit from Khalid.

How is this recorded in Zafar's books?

	account to be debited	account to be credited
<b>A</b>	Khalid	purchases returns
<b>B</b>	Khalid	sales returns
<b>C</b>	purchases returns	Khalid
<b>D</b>	sales returns	Khalid

U10/P1/Q2]

*Zafar has returned goods purchased. This reduces the creditor and purchases. The entry is*

*Khalid (creditor) Dr.*

*Purchases returns Cr*

*Answer: A*

3. A trader prepares a ledger account using the running balance method.

Which statement is correct?

- A** The balance is shown after each transaction. **B** The balance is shown only at the month end. **C** There are fewer calculations than in a traditional 'T' account.  
**D** This method is not suitable for computerised accounts.

[J10/P1/Q71

4. Rashid maintains a provision for doubtful debts of 5 % of the trade receivables (debtors) at the end of each year.

Trade receivables (debtors) owed \$40 000 on 31 December 2008.

Trade receivables (debtors) owed \$46 000 on 31 December 2009.

Which journal entry should Rashid make on 31 December 2009?

		debit \$	credit \$
<b>A</b>	Income statement (profit and loss) Provision for doubtful debts	300	300
<b>B</b>	Income statement (profit and loss) Provision for doubtful debts	2300	2300
<b>C</b>	Provision for doubtful debts Income statement (profit and loss)	300	300
<b>D</b>	Provision for doubtful debts Income statement (profit and loss)	2300	2300

[J10/P1/Q  
111

*Provision for doubtful debts*

*Dec 31 2008 : 40000 × 5% = 2000*

*Dec 31 2009 : 46000 × 5% = 2300*

*Provision has increased by \$300. Entry is Dr: Income statement (profit and loss) 300  
Cr: Provtntston for doubtful debts 300*

*Answer: A*

5. A taxi firm received \$500 from passengers.  
The firm sold a vehicle for \$5000.  
How should these receipts be treated?

	capital receipts	revenue receipts
	\$	\$
A	-	5500
B	500	5000
C	5000	500
D	5500	-

[J10/P1/Q12]

Cash received from services i.e. \$500 is revenue receipt  
. Sale of fixed asset \$5000 is capital receipt.

**Answer: C**

6. The capital of a business is higher at the end of year 2 than it was at the end of year 1. No additional capital has been introduced during year 2.

What does this mean?

A The business has made a loss. B

The business has made a profit.

C The business has sold some non-current (fixed) assets.

D The business has taken a long term loan.

[J10/P1/Q231]

Capital increases due to two reasons, additional investments or net profit.

**Answer: B**

7. A trader prepares financial statements (final accounts) each year.

What do these assist the trader to do?

A calculate the amount owing to creditors

B calculate the cash drawings

C check the bank statement balance

D make decisions about the future.

[N10/P1/Q1]

In the final accounts (income statement and balance sheet) profit or loss is calculated as well as ending balances of assets liabilities and capital are calculated. This helps to take corrective actions.

**Answer: D**

8. Which does not reduce the owner's capital?

A business expenses paid using a personal cheque

B cash withdrawn from the business bank account for personal use

C goods taken from inventory (stock) for personal use

D personal expenses paid using business cash

[N10/P1/Q2]

Any amount paid by owner for business expenses from personal fund increases his capital amount in the business.

**Answer: A**

9. A customer returns goods to a supplier.

How does the supplier record this in his ledger?

	account to be debited	account to be credited
A	customer	purchases returns
B	customer	sales returns
C	purchases returns	customer
D	sales returns	customer

[N10/P1/Q3J]

For the supplier it is sales returns. He had sold goods to the customer.

**Answer: D**

10. A trader decides to change his provision for doubtful debts from 2% of trade receivables (debtors) to 3% of trade receivables (debtors).

Which entry is made to record this?

	account to be debited	account to be credited
A	bad debts	income statement (profit and loss)
B	income statement (profit and loss)	bad debts
C	income statement (profit and loss)	provision for doubtful debts
D	provision for doubtful debts	income statement (profit and loss)

[N10/P1/Q15]

Increase in provision for doubtful debts would increase expenses. Thus income statement is debited and provision for doubtful debt is credited.

**Answer: C**

**Topic 1** *The Double Entry System of Book-keeping*

11. A restaurant spends the following amounts.

	\$
cutlery	500
food	5000
plates	1500
drinks	3000

What is the amount of capital expenditure?

- A \$2000
- B \$5000
- C \$7000
- D \$10 000

[N10/P1/Q16]

*Cutlery and plates are fixed assets for the restaurant and capital expenditure. Food and drinks are revenue expenditure.*

12. Businesses make use of both book-keeping and accounting procedures.

What is the purpose of book-keeping ?

- A to interpret the double entry records
- B to prepare financial statements at regular intervals
- C to record all the financial transactions of the business
- D to summarise the financial position of the business

U11/P1/Q2

*Options A, B and D are accounting procedures. Book-keeping is recording of transactions in the books of accounts*

*Answer: C*

13. Which would be recorded by a credit entry in an account?

- A a decrease in capital
- B a decrease in liabilities
- C an increase in assets
- D an increase in capital

[J1 1/P1/Q3]

*Option A — decrease in capital = Dr.*

*Option B — decrease in liabilities = Dr.*

*Option C — increase in assets = Dr.*

*Option D — increase in capital = Cr*

*Answer: D*

**MCQ 1 & Page 3**

14. Which is the accounting equation?

- A assets-current liabilities = owner's equity (capital)
- B assets - liabilities = owner's equity (capital)
- C current assets-current liabilities=owner's equity (capital)
- D non-current assets - liabilities = owner's equity (capital) (J11/P1/Q51)

*Accounting equation is. Assets = Liabilities + Capital or Capital = Assets - Liabilities.*

*Answer: B*

15. Jane, a trader, withdrew \$50 from the business bank account for office use. How is this recorded in Jane's books?

	account to be debited	account to be credited
A	bank	cash
B	bank	drawings
C	cash	bank
D	drawings	bank

(J11/P1/Q9)

*This is a contra entry i.e. both accounts affected are liquid accounts or cash and cash equivalents.*

*Cash = increases = Dr.*

*Bank = decreases = Cr*

*Answer: C*

16. Winston decides to write off a debt due to him from Leroy for goods sold on credit. How is this recorded in Winston's books?

	account to be debited	account to be credited
A	bad debts	Leroy
B	bad debts	sales
C	Leroy	bad debts
D	sales	bad debts

U11/P1/Q13]

*The entry to write off debts increase expenses i.e. bad debts. It decreases the amount owed by the debtor.*

*Bad debts Dr.*

*Leroy — debtor Cr.*

*Answer: A*

17. Melanie provided the following information at the end of her financial year.

	\$
non-current assets at cost	14 000
amount owing by customers	1 250
amount owing to suppliers	850
inventory	1 875
bank overdraft	365

What was Melanie's capital?

- A \$12160  
B \$15110  
C \$15910  
D \$16640

[N11/P1/Q1]

*Capital = Total Assets - Total liabilities*

$$= (14\ 000 + 1250 + 1875) - (850 + 365)$$

$$= 17125 - 1215 = 15\ 910$$

*Answer: C*

18. A business provides the following information.

	\$
trade receivables	13400
provision for doubtful debts brought forward	800
debts to be written off as bad	600
provision for doubtful debts carried forward (equal to 5 % of trade receivables)	?

What is the provision for doubtful debts to be carried forward to next year?

- A \$600                      B \$640  
C \$660                      D \$670

[N11/P1/Q13]

$$\text{Provision at year end} = 13400 - 600$$

$$= 12800 * 5\% = \$640$$

*Answer: B*

19. How should the owner of a business use his annual financial statements?

- A to calculate the cash drawings for the year  
B to determine the amount due to trade payables  
C to measure the change in the bank balance  
D to monitor the progress of the business

[N11/P1/Q30]

*Financial statements reflect the progress of the business. Decisions to improve are taken accordingly.*

*Answer: D*

20. Which task would not be carried out by an accountant?

- A comparing one year's results with those of previous years  
B interpreting the accounting records  
C preparing financial statements  
D recording the financial transactions

[U12/P1/Q1]

*Book keeper records transactions and accountants prepare and analyse transactions.*

*Answer: D*

21. Jane made a payment to a supplier for goods bought on credit. Jane does not have a bank overdraft.

What is the effect on the accounting equation?

- A decrease capital and decrease assets  
B decrease liabilities and decrease assets  
C increase assets and decrease liabilities  
D increase liabilities and decrease capital

[J12/P1/Q2]

*Supplier is a trade payable and a liability decreases when payment is made. Cash/Bank is an asset which decreases when payments are made.*

*Answer: B*

22. Which account could have a credit balance?

- A bank  
B carriage inwards  
C carriage outwards  
D cash

[J12/P1/Q101]

*Bank has a credit balance when there is an overdraft in the account. It is recorded under current liabilities.*

*Answer: A*

23. Kaminder maintains a provision for doubtful debts of 2% % of the trade receivables.

On 1 January the balance on the provision account was \$ 1075. The trade receivables at 31 December amounted to \$ 41 000.

Which entry will Raminder make on 31 December to adjust the provision for doubtful debts?

	debit	\$	credit	\$
<b>A</b>	income statement	50	provision for doubtful debts	50
<b>B</b>	income statement	1025	provision for doubtful debts	1025
<b>C</b>	provision for doubtful debts	50	income statement	50
<b>D</b>	provision for doubtful debts	1025	income statement	1025

(J12/P1/Q14)

*Curent year provision = 41000 x 2.5% = \$1025*

*Adjustment of provision \$1075 -1025 = \$50 decrease*

*Answer: C*

24. A company purchased a new computer system. What would be recorded as revenue expenditure?

- A computer hardware
- B computer software
- C ink cartridges
- D inkjet printers

U12/P1/Q15)

*Option A, B and D are items of capital expenditure whereas ink cartridges are items of revenue expenditure.*

*Answer: C*

25. Which statement is correct?

- A cost of goods sold - gross profit - sales returns = revenue
- B cost of goods sold - gross profit + sales returns = revenue
- C cost of goods sold + gross profit - sales returns = revenue
- D cost of goods sold + gross profit + sales returns = revenue

U12/P1/Q201

*Revenue - sales returns - cost of goods sold = Gross Profit*

*Revenue = cost of goods sold + sales returns + gross profit*

*Answer*

: D uni

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26. For which purpose does a sole trader not use the information provided in his financial statements? A to assist with decision-making B to compare performance with previous years C to determine the amount of his bank overdraft D to plan for the future (N12/P1/Q1)

*Financial statement information helps the sole trader to take decisions effecting future and present plans.*

*Answer: C*

27. Sara had the following assets and liabilities on 1 August 2012.

	\$
non-current assets	44 000
non-current liabilities	10 000
inventory	1 500
trade payables	3 300
trade receivables	2 600

What was Sara's capital?

- A \$34 800
- B \$36 200
- C \$44 800
- D \$46 200

[N12/P1/Q2]

*Trouble\*\* SHOOITR*

*Capital — Total assets — Total liabilities*

$$= (44000 + 1500 + 2600) - (10000 + 3300)$$

$$= 48100 - 13300 = \$34800$$

*Answer. A*

28. On 1 January Tan, a sole trader, lent Chan \$4000. On 1 November Chan repaid part of the loan leaving an amount outstanding of \$1000.

Which entry was made in the accounts of Tan on 1 November?

	account to be debited	\$	account to be credited	\$
A	bank	1000	Chan loan	1000
B	bank	3000	Chan loan	3000
C	Chan loan	1000	bank	1000
D	Chan loan	3000	bank	3000

[N12/P1/Q3]

*Outstanding amount of loan is already in the books. Chan's loan was receivable which is reduced and bank has increased.*

*Answer: B*

**Topic 1** *The Double 'Entry System of 'book-keeping*

29. Which entry is made to record a decrease in a provision for doubtful debts?

	debit	credit
A	income statement	provision for doubtful debts account
B	provision for doubtful debts account	income statement
C	provision for doubtful debts account	trade receivables
D	trade receivables	provision for doubtful debts account

[N12/P1/Q12]

*Decrease in the provision for doubtful debts increases the Gross profit i.e. income statement is Cr.*

*Answer: B*

30. A wholesaler had the following transactions. sold goods, \$ 30 000, on credit received cheque, \$12 000, from sale of old fixtures at book value  
How would these transactions be classified?

	revenue receipt \$	capital receipt \$
A	-	42 000
B	12000	30000
C	30 000	12 000
D	42 000	-

[N12/P1/Q13]

*Sale of inventory is classified as revenue receipt.  
Sale of old fixtures is capital receipts.*

*Answer: C*

31. A trader provided the following information.

	\$
cost of sales	70000
expenses	8000
profit for the year	14 000

What was the revenue?

- A \$48 000      B \$62 000  
C \$84 000      D \$92 000

IN12/P1/Q19]

*Gross profit - Expenses + Profit*

$$= 8000 + 14000 = \$22000$$

*Revenue = Cost of sales + Gross profit*

$$= 70000 + 22000$$

$$= \$92000$$

*Answer: D*

32. A trader prepares financial statements each year.

What do these assist the trader to do?

- A calculate the amount owing to creditors  
B calculate the cash drawings  
C check the bank statement balance  
D make decisions about the future

U13/P1/Q11

*Financial statements are drawn out to analyse the financial position of the company. Decisions to improve profitability of the firm are taken*

*Answer: D*

33. What is the accounting equation?

- A assets = capital - liabilities  
B capital = assets + liabilities  
C capital = assets - liabilities  
D liabilities = capital + assets

U13/P1/Q2]

*Capital is the owners investment in the business. Payables (liabilities) are deducted from resources (assets) to get the figure of capital.*

*Answer: C*

34. Candy purchased a motor vehicle. She also paid for the cost of delivering the vehicle, insurance and fuel for the vehicle. which would be included in Candy's income statement?

- A delivery cost, fuel, insurance  
B delivery cost, fuel, insurance, motor vehicle  
C delivery cost, motor vehicle  
D fuel, insurance

IJ13/P1/Q13)

*Insurance and fuel are revenue expenses to be included in income statement. Cost of motor vehicles and delivery cost are capital expenditures.*

*Answer: D*

35. Bashir maintains a provision for doubtful debts of 3% of the trade receivables at the end of the year.

On 31 December 2011 trade receivables amounted to \$70 000.

On 31 December 2012 trade receivables amounted to \$73 000.

Which double entry should Bashir make on 31 December 2012?

	debit	\$	credit	\$
A	income statement	90	provision for doubtful debts account	90
B	income statement	2100	provision for doubtful debts account	2100
C	provision for doubtful debts account	90	income statement	90
D	provision for doubtful debts account	2100	income statement	2100

to tan A

U13/P1/Q12I

*Opening balance provision = 70 000 x 3% = 2100*

*Closing balance provision = 73 000 x 3% = 2190*

*Increase in provision = 90*

*This provision is Dr in the income statement as an expense.*

**Answer: A**

36. A trader took goods for her own use. How should this be recorded?

	account to be debited	account to be credited
A	drawings	purchases
B	drawings	sales
C	purchases	drawings
D	sales	drawings

U13/P1/Q2O1

*When the owner withdraws goods for own use—it is known as drawings. When drawings increase, they are Dr. When stock is withdrawn, purchases decrease and are Cr.*

**Answer: A**

37. What is a benefit of using computers in book-keeping and accounting?

A Anyone with a computer can access the information.

B It is cheap to install.

C Large quantities of information can be stored.

D Staff require special training.

[N13/P1/Q11

*Accounting ami book keeping involves vast amount of data which has to be stored. Computers fulfil this requirement.*

**Answer: C**

38. How is owner's equity calculated?

A money invested in the business by the owner, plus the net current assets

B money invested in the business by the owner, plus the non-current liabilities

C total of non-current assets and working capital, less the non-current liabilities

D total of non-current assets, long term liabilities and net current assets

[N13/P1/Q2 ]

*Owner equity = Non-current asset + net current asset (current asset - current liabilities) less non current liabilities. In short it is total assets - total liabilities*

**Answer: C**

39. A motor vehicle, book value \$2400, was sold for \$2750.

How would this transaction be treated by the business?

	capital receipt	revenue receipt
	\$	\$
A		2750
B	350	2400
C	2400	350
D	2750	-

[N13/P1/Q11]

*Profit on sale of motor vehicle - \$2 750 - \$2 400*

*= \$350*

*Revenue receipt = \$350*

*Capital received is amount received for the cost of the fixed asset sold i.e. \$2 400*

**Answer: C**

40. Capital expenditure is treated in error as revenue expenditure. What effect will this have?

- A The balance sheet will not balance.
- B The expenses will be overstated.
- C The expenses will be understated.
- D The trial balance will not balance.

[N13/P1/Q12]

*Non current assets will be undercasted and expenses will be overcasted.*

**Answer: B**

41. How can purchases be calculated?

- A cost of goods sold - closing inventory - opening inventory
- B cost of goods sold - closing inventory + opening inventory
- C cost of goods sold + closing inventory - opening inventory
- D cost of goods sold + closing inventory + opening inventory

[N13/P1/Q17]

*Cost of goods sold = opening inventory + purchases - closing inventory*

*Purchases = cost of good sold + closing inventory*

*- opening inventory*

**Answer: C**

42. Which is a liability of a business?

- A amount owing by credit customers
- B amount owing to credit suppliers
- C long term loan to employee
- D property tax paid in advance

[J14/P1/Q2]

*Option A, C and D are assets. Credit suppliers are account payables whom the business is liable to pay.*

**Answer: B**

43. A business bought a computer for office use and paid by cheque. How will the business record the transaction?

	account to be debited	account to be credited
A	bank	office equipment
B	office equipment	bank
<b>C</b>	bank	purchases
D	purchases	bank

U14/P1/Q3I

*Computer is an asset and increase in asset is Dr. Payment made by cheque reduces the asset bank thus bank is Cr.*

**Answer: B**

44. Amina is a wholesaler selling shoes to retailers . Which is a revenue receipt?

- A capital introduced B long-term bank loan
- C proceeds of sale of shelving at book value
- D proceeds of sale of shoes at list price

[J14/P1/Q11]

*Option A, B and C are capital receipts. Sale of inventory (in this case shoes) is an e.g. of revenue receipt.*

**Answer: D**

45. A trader maintains a provision for doubtful debts of 2% %.

The provision on 1 January 2013 was \$250.

Trade receivables on 31 December 2013

were \$28 000.

At what value were trade receivables shown in the statement of financial position on 31 December 2013?

- A \$27 050
- B \$27 300
- C \$27 750
- D \$28 700

[J14/P1/Q17]

*End of year provision for doubtful*

*debts = 28000 X 2% = 700*

*Value of trade receivables in the balance sheet*

*- 28000 - 700 = \$27 300*

**Answer: B**

46. Businesses make use of both book-keeping and accounting procedures.

What is the purpose of book-keeping?

- A to interpret the double entry records B to prepare financial statements at regular intervals
- C to record all the financial transactions of the business
- D to summarise the financial position of the business

IN14/P1/Q11

**Topic 1** *The Double Entry System of Book-keeping*

*Recording of financial transaction in the books of accounts is book-keeping. Options A, B and D are uses of accounting procedures.*

**Answer C**

47. A trader purchased a motor vehicle for his business using a cheque from his personal bank account. How is this recorded in the books of the business?

	account to be debited	account to be credited
A	bank	motor vehicles
<b>B</b>	capital	motor vehicles
C	motor vehicles	bank
D	motor vehicles	capital

[N14/P1/Q3]

*Any payment made by the trader for the business from his private money increases the holders capital in the firm.*

**Answer: D**

48. Rashid maintains a provision for doubtful debts of 5% of the trade receivables at the end of each year. Trade receivables owed \$40 000 on 31 December 2012. Trade receivables owed \$46 000 on 31 December 2013. Which journal entry should Rashid make on 31 December 2013?

		debit \$	credit \$
A	income statement provision for doubtful debts	300	300
B	income statement provision for doubtful debts	2300	2300
C	provision for doubtful debts income statement	300	300
<b>D</b>	provision for doubtful debts income statement	2300	2300

[N14/P1/Q14]

*Provision for doubtful debts:*

$$31 \text{ Dec } 2012 \ 40\ 000 \times 5\% = 2000$$

$$31 \text{ Dec } 2013 \ 46\ 000 \times 5\% = 2300$$

*Increase in provision \$300*

*Entry: Income statement 300*

*Provision for doubtful debt 300*

**Answer: A**

**MCQ 1 & Page 9**

49. An item of capital expenditure has been incorrectly treated as revenue expenditure. What is the effect of this error?

	assets	profit for the year
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[N14/P1/Q1S]

*Fixed assets are understated. Expenses will be overstated as a result profit will be understated.*

**Answer: D**

50. Which item affects gross profit?

- A carriage outwards
- B** discounts allowed
- C discounts received
- D goods taken by owner

J

[N14/P1/Q18]

*Options A, B and C are operating expenses which affects the net profit. Goods taken by owner decreases purchases which in turn decreases cost of sales. As a result gross profit increase.*

**Answer: D**

51. How should the owner of a business use his financial statements?

- A to calculate the cash drawings for the year
- B to determine the amount due to trade payables
- C to measure the change in the bank balance
- D to monitor the progress of the business

[J15/P1/Q11]

*The main use of financial statements is to determine the profitability of the business or monitor the progress of the firm.*

**Answer: D**

52. Gail's statement of financial position included the following.

	\$
non-current assets	100 000
current assets	50 000
current liabilities	2 000

**Topic 1** *The Double Tintry System of Book-keeping*

What was Gail's capital?

- A \$100 000
- B \$148 000
- C \$150 000
- D \$152 000

U15/P1/Q3]

*Capital*

= total assets - total liabilities

= (\$100 000 + \$50 000) - \$2 000 = \$148 000

**Answer: B**

- 53.** At the end of her financial year Annie decided to reduce her provision for doubtful debts.

Which entry recorded this?

	debit	credit
A	bad debts	provision for doubtful debts
B	income statement	provision for doubtful debts
C	provision for doubtful debts	bad debts
D	provision for doubtful debts	Income statement

U15/P1/Q11]

*When provision is decreased expenses are reduced. Income statement is credited and provision for doubtful debt is debited.*

**Answer: D**

- 54.** Which transaction is a capital receipt?

- A cash received from sale of goods
- B interest received from bank
- C proceeds of sale of equipment
- D rent received from tenant

[J15/P1/Q12]

*Option A, B and D are examples of revenue receipts. Option C is a transaction involving capital receipts. Cash received from sale of fixed assets are capital receipts.*

**Answer: C**

- 55.** What is prepared by a book-keeper?

- A appropriation account
- B cash book
- C income statement
- D statement of financial position

[N15/P1/Q1]

**MCQ 1** Page 10

Book-keeper prepares the books of prime entry. Cash book is one of them.

**Answer: B**

- 56.** Which item would be recorded by a credit entry in an account?

A A

- A a decrease in capital
- B a decrease in liabilities
- C an increase in assets
- D an increase in capital

[N15/P1/Q3]

*Option A, B and C are recorded by Dr entry. When capital increases, the amount is Cr in the account.*

**Answer: D**

- 57.** A trader decides to change his provision for doubtful debts from 2% to 3% of trade receivables.

Which entry is made to record this?

	debit	credit
A	bad debts	income statement
B	income statement	bad debts
C	income statement	provision for doubtful debts
D	provision for doubtful debts	income statement

[N1 5/P1/Q12)

*Increase in provision for doubtful debts results in increase in expenses. Income statement will be debited and provision for doubtful debts will be credited.*

**Answer: C**

- 58.** Which item is a capital receipt for the owner of a bakery?

- A cash discount from a supplier of flour
- B cash from sale of a wedding cake
- C proceeds from the sale of an oven
- D refund of rent from the landlord

[N15/P1/Q13]

*Capital receipts is the amount received from sale of fixed assets. Option A, B, and C are revenue receipts.*

**Answer: C**

Topic 1 The Double Entry System of Book-keeping 59.

- Which task would not be carried out by a book-keeper?
- A posting cash receipts
  - B preparing financial statements
  - C recording entries in the purchases ledger
  - D writing up the sales returns journal

[J16/P1/Q1]

*A book keeper only posts transaction in books of prime entry and ledgers. An accountant prepares financial statement and analyzing it.*

**Answer: B**

60. A company employs a book-keeper and an accountant. Which task would the accountant perform?
- A extracting balances from the ledger accounts to produce a trial balance
  - B making entries in the journal to adjust a provision for doubtful debts
  - C preparing a monthly report that analyses the profitability of the company
  - D recording sales and purchase invoices in the books of prime (original) entry

[N16/P1/Q1]

*The job of the book-keeper is to draw out books of accounts. The accountant uses these accounts to prepare monthly reports and analyse profitability liquid- ity etc. of the company.*

**Answer: C,**

61. Why does the owner of a business calculate profit?
- A to find the return on capital
  - B to find the total expenses
  - C to know how much he can borrow from the bank
  - D to know the loan interest he can afford to pay

[N16/P1/Q2]

*The main aim of the owner of a business is to earn a profit. Profit is used to calculate the percentage of return on capital invested.*

**Answer: A**

MCQ 1 Page 11

62. Melanie provided the following information.

	\$
non-current assets	14000
amount owing by credit customers	1250
amount owing to credit suppliers	850
inventory	1875
bank overdraft	365

What was Melanie's capital?

- A \$12 160
- B \$15 110
- C \$15 910
- D \$16 640

[N16/P1/Q3]

*Capital = total assets - total liability*

$$= \$14\ 000 + \$1250 + \$1875 - \$850 - \$365$$

$$= \$15\ 910$$

**Answer: C**

63. Jamal bought goods from Sanjay, paying in cash. How would Jamal record this transaction?

	account to be debited	account to be credited
A	cash	purchases
<b>B</b>	cash	Sanjay
C	purchases	cash
D	Sanjay	cash

[N16/P1/Q4]

*Jamal bought goods for cash. So purchases account will be debited whereas cash account will be credited.*

**Answer: C**

64. Winston sold goods on credit to Leroy. Which entries should Winston make in his ledgers?

	sales ledger	general ledger
A	credit Leroy account	debit sales account
B	credit sales account	debit Leroy account
C	debit Leroy account	credit sales account
D	debit sales account	credit Leroy account

[N16/P1/Q5]

Winston sold goods on credit to Leroy. Leroy is a trade receivable, so he will be debited. Sales are revenue and so will be credited.

Answer: C

65. Tan has a transport business. He purchased a motor vehicle and some fuel on credit from Yeung. The invoice received from Yeung showed the following.

	\$
purchase of motor vehicle	20000
purchase of fuel	200
	20200

What are the entries in Tan's books?

	account(s) debited		account(s) credited	
		\$		\$
A	motor vehicles	20200	Yeung	20200
B	motor vehicles	20000	Yeung	20200
	motor expenses	200		
C	Yeung	20 200	motor vehicles	20 200
D	Yeung	20200	motor vehicles	20000
			motor expenses	200

[N16/P1/Q10]

\$ 20 000 will be recorded under motor vehicle. Purchase of fuel is an expense and is recorded under motor expenses. Both motor vehicle and motor expenses is debited. Trade payable Yeung is credited.

Answer: B

66. Raminder maintains a provision for doubtful debts of 2.4% of the trade receivables.

On 1 January the balance on the provision account was \$1075. The trade receivables at 31 December amounted to \$41 000.

Which entries will Raminder make on 31 December to adjust the provision for doubtful debts?

	debit	\$	credit	\$
A	income statement	50	provision for doubtful debts	50
B	income statement	1025	provision for doubtful debts	1025
C	provision for doubtful debts	50	income statement	50
D	provision for doubtful debts	1025	income statement	1025

[N16/P1/Q12J]

Current years provision = \$41000 \* 2.5%

= \$1025

\$1075 - \$1 025 = decrease \$50.

Provision for doubtful debt has decreased by \$50 in the current year and will be added to gross profit in the income statement.

67. Which is a trading business?

- A food store
- B hairdresser
- C investment adviser
- D motor vehicle repairer

i.

[N16/P1/Q20]

A trading business buys and sells inventory. Options B, C and D are businesses which provide services.

\_\_\_\_\_ A  
• U \_\_\_\_\_ ti

68. Melissa transferred \$5000 from the bank deposit account to the bank current account on 1 May.

On the same day she received a bank loan, \$10000, which she paid into the bank current account.

How will Melissa record these transactions?

	bank loan account		bank deposit account		bank current account	
	debit	credit	debit	credit	debit	credit
A	Z		Z			z
B	Z			Z		z
C		Z	Z		Z	
D		Z		Z	Z	

[J17/P1/Q5]

Bank loan account is a liability, it is credited. Bank deposit account is an asset account, which when reduced is credited. Bank current account is an asset account, it is debited when it increases. Money from the loan and deposit account is transferred to the current account.

Answer: D

	account debited	\$	account credited	\$
A	bad debts	200	Jane	200
B	Jane	200	bad debts	200
C	bad debts	200	income statement	200
D	income statement	200	Bad debts	200

[N17/P1/Q10]

69. Which accounts all have debit balances?

- A capital, insurance, purchases
- B drawings, sales, purchases returns
- C inventory, motor vehicles, cash
- D rent received, drawings, wages

U17/P1/Q71

In option A - Capital Cr balance.

In option B - Sales and purchases return have Cr balances.

In option D - Rent received has a Cr balance.

In option C • all accounts have a debit balance

Answer: C

70. An item of capital expenditure has been incorrectly treated as revenue expenditure.

What is the effect of this error?

	assets	profit for the year
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

(JI 7/P1/Q12)

Capital expenditure is acquiring assets. Assets will be understated and profit will also be understated. Expenses when overstated, results in undercasting of profit.

Answer: D

71. Elizabeth issued an invoice to lane for \$500 on 1 February. On 30 April Elizabeth received \$300 from Jane. She wrote off the remaining balance on 28 October.

Which entries did Elizabeth make on 28 October?

On October 28 Elizabeth made the following entry

Bad debt \$200

Jane (Trade receivable) \$200

Answer: A

72. Ajay maintains a provision for doubtful debts of 3% of trade receivables.

On 1 January 2016, the balance on the provision for doubtful debts account was \$70. The trade receivables amounted to \$3500 on 31 December 2016.

Which entry did Ajay make on 31 December 2016?

	debit	credit
A	bad debts account	provision for doubtful debts account
B	income statement	provision for doubtful debts account
C	provision for doubtful debts account	income statement
D	provision for doubtful debts account	trade receivables account

(N1 7/P1/Q111)

Dec 31 2016

Provision for doubtful debts (3500x3%) 105

Jan 1 2016 Balance

70

Increase in provision

35

Entry made by Ajay on 31 Dec 2016

Income statement (Dr)

Provision for doubtful debts (Cr)

Answer: B

73. Which are examples of capital receipts?

- 1 a loan received from a bank, repayable in three years' time
- 2 a profit made on the sale of a non-current asset
- 3 cash received from the sale of a non-current asset at book value

4 rent received from letting part of the business premises to a tenant

- A 1 and 3                      B 1 and 4  
C 2 and 3                      D 2 and 4

[N1 7/P1/Q12]

Option 2 and 4 are revenue receipts. Option 1 and 3 are capital receipts.

Answer: A

74. Which group contains only liabilities?  
A bank loan, trade payables, prepaid rent  
B bank overdraft, trade payables, unpaid wages  
C trade payables, cash at bank, unpaid rates  
D trade payables, inventory, unpaid wages

[J18/P1/Q2]

Option A Prepaid rent - current asset

Option C: Cash at Bank - current asset

Option D : Inventory - current asset

Only option B contains non current and current liabilities.

Answer: B

75. What is the accounting equation?

- A assets - liabilities = capital  
B assets + liabilities = capital  
C liabilities - assets = capital  
D liabilities - capital = assets

U18/P1/Q3

]

Accounting equation shows a balance between resources acquired and investment by owner and outside sources.

Assets = Capital + Liability

Answer: A

Bad debts is an expense and it reduces the amount owed by Trade receivable. Entry is as follows:

Dr Bad debt account

Cr Trade receivable - Leo account

Answer: B

77. Rashid maintains a provision for doubtful debts of 5% of the trade receivables at the end of each year. Trade receivables owed \$40000 on 31 March 2017. Trade receivables owed \$46000 on 31 March 2018. Which journal entry should Rashid make on 31 March 2018?

		debit \$	credit \$
A	income statement provision for doubtful debts	300	300
B	income statement provision for doubtful debts	2300	2300
C	provision for doubtful debts income statement	300	300
D	provision for doubtful debts income statement	2300	2300

[J18/P1/Q10]

Opening balance provision \$40000 x 5% = \$2000

Closing balance provision \$46000 x 5% = \$2300

Increase of \$300 in provision is an expense. Entry will be,

Dr Income statement \$300

Cr provision for doubtful debts \$300

Answer: A

**Topic 1** *The Double Entry System of Book-keeping*

79. Which is an intangible asset?  
 A buildings  
 B goodwill  
 C inventory  
 D trade receivables
- [J18/P1/Q17]

*Intangible assets cannot be seen or touched. Goodwill, patents, trademarks etc are examples of intangible assets.*

**Answer: B**

80. Which statements about book-keeping and accounting are correct?
- 1 Accounting is performed periodically rather than daily.
  - 2 Accounting relies on having accurate book-keeping records.
  - 3 Book-keeping includes the preparation of financial statements.
  - 4 Book-keeping involves the recording of financial transactions.
- A 1,2 and 4  
 B 1 and 3  
 C 2, 3 and 4  
 D 2 and 4
- [N18/P1/Q1]

*Accounting is a period evaluation from accurate book-keeping records. It relies on recorded financial transactions by book-keepers.*

**Answer: A**

81. Bashir maintains a provision for doubtful debts of 3% of the trade receivables at the end of the year.  
 On 31 August 2017 trade receivables amounted to \$70 000.  
 On 31 August 2018 trade receivables amounted to \$73 000.  
 Which double entry should Bashir make on 31 August 2018?

	debit	\$	credit	\$
A	income statement	90	provision for doubtful debts account	90
B	income statement	2100	provision for doubtful debts account	2100
C	provision for doubtful debts account	90	income statement	90
D	provision for doubtful debts account	2100	income statement	2100

[N18/P1/Q10]

*Sep 1 2017 provision b/d = \$70000 \*3% = \$ 2100*  
*Aug 31 2018 provision c/d = \$73000 \*3% = \$ 2190*

*Dr Income statement \$90*

*Cr provision for doubtful debt \$90.*

**Answer: A**

82. Ava had \$4000 in the bank. She paid a supplier \$575 by cheque in full settlement of \$600 owing. Which changes would take place within the accounting equation?

	assets	owner's equity (capital)	liabilities
A	-\$600	-\$25	-\$625
B	-\$600	+\$25	-\$625
C	-\$575	+\$25	-\$600
D	+\$575	-\$25	+\$600

[N18/P1/Q2]

*Trade payables will be reduced by \$600. Bank will be decreased by \$575.*

*Discount received (\$600 - \$575) \$25 is an income. It will increase owners equity.*

**Answer: C**

83. Leroy has an engineering business. On 31 May he received an invoice from AB Machines showing the following:

- COST of replacement parts for machine
- cost of repairs to machine
- cost of machine
- cost of installation of machine

Which costs are capital expenditure in Leroy's books?

- A machine, installation  
 B machine only  
 C replacement parts, machine  
 D replacement parts, repairs, installation

[N18/P1/Q11]

*Repairs and replacement of parts of machine are running expenses for the machine. They come under revenue expenditures.*

**Answer: A**

84. What is the main function of book-keeping?

- A communicating information
- B interpreting information
- C recording information
- D summarising information

U19/P1/Q1]

*Book-keepers records the accounting information in relevant books of accounts. Communicating, interpreting and summarising information is the work of accountants*

**Answer: C**

85. Which does not reduce the owner's capital?

- A business expenses paid using a personal cheque
- B cash withdrawn from the business bank account for personal use
- C goods taken from inventory for personal use
- D personal expenses paid using business cash

U19/P1/Q21

*Options B, C and D are various forms of drawings of the owner from the business.*

*Drawings reduces the capital of the owner.*

*Option A means that owners capital will increase as the owner has paid expenses of the business from personal resources thus increasing his investment.*

**Answer: A**

86. What would be recorded by a debit entry in a ledger account?

- A a decrease in an asset
- B an increase in a liability
- C an increase in an asset**
- D an increase in capital employed

U19/P1/Q31

*Option A, B and D are credit entries. When asset increases it is always debited in ledger accounts.*

**Answer: C**

87. A trader created a provision for doubtful debts.

Why did he create this provision?

- 1 to ensure that money was available to cover bad debts
- 2 to ensure that the current assets were not overstated
- 3 to ensure that the matching/accruals principle was followed
- 4 to ensure that the profit for the year was not overstated

A 1 and 3

B 1 only

C 2 and 4 only

D 2, 3 and 4

(J19/P1/Q11

*Provision for doubtful debt is created to cover an unrealised loss. It follows the matching principle and ensure current assets and profit for the year are not overstated.*

**Answer: D**

88. Which task would be carried out by a book-keeper ? A

- comparison of financial statements between years B
- preparation of financial statements
- C provision of information for decision-making
- D recording financial transactions

(N19/P1/Q1)

*Book-keepers records financial transactions in the books of the business.*

**Answer: D**

89. Why does the owner of a business calculate profit

- ? A to find the return on capital
- B to find the total expenses
- C to know how much he can borrow from the bank
- D to know the loan interest he can afford to pay**

[N19/P1/Q2]

*Owner invests capital in the business. The return on his investment is the profit the business earns.*

**Answer: A**

90. Which transaction will increase both assets and capital by the same amount?

- A A credit customer settled his account after deducting a cash discount.
- B Goods were sold at a price higher than their cost price.

**Topic 1** *The Double Entry System of Book-keeping*

C Rent received included an amount prepaid for the next accounting period.

D The owner repaid a business loan from his personal bank account.

[N19/P1/Q3]

*Asset cash is increasing. Inventory is decreasing with cost and profit also increasing. Effect is: asset and capital is increasing by the same amount.*

Answer: B

91. A trader purchased a motor vehicle for his business using a cheque from his personal bank account. How was this recorded in the books of the business?

	account to be debited	account to be credited
A	bank	motor vehicles
B	capital	motor vehicles
C	motor vehicles	bank
D	motor vehicles	capital

[N19/P1/Q4]

*Whenever the owner pays for the assets of the business from his personal bank account, his investment or capital in the firm increases.*

Answer: D

92. Hanna owed Alan \$1800. On 1 June Hanna paid \$1300 and the remaining balance was written off. What entries did Alan make on 1 June?

	bank account		bad debts account		Hanna account	
	debit \$	credit \$	debit \$	credit \$	debit \$	credit \$
A	1300		500			1800
B	1300			1800	500	
C		1300	1800			500
D		1300		500	1800	

[N19/P1/Q13]

Bank Dr 1300  
Bad debts Dr 500  
Hanna A/C Cr 1800

Answer: A

93. At the end of her financial year Ling reduced the provision for doubtful debts by \$500. Which journal entry records this?

		debit \$	credit \$
A	income statement provision for doubtful debts	500	500
B	provision for doubtful debts income statement	500	500
C	provision for doubtful debts trade receivables	500	500
D	trade receivables provision for doubtful debts	500	500

[N19/P1/Q14]

*Reduction in doubtful debt decreases the provision. So it is Dr and income statement is Cr.*

Answer: B

94. What will be treated as capital expenditure?  
A the annual depreciation on office premises  
B the cost of building an office extension  
C the cost of repairing office equipment  
D the purchase of a new computer for resale

[N19/P1/Q15]

*Option A and C are expenses.*

*Option D is purchases.*

*Option B is cost of building an office extension. It is increasing value of building by the new addition. So it is recorded as capital expenditure.*

Answer: B

95. Which are examples of book-keeping?

- entering details of a cheque received from a customer in a cash book
- entering details of goods purchased on credit in a purchases journal
- producing an income statement to calculate the profit for the year
- recording details of credit sales in the account of a credit customer

- A 1, 2 and 3                      B 1, 2 and 4  
C 1 and 2 only                 D 3 and 4

U20/P1/Q1J

*Book keeping is recording transactions in the books of prime entry, posting them in ledgers and summarizing the data in form of a trial balance.*

Answer: B

**Topic 1** *The Double Entry System of Book-keeping*

96. How does a trader use the information provided by financial statements?

- A to calculate the amount of cash drawings taken
- B to calculate the amount that is owed by trade receivables
- C to check the balance shown on a bank statement
- D to compare the business performance over a number of years

[J20/P1/Q2]

Information provided by financial statement is used by traders to compare profitability and business performance over a number of years.

**Answer: D**

97. A trader bought new fixtures. He paid half of the purchase price in cash and agreed to pay the balance in two months' time.

How does this purchase affect the accounting equation?

	assets	owner's equity	liabilities
A	decrease	decrease	no effect
B	decrease	no effect	increase
C	increase	decrease	increase
D	increase	no effect	increase

[U20/P1/Q3]

Purchase of new fixture would increase assets and half payment in cash would decrease assets. Net effect is increase in assets.

Owner's equity would be unaffected.

Trade payable would increase liabilities

**Answer: D**

98. A trader prepares financial statements each year. What do these assist the trader to do?

- A calculate the amount owing to credit suppliers
- B calculate the cash drawings
- C check the bank statement balance
- D make decisions about the future

[N20/P1/Q11]

The trader can evaluate and interpret the financial statement. This helps them to make decisions about future prospects of the business.

**Answer: D****MCQ 1 Page 18**

99. What is not an example of a book-keeping entry?

- A an entry made in the bank column of the cash book for a cheque received
- B cost of goods purchased on credit entered in the supplier's account
- C expenses paid during the year entered in the income statement
- D goods returned by a customer entered in the sales returns journal

[N20/P1/Q2]

Book-keeping entries are made in the books of prime entry. Options A, B and D are book-keeping entries. Only option C is the entry made in income statement which is part of final accounts.

**Answer: C**

100. The following balances appeared in Hussein's books.

	\$
fixtures	6000
inventory	3300
trade receivables	3000
trade payables	4500
other receivables	500
other payables	300
loan to Imran	1000
bank overdraft	1400

What was the total of the liabilities?

- A \$4800
- B \$6200
- C \$6400
- D \$7200

[N20/P1/Q3]

$Liabilities = \$4500 + \$300 + \$1400 = \$6200$

**Answer: B**

101. What does the owner's equity consist of?

- A the amount of money in the business bank account
- B the amount owed by the business to the owner
- C the total of the assets owned by the business
- D the total of the current assets less the current liabilities

[N20/P1/Q41]

Equity is investment of the owner in the business. Thus it is the amount owed by the business to the owner.

**Answer: B**

# Accounting Principles, Objectives & Policies

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 2

## Accounting Principles, Objectives & Policies

### Multiple Choice Questions

1. A sole trader purchased the following items from an office supplier.

	\$
calculator	10
computer system	2000
document shredder	25
stapler	5

Applying the accounting principle of materiality, which would be recorded as revenue expenditure ? **A** calculator , computer system , document shredder **B** calculator , computer system, stapler  
**C** calculator, document shredder, stapler  
**D** computer system, document shredder, stapler  
[J10/P1/Q28]

*Material items are expensive items recorded under fixed assets . Low priced items are recorded under revenue expenditures.*

2. Bi-Appah thinks her business will be worth more when she takes on new, highly skilled staff. Which accounting principle prevents her from recording this in her balance sheet?  
**A** accounting entity  
**B** accounting period  
**C** going concern  
**D** money measurement  
010/P1/Q29J

*Money measurement concept states that items with money value can only be recorded in books of ac- counts.*

3. Assets and liabilities are recorded in the accounts at the actual amount of the transaction.

Which accounting principle is being applied?

- A** accounting entity      **B** consistency  
**C** historical cost      **D** money measurement

[N10/P1/Q30]

*Assets and liabilities are recorded at cost according to the historical cost concept.*

*Answer: C*

4. Applying the money measurement principle, what is recorded in a balance sheet?

- A** better staff morale following redecoration of premises  
**B** improved public roads to the business premises  
**C** increase in efficiency following staff training  
**D** installation of air conditioning to improve staff comfort

[J11/P1/Q1]

*Answer: C*

*Options A, B and C do not have monetary value attached to the event. Without monetary value the transaction has no accounting treatment.*

*Answer: /?*

5. An international company has prepared financial statements without including very small items of furniture in its non-current assets.

Which accounting principle has the company applied?

- A** accounting entity      **B** dual aspect  
**C** going concern      **D** materiality

[J11/P1/Q30]

*Materiality concept clearly states that according to the size of the firm and judgement of the accounts some items can be treated as expenses instead of non-current assets.*

*Answer D*



Value of inventory

$$X = 950 \times 10 = 9500$$

$$Y = 1500 \times 30 = 45000$$

$$9500 + 45000 = 54500$$

Value of inventory is calculated by using the principle of lower cost or market value applied on each item separately.

Answer: C 12.

The financial statements of a trader include wages paid to employees. The skill and expertise of the employees is not included.

Which principle is being applied?

- A accounting entity
- B accounting year
- C going concern
- D money measurement

Only transaction measured in terms of money and related to the business are recorded in the books of accounts according to the money measurement concept.

Answer: D

13. A business depreciated machinery using the straight line method in year 1 and the diminishing (reducing) balance method in year 2.

Which accounting principle is not being applied?

- A consistency
- B dual aspect
- C matching (accruals)
- D prudence

[J13/P1/Q30]

Consistency concepts emphasizes the fact that the business should be objective. It should follow one method of depreciation so that profit figure is not distorted.

Answer: A

14. Alan's inventory consisted of the following.

quantity	goods	cost per unit \$	selling price per unit \$
100	large t-shirts	5	7
20	small t-shirts	5	3

What was the value of the inventory?

- A \$560
- B \$600
- C \$760
- D \$800

[N13/P1/Q19]

Value of inventory using lower of cost or

$$= (100 \times 5) + (20 \times 3) = \$560$$

Answer: A

15. A balance sheet included non-current assets at cost less depreciation.

Which principle was being applied?

- A accounting entity
- B going concern
- C materiality
- D money measurement

[N13/P1/Q29]

According to the accounting concepts, all going concern firms expected to function for 10 years or more must record non-current fixed assets at cost. Net book value (cost - depreciation to date) also has to be shown.

Answer: B

16. Abdul applies the accounting year principle. Why does he do this?

- A to be able to compare his results with competitors
- B to ensure that all transactions are recorded
- C to ensure that non-current assets are not overvalued
- D to maintain a full set of accounting records

[N13/P1/Q30]

Accounting year principle means final accounts are drawn at the end of the financial year. The dates are same as other firms in the industry.

Answer: A

17. What is the meaning of the money measurement principle?

- A Assets are normally shown at cost price.
- B Only items with a monetary value are included in the accounts.
- C Profits are calculated after allowing for accruals and prepayments.
- D Profits are calculated on the basis of cash received less cash paid.

[J14/P1/Q29]

Money measurement concept states that all business transactions with a monetary value should be recorded in the books of accounts.

Answer: B

18. A trader writes off an amount owed by Mustafa by debiting the bad debts account and crediting Mustafa's account.

Which accounting principle is the trader applying?

- A accounting entity  
B consistency  
C dual aspect  
D money measurement

[J14/P1/Q30]

Dual accounting concept or double entry concept states that for every debit entry there is a credit entry of an equal amount.

Answer: C

19. Nirmal sells two products, product G and product H.

The following information is available about his inventory on 31 December 2013.

product	number of units	cost price per unit	net realisable value per unit
G	1000	\$2.00	\$2.50
H	800	\$1.50	\$1.20

It was found that 100 units of product G were damaged and were unsaleable.

What was the total value of Nirmal's inventory?

- A \$2760                      B \$3000  
C \$3260                      D \$3460

[N14/P1/Q20]

Product G:  $1000 - 100 = 900$  units

$900 \times \$2.00 = \$1800$

Product H:  $800 \times 1.20 = \$960$

Total value of inventory —  $1800 + 960 = \$2760$

Answer: A

20. 'Only the financial transactions of the business are recorded in the business's accounting records.'

Which accounting principle is being described?

- A accounting entity      B going concern  
C historical cost          D money measurement

[N14/P1/Q30]

The accountant records transactions in the books of the business which are related to the financial affairs of the firm.

Answer A

21. How should inventory be valued?

- A cost  
B higher of cost and net realisable value  
C lower of cost and net realisable value  
D net realisable value

[J15/P1/Q18]

According to the prudence concept inventory should always be valued at lower of cost or NRV.

Answer: C

22. A payment made from the business bank account for petrol for the owner's private car is not included in the income statement.

Which accounting principle is being applied?

- A accounting entity  
B going concern  
C historical cost  
D money measurement

[J15/P1/Q28J]

Accounting entity concept means that owner's personal transactions are not recorded in the books of the business.

Answer: A

23. 'A business's financial statements should include all the costs and income for the period to which they relate.' Which accounting principle is referred to in this statement?

- A accounting year      B consistency

- C prudence                      D matching (accruals)

[J15/P1/Q29]

Matching principle or accrual concept states that expenses of the current year should be matched off against revenues of the current year.

Answer: D

24. What is the purpose of international accounting standards?

- A to allow users to rely on the information in financial statements being error-free  
B to enable accountants to get work easily anywhere in the world

- C to enable non-accountants to understand all the information in financial statements
- D to make it easier to compare financial statements prepared in different countries

[J15/P1/Q30]

*International accounting standards are followed so that financial statements i.e. income statement, balance sheet, cash flow etc. are drawn out in a manner which makes it easier to compare them with statements of similar businesses in other countries.*

Answer: D

25. Brian's inventory included one item which had cost \$240. The item needed repair at a cost of \$30. After repair, the item could be sold for \$260. At what value should the item be recorded in Brian's inventory?

- A \$230                      B \$240  
C \$260                      D \$270

[N15/P1/Q17]

*Concept of cost vs NRV is applied (Prudence concept)*

*) NRV = \$260 - \$30 = \$230*

*NRV \$230 is lower than the cost of \$240 so inventory item will be recorded at the NRV amount.*

\_\_\_\_\_ Answer: A

26. Lucy has applied the accounting principle of matching (accruals). Which action has she taken?
- A included expenses used but not paid for in the financial statements
- B included only items which can be expressed in monetary terms in the books
- C prepared the financial statements assuming her business will continue indefinitely
- D provided for financial losses as soon as they arose

[N15/P1/Q29]

*Option A takes into account accrued expenses or year end adjustments (Matching principle or Accrual concept).*

*Option B = money measurement concept*

*Option C = going concern concept*

*Option D = prudence concept.*

Answer: A

27. "The same accounting treatment should be applied to similar items at all times/  
To which accounting principle does this refer?"

- A consistency  
C prudence

- B going concern  
D matching (accruals)

[N15/P1/Q30J]

*Consistency concepts emphasis on same treatment of similar items at all times.*

Answer: A

28. Omar purchased land ten years ago for \$25 000. He has been offered \$60 000 for the land. He thinks that the land may now be worth \$100 000.

At what value should the land be recorded in Omar's statement of financial position?

- A \$25 000                      B \$60 000  
C \$75 000                      D \$100 000

[J16/P1/Q29]

*According to the historical cost concept, fixed assets like land should always be recorded at cost unless they are revalued.*

Answer: A

29. Which statement is **not** true about reasons for using international accounting standards?

- A helps when making comparisons between companies
- B improves the reliability of accounting information
- C narrows the areas of difference between companies
- D makes the preparation of financial statements less time consuming

[J16/P1/Q30]

*The main aim of IAS is uniformity in recording accounting information to make comparisons easier and reliable.*

Answer: D

30. Wayne deals in two products, P and Q.

At the end of his financial year on 31 December, Wayne's inventories were as follows.

	cost \$	net realisable value \$
product P	2000	1500
product Q	3500	3800

At which value should the total inventory be shown in the financial statements?

- A \$5000                      B \$5300  
C \$5500                      D \$5800

(N16/P1/Q18J)

*Inventory is recorded at lower of cost or net realisable value.*

*Product P is valued at \$1500 net realisable value. Product Q is valued at \$3500 cost.*

*Total value of inventory = \$1500 + \$3500 = \$5 000.*

*Answer: A*

31. Which statement describes the matching/accruals principle?

- A A business should continue to use the same accounting methods.
- B A business will continue to trade in the foreseeable future.
- C Each financial transaction is recorded by two accounting entries.
- D Related income and costs should be recorded in the same period.

[N16/P1/Q30]

*Accrual concepts states that income and cost (expenses are included) of the current year should be adjusted and recorded in the same period.*

*Answer: D*

32. Mario has decided that all items purchased by his business should be recorded at the amount he actually paid for them.

Which accounting principle is Mario applying?

- A accounting entity
- B consistency
- C going concern
- D historical cost

[U17/P1/Q30]

*Historical cost concept states that assets should be recorded at cost (purchase amount) not at market value.*

*Answer: D*

33. Manvinder started a business and paid a cheque for \$1000 into a business bank account. He recorded this in the books of the business by debiting the bank account and crediting the capital account.

Which accounting principles did he apply?

- A accounting entity and dual aspect
- B accounting entity and going concern
- C going concern and matching / accruals
- D matching / accruals and dual aspect

[N17/P1/Q30]

*Manvinder has recorded his investment in the business as an owner. He has applied the accounting entity concept. By debiting bank and crediting capital he has applied the double entry concept or the dual aspect concept.*

*Answer: A*

34. A trader spreads the cost of a machine over the years which benefit from the use of that machine.

Which accounting principle is being applied?

- A accounting year
- B dual aspect
- C matching/accruals
- D materiality

[J18/P1/Q30]

*Each year depreciation is charged i.e. cost of asset consumed. It is recorded under expenses of the current year. Matching / accruals principle is being applied.*

*Answer: C*

35. A business values its inventory at the lower of cost and net realisable value.

Which accounting principle is being applied?

- A accounting entity
- B dual aspect
- C money measurement
- D prudence

[N18/P1/Q29]

*Prudence concept states that unrealised losses are taken into account and not unrealised profit. That is why inventory is valued at lower of cost and net realisable value.*

*Answer: D*

36. What is the purpose of international accounting standards?

- A to allow users to rely on the information in financial statements being error-free
- B to enable accountants to get work easily anywhere in the world
- C to enable non-accountants to understand all the information in financial statements
- D to make it easier to compare financial statements prepared in different countries

[N18/P1/Q301]

Policies \_\_\_\_\_

IAS are concepts and principles to be followed by Accountants all over the world when drafting financial statements. This makes it easier to compare financial statements prepared in different countries.

International accounting standards are used to make comparisons, improve reliability of accounting information. All this helps to narrow the areas of differences between companies.

\_\_\_\_\_ Answer: D

Answer: D

37. A business prepares its accounts on the basis that it will continue to trade in the foreseeable future. Which accounting principle is being applied?
- A accounting entity
  - B accounting year
  - C going concern
  - D matching / accruals

40. Which accounting principle is referred to in the following statement?
- 'An accountant should not overstate profit and should provide for all possible losses.'
- A consistency
  - B dual aspect
  - C matching/ accruals
  - D prudence

[J19/P1/Q28]

IN19/P1/Q30]

When the business prepares its accounts on cost basis it is assumed that the business will continue to operate in the foreseeable future. It will be a going concern.

Prudence concept takes into account unrealised losses and not unrealized profits.

\_\_\_\_\_ Answer C

Answer: D

38. A cheque paid by a business for fuel for the delivery vehicle was recorded in the books of the business. A cheque paid by the business owner for fuel for his motorcycle was not recorded in the books of the business. Which accounting principle was applied?
- A accounting entity
  - B going concern
  - C materiality
  - D money measurement

41. At the end of the financial year, a company did not account for the unused stationary valued at \$50. Which accounting principle did the company apply?
- A matching
  - B materiality
  - C money measurement
  - D prudence

[J19/P1/Q29]

[J20/P1Q33]

Accounting entity concept clearly states that transactions related to the business will only be recorded in the organisation's books of accounts. Owners personal transactions are not recorded in business books.

According to the materiality principle, items of lesser value are written off as expenses in the income statement. Items with a lesser value are not recorded as non current assets.

\_\_\_\_\_ Answer: A

Answer: B

39. Which statement is **not** correct about reasons for using international accounting standards?
- A helps when making comparisons between companies
  - B improves the reliability of accounting information
  - C narrows the areas of difference between companies
  - D makes the preparation of financial statements less time consuming

42. A trader wrote off the balance on a credit customer's account as irrecoverable. Which accounting principle was applied?
- A business entity
  - B consistency
  - C money measurement
  - D prudence

IJ20/P1/Q34]

According to the prudence concepts unrealised losses are recorded in books of accounts. Credit customer who is unable to pay his balance would be written off as irrecoverable for bad debt.

Answer: I)

IJ19/P1/Q30]

- . A limited company applied the accounting objective of comparability in preparing its financial statements . What is the effect of this on the interested parties?
- A** They can be sure that information in the financial statements is up to date.
- B** They can identify similarities with the financial statements of other businesses.
- C** They can understand the financial statements easily.
- D** They can use the financial statements in decision-making.

[J20/P1/Q35]

*Being objective means the firm is preparing financial statements in accordance with accounting principles and concepts . This makes comparison with the other firms in the industry possible. Each firm can evaluate their financial performance.*

Answer: B

46. What is **not** an aim of international accounting standards?
- A** to ensure accounting standards in different countries agree
- B** to establish an organisation to set standards in every country
- C** to make it easier to compare companies' financial statements
- D** to reduce the variety of accounting practices worldwide

[N20/P1/Q35]

*Options A, C and D are the scopes of IAS.*

*It is not the duty of IAS to establish an organisation to set standards in every country . IAS ensure same accounting principles are followed worldwide.*

Answer: B

44. The special skills of the employees are not recorded in the financial statements of a business. Which accounting principle is being applied?
- A** historic cost
- B** materiality
- C** money measurement
- D** realisation

[N20/P1/Q33]

*Special skills of employees can be appreciated but have no money value . This is the reason that the money measurement concept is applied and skills are not recorded in the books.*

Answer: C

45. How can a business comply with the accounting principle of prudence?

	assets	losses
<b>A</b>	avoid overstating	avoid overstating
<b>B</b>	avoid overstating	avoid understating
<b>C</b>	avoid understating	avoid overstating
<b>D</b>	avoid understating	avoid understating

[N20/PVQ34]

*Prudence concept states that assets should not be overstated and losses should not be understated*

Answer: B

# Books of Prime Entry & Business Documents

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

Suppliers A/C	
March 31 Purchases	March 1 b/d 9500
returns 200	Purchases 10000
March 31 Bank 8900	
March 31 Discount	
received 100	
March 31 c/d 10300	
<hr/>	<hr/>
19500	19500
	b/d 10300

Answer: C

6. Which transaction is recorded in the purchases ledger?

- A cash purchases
- B cheque paid to a creditor
- C cheque received from a debtor
- D purchase of non-current (fixed) assets

[N10/P1/Q4]

Option A and C — Cash book

Option D — journal.

Option B — Purchases Ledger records purchases from and payments to creditors.

Answer: B

7. Which document may be sent by a purchaser to a supplier when damaged goods are returned?

- A credit note
- B debit note
- C invoice
- D statement of account

[N10/P1/Q5]

For the purchaser goods returned reduce liability so a debit note is issued.

Answer: B

8. Where is the total of the purchases journal posted?

- A credit income statement (trading account)
- B debit income statement (trading account)
- C credit purchases account
- D debit purchases account

[N10/P1/Q6]

Total of purchases day book shows a total of credit purchases posted on debit side of purchases account.

Answer: D

9. Wayne sold goods with a list of price \$5000 to a credit customer. The customer was allowed a 5% trade

discount and a further 2% cash discount if payment was made within 20 days of the invoice date.

How much did Wayne credit to his sales account?

- A \$4625
- B \$4631
- C \$4750
- D \$4875

[N10/PVQ7]

$$C = 5000 - 5\% \text{ Of } 5000 = 5000 - 250 = 4750$$

Cash discount is recorded at the time of payment not sale.

Answer: C

10. The totals of the discount columns in a trader's cash book were as follows.

- \$200 debit
- \$150 credit

Which entry did the trader make in the discount allowed account?

- A \$150 credit
- B \$150 debit
- C \$200 credit
- D \$200 debit

[N10/P1/Q8]

Discount allowed is Dr. in cash book and discount received is Cr. in cash book.

Answer: D

11. Sarah bought a motor vehicle on credit from Ace Motors for \$8000.

Which journal entry did Sarah make to record this?

	debit \$	credit
Ace Motors	8000	
Motor vehicles		8000
Bank	8000	
Motor vehicles		8000
Motor Vehicles	8000	
Ace Motors		8000
Motor vehicles	8000	
Bank		8000

[N10/P1/Q10]

Purchase of motor vehicle increases assets, so it is Dr. Liability also increases so it is Cr.

Answer: C

12. The following incomplete account appears in Singh's sales ledger.

Bashir account

2010		debit \$	credit \$	balance \$
June 1	Balance			800dr
5	Sales	620		?
12	Sales returns		30	?
29	Bank		800	?

What was the balance on Bashir's account on 30 June?

- A \$590 credit
- B \$590 debit
- C \$1010 credit
- D \$1010 debit

[N10/P1/QUJ]

Balance at 30 June = 800 + 620 - 30 - 800 = 590 Dr. \_\_\_\_\_

Answer: B

13. The following account appears in the ledger of Chan.

Fu account			
2010	\$	2010	\$
Aug 28 Bank	100	Aug 1 Balance b/d	100
31 Balance c/d	250	12 Purchases	250
	350		350

Which statement is true?

- A Chan is owed \$100 by Fu on 1 August.
- B Chan paid Fu \$100 by cheque on 28 August.
- C Fu is a debtor of Chan for \$250 on 31 August.
- D Fu purchased goods, \$250, from Chan on 12 August.

[N10/P1/Q12]

Fu is a creditor. Chan owes money to Fu for goods purchased. \$100 was paid to Fu by cheque.

Answer: B

14. Wayne has sent the following business documents to Len, a customer.

	\$
Jan 1 invoice	250
Jan 12 invoice	370
Jan 14 credit note	90
Jan 18 invoice	480
Feb 2 invoice	670

There was no opening balance on Len's account and no payments made by Len during January.

What is the amount to be paid by Len to clear his January account?

- A \$1010
- B \$1190
- C \$1680
- D \$1860

[J11/P1/Q6]

Len	\$
\$	
Jan 1 Sales	250
Jan 12 Sales	370
Jan 18 Sales	480
	1100
Jan 14 Return	inwards 90
Jan 31 bal dd	1010
	1100

Len has to pay \$1100 to clear his Journal account.

Answer: A

15. Which document is issued to a customer to show all the transactions that have taken place during a month?

- A credit note
- B invoice
- C receipt
- D statement

U11/P1/Q7]

Option A — records returns

Option B — records sales

Option C — records an invoice

Answer: D

16. Hassan maintains a sales journal, purchases journal, sales returns journal and a purchases returns journal.

At the end of his first month's trading, Hassan transfers the total of each of these journals to the general ledger. Which entries will Hassan make in his general ledger to record these totals?

	account to be debited	account to be credited
A	purchases returns sales	purchases sales returns
B	purchases returns sales returns	purchases sales
C	purchases sales	purchases returns sales returns
D	purchases sales returns	purchases returns sales

(J11/P1/Q8J)

Purchases and sales returns increase stock and are Dr.  
Purchases returns and sales decrease stock and are Cr.

Answer: D

17. Ann is a trader. On 1 April 2011 Cindy's account in Ann's ledger showed a credit balance of \$520. The following transactions took place during April 2011.

April 2 Ann returned goods, \$30, to  
Cindy  
14 Ann bought goods, \$210, from  
Cindy,  
and paid in cash

Which statement is true about the balance on Cindy's account in Ann's ledger on 30 April 2011?

- A** Ann owes Cindy \$490.  
**B** Ann owes Cindy \$700.  
**C** Cindy owes Ann \$490.  
**D** Cindy owes Ann \$700.

[J11/P1/Q10]

Cindy Account	
2011	2011
April 2 Return	April 1 bal b/d
outwards 30	520
April 30 bal c/d	
490	
520	520

Cindy is a creditor. Cash purchases are not recorded in creditors account.

Answer: A

18. Eli buys goods on credit from Mona.  
What entries should Eli make in his ledgers?

	general ledger	purchases ledger
<b>A</b>	credit Mona	debit purchases
<b>B</b>	credit purchases	debit Mona
<b>C</b>	debit Mona	credit purchases
<b>D</b>	debit purchases	credit Mona

[N11/P1/Q3]

Journal entry is

Purchases Dr.

Mona Cr.

Mona's account in Purchases Ledger will be Cr.  
and Purchases Account in General Ledger will be Dr.

Answer: D

19. Raoul trades with Christine. They exchange the following documents.  
Which document would normally be issued first?

- A** credit note                      **B** debit note  
**C** invoice                            **D** statement

[N11/P1/Q4]

Invoice is issued at the time of sale. For the seller, it is sales invoice; For the buyer it is Purchases invoice.

Answer: C

20. Zoran was given the following discounts by his supplier when he bought goods, list price \$4000.

trade discount 25%

cash discount 5%

Which amount would be entered in the discount received column of Zoran's cash book when payment was made?

- A** \$150                                **B** \$200  
**C** \$1000                              **D** \$1200

[N11/P1/Q5]

List price \$4000 - Trade discount 25 %(\$1000) = \$3000

Discount received = \$3000 x 5% = \$150

Answer: A

21. Why is the general journal used to correct errors in the ledger?

- A** to avoid making alterations in the ledger  
**B** to complete the double entry  
**C** to provide a record explaining ledger entries  
**D** to save the book-keeper's time

Journal is used to correct errors, as it explains the posting in the Ledger accounts.

Answer: C

22. There is a credit balance of \$100 on Yasmin's account in Shula's purchases ledger.

What does this mean?

- A** Shula owes \$100 to Yasmin  
**B** Shula has returned goods, \$100, to Yasmin  
**C** Yasmin has paid \$100 to Shula  
**D** Yasmin owes \$100 to Shula

[N11/P1/Q10]

Creditors accounts are maintained in the Purchases Ledger. Cr . balance on Yasmin 's account (a creditor ) means Shula owes money to Yasmin.

\_\_\_\_\_ Answer:

A 23. Anna keeps a full set of accounting records.

Goods purchased by Anna from Winston were returned before they were paid for.

Where will Anna record the return of goods?

- A cash book and purchases ledger  
 B general ledger only  
 C general ledger and purchases ledger  
 D purchases ledger only

[J12/P1/Q3]

Goods returned is Returns outward which is recorded in purchases ledger (Accounts payable ) and total account of Return outwards.

\_\_\_\_\_ Answer: C

24. What is true about a statement of account issued by a business?

- 1 It is a source document for the purchases journal.  
 2 It is a source document for the sales journal.  
 3 It is sent by a customer to a supplier.  
 4 It is sent by a supplier to a customer.

- A 1 and 3                      B 2 and 4  
 C 3 only                        D 4 only

[J12/PV/Q4]

Statement of accounts states the total amount owed by the customer or trade receivable.

\_\_\_\_\_ Answer: D

25. Hasina buys radios from Nazneen at a list price of \$10 each . Hasina bought 12 radios and was offered 20% trade discount and 4% cash discount . Two radios were faulty and returned to Nazneen.

What was the total \_\_\_\_\_ of the credit note issued by Nazneen?

- A \$15.36                      B \$16.00  
 C \$19.20                      D \$20.00

[J12/P1/Q5]

Cost of 2 faulty radios (2 x 10)	20.00 <sup>\$</sup>
Less trade discount 20%	<u>4.00</u>
Total for credit note	16.00

\_\_\_\_\_ Answer: B

26. A trader posts the total of her purchases returns journal to the ledger at the end of each month.

On 30 April 2012 the purchases returns journal showed the following totals.

	gross	trade discount	net
2012	\$	\$	\$
April 30 totals for month	1200	240	960

Which entry should be made in the purchases returns account on 30 April 2012?

- A credit \$960                      B credit \$1200  
 C debit \$960                        D debit \$1200

[J12/P1/Q6]

Purchases returns increase on the credit side. Net amount i.e. after deducting trade discount is recorded in purchases returns account.

\_\_\_\_\_ Answer: A

27. Which item is recorded in the general journal

before  
 it is entered in the ledger?

- A bad debt written off B  
 cash sales  
 C equipment purchased by cheque  
 D purchases returns

\_\_\_\_\_ Option B — Recorded in cash book.

[J12/P1/Q9]

\_\_\_\_\_ Option C — Recorded in cash book.

\_\_\_\_\_ Option D — Recorded in Purchases returns journal.

\_\_\_\_\_ Answer: A

28. What is the purpose of an invoice?

- A to confirm that a payment has been received  
 B to confirm that damaged goods have been returned  
 C to show details of all transactions with a customer during the month  
 D to show details of goods that have been supplied on credit

[N12/P1/Q4]

\_\_\_\_\_ Invoice is a receipt to acknowledge the goods supplied i.e. their quantity, price, discount, etc.

\_\_\_\_\_ Answer: D

**Topic 3** Books of Prime Entry & Business Documents

29. Daniel allows Joanne trade discount of 25% and cash discount of 5% if invoices are paid within 30 days. Joanne purchased goods with a list price of \$1200 from Daniel.

Which amount would be entered in Joanne's purchases journal?

- A \$840
- B \$855
- C \$900
- D \$1200

[N12/P1/Q5]

	\$
List price	1200
Less: 25% trade discount	<u>300</u>
Purchases	900

Amount of \$900 will be recorded as purchases. Cash discount is deducted at the time of payment.

Answer: C

30. On 30 March the bank columns of a cash book showed an overdraft of \$1860. On 31 March the following transactions took place.

	\$
paid cash into the bank	490
bought stationery and paid by cheque	20

What was the bank balance brought down on 1 April?

- A \$1390 credit
- B \$1390 debit
- C \$2330 credit
- D \$2330 debit

[N12/P1/Q6]

*Credit bank balance (O/D)*

Add cash deposited

Less: Stationery

bid 1 April Credit bank balance (O/D) (1390)

Answer: A

31. On 2 October Nina received a cheque from Zaffar, a credit customer. On 12 October the cheque was returned unpaid by the bank.

Which entry would Nina make on 12 October?

	account to be debited	account to be credited
A	bad debts	bank
B	bad debts	Zaffar
C	provision for doubtful debts	Zaffar
D	Zaffar	bank

[N12/P1/Q8]

**MCQ 3 & Page 6**

The entry for cheques returned due to non-sufficient funds is to debit Debtor—Zaffar (to reinstate his debt) and credit bank (to cancel the payment).

Answer: D

32. The following account appeared in Amna's ledger.

Syed account				
date	details	debit \$	credit \$	balance \$
2012				
Sept 1	Balance b/d			400 dr
14	Sales	600		1000 dr
26	Bank		390	610 dr
26	Discount		10	600 dr

Which statement is true?

- A Amna owed Syed \$400 on 1 September.
- B Amna paid Syed \$390 by cheque on 26 September.
- C Syed allowed \$10 cash discount to Amna on 26 September.
- D Syed purchased goods, \$600, on credit from Amna on 14 September.

[N12/P1/Q9]

Syed is Amna's debtor or trade receivable. Syed purchases goods from Amna on 14 Sept, these are actually Amna's sales to Syed.

Answer: D

33. Which is recorded in the sales ledger?

- A cash sales
- B cheque paid to a creditor
- C cheque received from a debtor
- D sale of non-current assets

[J13/P1/Q3]

Sales ledger contains individual accounts of each debtor. Option A and B are cash book items and option D is a journal entry.

Answer: C

34. A customer received an invoice for \$98 for goods priced at \$88.

Which document will the customer use to inform the supplier of this error?

- A credit note
- B debit note
- C receipt
- D statement of account

[J13/P1/Q4]

Customer has purchased goods from the supplier (liability). In order to reduce the amount of liability it is debited and a debit note is issued.

Answer: B

35. Where is the total of the purchases journal posted?  
 ? A credit income statement  
 B debit income statement  
 C credit purchases account  
 D debit purchases account

[J13/P1/Q5J]

Total of purchases journal is the amount of credit purchases. This amount is posted on the debit side of the purchases account.

Answer: D

36. Sue allowed Jane a discount for prompt payment. How would this be recorded in Jane's books?

	account to be debited	account to be credited
A	discount allowed	Sue
B	discount received	Sue
C	Sue	discount allowed
D	Sue	discount received

[J13/P1/Q6]

Jane has received discount from supplier Sue. Sue's Account (liability) is reduced thus Dr and discount received (an income) is Cr.

Answer: D

37. The following partly-completed account appeared in Edward's sales ledger.

Ann account

2013		debit	credit	balance
		\$	\$	\$
Jan 4	sales	21 500		
11	sales returns		500	

On 30 January, Ann paid \$10 000 by cheque and was given a cash discount of \$200.

Which is correct on 31 January?

- A Ann owes Edward \$10 800.  
 B Ann owes Edward \$11 200.  
 C Edward owes Ann \$10 800.  
 D Edward owes Ann \$11 200.

[J13/P1/Q8]

Balance on 31 Jan is \$21 000-\$10200 = \$10800.  
 Ann owes Edward \$10 800.

Answer:

- A 38. Zafar returned goods bought on credit from Khalid.

How was this recorded in Zafar's books?

	account to be debited	account to be credited
A	Khalid	purchases returns
B	Khalid	sales returns
C	purchases returns	Khalid
D	sales returns	Khalid

[N13/P1/Q3]

Goods returned by Zafar are purchases returns. Khalid's account is reduced and stock account is also reduced by return of purchases.

Answer: A

39. In which book is a credit note from a supplier entered?

- A purchases journal  
 B purchases returns journal  
 C sales journal  
 D sales returns journal

[N13/P1/Q4]

Credit note from a supplier is a debit note for the customer. The customer will debit the supplier when goods are returned. The entry will be in purchases returns journal.

Answer: B

40. A bank statement showed a balance at bank of \$3200. The value of unpresented cheques was \$1200 and the value of uncredited deposits was \$700. What was the debit balance in the cash book?

- A \$1300  
 B \$2700  
 C \$3700  
 D \$5100

	\$
Balance as per bank statement	3 200
Add: Uncredited cheques	700
	3 900
Less: Unpresented cheques	1200
Dr Balance as per cash book	2 700

*Answer:*

41. Ashraf owed Yasmin \$2000 for goods bought on credit.

After deducting cash discount of 2½% Ashraf paid Yasmin the balance owing by cheque.

Which entries record this in Ashrafs books?

	account to be debited		account to be credited	
		\$		\$
<b>A</b>	bank	1950	Yasmin	2000
	discount allowed	50		
<b>B</b>	Yasmin	2000	bank	1950
			discount allowed	50
<b>C</b>	bank	1950	Yasmin	2000
	discount received	50		
<b>D</b>	Yasmin	2000	bank	1950
			discount received	50

[N13/P1/Q5]

Ashraf paid by cheque =  $2000 - 2\frac{1}{2}\%(50) = 1950$  The entry would be: Yasmin (Creditor) Dr, as liability is decreasing.

Bank Cr — asset decreasing; discount received Cr — income of the firm.

*Answer: D*

42. A trader divides his ledger into sales, purchases and general ledgers.

Which statement is not correct?

- A** It is easier to locate and refer to ledger accounts.
- B** Maintaining the ledger can be divided between several people.
- C** The same type of accounts can be kept together.
- D** There are fewer entries in the sales and purchases accounts.

[J14/P1/Q4]

Trading of a business revolves around two inventory accounts sales and purchases. So it is incorrect to assume that these two accounts will have fewer entries.

*Answer: D*

43. On 1 April Jane sold goods on credit to Martha subject to a trade discount of 25%. Martha returned goods, list price \$200, to Jane on 7 April.

How will Martha record the transaction of 7 April?

	book of prime (original) entry	account to be debited	account to be credited
<b>A</b>	purchases returns journal	Jane 150	purchases returns 150
<b>B</b>	purchases returns journal	Jane 200	purchases returns 200
<b>C</b>	sales returns journal	sales returns 150	Martha 150
<b>D</b>	sales returns journal	sales returns 200	Martha 200

[J14/P1/Q5J]

Martha return goods she purchased. She also availed a trade discount so returns will be recorded at net price i.e. =  $200 - 25\% = 200 - 50 = \$150$

Returns reduce liability.

*Answer: A*

44. The following account appeared in Sue's ledger.

Tony account					
		\$			
May 1	balance b/d	400	May 16	returns	21
12	sales	590	28	bank	284
				discount	6
			31	balance c/d	679
		990			~990

Which statement is correct?

- A** On 12 May Tony sold goods, \$590, to Sue.
- B** On 16 May Sue returned goods, \$21, to Tony.
- C** On 28 May Tony received discount, \$6, from Sue.
- D** On 31 May Sue owed \$679 to Tony.

[J14/P1/Q8]

Option A, B and D are related to Tony's books of accounts. The account in the question is Tony's account in Sue's Ledger or books.

*Answer: C*

**Topic 3** Books of Prime TLntiy & Business Documents

45. Janet's debtor pays the amount owing in cash, after deducting 2% cash discount.

How does this affect Janet's financial statements?

	income statement	statement of financial position
<b>A</b>	increase expenses	decrease current assets
<b>B</b>	increase expenses	increase current assets
<b>C</b>	increase revenue	decrease current assets
<b>D</b>	increase revenue	increase current assets

[J14/P1/Q16]

*Cash discount allowed to a customer is discount allowed. This is an expense. A payment by a debtor reduces current assets in the balance sheet or statement of financial position.*

*Answer: A*

46. Arnold's ledgers contain an account for Jim, a credit supplier, and a purchases account.

In which ledgers will these accounts appear?

	Jim account	purchases account
<b>A</b>	general ledger	general ledger
<b>B</b>	general ledger	purchases ledger
<b>C</b>	purchases ledger	general ledger
<b>D</b>	purchases ledger	purchases ledger

[N14/P1/Q4]

*Jim is a supplier, his account will be in the purchases ledger. Purchases account contains details of both credit and cash purchases for the period. This account appears in the general ledger.*

*Answer: C*

47. Abdul sells goods to Rekha on credit. The goods are damaged in transit.

Which document will Rekha send to Abdul?

- A** credit note
- B** debit note
- C** invoice
- D** statement of account

[N14/P1/Q5]

*Abdul is a trade payable for Rekha. For purchases returns, a debit note is sent to the creditor. In this case the creditor is Abdul.*

*Answer: B*

**MCQ 3 & Page 9**

48. Logan records his sales invoices in a sales journal. What happens at the end of the month?

- A** Each customer's account is credited with the total of that customer's invoices for the month.
- B** Each customer's account is debited with the total of that customer's invoices for the month.
- C** The sales account is credited with the total of the sales invoices.
- D** The sales account is debited with the total of the sales invoices.

[N14/P1/Q6]

*Customers' account is debited after each invoice is recorded. The total of the sales journal is credited to the general ledger.*

*Answer: C*

49. On 1 September Wayne sent a cheque to his credit supplier, John. This was correctly entered in John's books. On 10 September the cheque was returned unpaid due to lack of funds.

Which entries will be made in John's books on 10 September?

	account to be debited	account to be credited
<b>A</b>	bad debts	bank
<b>B</b>	bank	bad debts
<b>C</b>	bank	Wayne
<b>D</b>	Wayne	bank

[N14/P1/Q7]

*Wayne is John's debtor. Payment by debtor is recorded on the credit side of his account. In order to cancel the payment it will be recorded on the debit side of the debtors account.*

*Answer: D*

50. On 15 April, Kalou made the following entries in his accounts.

debit	\$	credit	\$
bank account	228	Droghba account	240
discount allowed account	12		

Which transaction was being recorded?

- A** Droghba paid Kalou by cheque after taking a cash discount.
- B** Droghba paid Kalou by cheque after taking a trade discount.

**Topic 3** Books of Prime Entry & Business Documents

- C Kalou paid Droghba by cheque after taking a cash discount.  
D Kalou paid Droghba by cheque after taking a trade discount.

[N14/P1/Q10]

*Discount availed at the time of payment by the debtors is a cash discount i.e. discount allowed. Debtors ac- count is reduced and Cr. Bank and discount allowed are Dr.*

\_\_\_\_\_ Answer: A

51. Sarah sells goods on credit to Zafar.  
How is this recorded in Sarah's ledgers ?

	general ledger	sales ledger
<b>A</b>	credit sales account	debit Zafar account
<b>B</b>	debit sales account	credit Zafar account
<b>C</b>	credit Zafar account	debit sales account
<b>D</b>	debit Zafar account	credit sales account

(J15/P1/Q2J)

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*When goods are sold then sales are credited. Goods have been sold on credit to trade receivable thus Zafar will be debited.*

Answer: A

52. Hassan maintains a sales journal , purchases journal, sales returns journal and a purchases returns journal.

At the end of each month, Hassan transfers the totals of these journals to the ledger.

Which entries will Hassan make in his ledger to record these totals?

	account to be debited	account to be credited
<b>A</b>	purchases returns sales	purchases sales returns
<b>B</b>	purchases returns sales returns	purchases sales
<b>C</b>	purchases sales	purchases returns sales returns
<b>D</b>	purchases sales returns	purchases returns sales

JJ15/P1/Q4)

*Totals are recorded in the general ledger. Purchases are debited. Purchases returns are credited. Sales are credited. Sales returns are debited.*

Answer: D

**MCQ 3 & Page 10**

53. Which statement about a debit note is correct?  
**A** It is sent to a customer to request payment of an account.  
**B** It is sent to a customer when his order cannot be supplied in full.  
**C** It is sent to a supplier to order additional goods. **D** It is sent to a supplier when damaged goods are received.

[J15/P1/Q5]

*Debit note is sent to a supplier in order to record purchases return. Purchases returns reduces the pay- able account.*

Answer: D

54. The following account appeared in the books of Mary.

Paul account

	Debit	Credit	Balance
2015	\$	\$	\$
April 1	Balance	90	90 Dr
14	Sales	150	240 Dr
21	Returns	25	215 Dr
30	Bank	88	127 Dr
	Discount	2	125 Dr

Which statement is correct?

- A** On 1 April Paul owed Mary \$90.  
**B** On 14 April Paul sold goods, \$150, to Mary.  
**C** On 21 April Mary returned goods, \$25, to Paul  
**D** On 30 April Mary owed Paul \$125.

U15/P1/Q71

*Paul is Mary 's trade receivable . Mary sells goods on credit to Paul . SOO Dr balance signifies that this amount is to be received from Paul by Mary.*

Answer: A

55. Harvey bought goods on credit from Janet . The goods were unsuitable and Harvey returned them to Janet . Which document did Harvey send to Janet?  
**A** credit note                      **B** debit note  
**C** invoice                              **D** statement of account

JN15/P1/Q4]

*Return of goods decreases the amount owed to the supplier. Any decrease in suppliers account is always debited i.e. a debit note is issued.*

Answer: B

**Topic 3 Books of Prime Entry & Business Documents**

56. On 1 May Bashir purchases goods on credit with a list price of \$200. He is given a trade discount of \$20. If payment is made within 28 days a cash discount of \$10 will be given.

Which amount is credited to the supplier's account on 1 May?

- A \$170                                      B \$180  
C \$190                                      D \$200

[N15/P1/Q5]

*Trade discount is deducted from the list price and recorded in the suppliers account as purchases.*

$$\$200 - \$20 = \$180$$

Answer: B

58. Sally buys goods and is allowed a discount for early payment.

How does Sally record this discount?

	account to be debited	account to be credited
A	discount allowed	supplier
B	discount received	supplier
C	supplier	discount allowed
D	supplier	discount received

[N15/P1/Q7]

*Sally has received a discount for prompt payment. Discount received is an income for Sally — it is credited. Payment by Sally to supplier reduces the liability for sally — it is debited.*

Answer: D

**MCQ 3 & Page 11**

59. The following account appears in the ledger of Chan.

Fu account			
2015	\$	2015	\$
Aug 28 bank	100	Aug 1 balance b/d	100
31 balance c/d	250	12 purchases	250
	350		350

Which statement is correct?

- A On 1 August Chan is owed \$100 by Fu.  
B On 12 August Fu purchased goods, \$250, from Chan.  
C On 28 August Chan paid Fu \$100 by cheque.  
D On 31 August Fu is a debtor of Chan for \$250.

[N15/P1/Q9]

*Fu is a trade payable or a liability in the books of Chan. Payment made by cheque by Chan to Fu reduces the liability and thus bank is debited in Fu's account.*

Answer: C

60. Goods purchased by Anna from Winston were returned before they were paid for.

Where will Anna record the return of goods?

- A cash book and purchases ledger  
B general ledger only  
C general ledger and purchases ledger  
D purchases ledger only

[J16/P1/Q2]

*Return of goods is recorded in the trade payables account in the purchases ledger. The total of return outwards is posted in the general ledger.*

Answer: C

61. Which document does a trader send to a credit customer to summarise the transactions for the month?

- A credit note                                      B debit note  
C receipt    D statement of account

U16/P1/Q3J

*Statement of account records all transactions of sales, returns and payments made by trade receivable or credit customer.*

Answer: D

62. Aldo buys and sells goods on credit.

A cheque received by Aldo was dishonoured by the bank.

How would he record this dishonoured cheque?

	account to be debited	account to be credited
A	bank	credit customer
B	bank	credit supplier
C	credit customer	bank
D	credit supplier	bank

[J16/P1/Q4]

*Dishonored cheque means that credit customer is unable to pay the due amount, because of non sufficient funds in his account. Credit customers debt has to be re- corded back in his account, so the credit customer 's account is debited and bank account is credited.*

Answer: C

63. The following account appeared in Amna's ledger.

Syed account				
date	details	debit \$	credit \$	balance \$
Sept 1	Balance b/d			400 dr
14	Sales	600		1000 dr
26	Bank		390	610 dr
26	Discount		10	600 dr

Which statement is true?

- A On 1 September Amna owed Syed \$400.  
 B On 14 September Syed purchased goods, \$600, on credit from Amna.  
 C On 26 September Amna paid Syed \$390 by cheque.  
 D On 26 September Syed allowed \$10 cash discount to Amna.

[J16/P1/Q6]

*Syed is Amna's trade receivable. Syed purchased goods on credit for \$600 on 14 September.*

Answer: B

64. Alex issued a credit note to Marcus.

In which book of prime (original) entry would Alex record this?

- A purchases journal  
 B purchases returns journal

- C sales journal  
 D sales returns journal

[N16/P1/Q6]

*Credit note is issued to record return of goods from trade receivable. Return of goods is recorded in sales returns journal.*

Answer: D

65. A trader sends a monthly statement to a credit customer.

What is the purpose of sending this statement?

- A to demand immediate payment in cash  
 B to inform the customer of his credit limit  
 C to provide a summary of transactions  
 D to notify the customer of goods awaiting delivery

[N16/P1/Q7]

*Monthly statement is a document which list down all transactions, from the customer or trade receivable.*

Answer: C

66. A trader allows trade discount to regular customers . Where will this discount appear in his financial statements?

- A as a credit entry in the income statement  
 B as a current asset in the statement of financial position  
 C as a debit entry in the income statement  
 D it will not appear in the financial statements

[N16/P1/Q8]

*Trade discount is only shown on the face of the invoice. It is not recorded in the books of accounts.*

Answer D

67. A purchases ledger control account contains discounts received.

Which book of prime (original) entry provides this information?

- A cash book  
 B general journal  
 C purchases journal  
 D purchases returns journal

[N16/P1/Q161]

Discount received is recorded in the cash book on the credit side.

Answer: A

68. A customer received a credit note. In which book of prime (original) entry would the customer record this document?

- A purchases journal  
B purchases returns journal  
C sales journal  
D sales returns journal

[J17/P1/Q3]

Customer of the business has returned goods purchased. Return of goods purchased will be recorded in the purchases returns journal by the customer

Answer: B

69. Total goods returned to Wayne by credit customers in March 2017 had a list price of \$440. He allows a trade discount of 25% on all credit sales.

He posts the total of his sales returns journal to the ledger at the end of each month.

How much should be debited to Wayne's sales returns account on 31 March 2017?

- A \$110                      B \$330  
C \$440                      D \$550

[J17/P1/Q4]

Net returns - List price - Trade discount

$$= \$440 - \$110 (25\%)$$

$$= \$330$$

Answer: B

70. Sukesh's account in the books of Jack showed the following.

Sukesh account

date		debit \$	credit \$	balance \$
May 1	balance			450 dr
4	sales	200		650 dr
8	bank		432	218 dr
8	discount		18	200 dr

Which statements about the transactions on 8 May are correct?

- 1 Jack made a payment to Sukesh.
- 2 Jack received a payment from Sukesh.
- 3 Sukesh allowed a discount to Jack.
- 4 Sukesh received a discount from Jack.

- A 1 and 3                      B 1 and 4  
C 2 and 3                      D 2 and 4

[J17/P1/Q8]

Trouble®\*

On May 8 Sukesh, a trade receivable, made a payment to Jack after deducting a discount of \$18.

Answer: D

71. A trader provided the following extract from his sales journal.

sales journal			
2017		\$	\$
October 7	J Sango goods	100	
	trade discount	20	80

Which entry was made in the account of J Sango in the sales ledger?

- A credit \$80                      B credit \$100  
C debit \$80                      D debit \$100

[N17/P1/Q3]

Amount of credit sales recorded in the sales ledger (trade receivable account) would be after trade discount \$80.

Answer: C

72. Omar returned faulty goods to Yasmin, the supplier. Which document did Omar send to Yasmin?

- A credit note                      B debit note  
C invoice                      D statement of account

[J18/P1/Q4]

Yasmin, the supplier is a trade payable i.e. a liability. When goods are returned to the supplier liability decreases. When Liability decreases, it is Dr. That is why a debit note is issued

Answer: B



# Accounting for Depreciation

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

## Topic 4

### Accounting for Depreciation

#### Multiple Choice Questions

1. Mandy depreciates her motor vehicles annually. Which journal entry records the depreciation for the year ended 31 December 2009?

		debit \$	credit \$
<b>A</b>	Income statement (profit and loss) Provision for depreciation of motor vehicles	500	500
<b>B</b>	Motor vehicles Provision for depreciation of motor vehicles	500	500
<b>C</b>	Provision for depreciation of motor vehicles Income statement (profit and loss)	500	500
<b>D</b>	Provision for depreciation of motor vehicles Motor vehicles	500	500

[N10/P1/Q18]

*Depreciation is an expense which is debited to the income statement. Provision reduces the value of fixed asset thus is credited.*

*Answer: A*

2. Zafar purchased a motor vehicle for \$4800. He estimated the residual value will be \$300. Zafar decided to write off the motor vehicle over 4 years. What was the net book value of the motor vehicle after 2 years?

- A** \$2100                      **B** \$2250  
**C** \$2400                      **D** \$2550

[N10/P1/Q19]

$$\text{Depreciation per year} = \frac{4800 - 300}{4} = \frac{4500}{4} = \$1125$$

$$\text{Book value year 1} = 4800 - 1125 = \$3675$$

$$\text{Book value year 2} = 4800 - 2250 = \$2550$$

*Answer D*

3. A machine was purchased on 1 January 2010 for \$12000.

It has a working life of 8 years after which it will be sold for \$2000. Depreciation is calculated using the straight line method.

What was the net book value at 31 December 2010?

- A** \$10 000                      **B** \$10 500  
**C** \$10 750                      **D** \$12 000

[JU/P1/Q15]

$$\text{Depreciation} = \frac{\text{Cost} - \text{scrap value}}{\text{life}} = \frac{12000 - 2000}{8} = 1250$$

$$\text{Net book value} = 12000 - 1250 = \$10750$$

*Answer: C*

*Answer. C*

4. At the end of her financial year, Lucy decided to depreciate her fixtures by \$1000. Which journal entry will record this?

		Debit \$	Credit \$
<b>A</b>	fixtures provision for depreciation of fixtures	1000	1000
<b>B</b>	income statement provision for depreciation of fixtures	1000	1000
<b>c</b>	provision for depreciation of fixtures fixtures	1000	1000
<b>D</b>	provision for depreciation of fixtures income statement	1000	1000

[N11/P1/Q15]

*Depreciation is an expense — it is Dr. in the income statement. Provisions is Cr. Depreciation decreases the value of fixed assets to show the correct book value.*

*Answer: B*

Depreciation 5. What is depreciation?

- A an entry to write off the cost of a non-current asset when it is scrapped
- B a reserve to finance the purchase of future non-current assets
- C a reserve to pay for repairs which increase with the non-current asset's age
- D a system of matching the benefits of using a non-current asset with its cost

[J12/P1/Q16]

The cost of asset used transferred every year to the income statement as an expense is depreciation.

Answer: D 6

A machine costing \$60 000 is depreciated by 25% per annum on the reducing (diminishing) balance method.

What was the depreciation charge for the second year?

- A \$11 250
- B \$15 000
- C \$26 250
- D \$30 000

[J12/P1/Q17]

$$\text{Depreciation year 1} = 60\,000 \times 25\% = 15\,000$$

$$\text{Depreciation year 2} = 60\,000 - 15\,000 = 45\,000 \times 25\% = 11\,250$$

Answer: A

7. What is the reason for charging depreciation on a non-current asset?

- A to accumulate a fund of money to replace an asset
- B to charge the cost of using an asset against income
- C to ensure profits are not understated
- D to show the market value of an asset

[N12/P1/Q15]

Depreciation is charged to convert the cost of the asset consumed as an expense to be matched off against the incomes of the current year.

Answer: B

8. Which entry is required to record the annual depreciation charge on machinery?

	debit	credit
A	income statement	machinery at cost account
B	income statement	provision for depreciation of machinery account
C	machinery at cost account	income statement
D	provision for depreciation of machinery account	income statement

[N12/P1/Q16]

Depreciation is an expense Dr in the income statement and the accumulated amount deducted from the asset in the balance sheet.

Answer: B

9. A computer network costing \$100000 is depreciated by the straight line method at 25% per annum. What will be the net book value at the end of year 3?

- A nil
- B \$25 000
- C \$50 000
- D \$75 000

[J13/P1/Q14]

Trouble^\*

$$3 \text{ years depreciation} = 100\,000 \times 25\% = 25\,000 \times 3 = 75\,000.$$

$$\text{Book value} = \text{cost} - \text{depreciation of 3 years} = 100\,000 - 75\,000 = 25\,000$$

Answer: B

10. The following account appeared in a trader's ledger.

equipment account				
2013	details	debit	credit	balance
		\$	\$	\$
July 31	balance			4000 Dr
August 2	bank	7500		

What was the balance on the account on 2 August?

- A \$3500 credit
- B \$3500 debit
- C \$11 500 credit
- D \$11 500 debit

[N13/PVQ7]

Answer: D

11. What would occur using the diminishing (reducing) balance method of depreciation?
- A Depreciation charged in year 2 is greater than depreciation charged in year 1.
  - B Depreciation charged in year 2 is less than depreciation charged in year 1.
  - C Depreciation charged in year 2 is the same as depreciation charged in year 1.
  - D Depreciation charged in year 2 is zero.

[N13/P1/Q13]

*As the name implies every year depreciation charge decreases. Charge of year 2 is less than charge of year 1.*

**Answer: B**

12. A machine was purchased for \$100 000 and depreciated by 20% per annum using the straight line method. Three years later it was sold for \$25 000.

What was the profit or loss on sale?

- A \$15 000 loss
- B \$25 000 profit
- C \$26 200 loss
- D \$35 000 profit

[N13/P1/Q14]

$$\begin{aligned} \text{Depreciation for 3 years} &= 100000 \times (20\% \times 3) \\ &= 100000 \times 60\% = \$60000 \end{aligned}$$

**Profit - BV - selling price**

$$\begin{aligned} \text{Loss} &= (100\,000 - 60\,000) - 25\,000 \\ &= 15\,000 \text{ loss} \end{aligned}$$

*When selling price is less than book value the business has incurred a loss on disposal.*

**Answer: A**

14. Machinery is depreciated at 20% per annum using the diminishing (reducing) balance method.

A machine, cost \$20 000, is sold after two years at book value.

What was the sale price of the machine?

- A \$7200
- B \$12 000
- C \$12 800
- D \$16 000

[J14/P1/Q13]

*cost of machinery*

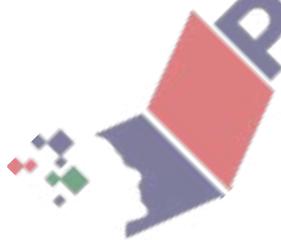
*Less: depreciation year 1 (20 000 x 20%)*

*Less: depreciation year 2 (16 000 X 20%)*

*book value = sale price*

$$\begin{aligned} & \$ \\ & 20\,000 \\ & \underline{4\,000} \\ & \\ & \underline{3200} \\ & 12\,800 \end{aligned}$$

**Answer: C**



**Topic 4 Accounting for Depreciation**

15. Sara started a business on 1 January 2013 and purchased equipment costing \$10 000. She depreciated the equipment by 20% per annum using the straight-line method. The equipment was sold for \$5200 on 1 January 2015.

What was the profit or loss on the sale of the equipment?

- A \$800 loss                      B \$800 profit  
C \$1200 loss                    D \$1200 profit

[J15/P1/Q14]

*Depreciation for 2 years = \$10 000 x 40% = 4000*

$$\begin{aligned} \text{Book value} &= \text{cost} - \text{depreciation to date} \\ &= \$10\,000 - \$4000 = \$6000 \end{aligned}$$

*Loss on sale = book value \$6000 - selling price \$5200 = \$800.*

**Answer: A**

16. Hassan depreciates his machinery at 20% per annum using the diminishing (reducing) balance method. No depreciation is charged in the year of disposal.

He provided the following information.	\$
net book value of machinery on 30 April 2014	36 000
machine disposed of during the year ended 30 April 2015	
cost of machine	4 000
depreciation on machine	1 440

How much did Hassan charge for depreciation for the year ended 30 April 2015?

- A \$6400                      B \$6688  
C \$6912                      D \$7200

[N15/PVQ 14]

*Net book value of machine disposed = \$4000 - \$1440 = \$2560*

*Net book value of machine on hand on 30 April 2015 = \$36000 - \$2560 = \$33 440*

*Depreciation for the year ended 30 April 2015 = \$33400 X 20% = \$6688*

**Answer: B**

17. Which statement about depreciation is correct?

- A In the diminishing (reducing) balance method the depreciation charge increases each year.  
B In the straight line method the residual value can never fall to zero.

**MCQ 4 Page 4**

- C The straight line and diminishing (reducing) balance method are both suitable for loose tools.  
D The straight line and diminishing (reducing) balance methods can both use a percentage rate.

[N15/P1/Q15]

*In diminishing balance method depreciation charge decreases each year. Revaluation method is used to calculate depreciation of loose tools. In straight line method it is not necessary that the machine should have any scrap value. Under both methods percentage can be charged for calculation of depreciation.*

**Answer: D**

18. At the end of her financial year, Lucy decided to depreciate her fixtures by \$1000. Which journal entry will record this?

		debit \$	credit \$
A	fixtures	1000	
	provision for depreciation of fixtures		1000
B	income statement	1000	
	provision for depreciation of fixtures		1000
C	provision for depreciation of fixtures	1000	
	fixtures		1000
D	provision for depreciation of fixtures	1000	
	income statement		1000

[N16/P1/Q13]

*Provision for depreciation of the current year is debited in the income statement. It is recorded as an expense.*

**Answer: B**

19. Paul sold all his office equipment. He provided the following information.

	\$
equipment at cost	5000
provision for depreciation of equipment	1250
proceeds of disposal of equipment	1950

What was the effect on the profit?

- A \$1800 decrease  
B \$1800 increase  
C \$4300 decrease  
D \$4300 increase

26W lbdW

[N16/P1/Q14]

**Topic 4** Accounting for

$$\begin{aligned} \text{Depreciation Book value} &= \text{cost} - \\ &= \$5\,000 - \$1\,250 = \$3\,750 \end{aligned}$$

$$\begin{aligned} \text{Profit/Loss on disposal} &= \text{Book value} - \text{selling price} \\ \text{depreciation} &= \$3\,750 - \$1\,950 \\ &= \$1\,800 \text{ loss.} \end{aligned}$$

Effect on profit - \$1 800 decrease.

Answer: A

20. Which cost would **not** be depreciated

- ? **A** improvement of non-current assets  
**B** installation of non-current assets  
**C** purchase of non-current assets  
**D** repair of non-current assets

[J17/P1/Q13]

Option A, B and C increase the value of non-current assets and these values are considered in calculating depreciation. Repair of non-current assets is an expense.

Answer: D

21. A cafe owner decided to use the revaluation method to calculate depreciation on the kitchen equipment. Kitchen equipment costing \$3200 was purchased on 1 January 2016. This was expected to have a useful life of 4 years.

Additional kitchen equipment was purchased during the year for \$400. The total kitchen equipment was valued at \$2900 on 31 December 2016.

What was the depreciation charge for the year ended 31 December 2016?

- A** \$300                      **B** \$700  
**C** \$800                      **D** \$900

[N17/P1/Q14J]

$$\begin{aligned} \text{Depreciation charge} &= b/d + \text{purchases} - c/d = \\ &400 + 3200 - 2900 = 700 \end{aligned}$$

Answer: B

22. Imran's financial year ends on 31 December. A machine purchased on 1 January 2015 for \$20 000 was sold on 30 June 2017 for \$8500. The machine had been depreciated using the straight-line method at 25% per annum on a month by month basis.

What was the profit or loss on the disposal of the machine?

- A** loss \$1000                      **B** loss \$1500  
**C** profit \$1000                      **D** profit \$1500

[N17/P1/Q15]

$$\begin{aligned} \text{Depreciation charge for 2.5 years} &= 20000 \times 25\% \times 2.5 \\ &= 12\,500 \end{aligned}$$

$$\text{Book value} = 20\,000 - 12\,500 =$$

$$7500 \text{ profit} = 8500 - 7500 = \$1000$$

Answer: C

23. Jon paid \$18 000 for machinery on 1 January 2016. He depreciated this asset using the diminishing (reducing) balance method at 5% per annum.

What was the balance on the provision for depreciation account on 1 January 2018?

**A** \$1755 credit

**B** \$1755 debit

[J18/P1/Q12J]

Dec 31 2016 Provision for depreciation

$$\$18000 \times 5\% = \$900$$

Book value = \$18000 - \$900 = \$17100

Dec 31 2017 Provision for depreciation

$$\$17100 \times 5\% = \$855$$

Total balance on provision for depreciation,

$$1 \text{ Jan } 2018 \quad \$900 + \$855 = \$1755 \text{ credit}$$

Answer: A

24. A motor vehicle cost \$20 000. It was sold for \$12 000. At the date of disposal the motor vehicle had been depreciated by \$7200.

Which journal entry records the closing of the disposal account?

		debit \$	credit \$
<b>A</b>	disposal account income statement	800	800
<b>B</b>	disposal account income statement	8000	8000
<b>C</b>	income statement disposal account	800	800
<b>D</b>	income statement disposal account	8000	8000

[J18/P1/Q13]

$$\text{Profit/(Loss)} = \text{Book value} - \text{Sales price}$$

$$= (20000 - 7200) - 12000 =$$

$$12800 - 12000 = \text{Loss } (800)$$

When book value exceeds selling price it is a loss. Loss is debited to the income and expenditure account.

Answer: C

**Topic 4 Accounting for Depreciation**

25. Why is depreciation charged on a non-current asset?

- A to accumulate a fund of money to replace the asset
- B to charge the cost of using the asset against income
- C to determine the market value of the asset
- D to ensure that profits are not understated

[N18/P1/Q12]

\_\_\_\_\_ *Trouble^\**

*Depreciation is a non-cash item which is not related to market value. It is the charging of the cost of the asset consumed as an expense each year, for the whole life of the asset.*

\_\_\_\_\_ *Answer: B*

26. Sally bought a non-current asset. It was to be used for 10 years, after which it would have no scrap value. Sally used the straight-line method of depreciation.

Which statements are correct?

	accumulated depreciation after five years	annual depreciation charge
A	equalled half of cost	decreased each year
B	equalled half of cost	was constant
C	was more than half of cost	decreased each year
D	was more than half of cost	was constant

[N18/P1/Q13]

*Straight-line method is also known as fixed instalment method. It charges a same amount of depreciation each year.*

\_\_\_\_\_ *Answer: B*

27. What causes computer equipment to depreciate?

- A depletion
- B economic reasons
- C passage of time
- D physical deterioration

[J19/P1/Q14]

*Computer equipment becomes obsolete over a period of time and thus needs to be replaced. It is thus depreciated to write off its value against the profit every year.*

*Answer: B*

**MCQ 4 & Page 6**

28. On 1 January 2017 Wayne purchased a motor vehicle for \$8000. He decided to depreciate: it using the diminishing (reducing) balance method at 20% per annum.

Which journal entry did Wayne make on 31 December 2018?

		debit \$	credit \$
A	income statement provision for depreciation	1280	1280
B	income statement provision for depreciation	1600	1600
C	provision for depreciation income statement	1280	1280
D	provision for depreciation income statement	1600	1600

[J19/P1/Q15]

*Year 1 : Depreciation = 8000 X 20% = 1600*

*Book value = 8000 - 1600 = 6400*

*Year 2 : Depreciation = 6400 X 20% = 1280*

*Book value - 6400 - 1280 = 5120*

*Entry to record depreciation for Year 2 (Dec 2018):*

*Dr Income statement \$1280*

*Cr Provision for depreciation \$1280*

*Answer: A*

**Topic 4** Accounting for Depreciation

30. Machinery, \$20 000, was purchased on 1 January 2017. The provision for depreciation of machinery account at 31 December 2018 showed the following entries.

provision for depreciation of machinery account					
2018		\$	2018		\$
			Jan 1	balance b/d	4000
			Dec 31	income statement	3200

Which statement is not correct?

- A The annual depreciation on machinery is calculated at the rate of 20%.
- B The balance of the provision for depreciation of machinery account is transferred to the machinery account.
- C The diminishing (reducing) balance method of depreciation has been used to calculate the annual depreciation on the machinery.
- D The net book value of the machinery on 1 January 2019 was \$12 800.

[N19/PVQ17]

The balance of the provision for depreciation of machinery is deducted from the cost of machinery in the statement of financial position.

Answer: B

31. Joseph depreciates his fixtures by 20% per annum using the straight-line method.

A full year's depreciation is charged in the year of purchase. During the year, repairs to fixtures of \$400 were debited to the fixtures account.

What was the effect of correcting this error?

	effect on book value of fixtures	effect on profit for the year
A	decrease \$320	decrease \$320
B	decrease \$320	increase \$320
C	decrease \$400	decrease \$80
D	decrease \$400	increase \$80

[N19/P1/Q18]

\$400 is repair expense whereas, depreciation charged on \$400 is (\$400 X 20%) = \$80. Value of fixtures will be decreased by \$400 (repairs wrongly added). At the same time \$80 depreciation will be added back. So net effect is \$320.

Profit = \$400 will be deducted as repairs \$80 will be added back as depreciation. Expense was not to be recorded, so net effect is \$320.

Answer: A

32. The following payments were made when a new machine was purchased.

	\$
cost of the machine	32 000
charge for delivering the machine	1 800
insurance of the machine	2 000
wages of employees installing the machine	1 300

How much was the capital expenditure?

- A \$32 000
- B \$33 300
- C \$35 100
- D \$37 100

[J20/P1/Q15]

Cost of machine or capital expenditure is as follows

$$: \$32\,000 + \$1\,800 + \$1\,300 = \$35\,100$$

Answer: C

33. A non-current asset was depreciated at the end of the first year of ownership using the straight-line method based on the following information.

cost	\$20000
working life	4 years
residual value	\$4000

It was then found that the reducing balance method at 30% per annum should have been used.

What was the effect on the profit for the year of correcting this error?

- A decrease by \$2000
- B increase by \$2000
- C decrease by \$6000
- D increase by \$6000

IJ20/P1/Q16J

Answer: A

# Bank Reconciliation

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Questions and Answers

**EXPLAINED**

# Topic 5

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## Bank Reconciliation

### Multiple Choice Questions

On 1 September the bank statement showed an overdrawn balance of \$2015.

A refund for insurance, \$74, and bank charges, \$86, have not been entered in the cash book.

What was the balance on the cash book on 1 September before it was updated?

- A \$2003 credit
- B \$2003 debit
- C \$2027 credit
- D \$2027 debit

[N10/P1/Q9]

Cash book	
Refund of insurance 74	Balance b/d 2003
c/d 2015	Bank charges 86

Answer: A

3. On 31 March 2012, Ahmed's bank statement showed a credit balance of \$2500. Ahmed found that a cheque issued for \$90 and a deposit of \$500 had not been included on the bank statement.

What was the balance at bank shown in Ahmed's cash book on 31 March 2012?

- A \$1910
- B \$2090
- C \$2910
- D \$3090

[J12/P1/Q8]

Balance as per bank statement	2500 Cr
Add: Uncredited cheques (deposit)	500

Less: Unpresented cheques (cheques issued)	90
Dr balances as per cash book	2910

Answer: C

2. The bank statement of Leroy shows a balance of \$3500 and the cash book shows a balance of \$4200. The difference is due to a receipt of \$1000 shown in the cash book but not on the bank statement. There is also an unpresented cheque.

What is the amount of the unpresented cheque?

- A \$300
- B \$700
- C \$1700
- D \$2500

[N11/P1/Q7]

Balance as per cash book	\$4200
Add: unpresented cheques (balancing figure)	300
Less: Uncredited cheques	1000
Balance as per bank statement	3500

Answer: A

4. A bank reconciliation statement starts with the balance in the cash book. It includes uncredited deposits and unpresented cheques. It also includes a bank error because bank charges have been deducted twice on the bank statement.

How are these items shown in the bank reconciliation statement?

	added	subtracted
A	uncredited deposits	unpresented cheques bank error
B	uncredited deposits bank error	unpresented cheques
C	unpresented cheques	uncredited deposits bank error
D	unpresented cheques bank error	uncredited deposits

[N12/P1/Q7]

When the reconciliation statement starts with a Dr balance in the cash book then unpresented cheques are added and uncredited cheques deducted along with bank error.

Answer: C

5. A business's bank statement showed an overdraft of \$8500. A cheque, \$400, paid to a supplier has not been presented for payment.

What will be the balance on the bank statement after this cheque has been paid by the bank?

- A \$8100 credit
- B \$8100 debit
- C \$8900 credit
- D \$8900 debit

[J13/P1/Q7]

Business bank account is a liability for the bank. An overdraft is shown by a Dr balance. Payment to a supplier increases the overdraft balance from \$8500 to \$8900.

Answer: D

6. The cash book has a credit balance of \$1500. There are unpresented cheques of \$350 and uncredited deposits of \$150.

What is the balance on the bank statement?

- A \$1300
- B \$1300 overdrawn
- C \$1700
- D \$1700 overdrawn

(J14/P1/Q6)

<i>Balance as per cash book Cr.</i>	\$ (1500)
<i>Add: unpresented cheques</i>	350

<i>Less: uncredited cheques</i>	<u>(150)</u>
<i>Overdraft as per bank statement</i>	(1300)

Answer: B

7. A business received its bank statement showing the closing balance as \$8500 overdrawn.

It was found that unpresented cheques amounted to \$2000 and uncredited deposits amounted to \$1500.

What was the overdraft shown in the cash book?

- A \$5000
- B \$8000
- C \$9000
- D \$12 000

[N14/P1/QS1]

	\$
<i>O/D as per bank statement</i>	8500
<i>Add: unpresented cheques</i>	2 000
	10500
<i>Less: uncredited deposits</i>	1500
<i>O/D as per cash book</i>	9000

Answer: C

8. A trader received his monthly bank statement.

Which item(s) may have appeared on this statement

- 1 bank charges
- 2 credit transfers
- 3 unpresented cheques

- A 1 and 2
- B 1 only
- C 2 and 3
- D 3 only

[J15/P1/Q6]

Un-presented cheques are recorded on the credit side or payment side of the cash book.

Answer: A

9. Waseem received a bank statement. He found that the bank had charged interest twice in error and that a dividend had been received on an investment. Waseem then updated the cash book and prepared a bank reconciliation statement.

Where did he record these two items?

	bank error	dividend
<b>A</b>	bank reconciliation statement	bank reconciliation statement
<b>B</b>	bank reconciliation statement	updated cash book
<b>c</b>	updated cash book	bank reconciliation statement
<b>D</b>	updated cash book	updated cash book

(J16/P1/Q5J)

Trouble\*\*

Bank has made an error by recording interest twice so it will be corrected in the bank reconciliation statement. Dividend income has not been recorded by Waseem so it will be posted in the updated cash book.

Answer B

10. Omar had a debit balance of \$6400 on the bank column in his cash book.

The following appeared on the bank statement, but not in the cash book.

	\$
bank charges	52
standing order payment	16
direct debit payment	9
dishonoured cheque from a customer	100

What was the debit balance on the bank column in the cash book after making entries for these items?

- A \$6223                      B \$6323  
C \$6477                      D \$6577

[N16/P1/Q9]

<i>Adjusted cash book</i>			
	\$		\$
<i>b/d</i>	6400	<i>Bank charges</i>	52
		<i>Standing order payment</i>	16
		<i>Direct debit payment</i>	9
		<i>Dishonoured cheque</i>	100
		<i>Balance c/d</i>	6223
	<u>6400</u>		<u>6400</u>
<i>b/d</i>	6223		

Answer: A

11. On 31 July the bank column in Jay's cash book showed he had \$312 in the bank. On the same date his bank statement showed a debit balance of \$53. It was found that bank charges, \$47, had not been recorded in the cash book and a cheque, \$318, from a customer had not been credited by the bank.

What is the bank balance that should be shown in Jay's statement of financial position on 31 July?

- A \$265 asset                      B \$324 liability  
C \$359 asset                      D \$371 liability

[J17/P1/Q6]



Answer: A

12. What is correct about a bank reconciliation statement?

	prepared by the bank	prepared by the trader	part of double entry book-keeping
A	no	yes	no
B	no	yes	yes
C	yes	no	no
D	yes	no	yes

[N17/P1/Q4]

Reconciliation statement is drawn out when there is a difference between the bank balance in the cash book and bank statement. Reconciliation is drawn by the trader.

Answer: A

13. Which transaction is recorded in the general journal?

- A payment of cash into a business bank account  
B purchase of a motor vehicle on credit  
C receipt of a cheque from a customer  
D sale of goods on credit

[N17/P1/Q5]

Option A is recorded in the cash book.

Option C is recorded in the cash book.

Option D is recorded in the sales journal.

Option B is recorded in the general ledger. Entry would be,

Motor Vehicle (Dr)

Trade payable (Cr)

Answer: B

14. The following account appeared in Sue's ledger.

Tony account			
	\$		\$
May 1 balance b/d	400	May 16 returns	21
12 sales	590	28 bank	284
		discount	6
		31 balance c/d	679
	990		990

Which statement is correct?

- A On 12 May Tony sold goods, \$590, to Sue. B
- On 16 May Sue returned goods, \$21, to Tony. C
- On 28 May Tony received discount, \$6, from Sue.
- D On 31 May Sue owed \$679 to Tony.

[N17/P1/Q6]

On 12 May Sue has sold goods to Tony. On 16 May Tony returned goods to Sue. On 31 May Tony owed Sue \$679. On May 28 Sue allowed Tony a discount of \$6.

Answer: C

15. Mark sold goods on credit to Paul for \$5000. Paul returned goods costing \$200 to Mark.

What were the balances in Paul's ledger accounts after these transactions?

	purchases account	purchases returns account	Mark account
	\$	\$	\$
A	4800 credit	200 credit	5000 debit
B	4800 debit	200 debit	5000 credit
C	5000 credit	200 debit	4800 debit
D	5000 debit	200 credit	4800 credit

[N17/P1/Q7]

Purchases account is Dr by \$5000.

Purchases return account is Cr by \$200.

In Pauls books, Mark is a trade payable.

So Mark's account will be credited by \$4800.

Answer: D)

16. On 30 September 2018, Ahmed's bank statement showed a credit balance of \$2500. Ahmed found that a cheque issued for \$90 and a deposit of \$500 had not been included on the bank statement.

What was the balance at bank shown in Ahmed's cash book on 30 September 2018?

- A \$1910 B \$2090
- C \$2910 D \$3090

[N18/PVQ61]

	\$
Balance as per cash book (bal. fig)	2910
Add : Unpresented cheques	90
Less : Bank Lodgements not credited	<u>500</u>
	2500
Balance as per bank statements	2500

Answer: C.

17. After receiving her bank statement Lyn updated her cash book.

Which items would reduce the overdrawn balance in the cash book?

- 1 bank interest received
- 2 credit transfer received
- 3 direct debit payment

- A 1 and 2 only B 1 and 3 only
- C 1, 2 and 3 D 2 and 3 only

[J19/P1/Q7]

Bank interest received and credit transfer received are receipts of a business which increase cash at bank.

Direct debit payment are a reduction in a bank account.

Answer: A

## Topic 5 Bank Reconciliation

## MCQ 5 &amp; Page 5

18. On 1 October the bank column of Kim's cash book showed an overdraft of \$120. She was then notified that a cheque, \$80, received from a customer in September had been dishonoured.

What was the balance of the bank column in Kim's cash book after recording this dishonoured cheque?

- A credit \$40                      B credit \$200  
C debit \$40                        D debit \$200

[N19/P1/Q7]

$$\text{Balance of Bank} = (\$120) + (\$80) = (\$200)$$

$$\text{Overdraft or Cr balance} = (\$200)$$

**Answer: B**

19. Which statement about a bank reconciliation statement is correct?

- A It is part of the double entry system.  
B It is prepared by the bank to compare the cash book balance with the bank statement balance.  
C It is prepared by the trader to compare the cash book balance with the bank statement balance.  
D It is only prepared when the bank account is overdrawn.

[N19/P1/Q8]

*Bank reconciliation is prepared by the trader to compare and find out why there is a difference between the cash book balance and the bank statement.*

**Answer: C**

20. What would result in a cash book balance being lower than the balance showing on a bank statement?

- A A cheque received from a customer was not recorded in the bank statement.  
B A customer's cheque dishonoured by the bank appeared only on the bank statement. C Payment by a customer directly into the bank was not recorded in the cash book.  
D Payment of insurance by standing order was not recorded in the cash book.

[J20/P1/Q

13]

*Receipts directly deposited by customer in the bank means cash book has not been debited thus the balance is lower for the cash book.*

**Answer: C**

21. A trader's bank statement showed a credit balance of \$2940. The following items had not been entered in the cash book.

	\$
bank interest received	70
credit transfer	280

What was the debit balance in the cash book before it was updated?

- A \$2590                              B \$2730  
C \$3150                              D \$3290

[N20/P1/Q12]

$$\begin{aligned} \text{Balance per updated cash book} &= \$2940 - \$280 \\ &= \$2660 \end{aligned}$$

$$\begin{aligned} \text{Dr balance as per cash book before it} \\ \text{was updated} &= \$2660 - \$70 = \$2590 \end{aligned}$$

**Answer:**

# Control Accounts

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 6

## Control Accounts

### Multiple Choice Questions

1. A sales ledger control account showed the following.

	\$
opening debit balance	2 000
sales	10 000
receipts from debtors	8 000
returns inwards	100
discounts allowed	200

What was the closing balance?

- A** \$3700                      **B** \$3900  
**C** \$4100                      **D** \$4300

[D10/P1/Q15]

#### Sale Ledger Control Account

<i>b/d</i>	2000	<i>Receipts</i>	8000
<i>Sales</i>	10000	<i>Returns inwards</i>	100
		<i>Discount allowed</i>	200
		<i>c/d</i>	3700
	12000		12000
<i>b/d</i>	3700		

*Answer: A*

2. Which will **not** appear in a sales ledger control account?

- A** discounts allowed  
**B** interest charged on overdue accounts  
**C** provision for doubtful debts  
**D** sales returns

[N10/P1/Q20]

*Provision for doubtful debts are estimated figures and actual bad debts are recorded in sales ledger account.*

*Answer: C*

3. Which total is shown by the closing balance on a purchases ledger control account?

- A** cash purchases  
**B** credit purchases  
**C** trade payables  
**D** trade receivables

[J11/P1/Q17]

*Purchases Ledger control account is also known as a total creditors account. This shows the closing balance of creditors or trade payables.*

*Answer: C*

4. Which group of items appear in a purchases ledger control account?

- A** bad debts, receipts from credit customers, returns outwards  
**B** credit purchases, discount allowed, returns inwards  
**C** credit purchases, payments to credit suppliers returns outwards  
**D** discount received, payments to credit suppliers, returns inwards

[N11/P1/Q1 7]

*Items in option C are related to creditors or trade payable.*

*Items in other options are related to both creditors and debtors.*

*Answer: C*

5. What would be entered in a purchases ledger control account?

- A** cash purchases  
**B** discounts allowed  
**C** refund to credit customer  
**D** returns outward

D12/P1/Q19J

Options A, B and C are all cash hook items.  
Return outwards affects accounts payable in Purchases ledger.  
It is entered in the purchases ledger control account.

Answer: D

6. Why is a sales ledger control account usually prepared by a more senior member of staff than the person who maintains the sales ledger?

- A to deter fraud
- B to locate errors
- C to provide an instant total of trade receivables
- D to speed production of financial statements

[N12/P1/Q17]

Senior member of the staff keeps a check on amounts received and due from total trade receivable.

Answer: A

7. Henri has charged Thibault interest on his overdue accounts.

Where does this interest appear in Thibault's control accounts?

- A on the credit side of the purchases ledger control account
- B on the credit side of the sales ledger control account
- C on the debit side of the purchases ledger control account
- D on the debit side of the sales ledger control account

[N12/P1/Q18]

Henri is Thibault's trade payables. If interest is charged by Henri on Thibault's overdue accounts — it will increase the amount owed to Henri. It will be recorded on the credit side of the purchases ledger control account.

Answer: A

8. James was late paying an invoice issued by Henry. Henry charged James interest on the overdue amount. Which entry would be made in Henry's control accounts?

- A credit purchases ledger control account
- B credit sales ledger control account
- C debit purchases ledger control account
- D debit sales ledger control account

(J1 3/P1/Q15)

James is Henry's customer. Interest increases James debt so is Dr in the sales ledger control account.

Answer: D

9. A purchases ledger control account includes interest charged by a supplier on an overdue account and a contra entry to a sales ledger control account.

Where will these items appear in the purchases ledger control account?

	interest charged on overdue account		contra entry to sales ledger control account	
	debit	credit	debit	credit
A	Z		Z	
B	z			Z
C		Z	Z	
D		Z		Z

U14/P1/Q14]

Interest charged by supplier on overdue accounts increases liability thus it is Cr. Contra entry to sales ledger decreases liability thus it is Dr.

Answer: C

10. A trader provided the following information.

		\$
1 March	purchases ledger control account balance	4000
31 March	purchases journal total	53 000
	purchases returns journal total	2000
	cheques paid to suppliers	47000
	discounts received	1000

What was the purchases ledger control account balance on 31 March?

- A \$7000
- B \$9000
- C \$11 000
- D \$13 000

IN14/P1/Q17]

<i>Purchases Ledger Control Account</i>			
	\$		\$
Marl purchases	2000	Mar 1 b/d	4 000
returns			
Marl Bank	47000	Mar 1 purchases	53 000
Marl discount	1000		
Marl c/d	7000		
	<u>57000</u>		<u>57000</u>
		Mar 1 b/d	7000

Answer: A

11. Why does a trader prepare a sales ledger control account?

- A to determine when interest should be charged on overdue accounts
- B to identify bad debts which should be written off
- C to locate incorrect postings in the sales ledger
- D to obtain totals to enter in the books of prime (original) entry

[J15/P1/Q16]

*Main aim of the control account is to identify the errors in the postings in the sales ledger.*

*Answer: C*

12. Henri has charged Thibault interest on his overdue account.

Where does this interest appear in Thibaults control accounts?

- A on the credit side of the purchases ledger control account
- B on the credit side of the sales ledger control account
- C on the debit side of the purchases ledger control account
- D on the debit side of the sales ledger control account

[N15/P1/Q16]

*Henri is a trade payable or creditor of Thibault. Interest charged by Henri increases the amount owed by Thibault. Increase in trade payables is credited*

*Answer: A*

13. A trader provided the following information.

		\$
Feb1	sales ledger control account balance	6 320 dr
28	sales journal total	51 200
	sales returns journal total	1 024
	cash received from credit customers	830
	cheques received from credit customers	50 340
	discount allowed	670

What was the balance on the sales ledger control account on 28 February?

- A \$4656
- B \$5326
- C \$5486
- D \$7180

[J16/P1/Q12]

$$\begin{aligned} & \text{Sales} \\ & \text{ledger control account balance} \\ & = 6320 + 51\,200 - 1024 - 830 - 50\,340 - 670 = \$4656 \end{aligned}$$

*Answer: A*

14. What is the purpose of preparing a sales ledger control account?

- A to calculate the total credit sales for the period
- B to correct any errors in the sales ledger
- C to prove the arithmetical accuracy of the sales account
- D to prove the arithmetical accuracy of the sales ledger accounts

(NT6/P1/Q15)

*Sales ledger control account or trade receivable control account is drawn to check the arithmetical accuracy of sales Ledger account (i.e. accounts of trade receivables)*

*Answer: D*

15. A purchases ledger control account includes interest charged by a supplier on an overdue account and a contra entry to a sales ledger control account.

How will these items be recorded in a purchases ledger control account?

	interest charged on overdue account		contra entry to sales ledger control account	
	debit	credit	debit	credit
A	Z		Z	
B	□			Z
C		Z	Z	
D		z		Z

[IN17/P1/Q16]

*Interest charged on overdue accounts by a supplier increases the liability of the firm. It is credited in purchase ledger control account.*

*Contra entry to a sales ledger control account reduces the liability. It is debited in the purchase ledger control account.*

*Answer: C*

Topic 6 Control Accounts

16. A business provided the following information.

	\$
sales ledger control account balance on 1 March	3 950 debit
credit sales	92 600
cash sales	14 800
receipts from credit customers	73 900
discounts allowed	5 700
discounts received	6 400
returns inwards	15 200
returns outwards	9 600

What was the sales ledger control account balance on 31 March?

- A \$1750
- B \$6650
- C \$16 550
- D \$21 450

[U18/P1/Q14]

*Sales Ledger Control Account*

\$		\$	
Mar 1 Balance b/d	3950	Mar 1 Bank	3900
Mar 1 Credit sales	<u>92600</u>	Mar 1 Discount allowed	5700
		Mar 1 Return inwards	15200
		Mar 31 Balance c/d	<u>1750</u>
	<u>96550</u>		<u>96550</u>

*Answer: A*

17. James was late paying an invoice issued by Henry. Henry charged James interest on the overdue amount. Which entry would be made in Henry's control accounts?

- A credit purchases ledger control account
- B credit sales ledger control account
- C debit purchases ledger control account
- D debit sales ledger control account

[J18/P1/Q15]

*Henry has sold goods to James — thus James is a trade receivable.*

*Interest charged by Henry on James overdue account increases the debt owed by James. Trade receivable increases on debit side with overdue interest.*

*Answer: D*

MCQ 6 & Page 4

18. Which item would **not** appear in a sales ledger control account?

- A discount received
- B payments received
- C refunds paid to credit customers
- D returns from credit customers

[N19/P1/Q19]

*Option B, C, and D are items of sales, Ledger control account.*

*Option A: item of purchases, Ledger control account.*

*Answer: A*

19. Carlos is preparing his sales ledger control account. Where will he obtain information about contra entries?

- A cash book
- B general journal
- C purchases ledger
- D sales ledger

[N19/P1/Q20]

*One of the uses of general journal is recording contra entries.*

*Answer: B*

20. Thembi is preparing her sales ledger control account. She needs to know:

- 1 The total for goods which have been re-turned by credit customers.
- 2 The amount owed by credit customers which have been written off as irrecoverable.

Where can she obtain this information?

	goods returned	irrecoverable debts
A	purchase returns account	irrecoverable debts account
B	purchase returns journal	general journal
C	sales returns account	irrecoverable debts account
D	sales returns journal	general journal

[J20/P1/Q14J]

- *The record of sales returns or returns inwards is in the return inwards journal or sales returns journal.*
- *Record of irrecoverable or had debts is in the general journal.*

*Answer: D*

Topic 6 *Control Accounts*

21. What is a purpose of preparing a sales ledger control account?

- A to identify irrecoverable debts
- B to make fraud more difficult
- C to provide the total owed to trade payables
- D to show the total of cash and credit sales

[N20/P1/Q13]

*Sales ledger control account checks the accuracy of the sales ledger. It makes frauds difficult to take place.*

**Answer: B**

22. George is preparing his purchases ledger control account.

Which information would he obtain from his general journal?

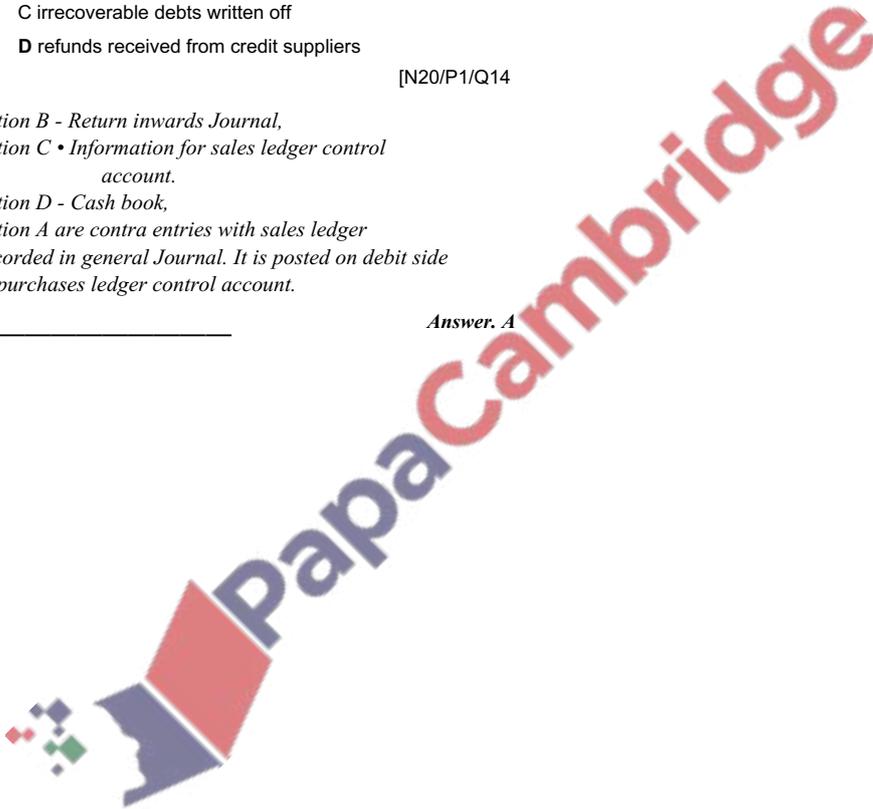
- A contra entries with the sales ledger
- B goods returned to credit suppliers
- C irrecoverable debts written off
- D refunds received from credit suppliers

[N20/P1/Q14]

*option B - Return inwards Journal,  
option C • Information for sales ledger control account.*

*option D - Cash book,  
option A are contra entries with sales ledger recorded in general Journal. It is posted on debit side of purchases ledger control account.*

**Answer. A**



# The Trial Balance & Correction of Errors

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 7

t i o? tuorjof \* (s)

## The Trial Balance & Correction of Errors

### Multiple Choice Questions

1. Which is a compensating error?
- A** cheque received from J. Wilks debited to the account of J. Wilson
  - B** drawings debited to the cash account and credited to the drawings account
  - C** purchase of a motor vehicle on credit debited to the motor expenses account
  - D** sales account and purchases account both undercast by the same amount

[J10/P1/Q9]

*Option A — Error of commission,*

*Option B — Reversal of entries,*

*Option C — Error of principle,*

*Option D— Compensating error: Two accounts of a different class under or overcasted by the same amount.*

*Answer: D*

2. Repairs to a motor vehicle were debited in error to the motor vehicles account.  
How does this affect the profit for the year (net profit) and the non-current (fixed) assets in the balance sheet?

	profit for the year (net profit)	non-current (fixed) assets
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

[J10/P1/Q13]

*Expense (repairs) undercasted; profit is overcasted.*

*Motor vehicle (asset) overcasted as repair expense wrongly added to it.*

*Answer: A*

3. The difference on a trial balance was entered in a suspense account. It was later found that the purchases returns journal had been undercast.  
Which entries are required to correct this error?

	account to be debited	account to be credited
<b>A</b>	purchases	purchases returns
<b>B</b>	purchases returns	purchases
<b>C</b>	purchases returns	suspense
<b>D</b>	suspense	purchases returns

U10/P1/Q14]

*Purchases returns undercast is credited. In order to complete double entry suspense is debited.*

*Answer: D*

4. A cheque received from Joe was credited to Joanna's account.  
Which type of error was made?

- A** commission
- B** compensating
- C** original entry
- D** principle

[N10/P1/Q13]

*Error of commission is entry in one debtors account posted in another debtors account*

*Answer: A*

5. Sam buys a new computer for business use and the cost is debited to the purchases account.

What is the effect of this error on the profit for the year (net profit) and the non-current (fixed) assets?

	profit for the year (net profit)	non-current (fixed) asset
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

[N10/P1/Q17]

Topic 7 The Trial Balance & Correction of Errors

MCQ 7 & Page 2

Purchases account overstated will result in profit being understated. Non-current (fixed) asset are understated because computer was not recorded as fixed asset.

Answer: A

Answer: D

6. Inventory (stock) at 31 December 2008 was overstated by \$6000  
 What was the effect on the gross profit for the year ended 31 December 2009?  
 A \$6000 overstated  
 B \$6000 understated  
 C \$12 000 overstated  
 D \$12 000 understated

[N10/P1/Q29]

If inventory (beg) overstated then cost of goods sold overstated as a result gross profit is undercasted by \$6000.

Answer: B

7. A trial balance fails to agree. The credit column totals \$10 000. Two errors are then found.

The sales journal has been overcast by \$100. Goods sold to Y on credit for \$200 have been incorrectly debited to X.

What is the total of the debit column of the trial balance?

- A \$9700                      B \$9900  
 C \$10 100                    D \$10 300

[J11/P1/Q11]

$\$10000 - 100 = \$9900$ . The second error has no affect on trial balance total.

Answer: B

8. Motor repairs of \$250 have been posted in error to the motor vehicles account.

What is the effect on the financial statements?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[J11/P1/Q14]

\*) ( . . V.V.V.)

v

Motor repair expenses understated as a result profit is overstated. Motor vehicle account includes motor expenses (incorrectly) and as a result is overstated.

9. The difference on a trial balance is entered in a suspense account.

A payment of \$112 for general expenses had been correctly entered in the cash book but posted in error to the credit side of the general expenses account. Which journal entry corrects this error?

		Dr \$	Cr \$
A	general expenses suspense	112	112
B	suspense general expenses	112	112
C	general expenses suspense	224	224
D	suspense general expenses	224	224

U11/P1/Q16]

This is an error of reversal entry. In order to correct the error the entry is posted on the correct side with double the amount. General expense is posted on the correct side i.e. debit side with double the amount of \$224.

Answer: C

10. Which is an example of a compensating error?

- A A payment for motor vehicle repairs is debited to the motor vehicles account.  
 B A purchase of goods from C Jones is credited to the account of C Johns.  
 C A sale of goods, \$65, to A Aziz is entered in the books as \$56.  
 D The wages account is undercast by \$100 and the rent account is overcast by \$100.

[N11/P1/Q11]

Compensating error is when the error on the Dr. and Cr. side is of an equal amount.

Answer: D

11. A motor vehicle cost \$8000. The price included \$36 for petrol. The total payment of \$8000 was debited in the motor vehicle account.

What is the effect of this error on the income statement and balance sheet?

	profit	non-current assets
A	overstated by \$36	overstated by \$36
B	overstated by \$36	understated by \$36
C	understated by \$36	overstated by \$36
D	understated by \$36	understated by \$36

[N11/P1/Q14]

When expenses are understated, profit is overstated. Non-current assets are overstated.

Answer: A

12. Tracey runs a clothing store. She sold a computer

with

a net book value of \$2000 for \$1800. Cash was received but no entries had been made in any accounts.

What is the effect on the balance sheet if this error is corrected?

	non-current assets	current assets
	\$	\$
A	decrease 1800	increase 1800
B	decrease 1800	increase 2000
C	decrease 2000	increase 1800
D	decrease 2000	increase 2000

[N11/P1/Q16]

The correct entry is

Income statement (loss) 200

Cash 1800

Computer 2000

The value of Computer (Non-current asset) when sold, decreases by cost \$2000. Cash (current asset) increases by \$1800. The difference of \$200 is the loss on sale.

Answer: C

13. What is a trial balance?

A a list of balances remaining on the books of a business at a certain date

B a list of the transactions of a business for the year

C a statement of the assets, liabilities and capital of a business at a certain date

D a summary showing the profit made by a business

U12/P1/Q11]

—

All the balances remaining in the ledgers are recorded in a list at a certain date in Dr and Cr columns. Both columns should have the same total.

Answer: A

14. Which is an error of omission?

A rent paid in cash not entered in the rent

account B rent paid not entered in the cash book or the rent account

C rent paid not included in the income statement

D rent paid not included in the trial balance

012/P1/Q12)

Omission is when Dr or Cr entry is not recorded. In this transaction both Rent and Cash are omitted from the books of accounts.

Answer: fi

15. Lisa's trial balance failed to balance and a suspense account was opened.

It was found that the return of goods, \$20, by Zaffar, a customer, had been correctly entered in the sales returns account, but had been incorrectly debited to Zaffar's account

Which journal entry corrects this error?

		debit \$	credit \$
A	Suspense	20	
	Zaffar		20
B	Zaffar	20	
	Suspense		20
C	Suspense	40	
	Zaffar		40
D	Zaffar	40	
	Suspense		40

[J12/P1/Q18]

The entry to record sales returns is sales returns Dr.

Zaffar Cr.

Zaffar was debited incorrectly. The entry to correct it is to credit Zaffar with double the amount i.e. \$40. When the error is corrected on the credit side, the debit side will become suspense account.

Answer: C

16. Which error would **not** be revealed by a trial balance?

- A an error made when calculating the balance on an account
- B a mistake made when totalling the debit column of the trial balance
- C a single entry rather than a double entry made for a transaction
- D a transaction completely omitted from the accounting records

[N12/P1/Q10]

19. What is a trial balance?

- A a list of balances on a business's books on a certain date
- B a list of the assets, liabilities and capital of a business on a certain date
- C a summary of all a business's transactions for the year
- D a summary of the financial position of a business at the year end

[U13/P1/Q10]

Option A, B and C are all errors which effect either the Dr or Cr side of the trial balance. Error of omission effect Dr and Cr side both and is not revealed by the trial balance.

**Answer: D**

A trial balance is a list of balances of the T account in the ledger of the firm.

**Answer: A**

17. The purchase of a motor vehicle was wrongly recorded as motor expenses. What is the effect of this error?

- A gross profit is understated
- B profit for the year is overstated
- C total assets are overstated
- D total assets are understated

[N12/P1/Q14]

20. Why does a business prepare a trial balance?

- A to calculate the profit or loss
- B to check the arithmetical accuracy of the ledger
- C to check the cash and bank balances
- D to show the financial position of the business

[N13/P1/Q8]

Motor vehicle is an asset. If it is recorded as an expense then net profit is understated and total assets are understated.

**Answer: D**

Trial balance is prepared from the ending balances of the ledger accounts. This is to check the arithmetical accuracy of the ledger.

**Answer: B**

18. A business discovers that cash received from Abdul, a credit customer, has been recorded as a cash sale. How can this be corrected?

	account to be debited	account to be credited
A	Abdul	cash
B	Abdul	sales
C	cash	Abdul
D	sales	Abdul

[J13/P1/Q9]

The correcting entry would be Dr—sales to rectify the error and Cr—credit customer to record the correct account.

**Answer: D**

21. A trial balance failed to balance. The difference was entered in a suspense account.

It was discovered that the purchases returns journal had been undercast.

Which entry should be made to correct this error?

	account to be debited	account to be credited
A	purchases	suspense
B	purchases returns	suspense
C	suspense	purchases
D	suspense	purchases returns

[N13/P1/Q151]

The entry to correct this error would be: Cr purchases returns (to increase the account) and Dr suspense account (as the error is on one side of double entry).

**Answer: D**

22. Expenses accrued, \$250, were treated as a prepayment in the income statement. What effect did this have on the profit for the year?
- A overstated by \$250
  - B overstated by \$500
  - C understated by \$250
  - D understated by \$500

[N13/P1/Q16]

Expenses accrued are undercasted, as a result profit is overstated by \$250. Prepayments reduce expenses. If expenses were understated then profit is overstated by \$250.

Total effect \$500 profit overcasted.

Answer: B

23. Which error would cause the trial balance totals to disagree?
- A Business stationery purchased by cheque had not been recorded.
  - B Goods purchased on credit had been debited to the supplier's account.
  - C Goods sold on credit had been debited to the account of the wrong customer.
  - D The purchase of a new machine had been debited to the purchases account.

[J14/P1/Q9]

Trial balance totals disagree when the error is on one side i.e. either on the Dr. or Cr. side. In option B; error is in one account i.e. suppliers account. Option A, C and D have errors on both side Dr. and Cr.

Answer: B

24. Zaffor sold \$300 of goods to Yasmin on credit. Zaffor prepared an invoice but posted it as a credit note. Which entry will Zaffor make to correct this error?

	account to be debited	\$	account to be credited	\$
A	sales	600	Yasmin	300
	sales returns	300	sales returns	300
B	sales	300	Yasmin	600
C	Yasmin	600	sales returns	300
			sales	300
D	Yasmin	300	sales	600
	sales returns	300		

[N14/P1/Q9]

Zaffor was supposed to record  
Dr. Yasmin 300  
Cr. sales 300

Incorrect Entry: Dr. sales returns 300  
Cr. Yasmin 300

Correcting Entry: Dr. Yasmin 600  
Cr. sales 300  
Cr. sales returns 300

Answer: C

25. What is the purpose of preparing a trial balance?
- A to calculate the profit for the year
  - B to check the arithmetical accuracy of the double entry
  - C to locate any errors made in the ledgers
  - D to provide a summary of the assets and liabilities

[N14/P1/Q11]

Trial balance is a list of balances extracted from ledger accounts to check the arithmetical accuracy of the double entry.

Answer: B

26. After preparing a trial balance the following errors were discovered.

Error 1: Goods returned to Ken Loo had been debited to Ken Lao.

Error 2: Repairs to motor vehicles had been debited to the motor vehicles account.

Which types of error have been made?

	error 1	error 2
A	commission	principle
B	compensating	reversal
C	principle	commission
D	reversal	compensating

[N14/P1/Q12]

Error 1 is posting in right class of account i.e. debtors hut the wrong debtors account. — error of commission.

Error 2 is posting in wrong class of account i.e. expense account posted to fixed asset account. — error of principle.

Answer A

27. The difference on a trial balance was posted to a suspense account. It was later found that a cheque for \$800 paid to Rafiq, a supplier, had been entered correctly in the cash book, but credited in the purchases account.

Which entry will correct this error?

	account to be debited	\$	account to be credited	\$
A	purchases	800	suspense	800
B	purchases	800	suspense	1600
	Rafiq	800		
C	suspense	800	purchases	800
D	suspense	1600	purchases	800
			Rafiq	800

[N14/P1/Q16]

*Rafiq a supplier was not debited and purchases account was incorrectly credited. In order to correct the error, suspense will be credited by \$1600. Rafiq and purchases will be Dr. by \$800 each.*

**Answer: B**

28. Which error would be revealed by a trial balance?

- A a cheque for \$78 entered on the correct sides in both W's account and the cash book as \$87
- B goods returned by a customer, \$300, not entered in the books
- C goods sold to Y for \$650 correctly entered in the sales account and credited to Y's account
- D the purchase of a machine, \$3500, debited to the purchases account

[J15/P1/Q8]

*When the error is on both sides of the account with the same amount, trial balance is not affected.*

*When the error is on one side like option C error is only in the debtor Y's account, it will be revealed by trial balance.*

**Answer: C**

29. Repairs to a motor vehicle were debited in error to the motor vehicles account.
- How does this affect the profit for the year and the non-current assets in the statement of financial position?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

[J15/P1/Q13]

*Motor repair expenses not recorded will undercast total expenses and thus overcast profit. Motor vehicles amount will be over-casted under non-current assets as it is wrongly recorded.*

**Answer: A**

30. The owner of a business took goods for his own use but failed to make an entry in the accounts.

What was the effect of this error?

	profit for the year	capital employed
A	overstated	no effect
B	overstated	understated
C	understated	no effect
D	understated	overstated

[J15/P1/Q19]

*The error has overcasted purchases and thus profit is under-casted. There will be no effect on the capital because drawings were not recorded and profit is under-casted.*

**Answer: C**

31. What is a trial balance?

- A a statement of assets and liabilities on a particular date
- B a statement of income and expenditure for a particular period
- C a statement of ledger balances on a particular date
- D a statement of profit or loss for a particular period

[J16/P1/Q7]

*A trial balance is a list of balances extracted from the ledger accounts on a particular date. It has a debit and credit balance.*

**Answer: C**

32. A trial balance did not balance. Which error caused this?
- A A cheque, \$300, received from M. Green was credited in the cash book and debited in M. Green's account.
  - B Purchase of goods from J. Black, \$750, was debited in the purchases account and credited in J. Blackshaw 's account.
  - C Repairs, \$500, were debited in the premises account.
  - D The sales journal was overcast by \$1000.

U16/P1/Q8]

*In option A, B and C error is on the Dr and Cr side of an equal amount . In the above cases both the Dr and Cr side of trial balance will balance . When error is only on one side Dr or Cr like in option D, then trial balance will not balance.*

Answer: D

33. Motor repairs, \$250, have been posted in error to the motor vehicles account. What is the effect on the financial statements?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

U16/P1/Q10]

*Motor repair expense has not been recorded in accounts , as a result profit for the year will be overstated . Motor vehicle account has been wrongly debited with the amount of motor repairs. This will result in overstating of motor vehicles or non current assets.*

Answer: A

34. A business allowed Lee, a customer, \$40 cash discount. The discount was entered in the discount allowed account but omitted from Lee's account. A suspense account was opened. What are the correcting entries?

	account to be debited	account to be credited
A	discount allowed	Lee
B	Lee	discount allowed
C	Lee	suspense
D	suspense	Lee

[J16/P1/Q11]

*When payment is received from a trade receivable discount is allowed. The debtor is credited with the amount due from him to reduce his account.*

Answer: D

35. Which error is a compensating error?
- A cheque received from J. Wilks credited to the account of J. Wilson
  - B drawings debited to the cash account and credited to the drawings account
  - C purchase of a motor vehicle debited to the motor expenses account
  - D sales account and purchases account both undercast by the same amount.

[N16/P1/Q11]

*Compensating error is when two different clauses of account are under or overcasted by the same amount. In option D sales is a revenue account whereas purchases is a cost account.*

Answer: D

36. A trader takes cash drawings from the business . How will this affect the profit for the year and the current assets?

	profit for the year	current assets
A	decrease	no effect
B	increase	no effect
C	no effect	decrease
D	no effect	increase

[N16/P1/Q19]

*Drawings do not affect the profit of the business. Cash withdrawn decreases the asset. Cash is recorded under current assets so current assets will decrease.*

Answer: C

37. Which is an error of omission?
- A No entries have been made for the purchase of stationery by cheque.
  - B Purchase of stationery has been entered only in the cash book.
  - C Purchase of stationery has been entered only in the stationery account.
  - D The stationery account has been omitted from the trial balance.

[J1 7/P1/Q9]

*Error of omission is when debit and credit entry both are not recorded. In option B, C and D error is only in one account. Whereas in option A error is on the debit and credit side.*

**Answer: A**

38. The totals of a trial balance did not agree and a suspense account was opened. It was later found that the total of the discount allowed column in the cash book, \$100, had been credited to the discount allowed account. Which journal entry corrects this error?

		debit \$	credit \$
<b>A</b>	discount allowed suspense	100	100
<b>B</b>	discount allowed suspense	200	200
<b>C</b>	suspense discount allowed	100	100
<b>D</b>	suspense discount allowed	200	200

[J17/P1/Q15]

*Whenever an amount is recorded on the wrong side of the account, it is recorded on the right side with double the amount. Discount allowed is debited with double the amount.*

**Answer: B**

39. The totals of a trial balance agreed. What does this mean?
- A** All the arithmetic in the ledger is correct.
  - B** All transactions have been entered in the correct ledger accounts.
  - C** All transactions have been entered on the correct sides of the ledger.
  - D** Total debit balances equal total credit balances in the ledger.

[N17/P1/Q8]

*The totals of a trial balance agree means that there is no arithmetical error. The debit balance is equal to the credit balance in the trial balance.*

**Answer: D**

40. A business purchased a motor vehicle and included it as a business expense in the income statement. How did this affect the financial statements?

	profit for the year	non-current assets
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

[N17/P1/Q13]

*Business expenses were overstated, as a result profit for the year was understated.*

*Motor Vehicle was not included in non-current assets, as a result, total of non-current assets in the balance sheet was understated.*

**Answer: D**

41. The totals of a trial balance did not agree. The total of the debit column was \$13 400. It was found that the purchases journal had been overcast by \$195 and goods bought from supplier X for \$85 had been incorrectly credited to Y. What was the total of the credit column of the trial balance?

- A** \$13 120
- B** \$13 205
- C** \$13 595
- D** \$13 680

[J18/P1/Q8]

*Error 1. Purchases overcasted by 195 means Dr side of trial balance overcasted.*

*Error 2. Is error of commission which does not effect trial balance agreement.*

*If Dr side of trial balance is \$13400, Cr side will be \$13400 - \$195 = \$13205.*

**Answer: B**

42. A draft income statement showed a gross profit of \$12 200. It was later found that carriage on purchases, \$260, and carriage on sales, \$230, had both been included as expenses in the profit and loss section of the income statement.

- What was the corrected gross profit?
- A** \$11 710
  - B** \$11 940
  - C** \$12 460
  - D** \$12 690

[N18/P1/Q14]

Corrected gross profit = \$12200 - \$260 = \$11940

Carriage on purchases increases cost of sales and decreases gross profit.

Carriage on sales is an expense and should be recorded in the profit and loss section of the income statement.

Answer: B

43. After preparing a trial balance it was found that a cheque , \$ 300 , received from Oliver , had been deb - ited in Oliver 's account and credited in the bank account.

No other errors were found.

Which statement about the trial balance **before** correcting the error is correct?

- A The credit column was equal to the debit column.
- B The credit column was \$300 more than the debit column.
- C The debit column was \$300 more than the credit column.
- D The debit column was \$600 more than the credit column.

(J19/P1/Q91)

*This is complete reversal entry . When both the Dr and Cr Entries are posted on the wrong side of the accounts the error is of an equal amount on the Dr and Cr Side . The trial balance shall balance.*

Answer: A

44. Which item is revenue expenditure for a manufac - turer?

- A buying new office equipment
- B extending the factory
- C purchasing motor vehicles
- D repairing machinery

[J19/P1/Q12]

*Option A, B and C are items of capital expenditure . Repairing machinery is listed under revenue expendi - ture . It is a day to day running expense.*

Answer: D

45. An item of revenue expenditure was treated as an item of capital expenditure.

What was the effect of this error?

	profit for the year	non-current assets
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

U19/P1/Q13]

The error will result in

- understating expenses thus overstating profit
- overstating non current (fixed) assets.

Answer: A

46. A cheque received from D Pawson , a trade receiv - able , was correctly debited to the bank account but was credited to the account of P Dawson , a trade payable.

What was the effect of correcting this error?

	trade receivables	trade payables
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

[J19/P1/Q16)

*Trade receivable will he decreased and trade payable will also be decreased (it was incorrectly increased).*

Answer: A

47. After preparing her income statement Emma found that:

- 1 a bad debt, \$1500, should have been written off
- 2 no adjustment had been made for rent pre - paid by her of \$2800.

The draft profit for the year was \$35 000.

What was the profit for the year after these adjust - ments?

- A \$30 700
- B \$33 700
- C \$36 300
- D \$39 300

[N19/P1/Q211

Draft profit	\$35000
Add : no adjustment for prepaid \$2800	
	\$37800
Less : bad debts written off	\$1500
Profit after adjustments	\$36300

Error one would effect the sales and Trade receivables thus suspense A/c not effected.  
 Error two means sales were overcasted by \$200 result- ing in a deficit of \$200 on the debit side. Correction entry would be.  
 Sales \$200 Dr  
 Suspense \$200 Cr

**Answer: B 50.**

**Answer: C**

48. Sita discovers that \$1000 received from the sale of fixtures had been entered in the sales account. Which journal entry corrected this error?

		debit \$	credit \$
<b>A</b>	bank disposal of fixtures	1000	1000
<b>B</b>	bank fixtures	1000	1000
<b>C</b>	sales disposal of fixtures	1000	1000
<b>D</b>	sales fixtures	1000	1000

[J20/P1/Q10]

Sales will be Dr to reduce them or rectify the error. Disposal A/c will be Cr to record selling price received from sale of fixtures.

**Answer: C**

49. The totals of a trial balance did not agree and \$200 was debited to a suspense account. On checking the books it was found that two errors had been made.
- 1 A sales invoice for \$700 had been recorded in the sales journal as \$770.
  - 2 The sales journal had been totalled incorrectly.

What was the error made in totalling the sales journal?

- A overcast by \$130
- B overcast by \$200
- C undercast by \$130
- D undercast by \$200

[J20/P1/Q11]

The income statement of a business showed a loss for the year of \$16 000. On checking the books the following errors were discovered.

- 1 No adjustment had been made for insurance prepaid, \$480.
- 2 No entry had been made for bank charges, \$620.

What was the correct loss for the year?

- A \$14 900
- B \$15 860
- C \$16 140
- D \$17 100

U20/P1/Q12  
1

$$\text{Correct loss for the year} = \$16\,000 - \$480 + \$620 = \$16\,140$$

Prepaid insurance reduces expenses thus increases profit, so it will be deducted from loss. Bank charges reduces profit and increases loss.

**Answer: C**

51. Joel's inventory on 31 December 2019 was valued at \$4800. It was discovered that:

- 1 Goods, cost \$100, had not been included.
- 2 Goods, cost \$170, had been included at net realisable value \$210.

What was the effect of the incorrect inventory valuation on

	Joel's financial statements at 31 December 2019?	profit for the year	inventory \$	equity \$	
<b>A</b>	overstated	40	understated	40	nil
<b>B</b>	overstated	60	understated	60	nil
<b>C</b>	understated	40	understated	40	understated 40
<b>D</b>	understated	60	understated	60	understated 60

[J20/P1/Q20  
1

Inventory value calculation,

$$\$4800 - \$100 - \$40 (\$210 - \$170) = \$4860$$

$$\text{Inventory understated} = \$100 - 40 = \$60$$

Result: Inventory understated by \$60.

**Answer: D**

52. The owner of a business took goods for his own use but forgot to make an entry in the accounts.

What was the effect of this error?

	profit for the year	capital employed
<b>A</b>	overstated	no effect
<b>B</b>	overstated	understated
<b>C</b>	understated	no effect
<b>D</b>	understated	overstated

U20/P1/Q21J

The effect of the error would be:

- Purchases would be overstated, profit understated.
- Drawings would be understated, capital employed overstated.

At the same time, profit is understated by the same amount

So overall effect is nil on capital employed.

Answer: C

53. Motor vehicle expenses, \$50, were incorrectly debited to the motor vehicles account.

Which journal entry corrects this error

		debit \$	credit \$
<b>A</b>	motor vehicle expenses motor vehicles	50	50
<b>B</b>	motor vehicles motor vehicle expenses	50	50
<b>C</b>	motor vehicles expenses motor vehicles suspense	50 50	100
<b>D</b>	suspense motor vehicles expenses motor vehicles	100	50 50

[N20/P1/Q10]

Motor vehicles will be credited to correct the error. Motor vehicle expense will be debited to record the expense.

Answer: A

54. A transaction was posted to the wrong account of the same class.

Which type of error was made?

- A** commission                      **B** original entry  
**C** principle                              **D** reversal

[N20/P1/Q9]

Error of commission means a transaction posted to the wrong account of the same class, e.g Sales to C Black posted in B Blacks account.

Answer: A

55. Kate calculated her draft profit for the year at \$28400.

She later discovered the following errors.

- Rent prepaid by Kate was understated by \$1000.
- Closing inventory was understated by \$1500.

What was the correct profit for the year?

- A** \$25 900                              **B** \$27 900  
**C** \$28 900                              **D** \$30 900

[N20/P1/Q11]

Profit as per draft	\$28 400
Rent prepaid understated	\$1 000
Add : closing inventory understated \$1 500	
	<u>\$30 900</u>

Answer: D

56. A trader debited the cost of repairing office equipment to the office equipment account. How did this error affect the financial statements?

	profit for the year	non-current assets
<b>A</b>	overstated	overstated
<b>B</b>	overstated	understated
<b>C</b>	understated	overstated
<b>D</b>	understated	understated

[N20/P1/Q15]

Profit was overstated because expense was not recorded. Non-current assets were overstated as expense was wrongly recorded in this account.

Answer: A

# Financial Statements of Sole Trader

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 8

## Financial Statements of Sole Trader & Adjustments to Ledger Accounts

### Multiple Choice Questions

1. On 1 January 2009 there was a credit balance on the wages account of \$2000. Wages paid during the year amounted to \$48 000. On 31 December 2009 wages totalling \$3500 remained unpaid.

How much should be transferred from the wages account to the income statement (profit and loss account) for the year ended 31 December 2009?

- A \$42 500
- B \$46 500
- C \$49 500
- D \$53 500

[J10/P1/Q10]

Wages Account

2009		2009	
	\$		\$
Jan 1 Cash	48000	Jan 1 b/d	2000
Dec 31 Accrued c/d	3500	Dec 31 P&LA/C	49500
	<u>51500</u>		<u>51500</u>
		Jan 1 b/d	3500

Answer: C

2. A trader's income statement (trading and profit and loss account) showed a gross profit and a loss for the year (net loss).

What caused the loss for the year (net loss)?

- A cost of sales exceeding sales
- B expenses exceeding gross profit
- C gross profit exceeding expenses
- D sales exceeding cost of sales

(J10/P1/Q16)

Profit — when gross profit exceeds expenses,  
loss — when expenses exceed gross profit.

Answer: B

3. Simi had the following assets and liabilities.

	\$
inventory (stock)	6300
trade receivables (debtors)	5000
cash	800
trade payables (creditors)	3200
loan repayable in 2021	7100
bank overdraft	1300

What was the working capital?

- A \$500
- B \$7600
- C \$14 700
- D \$23 700

[J10/P1/Q17]

$$\begin{aligned} \text{Working capital} &= \text{Current assets} - \text{Current liabilities} \\ &= (6300 + 5000 + 800) - (3200 + 1300) \\ &= (72700 - 4500) = 57600 \end{aligned}$$

Answer: B

4. Which group contains **only** trading businesses?

- A driving school, motor insurance agent, motor vehicle repairer
- B driving School, motor insurance agent, petrol station
- C motor parts shop, motor repairer, used car dealer
- D motor parts shop, petrol station, used car dealer

U10/P1/Q18]

Options A, B and C contain service businesses as well as trading businesses. Motor parts shop, petrol station and used car dealers are all trading businesses.

Answer D

5. Paul's financial year ends on 31 December. He purchased premises on 1 July 2008.

The insurance premium payable on the premises was:

	\$
1 July 2008 - 30 June 2009	1800
1 July 2009-30 July 2010	2000

How much was transferred from the insurance on premises account to the income statement (profit and loss account) for the year ended 31 December 2009?

- A \$1800
- B \$1900
- C \$2000
- D \$2900

[N10/P1/Q14]

Jan 1 - 30 June '2009	\$900
July 1 -31 Dec 2010	\$1000
	<u>\$1900</u>

Answer: B

6. What affects gross profit?

- A carriage outwards
- B discounts allowed
- C discounts received
- D goods taken by owner for own use

[N10/P1/Q22]

Options A, B and C affects net profit. Option B reduces purchases (part of gross profit calculation).

Answer: D

7. Which would **not** appear in a balance sheet?

- A carriage inwards accrued
- B gross profit for the year
- C provision for depreciation of fittings
- D rent receivable prepaid

[N10/P1/Q23]

Gross profit is a part of income statement.

Answer: B

8. Azad maintains a ledger account for general expenses.

On 1 January there was a prepayment of \$176. On 31 December there was an accrual of \$212. The amount transferred to the income statement for the year was \$10 690.

What was the total paid for general expenses during the year?

- A \$10 302
- B \$10 654
- C \$10 726
- D \$11078

[J11/P1/Q12]

		General Expenses	\$
			\$
Jan 1	prepaid b/d	176	
Dec 31	income statement	10690	
June 1	cash/bank	10302	
Dec 31	Accrued c/d	212	
		10690	10690

Answer: A

9. Which affects both gross profit and net profit?

- A carriage inwards
- B carriage outwards
- C discount allowed
- D discount received

1

[J11/P1/Q18]

Carriage inwards increases cost of sales thus decreases gross profit and net profit.

Answer: A

10. How is capital employed calculated?

- A capital - non-current liabilities
- B capital + non-current liabilities
- C capital - non-current assets
- D capital + non-current assets

[J11/P1/Q19]

Capital employed is the total amount invested in the business by owner and outside source. Non-current liabilities are long term liabilities.

.....

11. Which is **not** a service business?

- A hairdresser
- B manufacturer
- C private tutor
- D window cleaner

[J11/PI/Q



17. On 1 January Sudip borrowed \$15 000 from the bank at an interest rate of 8% per annum.  
On 1 August the loan was increased to \$24 000.  
How much interest was Sudip charged for the year ended 31 December?

- A \$1000
- B \$1500
- C \$1920
- D \$2000

[J12/P1/Q7]

Interest (15000 x 8%)	1200
(9000 x 8% x 5/12)	<u>300</u>
Total interest for the year	1500

**Answer: B**

18. John's financial year ends on 31 December. He pays his annual insurance premium on 1 July. He provided the following information.

	\$
insurance premium paid on 1 July 2010	2400
insurance premium paid on 1 July 2011	3000

How much was transferred from the insurance account to the income statement for the year ended 31 December 2011?\*

- A \$2400
- B \$2700
- C \$3000
- D \$4200

[J12/P1/Q13]

Insurance account	
2010 July 1 Cash  2400 <hr/> 2400	2010 Dec 31 prepaid c/d 1200 Dec 31 income statement 1200 <hr/> 2400
2011 Jan 1 prepaid b/d 1200 July 1 cash 3000 <hr/> 4200	2011 Dec 31 prepaid c/d 1500 Dec 31 income statement* 2700 <hr/> 4200

**Answer: B**

19. A trader provided the following information.

	\$
non-current assets	25 000
current assets	12 000
current liabilities	9 000
non-current liabilities	10 000

U

What was the capital employed?

- A \$18 000
- B \$28 000
- C \$38 000
- D \$56 000

[J12/P1/Q22]

Capital employed

$$= \text{non current assets} + \text{current asset} - \text{current liabilities} = 25000 + 12000 - 9000 = \$28000$$

**Answer: B**

20. At the end of his financial year Tom owes \$150 rent. How will the adjustment for this amount affect Tom's financial statements?

- A decrease expenses and increase current assets
- B decrease expenses and increase current liabilities
- C increase expenses and increase current assets
- D increase expenses and increase current liabilities

[J12/P1/Q23]

Rent owed is the current years expense and will be shown in the income statement. It is also a current liability to be shown in the balance sheet.

**Answer: D**

21. Alice sublets part of her premises to Mandy. At the end of the financial year Mandy owed \$100 rent to Alice.

How would this appear in Alice's ledger and balance sheet?

	rent received account in the ledger	balance sheet
K	credit balance brought down	current asset
B	credit balance brought down	current liability
c	debit balance brought down	current asset
D	debit balance brought down	current liability

[N12/P1/Q11]

**Topic 8** *Financial Statements of Sole Trader & Adjustments to Ledger Accounts*

*Rent is an income for Alice. Any amount receivable*

- A \$11 000
- B \$12 000
- C \$14 000
- D \$15 000

*at year*

*end is a current asset and is carried down on Cr side and it is brought down on the Dr side.*

[N12/PVQ22]

**Answer: C**

22. How is capital employed calculated?

- A current assets - current liabilities
- B non-current assets + current assets
- C owner's capital + non-current liabilities
- D owner's capital + total liabilities

(N12/P1/Q201)

<i>Rent Expense</i>			
<i>2011</i>	\$		<i>2011</i>
<i>Jan 1 b/d</i>			<i>Dec 31 prepaid c/d</i>
<i>Dec 31 Bank</i>	12 000		<i>11 000</i>
			<i>statement</i>
	14 000		14 000

**Answer: A**

*Capital employed = non current assets + current assets - current liabilities.*

OR

*Capital employed = Owner capital + non-current liabilities.*

**Answer: C**

23. Nirmal, a business consultant, provided the following information.

	\$
profit for the year	23 400
rent received from tenant	1 520
general expenses	39 760
loan interest paid	1 230

What was the total of the fees received from clients?

- A \$60 410
- B \$61 930
- C \$62 870
- D \$63 160

[N12/P1/Q21J]

*Revenue + Incomes - Expenses - Interest = Profit*

*Revenue = Profit + Expenses + Interest - Incomes*

*~ 23 400 + 39 760 + 1 230 - 1 520*

*~ \*62 870*

**Answer: C**

24. A rent account showed a debit balance of \$2000 on 1 January 2011.

Rent paid during the year ended 31 December 2011 was \$12 000.

Reni prepaid at 31 December 2011 amounted to \$3000.

What was the charge for rent in the income statement for the year ended 31 December 2011?

25. On 1 January 2012 Ahmed's rent receivable account had a credit balance of \$160.

On 31 December 2012 he transferred \$1800 from the rent receivable account to the income statement. On 1 January 2013 the rent receivable account had a credit balance of \$90.

How much rent did Ahmed receive in 2012?

- A \$1550
- B \$1730
- C \$1870
- D \$2050

[J 13/P1/Q11]

*Rent Receivable*

<i>2012</i>				<i>2012</i>			
	\$		\$		\$		\$
<i>Dec 31 income statement</i>		1800	<i>Jan 1 bal. b/d</i>			160	
<i>Dec 31 bal. c/d</i>		90	<i>Dec 31 bank</i>			1730	
		1890				1890	
			<i>Jan 1 bal. b/d</i>			90	

**Answer: B**

26. Which statement describes a non-current asset?

- A It can be turned into cash relatively easily.
- B It is acquired for use rather than re-sale.
- C It is a short-term asset.
- D Its value is frequently changing.

(J13/P1/Q17)

*Non-current fixed assets, have a long life, are used in the business, they are not for the purpose of resale.*

\_\_\_ **Answer: B**

27. Melissa made payments to the following suppliers.

Which suppliers is a service business?

	name of business	reason for payment
A	M1 Insurance Company	cost of motor insurance
B	Music & Move Company	purchase of car radio
C	PJ Garages Ltd	cost of motor vehicle
D	The Petrol Station	purchase of petrol

[J13ZP1/Q19]

Options B, C & D are related to purchase of goods or trading companies. Option A is a service providing company.

Answer: A

	financial statements for the year ended 31 December 2012		insurance account on 1 January 2013	
	accrual	prepayment	debit balance	credit balance
A	Z		Z	
B		Z		Z
C	z			Z
D		Z	Z	

[N13/P1/Q10]

Insurance paid in advance at the end of December 2012 is a prepayment for next year. It is shown as a debit balance b/d in the insurance account on 1 January 2013.

Answer: D

28. Ashraf sublets part of his premises for \$100 per month. At the end of the financial year the tenant had paid rent totalling \$ 1000.

Which journal entry would Ashraf make to record the transfer to the income statement?

		debit \$	credit \$
A	income statement	1000	
	rent		1000
B	income statement	1200	
	rent		1200
C	rent	1000	
	income statement		1000
D	rent	1200	
	income statement		1200

[N13/P1/Q9]

Rent received is an income account. Rent income is transferred on the debit side of the account to the income statement. The entry is, rent received Dr; income statement Cr.

Answer: D

29. In December 2012 Emma paid insurance, \$30, in respect of January 2013.

How would this be shown in the 2012 financial statements and in the insurance account in January 2013?

30. A trader takes goods from the business for personal use.

How is this recorded?

	account to be debited	account to be credited
A	drawings	inventory
B	drawings	purchases
C	inventory	drawings
D	purchases	drawings

[N13/P1/Q20]

Whenever owner withdraws goods for personal use, drawings increase and purchases decrease.

Answer: B

31. At the end of the financial year, a trader is owed commission.

How will this be treated in the trader's financial statements?

	income statement	balance sheet
A	increase expenses	increase assets
B	increase expenses	increase liabilities
C	increase income	increase assets
D	increase income	increase liabilities

[N13/P1/Q21]

Commission income increases profits in income statement. If it is receivable it will increase current assets in the balance sheet.

Answer: C

Topic 8 Financial Statements of Sole Trader & Adjustments to Ledger Accounts MCQ 8 & Page 7

32. Melissa transferred \$5000 from the bank deposit account to the bank current account on 1 May.  
On the same day she received a bank loan, \$10 000, which she paid into the bank current account.  
How will Melissa record these transactions?

	bank loan account		bank deposit account		bank current account	
	debit	credit	debit	credit	debit	credit
A	Z		Z			Z
B	z			Z		Z
C		Z	Z		Z	
D		Z		Z	Z	

[J14/P1/Q7]

Entry 1: Bank (current account) Dr. 5000  
Bank deposit account Cr. 5000  
Entry 2: Bank (current account) Dr. 10 000  
Bank loan Cr. 10 000  
Bank loan account increased Cr.  
Bank deposit account decreased Cr.  
Bank net effect \$5000 increase Dr.

Answer; D

33. Wilmer rents property to a tenant at a monthly rent of \$300.  
On 1 April 2013 the tenant owed one month's rent.  
During the year ended 31 March 2014 the tenant paid \$4800 for the period 1 March 2013 to 30 June 2014.  
How much rent will Wilmer transfer to the income statement for the year ended 31 March 2014?

- A \$3600
- B \$3900
- C \$4200
- D \$4500

[J14/P1/Q10]

Answer A

34. What is prepared to show the trading results for a financial year?

- A capital account
- B income statement
- C statement of financial position
- D trial balance

(J14/P1/Q15J)

Trading results are profit and loss of a company in a financial year and is calculated in the income statement.

Answer: B

35. Which group contains only trading businesses?

- A driving school, motor insurance agency, vehicle repair business
- B driving school, motor insurance agency, petrol station
- C motor parts shop, vehicle repair business, car dealership
- D motor parts shop, petrol station, car dealership

(J14/P1/Q18J)

Trading businesses deal in inventory i.e. buy and sell goods. They do not provide services. For example motor insurance agency provide services of insurance coverage. On the other hand vehicle repair business provide services of repairing motor vehicles.

Answer D

36. The owner of a business takes goods for his own use. How is this recorded?

	account to be debited	account to be credited
A	drawings	inventory
B	drawings	purchases
C	inventory	drawings
D	purchases	drawings

[J14/P1/Q19]

When owner withdraws, drawings increase they are Dr. Inventory decreases and purchases account is Cr.

Answer- B

37. On 1 January 2013 advertising of \$120 was prepaid . During the year \$1280 was paid for advertising . On 31 December 2013 an amount of \$960 was trans-ferred to the income statement.

What was the balance on the advertising account on 1 January 2014?

- A \$200 accrued
- B \$200 prepaid
- C \$440 accrued
- D \$440 prepaid

[N14/P1/Q13]

Advertising			
<b>2013</b>	\$		<b>2013 \$</b>
Jan 1 b/d	120	Dec 31 Income statement	960
Jan 1 Bank	1280	Dec 31 prepaid c/d 440 (bal. fig.)	
	<b>1400</b>		<b>1400</b>
***			
<b>2014</b>			
Jan 1 prepaid b/d 440			

Answer: D

38. Which item is an intangible non-current asset?

- A balance at bank
- B goodwill
- C premises
- D trade receivables

[N14/P1/Q19]

Bank and trade receivables are current assets. Pre-mises is Fixed asset. Goodwill is the repute of the business. It is recorded under intangible asset.

Answer: B

39. Which is a service business?

- A a business which sells computers and printers
- B a business which trains computer operators
- C a stationery supplier
- D a TV and video supplier

[N14/P1/Q21]

Trading business buys and sells products. Services business provides services like training repairs, insurance, etc.

Answer: B

40. Ali's financial year ends on 31 March. During the year ended 31 March 2015 Ali paid wages of \$42 500. On 31 March 2015 \$1400 wages were accrued.

Which journal entry records the transfer from the wages account to the income statement on 31 March 2015?

		debit \$	credit \$
A	income statement wages	42 500	42 500
B	income statement wages	43 900	43 900
C	wages income statement	42 500	42 500
D	wages income statement	43 900	43 900

[J15/P1/Q9]

Wages for the year

= paid + accrued = \$42 500 + \$1400 = \$43 900.

Income statement is always debited by expenses. Wages are always debited as they are expenses. In this entry, wages are credited because they are closed in the income statement at the end of the year.

Answer: B

41. At the end of the financial year, Ryan had accrued motor expenses of \$200.

How will this appear in Ryan's ledger and statement of financial position?

	motor expenses account in the ledger	statement of financial position
A	credit balance brought down	current asset
B	credit balance brought down	current liability
C	debit balance brought down	current asset
D	debit balance brought down	current liability

[J15/P1/Q10J]

Accrued expenses are payable so, they are recorded under current liability. Accrued expenses at the end of the year are brought down on the credit side of the account.

Answer: B

42. The totals of a trial balance failed to agree by \$680 and the difference was entered in a suspense account. It was then found that rent received had been correctly entered in the cash book but treated as rent paid in the ledger.

Which entry will correct this?

	account to be debited	\$	account to be credited	\$
A	rent received	340	suspense	680
	rent paid	340		
B	suspense	680	rent received	340
			rent paid	340
C	suspense	340	rent paid	680
	rent received	340		
D	suspense	340	rent paid	340

[15/P1/Q15]

To rectify the error, suspense account will be debited and rent expense account will be credited. Rent received will be credited to record the correct account and amount.

Answer: B

43. A trader provided the following information.

	\$
capital	250 000
current assets	26 000
non-current assets	300 000
current liabilities	15 000

What was the total of the non-current liabilities?

- A \$35 000                      B \$61 000  
C \$76 000                      D \$91 000

(N15/P1/Q2)

*Non-current liabilities*

= total assets - (capital + current liabilities)

= (\$26 000 + \$300 000) - (\$250 000 + \$15 000)

= \$61 000

Answer: B

44. Which item is represented by a debit balance on a ledger account?

- A accrued expense  
B liability  
C prepaid expenses  
D revenue

[N15/PVQ8J]

Prepaid expenses are current assets. They have a debit balance. Option A, B and D are items of liability and incomes thus they have a credit balance on the ledger account.

Answer: C

45. The following ledger account appeared in the books of a trader.

Rent account			
	\$		\$
Jan 1 balance b/d	600	Dec 31 income statement	7250
Dec 31 bank	6300		
balance c/d	350		
	7250		7250

What does the balance on 31 December represent?

- A rent payable outstanding  
B rent payable prepaid  
C rent receivable outstanding  
D rent receivable prepaid

[N15/P1/Q10]

End of the year Cr balance (c/d on debit side and b/d on credit side) in an expense account shows the amount payable at that date. Thus rent payable at the end of the year is \$350.

Answer: A

46. On 1 January 2014 a trader had prepaid general expenses. During the year further general expenses were paid. On 31 December 2014 general expenses were accrued.

How did the trader calculate the general expenses for the year ended 31 December 2014?

- A amount paid + opening prepayment + closing accrual  
B amount paid + opening prepayment - closing accrual  
C amount paid - opening prepayment + closing accrual  
D amount paid - opening prepayment - closing accrual

(N15/P1/Q11J)

Prepaid expenses in the beginning of the year are expenses paid in advance for the current year. Accrued expenses at the end of the year are expenses of the current year not yet paid. Thus both adjustments increase expenses.

Answer: A

47. Ram provided the following information on 31 December 2014.

	\$		\$
total assets	30400	capital	20000
		profit for the year	6 000
		drawings	(4 500)
			21 500
		long-term loan	8 900
	30400		30400

How much were the owner's capital and capital employed on 31 December 2014?

	owner's capital \$	capital employed \$
A	20000	21 500
B	20000	30400
C	21 500	20000
D	21 500	30400

[N15/P1/Q18]

$$\begin{aligned} \text{Owners capital} &= \text{total assets} - \text{total liabilities} \\ &= \$30\,400 - \$8\,900 = \$21\,500 \end{aligned}$$

Capital employed

$$\begin{aligned} &= \text{owners capital} + \text{long-term liabilities} \\ &= \$21\,500 + \$8\,900 = \$30\,400 \end{aligned}$$

Answer: D

48. On 1 January 2014 Bill started a gardening business. He

provided the following information for the year ended 31 December 2014.

receipts from customers	19 500
van expenses	280
garden machinery expenses	150
general expenses	6 000
cash drawings	10 000

On 31 December 2014 customers owed Bill \$1720. What was Bill's profit for the year?

- A \$3070                      B \$4790  
C \$13 070                    D \$14 790

[N15/P1/Q19]

Receipts from customers (19500 + 1 720)	\$21 220	
Less: van expenses	\$280	
garden machinery expenses	\$150	
general expenses	\$6000	\$6430
		<hr/>
Profit		\$14 790

Answer: b

49. Alice's financial year ends on 31 December.

The balances in her books on 1 January included the following.

	\$
commission received	250 dr
rent receivable	500 cr

What do these balances represent?

	commission received	rent receivable
A	income outstanding	income outstanding
B	income outstanding	income prepaid
C	income prepaid	income outstanding
D	income prepaid	income prepaid

[J16/P1/Q9]

\$250 dr Commission received

= income receivable of the last year.

\$500 cr Rent receivable

= income received in advance for the current year.

Answer: B

50. A trader provided the following information.

non-current assets	137 000
current assets	44 500
current liabilities	18 000
non-current liabilities	15 500

What was the capital employed?

- A \$110 500                      B \$148 000  
C \$163 500                      D \$179 000

[J16/P1/Q13]

Capital employed = non-current assets + current assets - current liabilities

$$= 137\,000 + 44\,500 - 18\,000 = \$163\,500$$

Answer: C

Topic 8 Financial Statements of Sole Trader & Adjustments to ledger Accounts

51. How is working capital calculated?
- A current assets - current liabilities
  - B current assets - total liabilities
  - C non-current assets - current liabilities
  - D non-current assets - total liabilities

[J16/P1/Q14]

*Working capital or net current assets = current assets - current liabilities.*

**Answer: A**

- What did he record?
- A capital introduced
  - B capital withdrawn
  - C loss for the year
  - D profit for the year

[J17/P1/Q2]

*Capital account always increases on the credit side. Profit is always credited. Debit entry in the income statement is the transfer of profit to the credit side of capital account.*

**Answer: D**

52. Leroy sublets part of his premises to Boris. How can Leroy calculate the rent receivable for the year?
- A amount received - opening accrual - closing prepayment
  - B amount received - opening accrual + closing prepayment
  - C amount received + opening accrual - closing prepayment
  - D amount received + opening accrual + closing prepayment

[J16/P1/Q15]

*Rent receivable is an income account. Opening accruals are deducted because they are incomes of the last year. Closing prepayments are deducted because it is the income of the next year.*

**Answer: A**

55. Maria started a business on 1 May 2016. The monthly rates on her business premises are \$100. During the year ended 30 April 2017 she paid rates of \$1300. Which journal entry will Maria make on 30 April 2017 to transfer the rates to the income statement?

		debit \$	credit \$
A	income statement rates	1200	1200
B	income statement rates	1300	1300
C	rates	1200	1200
D	rates	1300	1300

[J17/P1/Q10]

*Rates transferred to the income statement are for 12 months or 1 year. \$1200 is the rate for the year. Income statement is debited with rate expense. When rates are transferred to the income statement at the end of the year, it is credited.*

**Answer: A**

53. Hans sublets part of his premises to Elmer. On 31 December 2015 Elmer had paid two months' rent in advance. Where would this appear in Hans' statement of financial position on 31 December 2015?
- A other payables
  - B other receivables
  - C trade payables
  - D trade receivables

[N16/P1/Q17]

*Hans has received rent income in advance. This is a liability recorded under other payables.*

**Answer: A**

56. Liam rents premises from Gavin. In March Liam paid the rent in advance for April and May. How would the balance on 1 April appear in their ledgers?

	Liam's ledger rent payable account	Gavin's ledger rent receivable account
A	as a credit balance	as a credit balance
B	as a credit balance	as a debit balance
C	as a debit balance	as a credit balance
D	as a debit balance	as a debit balance

[U17/P1/Q11]

54. A trader made the following entries in his accounting records.

debit	credit
income statement	capital account

For Liam, it is prepaid rent for 3 months. Prepaid expense is debited in rent payable account.

For Gavin, it is rent income received in advance. Income received in advance is credited in rent receivable account.

Answer: C

Rent expense paid for the owner is a part of drawings. When it is included in business expenses it understates the Net profit. Net profit understated decrease capital on one hand, on the other hand drawings understated increases capital. Overall this omission has no effect on capital employed.

Answer: C

57. A business has two departments, X and Y. The total revenue was \$120 000 of which 60% related to department X. The total cost of sales was \$90 000 of which 50% related to department X.

What was the gross profit of department Y?

- A \$3000
- B \$15 000
- C \$18 000
- D \$27 000

[J17/P1/Q17]

Revenue of Y =  $120\,000 \times 40\%$       48 000  
 Less cost of sales of Y =  $90\,000 \times 50\%$       45 000  
 Gross profit of Y      3 000

Answer:

58. On 1 April a business had a working capital of \$6000. On 2 April \$1150 was received from credit customers in settlement of debts of \$1200. On the same day damaged inventory costing \$200 was written off.

What was the working capital at close of business on 2 April?

- A \$4600
- B \$5750
- C \$6950
- D \$7150

[J17/P1/Q19]

Working capital =  $6000 - 1150 - 1200 + 200$   
 = 5750

Answer: B

59. Pooja owns a hair salon. She lives in a flat above the salon. The business pays rent for the whole building. No adjustment has been made in the financial statements for the rent for the flat.

What is the effect of omitting this adjustment?

	profit for the year	capital employed
A	overstated	no effect
B	overstated	understated
C	understated	no effect
D	understated	overstated

[J17/P1/Q20]

60. Abdul does not keep a full set of books but was able to provide the following information.

	\$
opening inventory	5 000
closing inventory	7 000
purchases	58 000

Abdul applies a mark-up of 20% to obtain the selling price of goods.

What were Abdul's sales for the year?

- A \$67 200
- B \$70 000
- C \$72 000
- D \$75 000

[J17/P1/Q25]

Cost of sales =  $5\,000 + 58\,000 - 7\,000 = 56\,000$

Gross profit =  $56\,000 \times 20\% = 11\,200$

Sales =  $56\,000 + 11\,200 = 67\,200$

Answer: A

61. What increases owner's capital?

- A bank loan extended from five to ten years
- B purchase of inventory on credit
- C purchase of machinery by cheque
- D transfer of vehicle to business from private use

[N17/P1/Q2]

In option D the entry would be

Motor Vehicle (Dr)

Capital (Cr)

Any asset bought into the business by the owner from private sources increases his capital.

Answer: D

62. Gary rents his business premises. His financial year ends on 30 September. On 1 October 2016 rent prepaid amounted to \$3000. During the year ended 30 September 2017 a total of \$7000 rent was paid. On 30 September 2017 rent outstanding amounted to \$2000.

Which journal entry shows the transfer of the rent to the income statement on 30 September 2017?

		debit \$	credit \$
<b>A</b>	income statement rent	8 000	8 000
<b>B</b>	income statement rent	12 000	12 000
<b>C</b>	rent income statement	8 000	8 000
<b>D</b>	rent income statement	12 000	12 000

[N17/P1/Q9]

<i>Rent</i>			
2016/17		2016/17	
Oct 1 prepaid rent	3000	income statement	12000
bank	7000		
accrued c/d	2000		
	<u>12000</u>		<u>12000</u>

Rent expenses for the year is transferred to the Debit side of the income statement.

Answer: B

63. Anita's business has two departments, X and Y. She provided the following information for department X.

	\$
expenses	28000
Profit for the year	9000

Total revenue for the year was \$180 000 of which one-third related to department X.

What was the gross profit of department X?

- A \$19 000
- B \$32 000
- C \$37 000
- D \$51 000

[N17/P1/Q17]

$$\begin{aligned} \text{Gross profit of department X} &= \text{profit} + \text{expenses} \\ &= 28\,000 + 9\,000 \\ &= \$37\,000 \end{aligned}$$

Answer: C

64. How is owner's equity calculated?

- A non-current assets + current assets - current liabilities - non-current liabilities
- B non-current assets + current assets + current liabilities + non-current liabilities
- C non-current assets - current assets - current liabilities - non-current liabilities
- D non-current assets - current assets + current liabilities + non-current liabilities «

[N17/P1/Q18]

Owners equity is the capital of the owner.

Capital — Total assets - Total liabilities

$$\begin{aligned} &= (\text{non-current assets} + \text{current assets}) \\ &\quad - (\text{current liabilities} + \text{non-current liabilities}) \end{aligned}$$

Answer: A

65. David provided the following information.

	\$	
capital employed	435000	
non-current assets	200000	
current liabilities	124000	..b

What was the total of his current assets?

- A \$235 000
- B \$359 000
- C \$559 000
- D \$759 000

[N17/P1/Q19]

Current assets

$$\begin{aligned} &= \text{capital employed} + \text{current liabilities} \\ &\quad - \text{non-current assets} \\ &= 435\,000 + 124\,000 - 200\,000 \\ &= \$359\,000 \end{aligned}$$

Answer: B

66. Gurpreet is a broker and receives a commission from an insurance company when a client purchases a car insurance policy.

The following information is available for the year ended 31 March 2017.

	\$
commission received from insurance company	15000
commission on policies arranged in March 2017 not yet received	1200
office rent	2500
depreciation of non-current assets	900
heating and lighting	520

What was the profit for the year?

**Troubled**

- A \$10 780                      B \$11080
- C \$11 980                      D \$12 280

[N17ZP1/Q20]

Formula for capital employed when there are no non-current liabilities.

$$= \text{non-current assets} + \text{working capital (Current assets - Current liabilities)}$$

Answer: D

Profit = commission income - expenses

$$= (15\ 000 + 1200) - (2500 + 900 + 520)$$

$$= 16200 - 3920$$

$$= \$12\ 280$$

Answer: D

70. Alan's inventory consisted of the following.

quantity	goods	cost per unit	selling price per unit
		\$	\$
100	large t-shirts	5	7
20	small t-shirts	5	3

What was the value of the inventory?

- A \$560                              B \$600
- C \$760                              D \$800

[J18/P1/Q19]

Value of inventory

Large t-shirt = Cost 100 x \$5	\$500
Small t-shirt = Selling price 20 X \$3	\$60
	<u>\$560</u>

Concept of lower of cost or Net realisable value is applied.

Answer: A

68. Dennis runs a business with two departments, one selling carpets and one selling furniture.

Total sales were \$210 000 of which 60% related to the carpet department.

The total gross profit was \$54 600 of which 60% related to the furniture department.

What was the cost of sales of the carpet department?

- A \$51 240                      B \$62 160
- C \$93 240                      D \$104 160

[J18/P1/Q16]

*Carpet department*

Sales = \$210000 x 60% = \$126000

Gross profit = \$54600 X 40% = \$21840

Cost of sales = sales - Gross profit

= \$126000 - \$21840 = \$104160

Answer: D

71. Seema's financial year ends on 30 September. She rents premises at a monthly rent of \$2000.

During the year ended 30 September 2018 she paid \$26 000 rent.

Which journal entry will Seema make on 30 September 2018 to transfer the rent to the income statement?

		debit	credit
		\$	\$
A	income statement	24 000	
	rent		24 000
B	income statement	26 000	
	rent		26 000
C	rent	24 000	
	income statement		24 000
D	rent	26 000	
	income statement		26 000

[N18/P1/Q9]

69. A business has no non-current liabilities.

What is added to the non-current assets in order to calculate the capital employed?

- A current assets                      B current liabilities
- C owner's capital                      D working capital

[J18/P1/Q18]

Rent for 12 months = \$2000 X 12 = \$24000

Current year's rent is recorded in the income statement. The excess paid is prepaid which is recorded under Current assets in the balance sheet.

Answer: A

Total wages = 42 500 + 1400 = 43 900

Wages are expenses they are Dr. Wages will be transferred to income statement on the Cr Side. Entry is Income statement Dr.

Wages Cr.

Answer: B

72. Michael's financial year ends on 31 August.

On 30 August 2018 he purchased a motor vehicle using a bank loan which is repayable on 30 August 2020.

On 31 August 2018 Michael had a bank overdraft. In which sections of Michael's statement of financial position on 31 August 2018 did these items appear?

	motor vehicle	bank loan	bank overdraft
A	current asset	current liability	non-current liability
B	current asset	non-current liability	current liability
C	non-current asset	current liability	non-current liability
D	non-current asset	non-current liability	current liability

[N18/P1/Q16]

Motor vehicle is a non-current fixed asset.

Bank loan is a long term or non-current liability.

Bank overdraft is a short term or current liability.

Answer: D

73. Ali's financial year ends on 31 March. During the year ended 31 March 2019/ Ali paid wages of \$42 500. On 31 March 2019, \$1400 wages were accrued. Which journal entry records the transfer from the wages account to the income statement on 31 March 2019?

		debit \$	credit \$
A	income statement wages	42 500	42 500
B	income statement wages	43 900	43 900
C	wages income statement	42 500	42 500
D	wages income statement	43 900	43 900

IJ19/P1/Q101

74. Which items are used to calculate cost of goods sold?

- A carriage on purchases, carriage on sales, net purchases, opening inventory
- B carriage on purchases, closing inventory, net purchases, opening inventory
- C carriage on sales, closing inventory, net purchases, opening inventory
- D carriage on sales, closing inventory, net purchases, sales returns

[J19/P1/Q17]

Carriage on sales is an operating expense. Sales returns reduces revenue. Items of Option B are part of cost of goods sold.

Answer: B

75. Fatima opened a department store on 1 January 2018. She provided the following information on 31

December 2018.	department X \$	department Y \$
revenue	100000	60000
sales returns	14 000	8000
purchases	80000	40000
carriage outwards	-	1 000
carriage inwards	5000	-

At 31 December 2018 inventory was valued at \$16 000 of which 75% related to department X.

What was the gross profit of department Y?

- A \$15 000
- B \$16 000
- C \$23 000
- D \$24 000

(J19/P1/Q18J)

$$\text{Inventory closing department X} = 16\ 000 \times 75\% = 12\ 000$$

$$\text{Inventory closing department Y} = 16\ 000 \times 25\% = 4\ 000$$

Gross profit department Y

= Net Sales - Cost of goods sold

$$= (60\ 000 - 8000) - (40\ 000 - 4000)$$

$$= 52\ 000 - 36\ 000 = 16\ 000$$

Answer: B

76. Muriel had a bank overdraft of \$3820 and was owed \$2100 by Ada.  
Ada paid promptly by cheque and received a 5% cash discount.

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What was the effect on Muriel's statement of financial position when Ada paid her debt?

	current assets	\$	current liabilities	\$	capital	\$
A	decrease	1995	decrease	2100	decrease	105
B	decrease	1995	decrease	2100	increase	105
C	decrease	2100	decrease	1995	decrease	105
D	decrease	2100	decrease	1995	increase	105

[J19/P1/Q19]

Ada will pay = 2100 X 5% = 105

$$2100 - 105 = 1995$$

Trade receivables will decrease by \$2100.

Discount allowed on expense will decrease capital by \$105-

Decrease in overdraft = 1995 ie. receipts from trade receivables

Balance on rent receivable account

= Income statement \$1080 - received \$900

= receivable \$180

Answer: D

Answer: C

79. At the end of Leroy's financial year it was decided that the balance on the telephone expenses account, \$340, should be split 90% for business use and 10% for personal use.

Which journal entry records the closing of the telephone expenses account at the end of the financial year?

		debit	credit
		\$	\$
A	drawings income statement telephone expenses	34 306	340
B	drawings telephone expenses income statement	34 306	340
C	income statement drawings telephone expenses	340	34 306
D	telephone expenses drawings income statement	340	34 306

[N19/P1/Q91]

78. A flat above a trader's shop was rented out at \$90 a month from 1 July 2018. At 30 June 2019 the rent receivable account showed entries for rent received from the tenant totalling \$900.

What was the balance of the rent receivable account on 1 July 2019?

Drawings are recorded in the statement of financial position. It is not closed in the income statement. Telephone expenses are debit. They will be credited by the transfer to income statement. Only business telephone charges of (\$306 i.e. 90% of \$340) will be transferred.

Answer: A

A credit \$90

B credit \$180

C debit \$90

D debit \$180

[N19/P1/Q12]

80. The following balances were extracted from Sabeena's books on 31 December.

	\$
non-current assets	65 000
current assets	13 000
current liabilities	9000
non-current liabilities	7 000

What was the capital employed?

- A \$62 000
- B \$68 000
- C \$69 000
- D \$76 000 3600

[N19/PVQ22]

		<u>Rental income</u>	
		\$	\$
<i>Income statement</i>	3600	<i>Prepaid rent</i>	900
		<i>Income receivable</i>	600
		<i>Bank</i>	2100
3600		3600	

Answer: A

*Capital employed = non-current assets + current assets - current liabilities*

$= \$65\,000 + \$13\,000 - \$9\,000$

$= \$69\,000$

Answer: C

81. Alice's financial year ends on 31 December. The balances on her books on 1 January 2020 included the following.

	\$
commission receivable	250 debit
rent receivable	500 credit

What do these balances represent?

	commission receivable	rent receivable
A	income outstanding	income outstanding
B	income outstanding	income prepaid
C	income prepaid	income outstanding
D	income prepaid	income prepaid

[J20/P1/Q18]

*Debit balance in commission receivable account means income is receivable or outstanding.*

*Credit balance in rent receivable account means rent has been received in advance or income is prepaid.*

Answer: B

82. Annual rental income due from Kumar, a tenant, is \$3600. At the start of the year Kumar had prepaid rent of \$900. At the end of the year he owed two months' rent. How much rent was received from Kumar during the year?

- A \$2100
- B \$3300
- C \$3900
- D \$5100

[J20/P1/Q19]

83. Beena maintains a provision for doubtful debts of 3% of the trade receivables at the end of each financial year.

On 1 September 2019 the provision for doubtful debts was \$900.

On 31 August 2020 the trade receivables amounted to \$42 800.

Which journal entry did Beena make on 31 August 2020?

		debit \$	credit \$
K	income statement	384	
	provision for doubtful debts		384
B	income statement	1284	
	provision for doubtful debts		1284
C	provision for doubtful debts	384	
	income statement		384
D	provision for doubtful debts	1284	
	income statement		1284

[N20/P1/Q18]

*Provision for doubtful debt*

*b/d*

\$900

*c/d (\$42 800 x 3%)*

\$1284

*Increase*

\$384

Answer: A

84. Nirmal sells two products, product G and product H.

The following information is available about his inventory at the end of the financial year.

product	number of units	cost price per unit	net realisable value per unit
G	1000	\$2.00	\$2.50
H	800	\$1.50	\$1.20

It was found that 100 units of product G were damaged and were unsaleable.

What was the total value of Nirmal's inventory?

- A \$2760                      B \$3000  
C \$3260                      D \$3460

[N20/P1/Q19]

*Product G value = 1000 - 100 = 900 X \$2 = \$1800*

*Product H value = 800 X \$1.2 = \$960*

*Total value of Nirmal's inventory = \$1800 + \$960  
= \$2760*

\_\_\_\_\_ *Answer: A*

85. What is not a service business?

- A hairdressing salon  
B accountant's practice  
C supermarket  
D computer repair shop

[N20/P1/Q20]

*Option A, B and D are service businesses. Supermarket is a trading business which buys and sells consumer goods.*

*Answer: C*

86. The financial year of Peter ends on 30 September. On 1 August 2020 Peter received rent \$1000. This covered the period from 1 July to 30 November 2020.

Which entry will be made in Peter's statement of financial position on 30 September 2020?

- A current asset \$400  
B current asset \$500  
C current liability \$400  
D current liability \$500

[N20/P1/Q21]

# Single Entry & Incomplete Records

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 9

## Single Entry & Incomplete Records

### Multiple Choice Questions

1. Barry's sales for his first year of trading were \$55 000. His gross profit margin was 20 %. The closing inventory (stock) was \$3200.

What were the purchases for the year?

- A \$41 250                      B \$44 000  
C \$44 450                      D \$47 200

(J10/P1/Q24)

$$\text{Gross profit} = \text{Sales} \times \text{Margin}$$

$$= 55000 \times 20\% = 11000$$

$$\text{Gross profit} = \text{Sales} - (\text{Purchases} - \text{Closing stock})$$

$$11000 = 55000 - (x - 3200)$$

$$11000 = 55000 - x + 3200$$

$$x = \$47200$$

Answer: D

2. Beth provided the following information.

	1 January	31 December
Net assets	\$28 000	\$24 000

Her drawings during the year amounted to \$3000. What was Beth's profit for the year (net profit) or loss for the year (net loss)?

- A \$1000 loss                      B \$1000 profit  
C \$7000 loss                      D \$7000 profit

(N10/P1/Q21)

$$\text{Net profit / loss} = \text{closing capital} - \text{opening capital} + \text{drawings}$$

$$= 24000 - 28000 + 3000$$

$$\text{Net loss} = (1000)$$

Answer: A

3. A statement of affairs may be prepared when a trader has not maintained a complete set of accounting records.

b^uonudiib ewwfo eTuKfch A  
Which is similar to a Statement of affairs?

- A balance sheet  
B bank reconciliation statement  
C income statement (profit and loss account)  
D trial balance

[N10/P1/Q26]

Statement of affairs is a vertical form of a balance sheet.

Answer: A

4. Tarrant produced a statement of affairs at 31 December 2009 and at 31 December 2010.

During 2010 his long term loan increased by \$3000 and his net current assets decreased by \$1000. Depreciation for the year was \$500.

By how much did the total of Tarrant's capital decrease?

- A \$2500                              B \$3500  
C \$4000                              D \$4500

[J11/P1/Q24]

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$= -500 - 1000 - (+3000) = (4500) \text{ decrease}$$

Answer D

5. A trader does not keep a full set of accounting records.

How is the profit for the year calculated?

- A closing capital less opening capital less capital introduced plus drawings  
B closing capital less opening capital less drawings C closing capital less opening capital plus capital introduced  
D closing capital less opening capital plus capital introduced less drawings

[J12/P1/Q26]

Topic 9 Single T/Entry & Incomplete Records

Profit

$$= [\text{closing capital} - \text{opening capital} - \text{capital introduced} + \text{drawings}]$$

Answer: A

6. Karnail does not keep a full set of accounting records. Which is not used to calculate his total credit sales?
- A debtor's cheque dishonoured
  - B discount allowed
  - C provision for doubtful debts
  - D returns inwards

[J13/P1/Q23]

Credit sales are related to trade receivables or credit customers. Option C is an estimate not an actual amount so it does effect trade receivables or calculation of credit sales.

Answer: C

7. A trader provided the following information.

	₹
opening inventory	10 000
closing inventory	14 000
sales for year	60 000

Goods are sold at a mark up of 25%. What were the purchases?

- A \$41 000
- B \$44 000
- C \$49 000
- D \$52 000

[N13/P1/Q23]

Markup 25% convert to margin = 20%

Gross profit = sales x margin

$$= \$60\,000 \times 20\% = \$12\,000$$

Cost of sales = sales - gross profit

$$\text{Cost of sales} = 60\,000 - 12\,000 = 48\,000$$

Purchases = cost of sales + closing stock - opening stock

$$= 48\,000 + 14\,000 - 10\,000$$

$$= \$52\,000$$

Answer: D

MCQ 9 & Page 2

8. Sara does not keep a full set of accounting records. Which information is needed to calculate her total net purchases?
- A cash discount allowed
  - B goods returned by customers
  - C goods returned to suppliers
  - D trade discount allowed

[J14/P1/Q23]

$$\text{Net purchases} = \text{purchases} + \text{carriage inwards} - \text{return outwards (goods returned to suppliers)}$$

Answer: C

9. On 1 January 2014 Kim's net assets totalled \$70000. On 31 December 2014 they totalled \$55000. During the year Kim withdrew \$4000 for personal use. What was the profit or loss for the year?

- A \$11 000 loss
- B \$11 000 profit
- C \$19 000 loss
- D \$19 000 profit

[J15/P1/Q17]

Profit / loss

$$= \text{closing capital} - \text{opening capital} + \text{drawings} = \$55\,000 - \$70\,000 + \$4\,000 = (\$11\,000) \text{ loss.}$$

Answer: A

10. What is similar to a statement of affairs?
- A bank reconciliation statement
  - B income statement
  - C statement of financial position
  - D trial balance

[J15/P1/Q21]

Statement of affairs is a vertical presentation of the accounting equation. It is similar to a balance sheet or statement of financial position.

Answer: C

11. Omar started a business but did not maintain any accounting records.

Which item(s) are included in a calculation to find credit purchases for his first year of trading?

- 1 amount owing to trade payables at year end
- 2 amount owing by trade receivables at year end
- 3 cash discount received

- A 1 and 3                      B 1 only  
C 2 and 3                      D 2 only

[J15/P1/Q22]

Trade receivable balance is used to calculate sales. Trade payable control account is used to calculate purchases.

What was the profit for the year?

- A \$10 000                      B \$14 000  
C \$20 000                      D \$26 000

[J16/P1/Q20]

Net profit

$$= \text{closing capital} - \text{opening capital} - \text{additional capital} + \text{drawings}$$

$$= \$50\,000 - \$30\,000 - \$18\,000 + \$12\,000 = \$14\,000$$

Answer: B

12. A trader does not keep a full set of accounting records.

How is the profit for the year calculated?

- A closing capital - opening capital - capital introduced + drawings  
B closing capital - opening capital - drawings C closing capital - opening capital + capital introduced  
D closing capital - opening capital + capital introduced - drawings

(N15/P1/Q24)

15. A trader calculated her draft profit for the year at \$28 400. She later discovered the following errors.

- A prepayment of rent payable was understated by \$1000.  
Closing inventory was understated by \$1500.

What was the correct profit for the year?

- A \$25 900                      B \$27 900  
C \$28 900                      D \$30 900

[J17/P1/Q16]

The formula for net profit calculation is:

Net profit for the year = closing capital - opening capital - additional investment (capital introduced) + drawings.

Answer: A

$$\text{Correct profit} = 28\,400 + 1000 + 1500 = \$30\,900$$

Answer: D

13. During 2014, Roger's credit customers paid him \$6200. They owed \$1800 on 1 January 2014 and \$4300 on 31 December 2014. Cash sales for 2014 amounted to \$26 800.

What were the total sales for the year?

- A \$26 900                      B \$29 300  
C \$31 100                      D \$35 500

[N15/P1/Q25]

16. Alex purchased goods for resale costing \$1000 to which she would normally apply a 25% mark-up. These goods remained unsold at the financial year end as they were found to be damaged. Alex estimated that they could be sold for \$600.

At which value should these goods be recorded in the year end financial statements?

- A \$400                              B \$600  
C \$750                              D \$1250

(J17ZP1/Q18)

$$\text{Credit sales} = \$6\,200 + \$4\,300 - \$1\,800 = \$8\,700$$

$$\text{Total sales} = \text{credit sales} + \text{cash sales}$$

$$= \$8\,700 + \$26\,800 = \$35\,500$$

Answer: D

Cost vs net realisable value is used to value inventory'. Cost is \$1000 and NRV — selling price 600. Inventory Will be recorded at \$600 as NRV is less than the cost.

Answer B

14. A trader supplied the following information.

	\$
capital at start of the year	30 000
capital at end of the year	50 000
drawings during the year	12 000
additional capital introduced during the year	18 000

17. How can profit for the year be calculated?

- A closing capital + opening capital + drawings  
B closing capital + opening capital - drawings  
C closing capital - opening capital + drawings  
D closing capital - opening capital - drawings

(J17/P1/Q24J)

$Profit = closing\ capital - opening\ capital - additional\ investment - drawings.$

Answer: C

18. Karim did not keep proper accounting records,

but was able to provide the following information.

	\$
capital at 1 January	58000
drawings during the year	8 500
capital introduced in the year	15 000
capital at 31 December	82 500

What was the profit for the year?

- A \$16 000
- B \$18 000
- C \$33 000
- D \$48 000

[N17ZP1/Q23]

$Profit = closing\ capital - opening\ capital - additional\ capital - drawings$

$$Profit = 82\ 500 - 58\ 000 - 15\ 000 + 8500 = \$18\ 000$$

Answer: B

19. A trader has not kept proper accounting records for his business.

What will he use when calculating trade payables at the end of the year?

- A bad debt written off
- B discount allowed
- C returns inwards
- D returns outwards

[N17/P1/Q24]

Trader will need to prepare total trade payables control account. For this purpose, he will need to record return outwards. Option A, B and C are used to prepare total trade receivable account.

Answer: D

20. A trader does not keep a full set of accounting records.

How can he calculate credit sales?

- A cheques received from customers + owed by customers at start of year + owed by customers at end of year
- B cheques received from customers + owed by customers at start of year - owed by customers at end of year

C cheques received from customers - owed by customers at start of year + owed by customers at end of year

D cheques received from customers - owed by customers at start of year - owed by customers at end of year

[J18/P1/Q23]

In order to calculate credit sales the following formula is used.

$Cheques\ received\ from\ customers - owing\ at\ year\ end - owing\ at\ start\ of\ the\ year.$

Answer: C

21. A trader does not keep full accounting records.

How can credit purchases for his first year of trading be calculated?

- A cheques paid + discounts received + amount owing to suppliers at year end
- B cheques paid + discounts received - amount owing to suppliers at year end
- C cheques paid - discounts received - amount owing to suppliers at year end
- D cheques paid - discounts received - amount owing to suppliers at year end

[N18/P1/Q19]

In the first year of trading there is no opening balance of trade payables, so the figures are added on the credit side to get purchases.

i.e. payment to suppliers - discount received - amounts owing to trade payables at year end.

Answer: A

# Clubs and Societies

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 10

## Clubs and Societies

### Multiple Choice Questions

1. A sports club had the following assets and liabilities.

	\$
trade payables (creditors) for refreshments	750
bank	1870 debit
subscriptions due from members	60
subscriptions prepaid by members	40
equipment	9500
loan to a member	500

How much was the accumulated fund?

- A \$7400
- B \$10 140
- C \$11 100
- D \$11 140

[J10/P1/Q21]

*Equipment Dr, Bank Cr. Receipts and payment account and fixed assets in the balance sheet are effected.*

*Answer: C*

3. Which appears in a sports club's receipts and payments account?

- A accrued expenses
- B accumulated fund
- C bank balance
- D subscriptions in arrears

[N10/P1/Q24]

*Receipt and payment account calculates the bank balance.*

*Answer C*

*Accumulated Fund = Assets - Liabilities*

$$\begin{aligned}
 &= (1870 + 60 + 9500 + 500) \\
 &\quad - (750 + 40) \\
 &= \$11140
 \end{aligned}$$

2. A sports club was formed on 1 January 2009. During the year ended 31 December 2009 the club purchased equipment costing \$5000, paying by cheque.

In which of the club's final accounts did this appear?

	receipts and payments account	income and expenditure account	balance sheet
A			Z
B	Z	Z	
C	Z		Z
D		Z	Z

[J10/P1/Q22]

4. On 1 January 2009 a club had received prepaid subscriptions of \$560. During the year ended 31 December 2009 the club received subscriptions of \$8480. On 31 December 2009 subscriptions owing to the club amounted to \$400.

Which amount should be shown for subscriptions in the income and expenditure account for 2009?

- A \$8080
- B \$8480
- C \$8880
- D \$9440

[N10/P1/Q25]

*Subscription account*

2009		\$	2009		\$
Dec 31	Income statement	9440	Jan 1	b/d	50
			Dec 31	Bank	8480
			Dec 31	c/d	400
		9440			9440

*Answer: D*

5. The Sandhill Golf Club has 150 members who each pay an annual subscription of \$40.

On 1 January 2010 subscriptions unpaid for 2009 amounted to \$480. On 31 December 2010, subscriptions paid in advance for 2011 amounted to \$280.

What was the total of the subscriptions received from members in 2010?

- A \$5240
- B \$5800
- C \$6200
- D \$6760

IJ11/P1/Q22]

Subscription Account

S		5			
Jan 1	receivable	480	Dec 31	Cash/bank	6760
Dec 31	income & expenditure	6000			
Dec 31	advance c/d	280			
		6760			6760

Answer: D

6. A football club provided the following information at the end of its financial year:

- rent of premises paid in advance
- outstanding subscriptions from members

Where will these items appear in the club's balance sheet?

	rent paid in advance	outstanding subscriptions
A	current asset	current asset
B	current asset	current liability
C	current liability	current asset
D	current liability	current liability

IJ11/P1/Q23J

Both items are current assets. One is prepaid expense and other is receivable income.

Answer: A

On 1 August 2011 the opening balance of a receipts and payments account was \$10000.

The following information is available for the month of August.

	\$
cafe receipts	1400
depreciation	500
subscriptions	3100
wages	1800

What was the balance of the receipts and payments account on 31 August 2011?

- A \$6000
- B \$6500
- C \$12200
- D \$12700

[N11/P1/Q22]

Receipts and Payment Account

2011	\$	2011	\$		
Aug 1	balance b/d	10000	Aug 31	wages	1800
Aug 31	cafe receipts	1400	Aug 31	balance c/d	12700
Aug 31	Subscription	3100			
		14500			14500
Sep 1	balance b/d	12700			

Answer: D

8. Which would appear in a receipts and payments account?

- A depreciation
- B donations
- C inventory
- D subscriptions owing by members

IJ12/P1/Q25]

Receipts and payment account is actually a bank account. Options A, C and D are all non cash items i.e. they are not recorded in this account.

Answer : B

9. The financial year of a sports club ends on 31 December. Members' subscriptions received during 2011 were as follows.

	\$
for the year ended 31 December 2010	50
for the year ended 31 December 2011	2500
for the year ending 31 December 2012	25

How much will be shown for subscriptions in the receipts and payments account for the year ended 31 December 2011?

- A \$2475
- B \$2525
- C \$2550
- D \$2575

[N12/P1/Q25]

All the cash received during the year is recorded in the receipt and payment account as subscription received.

Answer: D

10. A social club was formed on 1 January 2012. During the year ended 31 December 2012 members paid subscriptions totalling \$1800. Subscriptions outstanding at 31 December 2012 amounted to \$300. No subscriptions were paid in advance. How much was entered for subscriptions in the receipts and payments account and the income and expenditure account for the year ended 31 December 2012?

u	receipts and payments account \$	income and expenditure account \$
A	1500	1800
B	1800	1800
C	1800	2100
D	2100	2100

[J13/P1/Q22]

Subscriptions Account		
2012 \$	2012	- \$
Dec 31 Income & expenditure a/c <u>2100</u>	Dec 31 Bank	1800
2100	Dec 31 Accrued	<u>300</u>
		2100

Receipts and payments is a bank account.

Answer: C

11. At the end of a club's financial year, some members' subscriptions were unpaid. Where would these unpaid subscriptions appear in the club's financial statements?

	receipts and payments account	income and expenditure account	balance
	/	/	Z
B	/	z	Z
C	7	z	
D	Z		z

[N13/P1/Q22]

Subscription owing at year end are shown as an addition to subscriptions in income and expenditure account. In the balance sheet it is shown under current assets.

Answer: A

12. The members of a sports club pay an annual subscription of \$60. At the beginning of the year subscriptions were accrued from 15 members. During the year subscriptions received amounted to \$7500. This included subscriptions of \$240 for the following year. What will be entered in the income and expenditure account for the year?

- A \$6360                      B \$6840  
C \$8160                      D \$8640

[J14/P1/Q21]

Subscriptions Account			
	\$	Bank	\$
Accrued b/d (15x60)	900		<u>7500</u>
prepaid c/d	240		
income & expenditure*	<u>6360</u>		
	7500		7500

\* balancing fig.

Answer: A

13. On 1 January a sports club's subscriptions account had a debit balance of \$500. During the year subscriptions received amounted to \$6000. Subscriptions due but unpaid on 31 December were \$800. Which amount will be shown for subscriptions in the income and expenditure account for the year ended 31 December?

- A \$5700                      D \$0300  
C \$6500                      D \$6800

[N14/P1/Q23]

Subscription Account			
	\$	Jan 1 Bank	\$
Jan 1 b/d	500	Jan 1 Bank	6 000
Dec 31 I&Eacc	<u>6300</u>	Dec 31 Accrued c/d	<u>800</u>
	6800		6 800
Jan 1 b/d	800		

14. Hill Tennis Club received \$32 000 in subscriptions during the year. At the year end subscriptions of \$350 were owed by members and \$450 had been paid in advance for the next year. How much was transferred to the income and expenditure account for subscriptions?

- A \$31 200                      B \$31 900  
C \$32 100                      D \$32 800

[N15/P1/Q22]

*Subscription for the year = Receipts of subscription + receivable at year end - advance paid for the next year*  
 $= \$32\,000 + \$350 - \$450$   
 $= \$31\,900$  will be transferred to income and expenditure account

Answer: B

15. A sports club was formed on 1 January 2014. During the year ended 31 December 2014 the club purchased equipment costing \$5000, paying by cheque. In which of the club's financial statements did this appear?

	receipts and payments account	income and expenditure account	statement of financial position
A			Z
B	Z	Z	
C	Z		Z
D		Z	Z

[N15/P1/Q23]

*Equipment is a fixed asset and payment by cheque reduces the bank account. Receipts and payments record increase and decrease in bank account, whereas statement of financial position records increase or decrease in assets.*

Answer: C

16. What may appear in the income and expenditure account of a sports club?
- A decrease in bank balance during the year
  - B increase in inventory of refreshments
  - C purchase of new sports equipment
  - D receipts from renting out clubhouse

[J16/P1/Q18]

*Rank is an asset, inventory is an asset, sports equipment is an asset, whereas receipt from renting out clubhouse is an item of income and expenditure account.*

Answer: D

17. A sports club provided the following information.

	\$
subscriptions received during the year	12 000
subscriptions owing at the start of the year	1 200
subscriptions owing at the end of the year	800

What was the amount of subscriptions shown in the income and expenditure account?

- A \$11 600
- B \$12 400
- C \$12 800
- D \$13 200

IJ16/P1/Q19

*Subscription received (12 000) + owing at year end (800) - owing at year start (1200) = \$11 600*

Answer: A

19. Grassfield Golf Club sells refreshments to its members. Suppliers for refreshments were owed \$250 on 1 January and \$400 on 31 December. Payments to suppliers during the year were \$7200.

The inventory at the end of the year was \$100 less than the inventory at the start of the year.

What was the cost of sales of refreshments?

- A \$7050
- B \$7150
- C \$7300
- D \$7450

[N16/P1/Q24]

*Purchases of refreshment - \$7 200 + \$400 - \$250 = \$7350*

*Cost of purchases = \$7350 + \$100 = \$7 450*

Answer: D

20. A sports club was formed on 1 January 2016.  
Which amount will appear for subscriptions in the income and expenditure account for the year ended 31 December 2016?
- A total subscriptions received during the year
  - B total subscriptions received less amounts owing plus amounts paid in advance
  - C total subscriptions received plus amounts owing less amounts paid in advance
  - D total subscriptions received plus amounts owing

[J17/P1/Q22]

*Total subscriptions that is recorded in the income and expenditure account is only for current year, i.e. subscription received + receivable for current year - amount received for next year.*

Answer: C

21. The financial year of a club ends on 30 April. During the year ended 30 April 2017, the club received an interest-free loan from a member.  
In which of the club's financial statements will this appear?
- A income and expenditure account and statement of financial position
  - B receipts and payments account and income and expenditure account
  - C receipts and payments account and statement of financial position
  - D Statement of financial position only

[J17/P1/Q23]

*Loan is received by cash. Loan is a long term liability which will be recorded in the statement of financial position. Receipt of cash during the financial year is recorded in the receipt and payment account of the club.*

Answer: C

22. A club had an accumulated fund at the start of the year of \$18 000 and at the end of the year of \$16 200.  
Total running costs for the year were \$9550. New equipment costing \$1100 was bought during the year. The only income came from subscriptions.  
How much were subscriptions for the year?

- A \$7750
- B \$8850
- C \$11 350
- D \$12 450

[N17/P1/Q22]

*Profit or loss = (closing accumulated fund - opening accumulated fund)*

$$\text{Loss} = 16200 - 18\ 000 = 1800$$

$$\begin{aligned} \text{subscription} &= \text{Expenses} - \text{Loss} \\ &= 9550 - 1800 \\ &= \$7750 \end{aligned}$$

Answer: A

23. Which may be included in an income and expenditure account?
- A bad debts
  - B opening balance on the bank account
  - C purchase of equipment
  - D subscriptions received for the following financial year

[N18/P1/Q17]

*option B - receipts and payment account, option C - Fixed asset account, option D - subscription received in advance is a current liability, option A - current year expenses are recorded in the income and expenditure account.*

Answer: A

24. A club's financial year ends on 31 July. During the year ended 31 July 2018 the following subscriptions were received.

	\$
subscriptions for the year ended 31 July 2017	50
subscriptions for the year ended 31 July 2018	3400
subscriptions for the year ending 31 July 2019	20

How much would be included in the receipts and payments account for the year ended 31 July 2018?

- A \$3400
- B \$3420
- C \$3450
- D \$3470

[N18/P1/Q18]

*The total amount received for subscription (irrespective of the fact for which year) is debited in the receipt and payment account as subscription received.*

Answer: D

25. A golf club sells refreshments to its members. Suppliers of refreshments were owed \$250 on 1 January 2018 and \$400 on 31 December 2018. Payments to suppliers during the year were \$7200.

The inventory at the end of the year was \$100 less than the inventory at the start of the year.

What was the cost of sales of refreshments for the year ended 31 December 2018?

- A \$7050
- B \$7150
- C \$7300
- D \$7450

[J19/P1/Q22]

<i>Subscription Account</i>			
	\$		\$
<i>Owing bld</i>	1200	<i>Bank</i>	12 000
<i>Income &amp; expenditure account</i>	11 600	<i>owing c/d</i>	800
<i>(bal. figure)</i>	12 800		12 800

**Answer: A**

$$\begin{aligned} \text{Purchases of refreshments} &= 400 + 7200 - 250 \\ &= 7350 \end{aligned}$$

$$\text{cost} = 7350 + 100 = 7450$$

**Answer: 1)**

26. After the preparation of the financial statements of a sports club it was found that no adjustment had been made for subscriptions received for the following financial year.

How will correcting this error affect the financial statements?

	income and expenditure account	statement of financial position
A	decrease income	increase current assets
B	decrease income	increase current liabilities
C	increase income	increase current assets
D	increase income	increase current liabilities

[J19/P1/Q23J]

*Subscription income was overstated so it will decrease. Subscriptions received in advance are current liabilities.*

**Answer: B**

27. A sports club provided the following information.

	\$
subscriptions received during the year	12 000
subscriptions owing at the start of the year	1 200
subscriptions owing at the end of the year	800

What was the amount of subscriptions shown in the income and expenditure account?

- A \$11 600
- B \$12 400
- C \$12 800
- D \$13 200

[N19/P1/Q24]

28. The statement of financial position of a sports club included the following.

	\$
subscriptions in advance	100
subscriptions in arrears	130
bank	790 debit
inventory of refreshments	320
amounts owing to suppliers	200

What was the total of current liabilities?

- A \$300
- B \$330
- C \$1090
- D \$1240

[N19/P1/Q25J]

	\$
<i>Subscriptions advance</i>	100
<i>Amount owing to suppliers</i>	200
<i>Total current liabilities</i>	300

**Answer: A**

29. A sports club provided the following information.

	\$
subscriptions for the year	26800
profit on sale of refreshments	4 200
depreciation	1 500
rent and insurance	12 600
wages	3 200

What was the total income for the year?

- A \$15 800
- B \$17 300
- C \$22 600
- D \$31 000

[N20/P1/Q23J]

# Partnership Accounting

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

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# Topic 11

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## Partnership Accounting

### Multiple Choice Questions

1. What is the purpose of a partnership appropriation account?  
 A to avoid disagreements between the partners B  
 to calculate residual profits for division between partners  
 C to calculate the profit sharing ratio  
 D to determine the amount of partners' salaries

[J10/P1/Q19]

*Appropriation account calculates balance of profit to be shared.*

**Answer: B**

2. A partner had a debit balance on his current account of \$1600 on 1 January 2009.  
 On 31 December 2009 the following amounts were entered in the partner's current account:

interest on capital \$500  
 share of profit \$4000

What was the balance on the partner's current account on 1 January 2010?

- A credit \$1900  
 B credit \$2900  
 C debit \$5100  
 D debit \$6100

[J10/P1/Q20]

*Current A/C*

2009	\$	2009	\$
Jan 1 b/d	1600	Dec 31 Interest on capital	500
Dec 31 c/d	2900	Dec 31 share of profit	4000
	4500		4500
		Jan 1 b/d	2900

**Answer: B**

3. Rajid and Sunil formed a partnership on 1 January 2010 but did not prepare a partnership agreement. They provided the following information.

	Rajid	Sunil
capital introduced 1 January 2010	\$40000	\$20000
during the year ended 31 December 2010		
drawings	\$5 000	\$3 300
share of work	50%	50%

They decide to draw up a partnership agreement for future years.

Which of the following adjustments to the partner - ship agreement would be most beneficial to Rajid in 2010?

- A interest on capital  
 B interest on drawings  
 C limit on annual drawings  
 D partnership salaries

[J11/P1/Q21]

*Rajid and Sunil share an equal workload so they will receive equal salaries. Interest on drawings will not be in Rajid's favour as he has withdrawn more than Sunil. Interest on capital will be beneficial for Rajid in 2010 as his capital is double the amount of Sunil*

**Answer: A**

4. A partnership agreement states that interest on drawings will be charged.  
 How is this recorded?

	debit	credit
A	appropriation account	partners' current accounts
B	bank account	partners' current accounts
C	partners' current accounts	appropriation account
D	partners' current accounts	bank account

[NU/P1/Q21]

## Topic 11 Partnership Accounting

Interest on drawing is Dr. in the partners capital account. It is added to profit in appropriation account thus Cr.

— — — — — Answer: C

5. Amina and Sabena are in partnership.  
How is interest on drawings recorded in the ledger?
- ? A credit capital account  
B credit current account  
C debit capital account  
D debit current account

[J12/P1/Q24]

Interest on drawings decrease the current account balance i.e. they are debited in the partners current account. The entry is,

Current A/c partner Dr  
Appropriation Account  
Cr

— — — — — Answer: D

6. Which group contains only advantages of being in partnership?
- A additional finance is available, profits are shared, action by one partner binds the others  
B additional finance is available, responsibilities are shared, losses are shared  
C losses are shared, action by one partner binds the others, risks are shared  
D responsibilities are shared, profits are shared, risks are shared

[N12/P1/Q23]

Partnership provides the partners with the platform to share responsibilities, losses, risks and provide additional capital.

Answer: li

7. A partner is entitled to interest on his capital.  
How is this recorded in the personal account of the partner?
- A credit partner's capital account  
B credit partner's current account  
C debit partner's capital account  
D debit partner's current account

[N12/P1/Q24]

Interest on capital is an income of the partner and is debited in the partner's current account.

Answer: B

## MCQ 11 &lt;=&gt; Page 2

8. X and Y are in partnership sharing profits and losses equally. The following information was extracted from their financial records at 31 December.

	\$
interest on capital - X	1300
-Y	1100
salary - Y	4000

The profit for the year was \$24 200.

What was Y's share of the residual profit?

- A \$8900                      B \$10 200  
C \$12 900                    D \$14 000

[J13/P1/Q21]

		Trouble**	
		\$	\$
Profit for the year			24200
Less interest on capital	- X	1300	
	- Y	1100	
Salary: Y		4000	6400
Profit to be shared			17800
	X	8900	
	Y	8900	17800

Answer: A

9. Candy and Abel are in partnership. Abel made a loan to the partnership.  
How will the annual interest on the loan be recorded?

	debit	credit
A	Abel current account	appropriation account
B	Abel current account	income statement
C	appropriation account	Abel current account
D	income statement	Abel current account

[N14/P1/Q22]

Loan interest on a partner's loan is an income for the partners. Income increases the current account of partners. Loan interest on the other hand is an expense for the partnership firm.

Answer: D

10. The financial year of Tony and Paul ends on 30 April.  
On 1 May 2015 Tony had a debit balance of \$5000 on his current account.  
What does this mean?
- A He had invested \$5000 in the business.  
B He had withdrawn \$5000 from the business.

- C His drawings exceeded his total profit share.  
D His total profit share exceeded his drawings.

[J15/P1/Q20]

*Debit balance in the current account of the partner indicates that drawings are more than the total profit share of the partner.*

Answer: C

11. Rajid and Sunil formed a partnership on 1 January 2014 but did not prepare a partnership agreement. They provided the following information.

	Rajid	Sunil
capital introduced 1 January 2014	\$40000	\$20000
during the year ended 31 December 2014		
drawings	\$5 000	\$3 500
share of work	50%	50%

They decide to draw up a partnership agreement for future years.

Which item would be most beneficial to Rajid in 2014?

- A interest on capital  
B interest on drawings  
C limit on annual drawings  
D partnership salaries

[N15/P1/Q20]

*Rajid has invested more capital than Sunil. So the most beneficial point in the new agreement would be interest on capital.*

Answer: A

12. Which group of items appears in a partnership appropriation account?
- A drawings, interest on capital, partners' salaries  
B interest on capital, interest on drawings, partners' salaries  
C interest on capital, partners' loan interest, partners' salaries  
D interest on drawings, interest on capital, partners' loan interest

(J16/P1/Q16J)

Troii/We\*\*

*Drawings and partner's loan interest are not items of appropriation account.*

*Drawings and loan interest are recorded in partner's current account.*

Answer: B

13. Which items may appear on the debit side of a partner's current account?

	share of profit	share of loss	interest on capital	interest on drawings
A	Z		Z	
B	z			Z
C		Z	Z	
D		Z		z

[N16/P1/Q21]

*Debit side of the partners current account records all items which reduce the income of the partners, i.e. loss and interest on drawings.*

Answer: D

14. Which item is not included in a partnership agreement?

- A annual profit to be earned by the business  
B annual salaries to be paid to partners  
C capital contributed by each partner  
D rate of interest charged on drawings

[N16/P1/Q22]

*Annual profit to be earned by the business varies from year to year. Profit is a fluctuating figure so it is not included in the partnership agreement.*

Answer: A

15. Ben and Joe decide to form a partnership. Ben is to invest \$50 000 in the business and Joe \$10 000. Ben wants the partnership agreement to reflect the differences in the amounts invested by the partners. What should Ben insist is included in the partnership agreement?

- A interest on capital  
B interest on drawings  
C interest on partner's loan  
D salary for extra responsibilities

[J17/P1/Q21]

*Interest on capital gives extra percentage return to a partner who has invested more in the partnership. Ben would get interest on capital on \$50 000. Whereas Joe will get interest on capital on \$10 000.*

Answer: A

16. Which item is credited in a partnership appropriation account?

- A interest on capital
- B interest on drawings
- C partners' drawings
- D partners' salaries

(J18/P1/Q20]

*When appropriation account is Cr. It means profit is increased. Interest on drawings charged from partner increases profit to be appropriated.*

**Answer: B**

17. What is an advantage of trading as a partnership?

- A A partnership is a separate legal entity.
- B Decision-making is easy and quick.
- C Liability is unlimited.
- D Responsibilities are shared.

[J19/P1/Q21]

*In a partnership firm, responsibility to run the business is shared by all partners.*

**Answer: D**

18. Sara and Fatima are in partnership. Sara is entitled to a partnership salary of \$30 000 per annum and the balance of the profit is shared equally.

The profit for the year was \$180 000.

What was Sara's total income from the business?

- A \$75 000
- B \$90 000
- C \$105 000
- D \$120 000

[N19/PVQ23J]

	\$180 000
<i>profit for the year</i>	\$30 000
<i>less : Salary : Sara</i>	_____
	\$150 000
<i>profit share:</i>	
<i>Sara</i>	\$75 000
<i>b'atima</i>	\$75 000
	_____
	\$150 000

*Sara's total income from the business*

$= \$30\,000 + 75\,000 = \$105\,000$

**Answer: C**

19. Rajid and Sunil formed a partnership on 1 January 2019 but did not prepare a partnership agreement. They provided the following information.

	Rajid	Sunil
capital introduced 1 January 2019	\$40000	\$20000
during the year ended 31 December 2019		
drawings	\$5000	\$3 500
share of work	50%	50%

They decided to draw up a partnership agreement for future years.

Which item would be most beneficial to Rajid in 2020?

- A interest on capital
- B interest on drawings
- C limit on annual drawings
- D partnership salaries

[J20/P1/Q22]

*Rajid has invested \$20000 more capital than Sunil. If the partnership agreement allows for interest on capital then Rajid would benefit from it the most.*

**Answer: A**

20. Harry and Jane are in partnership. The following information relates to Harry for the financial year.

	\$
salary	8000
drawings	2800
share of profit	4600

The opening credit balance on Harry's current account was \$28 200.

What was the closing balance on his current account?

- A \$30 000
- B \$38 000
- C \$40 800
- D \$43 600

[J20/P1/Q23J]

<i>Harry's current AJc</i>			
	\$		\$
<i>Drawings</i>	2 800	<i>b/d</i>	28 200
<i>c/d</i>	38 000	<i>Salary</i>	8 000
		<i>Share of profit</i>	4 600
	40 800		40 800
		<i>b/d</i>	38 000

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Topic 11 *Partnership Accounting*

21. In addition to a share of the profit a partner receives interest on capital, a salary and is charged interest on drawings.

How are these recorded in the ledger accounts of the partner?

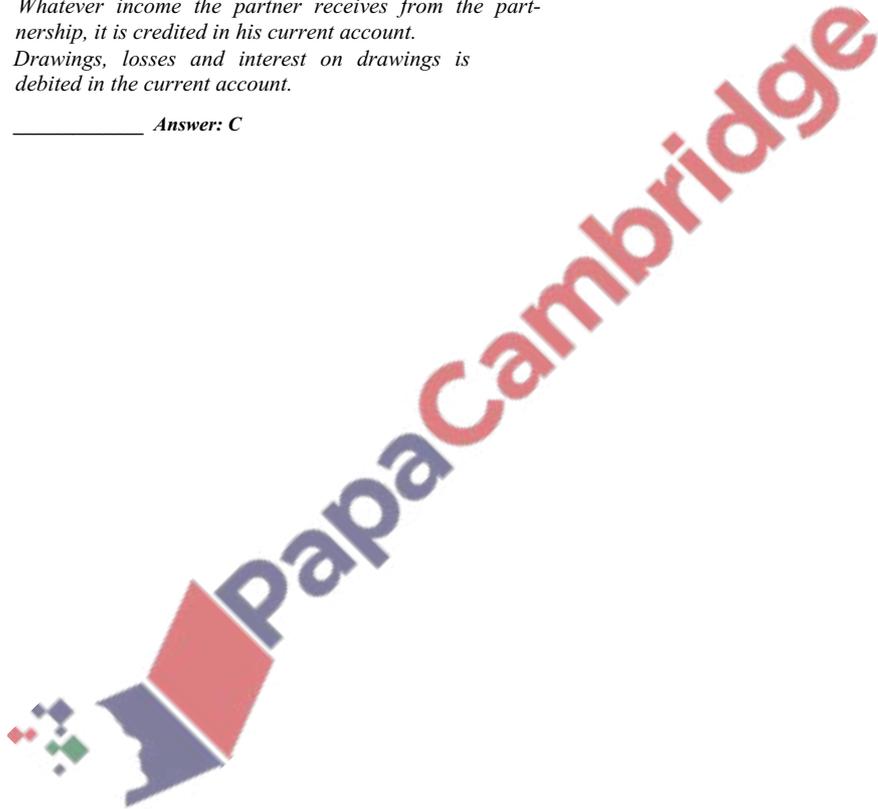
	interest on capital	salary	interest on drawings
A	credit capital account	credit current account	debit capital account
B	credit current account	debit capital account	credit current account
C	credit current account	credit current account	debit current account
D	debit current account	debit current account	credit current account

[N20/PI/Q22]

*Whatever income the partner receives from the partnership, it is credited in his current account.*

*Drawings, losses and interest on drawings is debited in the current account.*

\_\_\_\_\_ *Answer: C*



# Limited Companies

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 12

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## Limited Companies

### Multiple Choice Questions

1. Which item will not appear in the appropriation account of a limited company?

- A debenture interest
- B ordinary share dividend
- C preference share dividend
- D transfer to general reserve

[J10/P1/Q25]

Options B, C, D are items of appropriation account i.e. to be given out of profit. Debenture interest is an operating expense for the company shown in the profit and loss account.

Answer A

2. A limited company provided the following information.

	\$
non-current (fixed) assets	35 000
ordinary share capital	40 000
5% debentures	10 000
net current assets (working capital)	30 000

What was the retained profit (profit and loss account)?

- A \$15 000
- B \$25 000
- C \$55 000
- D \$115 000

[N 10/P1/Q27]

$$\text{closing capital} = 35\,000 + 30\,000 - 10\,000 = 55\,000$$

$$\begin{aligned} \text{Retained profit} &= \text{closing Capital} - \text{opening capital} \\ &= \$55\,000 - \$40\,000 \\ &= \$15\,000 \end{aligned}$$

Answer: A

3. A limited company provided the following information:

	\$
issued share capital-50 000 ordinary shares of \$1 each	50 000
profit for the year ended 30 June 2010 before appropriations	13 000
transfer to general reserve on 30 June 2010	6 000
interim ordinary share dividend paid during the year	3 000

On 30 June 2010 it was decided to use the remaining profit to pay a final ordinary share dividend.

What percentage final dividend would the ordinary shareholders receive?

- A 8%
- B 14%
- C 20%
- D 26%

[JI 1/P1/Q25]

Unappropriated profit	13000
Less general reserve	(6000)
Less interim dividend	(3000)
<b>Profit available for final dividend</b>	<b>4000</b>

$$\% \text{ of final dividend} = \frac{\text{Profit available}}{\text{no. of shares}} \times 100$$

Answer. A

4. Which appears in the appropriation account of a limited company?

- A debenture interest paid
- B directors' salaries
- C investment income received
- D ordinary share dividends

(JI 1/P1/Q26)

Options A, B & C are items of profit and loss account.

Answer: D

5. Zed Ltd provided the following information.

	\$
issued and paid up share capital	200 000
general reserve	30 000
retained profits	15 000
10% debentures	20 000

What was the total of Zed Ltd's shareholders' funds?

- A \$215 000
- B \$230 000
- C \$245 000
- D \$265 000

[N11/P1/Q24]

Share holders fund - Share capital + reserves

$$= \$200000 + \$30\ 000 + \$15000 = \$245000$$

6. The issued share capital of DX Ltd consists of ordinary shares.

The retained earnings were \$45 000 on 1 January 2011. These had increased to \$75 000 on 31 December 2011. The company earned a profit for the year of \$80 000.

What was the total ordinary share dividend for the year?

- A \$30 000
- B \$35 000
- C \$45 000
- D \$50 000

[N12/P1/Q27]

Retained earning c/d = Retained earning beg + Profit for the year - Dividends

$$\text{paid } 75\ 000 = 45\ 000 + 80000 - X$$

$$x = 50000$$

Answer: D

- A
- a
- 3
- C

7. At the end of its first year of trading, Sinola Ltd transferred \$10 000 to a general reserve.

In which of the company's financial statements will this be shown?

	income statement	profit and loss appropriation account	balance sheet
A	no	no	yes
B	no	yes	yes
C	yes	no	no
D	yes	yes	no

[J13/P1/Q24]

General reserve transfer is deducted from profit after interest and tax in the appropriation account and are shown under reserves in the balance sheet.

Answer: B

8. Owusu Ltd was formed with an authorised share capital of 1 000 000 ordinary shares of \$0.80 each. It issued 60% of these on 1 April 2013, with half the value being paid immediately and half to be paid a year later.

What was the value of the issued capital and called up capital on 1 April 2013?

	issued capital \$	called up capital \$
A	240 000	240 000
B	480 000	240000
C	480 000	480 000
D	600000	300 000

[J13/P1/Q25]

Issued share capital

$$= 1000\ 000 \times 0.80 \times 60\% = \$480\ 000$$

$$\text{Called up capital} = 480\ 000 \times 50\% = \$240\ 000$$

Answer: B

9. BCD Limited provided the following information.

	\$
ordinary shares	300 000
retained earnings	200 000
debentures	1 70 000

How much was the equity and the capital employed?

	equity \$	capital employed \$
A	300 000	470 000
B	300 000	670 000
C	500 000	470 000
D	500 000	670 000

[N13/P1/Q18J]

*Equity = ordinary share capital + reserves*

$$= 300\,000 + 200\,000 = \$500\,000$$

*Capital employed = equity + debentures*

$$= 500\,000 + 170\,000 = \$670\,000$$

**Answer: D**

10. Which does not appear in the appropriation account of a limited company?

- A directors' salaries
- B dividends paid on ordinary shares
- C proposed ordinary share dividend
- D retained profits

[N13/P1/Q24J]

**Answer: A**

11. A limited company has an issued share capital of 100000 ordinary shares of \$1 each of which 50000 are fully paid. There are also debentures of \$2000. On 1 January 2012 the retained profits were \$2500. Profit retained for the year ended 31 December 2012 was \$1600.

What was the total of the shareholders' funds on 31 December 2012?

- A \$54 100
- B \$56 100
- C \$104 100
- D \$106 100

[N13/P1/Q25]

*Shareholders fund as at 31 Dec 2012*

<i>Ordinary share capital paid</i>	<i>50 000</i>
<i>Add: Retained profits (2 500 + 1600)</i>	<i>4 100</i>
	<i>54100</i>

**Answer: A**

12. RST Limited provided the following information.

	\$
retained profits at 1 January 2013	200 000
general reserve at 1 January 2013	48 000
profit for the year ended 31 December 2013	102 000
ordinary share dividends paid	24 000
transfer to general reserve	20000

What was the value of retained profits at 31 December 2013?

- A \$58 000
- B \$142 000
- C \$258 000
- D \$306 000

[J14/P1/Q24]

	\$	\$
<i>h/d</i>		<i>200 000</i>
<i>Add: profit for the year</i>		<i>102 000</i>
		<i>302000</i>
<i>Less: transfer to general reserve</i>	<i>20 000</i>	
<i>dividend paid</i>	<i>24 000</i>	<i>44 000</i>
<i>Retained profits at 31 Dec. 2013</i>		<i>258000</i>

**Answer: C**

13. The financial year of ABZ Limited ends on 31 March.

Debenture interest is paid annually in arrears on 1 April each year.

Where will debenture interest appear in the financial statements for the year ended 31 March 2014?

	income statement	appropriation account	statement of financial position
A	Z		Z
B	Z		
C		z	z
D		Z	

[N14/P1/Q25]

*Debenture interest for the current year is an expense which is recorded in the income statement. Arrears of interest on debentures is a current liability to be recorded in the balance sheet.*

**Answer: A**

14. Which statement applies to preference share holders?

A They are members of the company.  
 B They are usually entitled to vote.  
 C They get a fixed percentage of the profit each year.  
 D They get a fixed rate of interest each year.

[J15/P1/Q23]

*Preference shares have no voting right and they get a fixed percentage of dividend every year.*

**Answer: A**

15. A limited company provided the following information.

		\$
January 1	ordinary shares of \$1 each	200 000
	retained earnings	12 000
December 31	profit for the year	43 000
	transfer to general reserve	10 000

A dividend of 10% on ordinary shares was paid during the year.

What were the retained earnings on 31 December?

A \$13 000                      B \$23 000  
 C \$25 000                      D \$35 000

[J15/P1/Q24]

$$\text{Dividend} = \$200\,000 \times 10\% = \$20\,000$$

*Retained earnings at 31 December*

$$= \$12\,000 + \$43\,000 - \$10\,000 - \$20\,000 = \$25\,000$$

**Answer: C**

16. Which item would be entered in a statement of changes in equity?

A debenture interest accrued  
 B debenture interest paid  
 C ordinary dividend paid  
 D ordinary dividend proposed

[N15/P1/Q26]

*Option A & B are adjusted in the income statement under finance charges. Option D is shown as a note. Only ordinary dividend paid is deducted from retained earnings in the statement of changes in equity.*

**Answer: C**

17. Zed Limited provided the following information.

	\$
issued and paid up share capital	200 000
general reserve	30 000
retained earnings	15 000
10% debentures	20 000

What were total shareholders' funds?

A \$215 000                      B \$230 000  
 C \$245 000                      D \$265 000

[N15/P1/Q27]

**Shareholders fund**

*- issued share capital + all*

$$\text{reserves} = \$200\,000 + \$30\,000 +$$

$$\$15\,000 = \$245\,000$$

**Answer: C**

18. Which item is directly affected by the dividend policy of a limited company?

A general reserve  
 B ordinary share capital  
 C preference share capital  
 D retained earnings

*Dividends are paid out of retained profits of a company. So dividends directly reduce the retained profit.*

**Answer: D**

19. A limited company provided the following information.

	\$
issued share capital - 50 000	
ordinary shares of \$1 each	50 000
profit for the year ended 30 April 2016	13 000
transfer to general reserve on 30 April 2016	6 000
interim ordinary share dividend paid during the year	3 000

On 30 April 2016 it was decided to use the remaining profit to pay a final ordinary share dividend.

What percentage final dividend would the ordinary shareholders receive?

- A 8%
- B 14%
- C 20%
- D 26%

[J116/P1/Q23]

	\$	\$
Profit		13 000
Less: general reserve	6000	
interim dividend paid	3 000	9000
<b>Profit available to pay final dividend to ordinary share-holders</b>		<b>4 000</b>

Percentage of final dividend = 8%

(4000/50000)

Answer: A

20. What are the main features of debentures?

	return received	rate of return	voting rights
A	dividend	fixed rate	no
B	dividend	varies with profit	yes
C	interest	fixed rate	no
D	interest	varies with profit	yes

[J17/P1/Q26]

Return on debentures is fixed rate of interest. Ordinary share holder receive dividend which values with profit. Only ordinary share holders have voting right.

Answer: C

22. The financial year of AB Limited ends on 30 September. Debenture interest is paid annually in arrears on 1 October each year. Where did debenture interest appear in the financial statements for the year ended 30 September 2017?

	income statement	statement of changes in equity	statement of financial position
A	Z		Z
B	Z		
C		Z	Z
D		z	

[N17/P1/Q25]

Debenture interest is an expense which will appear in the income statement. Interest accrued will be recorded under current liabilities in the statement of financial position.

Answer: A

23. The issued share capital of CD Limited consists of ordinary shares. Retained earnings were \$86 000 on 1 September 2016 and \$88 500 on 31 August 2017. The company made a profit during the year of \$26 000 and made a transfer to general reserve of \$5000. What was the total ordinary share dividend paid during the year?

- A \$18 500
- B \$23 500
- C \$28 500
- D \$33 500

[N17/P1/Q26]

Ordinary dividend paid = retained b/d + profit for the year - transfer to reserve - retained earning c/d  
 = 86 000 + 26 000 - 5000 - 88 500  
 = JIS 500

Answer: A

24. Which item would be entered in a statement of changes in equity?  
 A debenture interest accrued  
 B debenture interest paid  
 C ordinary dividend paid for current year  
 D ordinary dividend proposed for current year

[J18/P1/Q24]



- C a proposed final dividend which is to be paid to ordinary shareholders on 1 August 2019  
 D a transfer made to general reserve from retained earnings on 31 March 2019

(J19/P1/Q26)

*Proposed dividend at year end is paid in the next year. It is therefore not included in the statement of changes in equity in the current year*

**Answer: C**

30. The statement of financial position of X Limited at 31 December 2018 included the following:

	\$
ordinary share capital	40000
general reserve	8 000
retained earnings	65 000
8% debentures (repayable 2025)	30000

Profit for the year ended 31 December 2019 was \$42 000 and dividends paid totalled \$10 000.

What was the total equity on 31 December 2019?

- A \$137 000                      B \$145 000  
 C \$155 000                      D \$175 000

(J20/P1/Q24J)

$$\begin{aligned} \text{Retained earnings} &= \$65\,000 + \$42\,000 - \$10\,000 \\ &= \$97\,000 \end{aligned}$$

$$\begin{aligned} \text{Equity} &= \text{ordinary share capital} + \text{General reserve} + \\ &\quad \text{retained earnings} \\ &= \$40\,000 + \$8\,000 + \$97\,000 \\ &= \$145\,000 \end{aligned}$$

31. Which is a feature of debentures?

- A are a long-term liability of a company  
 B carry a fixed rate of dividend  
 C carry voting rights  
 D on liquidation are paid back after shareholders

(J20/P1/Q251)

*Options B and C are features of preference shares and ordinary shares. Option D is an incorrect statement.*

**Answer: A**

32. AB Limited and CD Limited both started business on 1 January 2019 with an ordinary share capital of \$100 000. Neither company had any debentures or loans.

Both companies had the same profit in 2019.

Only AB Limited paid a dividend.

The return on capital employed (ROCE) was calculated using closing capital employed.

Which statement about AB Limited's ROCE is correct when compared to that of CD Limited?

- A It is higher because the dividend reduced retained earnings.  
 B It is lower because the dividend reduced capital employed.  
 C It is lower because the dividend reduced the profit for the year.  
 D It is the same as that of CD Limited.

(N20/P1/Q31)

*When dividends are paid, retained earnings are reduced, which result in higher ROCE.*

**Answer: A**

33. Which interested party uses the financial statements of a business to assess current performance and plan for future activities?

- A banks                                      B employees  
 C government                              D managers

(N20/P1/Q32J)

*Managers of a company are assigned the task to assess current performance and plan for future activities. Banks, employees and government are concerned with profitability and liquidity position.*

**Answer: D**

# Manufacturing Accounts

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 13

## Manufacturing Accounts

### Multiple Choice Questions

1. How is the factory cost of production calculated?
- A direct material + direct labour
  - B direct material + direct labour + direct expenses
  - C direct material + direct labour + direct expenses + factory overheads
  - D direct material + direct labour + direct expenses + total overheads

[J10/P1/Q26]

*Factory cost of production = Prime cost + factory overheads*

*Prime cost = direct material + direct labour + direct expenses.*

Answer: C

2. Which is a direct cost?

- A depreciation of machinery
- B lighting and heating
- C raw materials used
- D supervisor's wages

[J11/PVQ27]

*Direct costs are incurred in the production of a product i.e. raw materials used.*

Answer: C

3. Which group contains only indirect COSTS?

- A carriage inwards, factory rent, wages of factory supervisors
- B carriage inwards, raw materials, wages of machine operators
- C depreciation of machinery, factory rent, wages of factory supervisors
- D depreciation of machinery, raw materials, wages of machine operators

*Indirect costs are factory overheads. Factory overheads are expenses directly related to operating the factory.*

Answer: C

4. A manufacturing business provided the following information.

	\$
direct expenses	6 000
direct labour	15 000
direct materials	20 000
office expenses	4 000
factory heating and lighting	10 000
selling expenses	8 000

What was the prime cost of production?

- A \$41 000
- B \$45 000
- C \$51 000
- D \$63 000

[J12/PVQ27]

*Prime cost = direct material + direct labor + direct expenses*

*Prime cost = 20000 + 15000 + 6000 = \$41 000*

Answer: A

5. How is the cost of production calculated?

- A direct material + direct labour + direct expenses + 4 factory overheads
- B direct material + direct labour + direct expenses + indirect labour
- C direct material + direct labour + factory overheads
- D direct material + direct labour + indirect labour

[J13/P1/Q26]

*Cost of production = prime cost + factory overheads*

*Prime cost = direct material + direct labour + direct expenses*

Answer: A

6. A business provided the following information at the end of its first year of trading.

	\$
prime cost	280000
factory overheads	110000
closing work in progress	16000

What was the cost of production?

- A \$154 000                      B \$186 000  
C \$374 000                      D \$406 000

[N13/P1/Q26]

\*

*Cost of production*

	\$
<i>Prime cost</i>	280 000
<i>Add: factory overheads</i>	110 000
	<u>16 000</u>
<i>Less: work in progress (closing)</i>	<u>374 000</u>

**Answer: C**

7. The work in progress of ZT Manufacturers on 1 January was valued at \$6200. At the end of the year it was valued at \$5400.

What was the effect on the cost of production for the year?

- A decrease \$800  
B decrease \$11 600  
C increase \$800  
D increase \$11 600

[J14/P1/Q25]

<i>Work in progress opening</i>	\$6200
<i>Work in progress closing</i>	\$5400
<i>Add to cost of production</i>	\$800

**Answer: C**

8. How is prime cost calculated?

- A direct materials + direct labour  
B direct materials + direct labour + direct expenses  
C direct materials + direct labour + direct expenses + factory overheads  
D direct materials + direct labour + direct expenses + factory overheads + change in work in progress

[N14/P1/Q26]

\*  
*Prime cost is the accumulated amount of direct costs i.e., direct material, direct labour and direct expenses.*

**Answer: B**

9. Raminder, a manufacturer, provided the following information for the year ended 30 April 2015.

	\$
cost of materials used	54 000
factory overheads	29 500
wages - machine operators	48 200
work in progress 1 May 2014	7 000
work in progress 30 April 2015	4 000

What was the cost of production for the year ended 30 April 2015?

- A \$102 200                      B \$128 700  
C \$131 700                      D \$134 700

[J15/P1/Q2

\* SHOO 1

*Cost of production = cost of material used + wages + factory overheads + work in progress 1 May - work in progress 30 April*  
 $= \$54\,000 + \$48\,200 + \$29\,500 + \$7\,000 - \$4\,000$   
 $= \$134\,700.$

**Answer: D**

10. A manufacturer provided the following information.

	\$
cost of raw materials consumed	20 000
direct wages	10 000
light and heat	5 000
machinery repairs	3 000

What was the prime cost?

- A \$20 000                      B \$30 000  
C \$35 000                      D \$38 000

[J16/P1/Q24]

	\$
<i>Cost of raw materials consumed</i>	20 000
<i>Direct wages</i>	10 000
<i>Prime cost</i>	<u>30 000</u>

**Answer: B**

11. At the end of the financial year a manufacturer had inventory of finished goods, raw materials and work-in-progress.  
Which inventories will appear in the manufacturing account?

	finished goods	raw materials	work-in-progress
A	Z	Z	
B	Z		Z
C		Z	Z
D	Z	Z	Z

[J16/P1/Q25]

Only inventory of raw materials and work in progress will appear in the manufacturing account. Inventory of finished goods appear in the income statement.

**Answer: C**

12. A manufacturer provided the following information at the end of his financial year.

	\$
prime cost	98400
factory overheads	17800
work in progress at start of year	6300
work in progress at end of year	7600

What was the cost of production for the year?

- A \$79 300                      B \$81 900  
C \$114 900                     D \$117 500

[N17/P1/Q27]

*Cost of production = prime cost + factory overheads + work in progress at start of the year - work in progress at end of the year*

$$\begin{aligned} \text{Cost of production} &= 98400 + 17800 + 6300 - 7600 \\ &= \$114\,900 \end{aligned}$$

**Answer: C**

13. Which type of labour would be classified as direct?

- 1 factory managers
- 2 factory office staff
- 3 factory production workers

- A 1, 2 and 3  
B 1 and 3 only  
C 2 only  
D 3 only

[J18/P1/Q26]

*Factory managers are indirect labour.*

*Factory office staff are part of administration.*

*Factory production workers are direct labourers directly involved in the production of a commodity.*

**Answer: D**

14. A manufacturing business provided the following information.

	\$
prime cost	30 500
factory overheads	17 200
cost of goods produced	46 000
office and selling expenses	9 500
opening work-in-progress	5 100

What was the value of the closing work-in-progress?

- A \$1700                              B \$3400  
C \$6800                             D \$16 300

[J18/P1/Q27]

*Closing value of work in progress*

*= Prime cost + Factory overheads + Opening work in progress - cost of goods produced.*

$$= \$30\,500 + \$17\,200 + \$5\,100 - \$46\,000$$

$$= \$6\,800$$

*Machine is a non-current fixed asset. It is recorded in the statement of financial position.*

*Running cost of machine are factory expenses that will be recorded in the manufacturing account.*

Answer: D

*Cost of production = prime cost + Factory overheads + opening work in progress - closing work in progress*

*= \$236 000 + \$42 000 + \$8000 - \$6000*

*= \$280 000*

Answer: D

16. Which group contains only indirect costs?

- A carriage inwards, factory rent, wages of factory supervisors
- B carriage inwards, raw materials, wages of machine operators
- C depreciation of machinery, factory rent, wages of factory supervisors
- D depreciation of machinery, raw materials, wages of machine operators

[N18/P1/Q24]

rrroM&Ze\*\*

*Indirect costs are expenses not related to production of goods but are factory expenses.*

Answer: C

17. Which cost is part of the prime cost for a manufacturing business?

- A carriage inwards
- B carriage outwards
- C factory rent
- D factory supervisor's salary

[J20/P1/Q26]

*Option B, C and D are part of factory overhead expenses.*

*Option A: Carriage inwards is added to the cost of raw material and thus becomes a part of raw material consumed or cost of raw materials. These direct materials are added to prime cost.*

Answer: A

18. A manufacturing business provided the following information.

	\$
prime cost	236000
factory overheads	42 000
opening work in progress	8 000
closing work in progress	6 000

What was the factory cost of production?

- A \$234 000
- B \$238 000
- C \$276 000
- D \$280 000

[J20/P1/Q27]

# Ratio Analysis

Cambridge O LEVEL



Questions and Answers

**EXPLAINED**

# Topic 14

## Ratio Analysis and Interpretation

### Multiple Choice Questions

1. What is the formula for calculating rate of inventory (stock) turnover?
- A  $\frac{\text{cost of sales}}{(\text{opening stock less closing stock}) \div 2}$
- B  $\frac{\text{cost of sales}}{(\text{opening stock plus closing stock}) \div 2}$
- C  $\frac{\text{purchases}}{(\text{opening stock less closing stock}) \div 2}$
- D  $\frac{\text{purchases}}{(\text{opening stock plus closing stock}) \div 2}$
- [J10/P1/Q27]
3. Jake had current liabilities of trade payables and had assets of inventory, trade receivables and cash at bank.
- Which measure would improve his current ratio?
- A buying additional inventory and paying in cash
- B decreasing drawings
- C revaluing non-current assets
- D selling inventory on credit rather than for cash
- [J11/P1/Q29]

Trouble  $\Rightarrow$  SHOOTER

Option A — increases and decreases current assets by the same amount.

Option C — No effect on ratio

Option D — An insignificant change in ratio

Option B — If drawings decrease — inventory and cash will increase. If current assets increase then current ratio will also increase.

Answer: B

$$\text{Stock turnover} = \frac{\text{Cost of sales}}{\text{Average stock}}$$

$$\text{Average stock} = \frac{\text{Opening stock} + \text{closing stock}}{2}$$

Answer: B

2. Richi has the following assets and liabilities.

	\$
inventory (stock)	8400
trade receivables (trade debtors)	9300
cash	400
trade payables (trade creditors)	3600
bank overdraft	1700

What is Richi's working capital (current) ratio?

- A 1.13:1                      B 1.83:1
- C 3.42:1                      D 5.50:1

[N10/P1/Q28]

Trouble  $\Rightarrow$  SHOOTER

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$= \frac{8400 + 9300 + 400}{3600 + 1700} = \frac{18100}{5300} = 3.42 : 1$$

Answer: C

4. Wayne provided the following information.

	\$	\$
revenue (sales)		12800
opening inventory	1000	
purchases	<u>10500</u>	
	11500	
closing inventory	<u>1600</u>	<u>9900</u>
gross profit		<u>2900</u>

What was Wayne's gross profit margin?

- A 22.66%
- B 25.22%
- C 27.62%
- D 29.29%

[N11/P1/Q23]

Trouble → SHOOTER

Inventory is the least liquid asset in the list of current asset i.e. it takes time to convert inventory into cash.

Answer: C

11. What is **not** included when calculating the quick (acid test) ratio?

- A balance at bank
- B cash in hand
- C inventory
- D trade receivables

[N13/P1/Q28]

Trouble → SHOOTER

Quick acid test ratio calculates working capital in the most liquid form. Inventory is the least liquid current asset as a result it is not included in the formula.

Answer: C

12. What is the formula for calculating mark-up?

- A  $\frac{\text{gross profit}}{\text{cost of sales}}$
- B  $\frac{\text{gross profit}}{\text{sales}}$
- C  $\frac{\text{profit for the year}}{\text{cost of sales}}$
- D  $\frac{\text{profit for the year}}{\text{sales}}$

[J14/P1/Q22]

Trouble → SHOOTER

Markup is a profit as a percentages of cost of sales.

Answer: A

13. LS Limited provided the following information.

	\$
sales	470 000
cost of sales	240 000
expenses	90 000

What was the profit for the year as a percentage of sales?

- A 29.79%
- B 48.94%
- C 68.09%
- D 80.85%

[J14/P1/Q27]

Trouble → SHOOTER

$$\begin{aligned} \text{Gross profit} &= \text{sales} - \text{cost of sales} \\ &= 470\,000 - 240\,000 = \$230\,000 \end{aligned}$$

$$\begin{aligned} \text{Net profit} &= \text{G.P.} - \text{expenses} \\ &= 230\,000 - 90\,000 = 140\,000 \end{aligned}$$

$$\begin{aligned} \text{NP percentage of sales} &= \frac{\text{NP}}{\text{sales}} \times 100 \\ &= \frac{140\,000}{470\,000} \times 100 = 29.79\% \end{aligned}$$

Answer: A

14. What is the formula for calculating the quick ratio (acid test ratio)?

- A current assets – closing inventory ÷ current liabilities
- B current assets – opening inventory ÷ current liabilities
- C current assets + closing inventory ÷ current liabilities
- D current assets + opening inventory ÷ current liabilities

[J14/P1/Q28]

Trouble → SHOOTER

Quick asset ratio does not consider inventory as a part of liquid current assets.

Answer: A

15. Walter provided the following information.

	\$
revenue	150 000
expenses	25 000

The mark-up on cost is 25%.

What is the profit for the year?

- A \$5000
- B \$12 500
- C \$30 000
- D \$37 500

[N14/P1/Q24]

Trouble → SHOOTER

$$\text{Markup } 25\% = \text{margin } 20\%$$

$$\text{Gross profit} = 150\,000 \times 20\% = 30\,000$$

$$\text{Net Profit} = 30\,000 - 25\,000 = 5\,000$$

Answer: A

**Topic 14** *Ratio Analysis and Interpretation*

16. How is the return on capital employed (ROCE) calculated?

- A  $\frac{\text{net profit}}{\text{non-current assets}} \times \frac{100}{1}$
- B  $\frac{\text{net profit}}{\text{non-current assets} + \text{current assets}} \times \frac{100}{1}$
- C  $\frac{\text{net profit}}{\text{non-current assets} - \text{current liabilities}} \times \frac{100}{1}$
- D  $\frac{\text{net profit}}{\text{non-current assets} + \text{current assets} - \text{current liabilities}} \times \frac{100}{1}$

[N14/P1/Q28]

Trouble → SHOOTER

Capital employed is actually total investment in the firm from the owner and outside sources.

Answer: D

17. A trader provided the following information.

	\$
bank overdraft	1650
trade receivables	2200
trade payables	2900
inventory	4200
short term loan from bank	2000

What was the current ratio?

- A 0.34 : 1
- B 0.98 : 1
- C 1 : 0.34
- D 1 : 0.98

[N14/P1/Q29]

Trouble → SHOOTER

$$\begin{aligned} \text{Current ratio} &= \frac{\text{current assets}}{\text{current liabilities}} \\ &= \frac{2200 + 4200}{1650 + 2900 + 2000} \\ &= \frac{6400}{6550} = 0.98 : 1 \end{aligned}$$

Answer: B

18. A business provided the following information.

	\$
cost of sales	60 000
gross profit	40 000
expenses	25 000

What was the profit for the year as a percentage of revenue?

- A 12 %
- B 15 %
- C 20 %
- D 25 %

[J15/P1/Q27]

Trouble → SHOOTER

$$\begin{aligned} \text{Net profit} &= \text{Gross profit} - \text{expenses} \\ &= \$40000 - \$25000 = \$15000 \end{aligned}$$

$$\begin{aligned} \text{Sales} &= \text{cost} + \text{gross profit} \\ &= \$60\,000 + \$40\,000 = \$100\,000 \end{aligned}$$

$$\begin{aligned} \text{Net profit percentage} &= \frac{\text{net profit}}{\text{sales}} \times 100 \\ &= \frac{\$15000}{\$100000} \times 100 = 15\% \end{aligned}$$

Answer: B

19. Gordon provided the following information for the year.

revenue	\$90 000
opening inventory	\$8 000
closing inventory	\$2 000
gross profit / revenue ratio	33.33%

Gordon took goods, \$7000, for his own use.

What were the purchases?

- A \$43 000
- B \$47 000
- C \$54 000
- D \$61 000

[N15/P1/Q28]

Trouble → SHOOTER

$$\text{Gross profit} = \$90\,000 \times \frac{1}{3} = \$30\,000$$

$$\text{Cost of sales} = \$90\,000 - \$30\,000 = \$60\,000$$

$$\text{Purchases} = \$60\,000 + \$7\,000 + \$2\,000 - \$8\,000 = \$61\,000$$

Answer: D

20. What is mark-up?

- A gross profit expressed as a percentage of cost of sales
- B gross profit expressed as a percentage of sales
- C profit for the year expressed as a percentage of cost of sales
- D profit for the year expressed as a percentage of sales

[J16/P1/Q21]

Trouble → SHOOTER

Option B is margin. Option C is net profit percentage of cost of sales. Option D is net profit percentage of sales. Option A is a definition of markup.

Answer: A

**Topic 14** *Ratio Analysis and Interpretation*

21. A company provided the following information.

	\$	\$
revenue		500 000
opening inventory	35 000	
purchases	310 000	
	345 000	
closing inventory	45 000	
cost of goods sold		300 000
gross profit		200 000

What was the rate of turnover of inventory?

- A 5 times      B 6.67 times  
C 7.5 times    D 8.57 times

[J16/P1/Q28]

Trouble ⇒ SHOOTER

$$\begin{aligned} \text{Rate of turnover} &= \frac{\text{cost of goods sold}}{\text{average inventory}} \\ &= \frac{300\,000}{\frac{35\,000 + 45\,000}{2}} \\ &= \frac{300\,000}{40\,000} = 7.5 \text{ times.} \end{aligned}$$

Answer: C

22. A trader provided the following information for his first year of trading.

	\$
revenue	90 000
purchases	72 500
closing inventory	560

What was the margin?

- A 18.82%      B 20.07%  
C 23.19%      D 25.10%

[N16/P1/Q25]

Trouble ⇒ SHOOTER

$$\begin{aligned} \text{Margin} &= \frac{\text{gross profit}}{\text{sales}} \times 100 \\ &= \frac{90\,000 - (72\,500 + 560)}{90\,000} \times 100 \\ &= \frac{18\,060}{90\,000} \times 100 = 20.07\% \end{aligned}$$

Answer: B

23. A business provided the following information for its financial year.

	\$
opening inventory	3 800
closing inventory	4 200
cost of sales	36 000

What was the rate of turnover of inventory?

- A 2.25 times      B 4.5 times  
C 8.57 times      D 9 times

[N16/P1/Q27]

Trouble ⇒ SHOOTER

$$\text{Average inventory} = \frac{\$3800 + \$4200}{2} = \$4000$$

$$\text{Rate of turnover of inventory} = \frac{\text{cost of sales}}{\text{average inventory}} = \frac{\$36\,000}{\$4\,000} = 9 \text{ times.}$$

Answer: D

24. Which action will improve the percentage of gross profit to revenue (sales)?

- A increasing expenses  
B increasing selling price  
C reducing expenses  
D reducing selling price

[N16/P1/Q28]

Trouble ⇒ SHOOTER

Options A and C affect the net profit. Option D would reduce the gross profit percentage.

Option B would increase total sales as a result increase gross profit.

Answer: B

25. Which formula is used to calculate the quick ratio (acid test ratio)?

- A  $\frac{\text{current assets}}{\text{current liabilities}}$   
B  $\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$   
C  $\frac{\text{current liabilities}}{\text{current assets}}$   
D  $\frac{\text{current liabilities}}{\text{current assets} - \text{inventory}}$

[N16/P1/Q29]

**Topic 14** Ratio Analysis and Interpretation

Trouble → SHOOTER

Inventory is the least liquid asset. Quick ratio takes into account only those assets which can be converted into cash in the shortest time.

Answer: B

26. A business provided the following information.

	\$
tangible non-current assets	15 000
intangible non-current assets	25 000
current assets	35 000
current liabilities	10 000

What was the working capital ratio (current ratio)?

- A 1.5 : 1
- B 2.5 : 1
- C 3.5 : 1
- D 7.5 : 1

[J17/P1/Q29]

Trouble → SHOOTER

$$\begin{aligned} \text{Working capital ratio} &= \frac{\text{current assets}}{\text{current liabilities}} \\ &= \frac{35\,000}{10\,000} \\ &= 3.5 : 1 \end{aligned}$$

Answer: C

27. What is **not** included when calculating the quick ratio (acid test ratio)?

- A bank overdraft
- B inventory
- C short-term bank loan
- D trade receivables

[N17/P1/Q29]

Trouble → SHOOTER

Inventory is not included in calculating the quick ratio. Inventory is the least liquid asset in the list of current assets.

Answer: B

28. A business provided the following information.

	\$
revenue	100 000
gross profit	20 000

What was the percentage mark-up?

- A 20%
- B 25%
- C 75%
- D 80%

[J18/P1/Q22]

Trouble → SHOOTER

$$\begin{aligned} \text{Markup} &= \frac{\text{Gross profit}}{\text{Cost of sales}} \times 100 \\ &= \frac{\$20\,000}{\$100\,000 - \$20\,000} \times 100 = 25\% \end{aligned}$$

Answer: B

29. A business provided the following information.

	2016 %	2017 %
gross profit / sales	40	30
net profit / sales	8	10

What may have caused the change in the net profit/sales ratio?

- A expenses have decreased
- B expenses have increased
- C the percentage of expenses to sales has decreased
- D the percentage of expenses to sales has increased

[J18/P1/Q29]

Trouble → SHOOTER

$$\begin{aligned} 2016 \text{ Expense} &= 40 - 8 = 32\% \\ 2017 \text{ Expense} &= 30 - 10 = 20\% \end{aligned}$$

The percentage of expenses to sales has decreased from 32% in 2016 to 20% in 2017.

Answer: C

30. A trader provided the following information.

	\$
revenue	95 000
purchases	40 000
opening inventory	20 000
closing inventory	18 000
cost of sales	42 000

What was the rate of turnover of inventory?

- A 2.10 times
- B 2.21 times
- C 5 times
- D 5.28 times

[N18/P1/Q27]

Trouble → SHOOTER

$$\begin{aligned} \text{Cost of sales} &= \$20\,000 + \$40\,000 - \$18\,000 \\ &= \$42\,000 \end{aligned}$$

$$\text{Average stock} = \frac{20\,000 + 18\,000}{2} = \$19\,000$$

$$\text{Inventory turnover} = \frac{42\,000}{19\,000} = 2.21 \text{ times}$$

Answer: B

### Topic 14 Ratio Analysis and Interpretation

31. A business provided the following information about its percentage of gross profit to sales.

Year 1	40%
Year 2	38%
Year 3	35%

What could explain the changes in the percentage of gross profit to sales?

- A Cost of sales is decreasing.
- B Expenses are decreasing.
- C Quantity of goods sold is decreasing.
- D Selling price is decreasing.

[N18/P1/Q28]

Trouble → SHOOTER

option A - If cost of sales decreases then gross profit increases.

option B - Expenses effect net profit.

option C - When Quantity of goods sold decreases then both sales and cost of sales are effected.

option D - When selling price decreases and cost remains the same, then gross profit to sales % decreases.

Answer: D

32. A business's sales are \$100 000, the expenses are \$30 000 and the profit for the year is \$20 000.

What is the gross profit/sales ratio?

- A 10%
- B 50%
- C 70%
- D 80%

[J19/P1/Q27]

Trouble → SHOOTER

Gross Profit = expenses + net profit

$$\text{Gross Profit} = 30\,000 + 20\,000 = 50\,000$$

$$\text{Gross profit/sales ratio} = \frac{50\,000}{100\,000} \times 100\% = 50\%$$

Answer: B

33. How is the current ratio calculated?

- A assets minus liabilities
- B assets divided by liabilities
- C current assets divided by current liabilities
- D current assets minus current liabilities

[N19/P1/Q28]

Trouble → SHOOTER

Current ratio is calculated by the following formula:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Answer: C

34. Which ratio measures liquidity?

- A gross profit / sales
- B net profit / sales
- C quick ratio (acid test ratio)
- D return on capital employed

[N19/P1/Q29]

Trouble → SHOOTER

Options A, B and D are profitability ratios. Quick ratio (acid test ratio) is a test of a firms liquidity.

Answer: C

35. Sabelo's liquid (acid test) ratio was higher on 1 January 2019 than it was on 31 December 2019.

What could have caused this?

- A bank overdraft decreased
- B inventory decreased
- C other payables decreased
- D trade receivables decreased

[J20/P1/Q30]

Trouble → SHOOTER

- Inventory is not taken into account when calculating Acid test ratio.
- Decrease in Bank overdraft and decrease in other payables increases the Acid test ratio.
- When trade receivables decrease, acid test ratio decreases. Current liabilities become greater than current assets (excluding inventory).

Answer: D

36. The following ratios have been calculated for a trader.

	year 1	year 2
profit margin	15%	20%
return on capital employed (ROCE)	9%	6%

What explains these changes?

- A Drawings have increased by more than profit for the year.
- B Gross profit has increased but profit for the year has decreased.
- C Profit for the year has increased and capital has been introduced.
- D Profit for the year has increased and a long-term loan has been repaid.

[J20/P1/Q31]

Trouble → SHOOTER

Profit for the year has increased by 5%. At the same time ROCE has decreased by 3%. This means more capital has been introduced in the business by a trader or he has taken long-term loans.

Answer: C

37. Which external parties would be interested in the accounting ratios of a business?

- A government
- B investors
- C managers
- D tax authorities

[J20/P1/Q32]

Trouble ⇒ SHOOTER

*Investors are interested in the accounting ratios of a business. They want to evaluate the liquidity, profitability, investment and activity ratios of a business in order to assess whether their investment is yielding returns or they should make investment in other business for profitable returns.*

Answer: B

38. A trader made the following forecasts for the business for the next financial year.

average inventory	\$80 000
rate of inventory turnover	6 times
mark-up	25%

What are the forecast sales for the next financial year?

- A \$360 000
- B \$480 000
- C \$576 000
- D \$600 000

[N20/P1/Q27]

Trouble ⇒ SHOOTER

$$\text{Inventory turnover} = \frac{\text{cost of sales}}{\text{average inventory}}$$

$$6 = \frac{\text{cost of sales}}{\$80\,000}$$

$$\text{cost of sales} = \$80\,000 \times 6 = \$480\,000$$

$$\text{Sales} = \text{Cost} + \text{mark-up}$$

$$= \$480\,000 + (\$480\,000 \times 25\%)$$

$$= \$480\,000 + \$120\,000 = \$600\,000$$

Answer: D

39. A company provided the following information about its current ratio.

year 1	2.3 : 1
year 2	2.4 : 1
year 3	2.5 : 1

What would explain the changes in the ratio?

- A Inventory is decreasing.
- B Other payables are increasing.
- C Other receivables are increasing.
- D Trade receivables are decreasing.

[N20/P1/Q28]

Trouble ⇒ SHOOTER

*The changes in ratio are indicating that current assets are increasing. In option C current and other receivables are increasing.*

Answer: C

40. A trader wants to improve his gross margin. How can this be done?

- A Reduce administrative expenses.
- B Reduce depreciation of equipment.
- C Reduce rate of cash discount allowed.
- D Reduce rate of trade discount allowed.

[N20/P1/Q29]

Trouble ⇒ SHOOTER

*Options A, B, C are options to increase net profit. If rate of trade discount is reduced, it would increase net price of sales. This will result in increased gross profit.*

Answer: D

41. Meesha provided the following information for her first year of trading.

	\$
sales (1000 units at \$10 each)	10 000
cost of sales (1000 units at \$4.50 each)	4 500
gross profit	5 500

In her second year of trading, Meesha reduced the selling price and sold 1500 units. Her gross profit decreased by \$250. There was no change in the cost per unit.

What was the total value of sales in the second year of trading?

- A \$9750
- B \$10 250
- C \$12 000
- D \$12 500

[N20/P1/Q30]

Trouble ⇒ SHOOTER

$$\text{Sales} - \text{cost} = \text{gross profit}$$

$$\text{Sales} = \text{gross profit} + \text{cost}$$

$$= (\$5500 - \$250) + (1500 \times \$4.50)$$

$$= \$5250 + \$6750 = \$12\,000$$

Answer: C