ACCOUNTING

ADVANCED LEVEL

QUESTIONS BOOK

PAPERS

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1998 - 2009 QUESTIONS

1 The field of accounting may be best defined as the [Meigs & Ferrara]
A art of interpreting, measuring and describing economic activities.
B issuance of an independent opinion as to the fairness of a company's financial statements.
C preparation of financial statements for individuals and businesses.
D systematic recording of business monetary aspects into the correct books of accounts.

2 Which of the following characteristics of accounting information does the objective of financial reporting omit?
A Comparability **C** Relevance
B Timeliness **D** Understandability [Horngren, Harrison & Lemon]

3 The primary objective of financial reporting is to provide information
A about a firm's economic resources and obligations.
B about a firm's financing and investing activities.
C concerning the changes in financial position resulting from income-producing efforts of an entity.
D useful in predicting future cash flow. [Spiceland, Sepe & Tomassini]

4 The accounting information is used by [Horngren, Harrison & Lemon]
A all of these. **C** government and government agencies.
B businesses. **D** household members.

5 Generally Accepted Accounting Principles (GAAPs)
A apply to corporations, but not to businesses organised by sole proprietorships and partnerships.
B are the 'ground rules' followed in preparing financial statements.
C are the rules followed in recording financial transactions in books of accounts.
D assure the management that the entire business operates according to plan. [Meigs & Ferrara]

6 The main purpose of Accounting Standards is to
A prevent unqualified accountants from preparing company accounts.
B provide useful information for shareholders.
C reduce the range and variety of financial accounting practices.
D set out uniform accounting bases. [J02E10C], [J07Q30Z]

7 Which of the concepts or principles is **not** mentioned in IAS 1, ***Presentation of Financial Statements***?
A Accruals **C** Prudence
B Going concern **D** Separate valuation [J98Q17C]

8 Which of the following concepts is **not** mentioned in IAS 1? [N01Q17C]
A Accruals **B** Going concern **C** Materiality **D** Prudence

9 What are the **four** fundamental accounting concepts according to IAS 1?
A Accruals, consistency, going concern, and materiality
B Accruals, consistency, going concern, and prudence
C Comparability, going concern, matching and prudence
D Comparability, matching, prudence, and true and fair view [N00Q20C]

10 IAS 1, ***Presentation of Financial Statements***, lists four accounting principles.

Which of the following is stated by the standard to be a **desirable** principle? [Randall]
A Accruals **B** Consistency **C** Going concern **D** Historical cost

11 There is great uncertainty about the continuance of a business. This caused the proprietor to make a large reduction in the valuation of the year end-stock.

Which accounting concept does this illustrate? [J02Q07Z]
A Going concern **B** Matching **C** Materiality **D** Substance over form

12 A business is about to be closed down as it has insufficient funds to pay its creditors. The owner places a very low value on his stock in the Balance Sheet.

Which concept is being applied?
A Going concern **C** Money measurement
B Materiality **D** Subjectivity [Randall]

13 A company does **not** include the value of skills gained by its employees from training programmes in its financial statements. [J04Q09C]

Which accounting concept is applied?

A Consistency **B** Materiality **C** Money measurement **D** Substance over form

14 A new business is starting. The president wishes to wait until significant contracts are fulfilled before reporting the results of the operations. [Horngren, Harrison & Lemon]

Which underlying concept serves as the basis for preparing financial statements at regular intervals?

A Business entity **B** Going concern **C** Stable monetary unit **D** Time period

15 What does the ***going concern*** principle mean?

A A business is profitable.
B A business will continue to operate for the foreseeable future.
C Assets of a business exceed its liabilities.
D Assets of the business should be valued at disposable value. [J04Q07Z]

16 The time period principle

A involves dividing the life of a business entity into accounting periods of equal length so that financial statement users periodically can evaluate the results of business operations.
B stems from the Zimbabwe Revenue Authority (ZIMRA) requirement that taxable income be reported on annual basis.
C requires all companies to use a fiscal year ending 31 December. [Meigs & Ferrara]
D requires that all corporations prepare monthly, quarterly and annual financial statements.

17 The accounting period of a business may be best described as [Meigs & Ferrara]

A one month. **C** time-span covered by Balance Sheet.
B one year. **D** time-span covered by Income Statement.

18 The consistency concept requires that the nature of and justification for a change in the accounting principle and its effect on the profit be disclosed in the financial statements of the period in which the change is made.

An example of a change that is **not** a change in accounting principle is change in

A depreciation method for previously recorded plant assets.
B method of accounting for a club's subscriptions in arrears. [Fess & Warren]
C method of stock pricing.
D method of reporting cents in the financial statements.

19 A company's financial statements do not report cents amounts. [Fess & Warren]

This is an example of an application of which of the following concepts?

A Business entity **B** Consistency **C** Going concern **D** Materiality

20 The separate entity assumption states that, in the absence of contrary evidence, which entity survives indefinitely?

A Club **C** Partnership
B Company **D** Sole trader [Spiceland, Sepe & Tomassini]

21 Which of the following forms of business organisation is an 'artificial person' and must obtain legal approval from the government to conduct business? [Horngren, Harrison & Lemon]

A Corporation **B** Co-operative **C** Partnership **D** Proprietorship

22 A profit-making business that is a separate legal entity and in which ownership is divided into shares of stock is known as a [Fess & Warren]

A building society. **B** company. **C** partnership. **D** single proprietorship.

23 Which of the following best describes the meaning of 'purchases'?

A Goods bought for cash. **C** Goods bought for resale.
B Goods bought on credit. **D** Items bought. [Wood & Allan]

24 On 1 July, Sea Mariner Company received a purchase order dated 28 June from Bayshore Boat Sales. Sea Mariner Company shipped the merchandise and mailed a sales invoice on 6 July. The merchandise arrives and the purchase invoice is approved at Bayshore Boat Sales on July 8.

Bayshore Boat Sales should record the purchase and related liability on [Meigs & Ferrara]

A 1 July **B** 6 July **C** 8 July **D** 28 June

25 Late in the current year, Fallbrook Lumber Co received an invoice for legal fees rendered in November, payable by 31 January. The invoice was not recorded until 12 January.

As a result of this delay [Meigs & Ferrara]

A legal fees expense is overstated.
B liabilities are overstated.
C the cost principle is violated.
D the matching principle is violated.

26 Which of the following will **not** be called 'sales'?

A Goods sold for cash.
B Goods sold on credit.
C Sell of goods bought for resale.
D Office fixtures sold. [Wood & Allan]

27 In general, revenue is recognised as earned when the earning process is virtually complete and

A a contract has been signed.
B a purchase order has been received. [Spiceland, Sepe & Tomassini]
C the sales price has been collected.
D there is reasonable certainty as to the collectability of the asset to be received.

28 Under the realisation principle, revenue is recorded [Horngren, Harrison & Lemon]

A after it has been earned, but not before.
B at the earliest acceptable date.
C at the end of the accounting period.
D at the latest acceptable date.

29 The realisation principle

A indicates that a business should record revenue when services are rendered or merchandise sold is delivered to the customers, even if cash has not yet been received.
B indicates that revenue should be recognised in the accounting period when cash is received, even if the business has not yet performed all the required services.
C indicates that revenue should be recorded only after two conditions have been met: (1) earning process is complete and (2) the cash has been collected.
D provides guidelines as to when expenses should be recognised. [Meigs & Ferrara]

30 On 1 July, Sea Marine Company received a purchase order dated 28 June from Bayshore Boat Sales. Sea Marine Company shipped the merchandise and mailed a sales invoice on 6 July. The merchandise arrives and the purchase invoice is approved at Bayshore Boat Sales on July 8.

Sea Marine Company should record the sale on [Meigs & Ferrara]

A 1 July **B** 6 July **C** 8 July **D** 28 June

31 A produce supplier enters into a contract with a market chain on 4 April to deliver pumpkins in May. The pumpkins are delivered on 8 May at a price of \$4 000, payable \$2 000 on 1 June and \$2 000 on 5 July.

When should the produce supplier record the \$4 000 revenue? [Meigs & Ferrara]

A 4 April
B 8 May
C \$2 000 on 1 June and \$2 000 on 5 July
D When the supermarket sells the pumpkins

32 A new business' first activity is to [Horngren, Harrison & Lemon]

A earn revenues. **B** incur expenses. **C** make investment. **D** obtain financing.

33 The Journal is [Wood & Allan]

A a supplement to the Cash Book.
B not part of the double entry system.
C part of the double entry system.
D used when other Journals are mislaid.

34 A Journal consists of a

A chronological record of individual business transactions.
B listing of the balances of the accounts in the Ledger.
C separate 'account' for each asset, liability and element of owners' equity. [Meigs & Ferrara]
D A storage centre of information within a computer-based system.

35 Why do accountants record transactions in the Journal? [Horngren, Harrison & Lemon]

A To ensure that all transactions are posted to the Ledger.
B To ensure that total debits equal total credits.
C To have a chronological record of all transactions.
D To help prepare the financial statements.

36 Which of the following should be entered in the Journal? [Wood & Allan]

1 Credit sales of goods
2 Fixtures bought on credit
3 Payment for cash purchases
4 Sale of surplus machinery

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

37 An alternative name for a Sales Journal is [Wood & Allan]

A Daily sales. **B** Sales Day Book. **C** Sales invoice. **D** Sales Ledger

38 The Sales Day Book is best described as [Wood & Allan]

A a list of credit sales. **C** containing real accounts.
B containing customers' accounts. **D** part of the double entry system.

39 The total of the Sales Journal is entered on the [Wood & Allan]

A credit side of the Sales Account kept in the General Ledger.
B credit side of the Sales Account kept in the Sales Ledger.
C debit side of the Sales Account kept in the General Ledger.
D debit side of the Sales Account kept in the Sales Ledger.

40 Special Journals help **most** by [Horngren, Harrison & Lemon]

A easing the preparation of the financial statements.
B improving accuracy when posting to subsidiary Ledgers.
C limiting the number of entries that have to be posted to the Ledgers.
D reducing the cost of running the accounting system.

41 Galvan Ltd recorded 523 credit sale transactions in the Sales Journal. [Horngren, Harrison & Lemon]

How many postings would be required if these transactions were recorded in the General Journal?

A 523 **B** 1 046 **C** 1 569 **D** 2 092

42 Rex LTD records all transactions in General Journal but is considering installing special Journals. The number of sales on credit during January was 325 and the number of cash sales was 275.

Therefore the use of a Sales Journal in January would have saved [Meigs & Ferrara]

A 324 postings to the Cash Book. **C** 325 postings to the Cash Book.
B 324 postings to the Sales Account. **D** 325 postings to the Sales Account.

43 Entered in the Purchases Journal are [Wood & Allan]

A discounts received. **C** purchases invoices.
B payments to suppliers. **D** trade discounts.

44 The Purchases Journal is a book of original entry used to record purchases [Meigs & Ferrara]

A and purchases returns and allowances. **C** of merchandise for cash or on credit.
B of any asset on credit. **D** of merchandise on credit only.

45 Entries in the Purchases Journal are posted to the [Horngren, Harrison & Lemon]

A Creditors Ledger and the Debtors Ledger. **C** Debtors Ledger and General Ledger.
B Creditors Ledger and the General Ledger. **D** General Ledger only.

46 The total of the Purchases Journal is transferred to the [Wood & Allan]

A credit side of the Purchases Account. **C** debit side of the Purchases Account.
B credit side of the Purchases Day Book. **D** debit side of the Purchases Day Book.

47 The total of Purchases Journal is posted at the end of the month
- **A** as a debit to Creditors Control Account and a debit to Purchases Account.
- **B** as a debit to Purchases Account and a credit to Creditors Control Account.
- **C** to the Purchases Account and Purchase Ledger.
- **D** to the Purchases Day Book and Purchases Ledger. [Meigs & Ferrara]

48 The total of the Returns Outwards Journal is transferred first to the [Wood & Allan]
- **A** credit side of Purchases Returns Account then to the debit side of Creditors Control Account.
- **B** credit side of Sales Returns Account then to the debit side of Debtors Control Account.
- **C** debit side of Purchases Returns Account then to the credit side of Creditors Control Account.
- **D** debit side of Sales Returns Account then to the credit side of Debtors Control Account.

49 When the General Journal and four special journals are in use, the entries in the Cash Book come from
- **A** all the books of prime entry. **C** Journal Proper.
- **B** Bank Account and Cash Account. **D** original documents. [Meigs & Ferrara]

50 The total of the 'discount allowed column' in the Cash Book is posted to the [Wood & Allan]
- **A** credit of the Purchases Discounts Account. **C** debit of the Purchases Discounts Account.
- **B** credit of the Sales Discounts Accounts. **D** debit of the Sales Discounts Account.

51 Sales invoices are first entered in the [Wood & Allan]
- **A** Cash Book. **B** Sales Account. **C** Sales Journal. **D** Sales Ledger.

52 Credit notes issued by us will be entered first in our [Wood & Allan]
- **A** Returns Inwards Account. **C** Returns Outwards Account.
- **B** Returns Inwards Journal. **D** Returns Outwards Journal.

53 If the seller ships the goods to a customer but charges more than the customer had expected to pay, the discrepancy should come to light when the
- **A** purchase invoice is compared with the sales invoice.
- **B** purchase order is compared with purchase invoice.
- **C** receiving report is compared with the purchase invoice.
- **D** receiving report is compared with the purchase order. [Meigs & Ferrara]

54 If merchandise purchased on account is returned, the buyer informs the seller of the details by issuing
- **A** a bill. **C** a debit memorandum (debit note)
- **B** a credit memorandum (credit note) **D** an invoice. [Fess & Warren]

55 The company receiving shipment of the goods might send a debit memorandum to the supplier if [Meigs & Ferrara]
- **A** some of the goods were damaged. **C** the shipment was paid for in cash.
- **B** the purchase invoice was understated. **D** the shipment was received in a good condition.

56 Payment of cash for the purchase of goods for resale should be recorded in the [Fess & Warren]
- **A** Cash Book. **B** General Journal **C** General Ledger **D** Purchases Day Book

57 A cash discount is best described as a reduction in the sum to be paid if [Wood & Allan]
- **A** payment is made by cash, not cheque. **C** payment is made within a previously agreed period.
- **B** payment is made either by cash or cheque. **D** purchases are made for cash, not on credit.

58 Discounts received are [Wood & Allan]
- **A** deducted by us when we pay our accounts. **C** given by us when we sell goods on credit.
- **B** deducted when we receive cash. **D** given to us when we pay our accounts.

59 A purchase discount results from [Horngren, Harrison & Lemon]
- **A** buying large quantity of merchandise. **C** paying within the credit period.
- **B** paying within the cash discount period. **D** receiving purchase allowance from a seller.

60 We originally sold 25 items at $12 each, less $33^1/_3$% trade discount. A customer now returns 4 of the items back to us. What is the amount of credit note to be issued? [Wood & Allan]
- **A** $30 **B** $32 **C** $36 **D** $48

61 Tania purchased goods for $1 000 less 25% trade discount. She was allowed a cash discount of 10%.
Which amount should she enter in her Purchases Journal? [Randall]
A $650 **B** $675 **C** $750 **D** $1 000

62 Lara purchased goods costing $1 800 less trade discount of 30%. He was allowed a 5% cash discount.
How much should Lara pay for the goods? [Randall]
A $ 1080 **B** $1 197 **C** $1 260 **D** $1 800

63 Given a purchase invoice showing 5 items of $80 each, less trade discount of 25% and cash discount of 5%, if paid within the credit period, your cheque would be made out for [Wood & Allan]
A $260. **B** $280. **C** $285. **D** $300.

64 If merchandise is sold on account to a customer for $1 000, terms 1/10, n/30 (i.e. **1**% cash discount if payment made within **10** days, else **n**et amount must be paid within **30** days and the seller pays $50 in transportation costs, the amount of discount for early payment is [Fess & Warren]
A $5. **B** $10. **C** $10.50. **D** nil.

65 Merchandise is sold on account to a customer for $10 000, terms 1/10, n/30. [Fess & Warren]
If the seller pays $500 in transportation costs and the customer returns $1 000 worth merchandise prior to payment, what is the amount of discount for early payment?
A $90 **B** $100 **C** $105 **D** Nil

66 Gourmet Groceries purchased at invoice price $1 000 and terms of 2/10, n/30. Half of the goods were mislabelled and immediately returned to the supplier. [Meigs & Ferrara]
If Gourmet Groceries pays the invoice within the discount period, the amount paid will be
A $480. **B** $490. **C** $980. **D** $1 000.

67 How much must be received by the firm which acquired a $5 000, 60-day, 12% short-term investment issued by a bank at maturity? [Fess & Warren]
A $4 400 **B** $4 900 **C** $5 000 **D** $5 100

68 How much should be paid for a 90-day 12% loan of $10 000 at maturity? [Fess & Warren]
A $8 800 **B** $10 000 **C** $10 300 **D** $11 200

69 Smith invests in a partnership some land which costs his father $10 000. The land had a market value of $15 000 when Smith inherited it 6 years ago, and currently the land is independently appraised at a value of $25 000 even though Smith insists that 'he would not take $50 000 for it'.
The land should be record in accounts of partnership at [Meigs & Ferrara]
A $10 000. **B** $15 000. **C** $25 000. **D** $50 000.

70 The key-point in double entry accounting is that every transaction
A affects both sides of the Balance Sheet.
B is both recorded and posted.
C is recorded by equal dollar amounts of debit and credit entries.
D is recorded in both the Journal and the Ledger. [Meigs & Ferrara]

71 If Journal entry recognises an expense, the other part of the entry might be [Meigs & Ferrara]
A decrease a liability account. **C** increase a liability account.
B decrease the Retained Earnings Account. **D** increase an asset account.

72 A debit may signify
A a decrease of an asset. **C** an increase in capital.
B an increase in an asset. **D** an increase in a liability. [Fess & Warren]

73 Mazarotti Company issued a debit memo (note). [Horngren, Harrison & Lemon]
The related Journal entry is:
A Creditors
Purchases Returns and Allowances
C Purchases Returns and Allowances
Creditors
B Debtors
Sales Returns and Allowances
D Sales Returns and Allowances
Debtors

74 Sorter Co sells merchandise on account to Beecher Ltd. Sorter Co pays transportation (carriage) costs and adds them to the invoice. [Fess & Warren]

The accounts debited by Sorter Co (seller) and Beecher Ltd (buyer) to record the carriage costs are:

	Sorter Co	Beecher Ltd		Sorter Co	Beecher Ltd
A	Carriages Outward	Purchases	**C**	Debtors	Carriages Inward
B	Debtors	Creditors	**D**	Sales	Carriages Inward

75 When a businessman introduces capital into his business, the transaction is debited in the Cash Book and credited in his Capital Account.

Of which accounting principle is this an example? [J04Q08C]

A Business entity **B** Going concern **C** Matching **D** Prudence

76 If we take goods for own use we should debit the [Wood & Allan]

A Drawings A/C and credit the Purchases A/C.
B Drawings A/C and credit the Stock A/C.
C Purchases A/C and credit the Drawings A/C.
D Sales A/C and credit the Stock A/C.

77 A trader withdraws money from his business Bank Account for personal expenses.

Which entries record this in his books?

	Debit Account	Credit Account		Debit Account	Credit Account
A	Bank	Capital	**C**	Capital	Bank
B	Bank	Drawings	**D**	Drawings	Bank

[Randall]

78 The entries to record goods withdrawn by a sole trader as a present to his daughter are

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

[N04Q02Z]

79 The owner of a business paid his private telephone bill from the business Bank Account. The amount was debited to his Drawings Account.

Which concept was applied? [Randall]

A Business entity **B** Matching **C** Prudence **D** Realisation

80 The earning of revenue that is not received in cash is recorded by [Horngren, Harrison & Lemon]

	Debit	Credit		Debit	Credit
A	Cash	Revenue	**C**	Debtors	Revenue
B	Creditors	Revenue	**D**	Revenue	Debtors

81 The account credited for a receipt of cash on account is [Horngren, Harrison & Lemon]

A cash. **B** creditors. **C** debtors. **D** receipts.

82 The receipt of cash from customers in payment of their accounts would be recorded by:

	Debit	Credit		Debit	Credit
A	Cash	Creditors	**C**	Creditors	Cash
B	Cash	Debtors	**D**	Debtors	Cash

[Fess & Warren]

83 Morris Labs acquired a minicomputer by paying $10 000 cash and signing a $40 000 cheque.

To record this transaction, Morris Labs should [Meigs & Ferrara]

	Debit	$	Credit	$
A	Bank	40 000	Equipment	50 000
	Cash	10 000		
B	Cash	10 000	Cheque	40 000
	Equipment	30 000		
C	Cheque	40 000	Equipment	30 000
	Cash	10 000		
D	Equipment	50 000	Bank	40 000
			Cash	10 000

84 Joel occupies part of Natasha's business premises.

Which entries in Natasha's books record the rent Joel pays?

	Debit Account	Credit Account		Debit Account	Credit Account
A	Bank	Rent payable	**C**	Rent payable	Bank
B	Bank	Rent receivable	**D**	Rent receivable	Bank

[Randall]

85 $50 cash taken from the cash till and banked is entered in Cash Book as: [Wood & Allan]

	Debit	Credit		Debit	Credit
A	bank column	bank column	**C**	cash column	bank column
B	bank column	cash column	**D**	cash column	cash column

86 The purchase of land for cash is recorded by a debit to [Horngren, Harrison & Lemon]

A Cash and a credit to Land.
B Cash and a debit to Land.
C Land and a credit to Cash.
D Land and a debit to Cash.

87 Yasmina purchased some office equipment for use in her business. The equipment was faulty and she returned it to the supplier who refunded the cost to Yasmina.

Which entries record the return of the equipment? [Randall]

	Debit Account	Credit Account		Debit Account	Credit Account
A	Bank	Purchases returns	**C**	Purchases returns	Bank
B	Bank	Office equipment	**D**	Office equipment	Bank

88 A customer who buys goods on credit returned goods to a company and a credit note was issued.

The entries in the company's Ledger will be [S03Q03Z]

	Debit	Credit		Debit	Credit
A	Debtor's A/C	Returns Inwards A/C	**C**	Returns Inwards A/C	Debtor's A/C
B	Debtor's A/C	Sales A/C	**D**	Sales A/C	Debtor's A/C

89 Davina bought goods on credit from Sharon for $600 less trade discount of $120. [Randall]

Which entries record this transaction in Davina's books?

	Account(s) debited	Account credited		Account debited	Account(s) credited
A	Purchases by $480	Sharon by $480	**C**	Purchases by $600	Sharon by$480 Discount received by $120
B	Purchases by $480 Discount allowed by $120	Sharon by $600	**D**	Purchases by $600	Sharon by$600

90 A trader returns goods to the supplier and receives a refund.

Which entries record the refund in the trader's books? [Randall]

	Debit Account	Credit Account		Debit Account	Credit Account
A	Bank	Purchases	**C**	Purchases	Bank
B	Bank	Purchases returns	**D**	Purchases returns	Bank

91 The entry to record a sale of goods to a customer who uses a bank credit card (such as MasterCard or Visa) included a debit to [Meigs & Ferrara]

A Cash Account from sales.
B Bank Account from sales.
C Sales Account from cash.
D Sales Account from bank.

92 Shirley bought goods from Corrine. The goods had a list price of $800. Corrine allowed Shirley trade discount of 20% and cash discount of 5%. [Randall]

In Corrine's books, which entries record the cheque she received from Shirley?

	Accounts debited	Account credited		Accounts debited	Account credited
A	Bank by $608 Discount allowed by $32	Shirley $640	**C**	Bank by $608 Discount received by $32	Shirley by $640
B	Bank by $608 Discount allowed by $152	Shirley $760	**D**	Bank by $608 Discount received by $152	Shirley by $760

93 Cheung has received a cheque for $1 540 from Raju in full settlement of a debt of $1 700. [Randall]

How should this be recorded in Cheung's books of account?

		Debit $	Credit $
A	Bank	1 540	
	Raju		1 540
B	Bank	1 540	
	Discount allowed	160	
	Raju		1 700
C	Bank	1 700	
	Raju		1 700
D	Bank	1 700	
	Discount Received		160
	Raju		1 540

94 Which of the following are correct? [Wood & Allan]

		Account debited	Account credited
1	A debtor, P. Sangster, pays us by cheque	Bank	P. Sangster
2	Bought office furniture for cash	Office furniture	Cash
3	Introduced capital by cheque	Capital	Bank
4	Paid a creditor, B. Lee, by cash	B. Lee	Cash

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

95 Of the following, which are correct? [Wood & Allan]

		Account debited	Account credited
1	Goods bought for cash	Cash	Purchases
2	Goods sold on credit to R. Williams	R. Williams	Sales
3	S. Johnson returned goods to us	Returns inwards	S Johnson
4	We returned goods to A. Henry	A. Henry	Returns inwards

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

96 Which of the following are correct? [Wood & Allan]

		Account debited	Account credited
1	Paid motor expenses by cheque	Motor expenses	Bank
2	Paid rates by cash	Rates	Cash
3	Received commission by cheque	Bank	Commission received
4	Received insurance refund by cheque	Insurance	Bank

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

97 Which of the following statements about the rules of debiting and crediting is **not** true?

A Accounts on the left side of a Balance Sheet are reduced by credit entries.

B Each transaction is recorded by equal dollar amounts of debits and credits.

C Liability accounts are reduced by debit entries. [Meigs & Ferrara]

D Owners' equity accounts and asset accounts are increased by debit entries.

98 Which of the following is **not** an accurate statement regarding rules of debits and credits in recording revenue and expense accounts?

A Expenses decrease owners' equity; since decreases in owners' equity are recorded by debits, expenses are recorded by debits.

B Expenses use up assets; since decreases in assets are recorded by credits to expense account.

C In recording revenue transactions, we debit the assets received and credit the revenue account.

D Revenue increases owners' equity; since increases in owners' equity are recorded by credits; revenue is recorded by a credit. [Meigs & Ferrara]

99 Which of the following are incorrect? [Wood & Allan]

		Account debited	Account credited
1	Bought machinery on credit from Betterways Ltd	Betterways Ltd	Machinery
2	Repaid part of loan from C. Charles by cheque	Loan – C. Charles	Bank
3	Returned office equipment to Suppliers Ltd	Office equipment	Suppliers Ltd
4	Sold van for cash	Cash	Van

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

100 Which of the following are incorrect? [Wood & Allan]

		Account debited	Account credited
1	Goods bought on credit from T. Carter	Purchases	T. Carter
2	Goods returned to us by C. Barry	C. Barry	Returns outward
3	Goods sold for cash	Cash	Sales
4	Van purchased for cash	Purchases	Cash

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

101 Which of the following are incorrect? [Wood & Allan]

		Account debited	Account credited
1	Bought stationary by cash	Stationery	Bank
2	Paid general expenses by cheque	General expenses	Bank
3	Sold van for cash	Cash	Sales
4	Took cash out of business for private use	Cash	Drawings

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

102 In establishing and maintaining a Petty Cash Book, the
A contents of the book should at all times be limited to currency, coins and cheques
B contents of the book should at all times be limited to currency, coins, cheques, money orders, undeposited cash receipts and petty cash vouchers.
C Petty Cash Account is debited only when the fund is first established or subsequently changed in size.
D Petty Cash Account is debited whenever the fund is replenished. [Meigs & Ferrara]

103 The following are true about a Petty Cash Fund **except** that [Fess & Warren]
A it is based on the imprest system.
B it is established by estimating amount of cash needed for payments during a specified period.
C it is used to pay relatively small amounts.
D the petty cashier is reimbursed only when the money in the fund is increased to a predetermined maximum level.

104 When a Petty Cash Book is kept there will be
A fewer entries made in the General Ledger.
B more entries made in the General Ledger. [Wood & Allan]
C no entries made at all in the General Ledger for items paid by petty cash.
D the same number of entries in the General Ledger.

105 The internal control feature that is specific to petty cash is [Horngren, Harrison & Lemon]
A assignment of responsibility. **C** separation of duties.
B proper authorisation. **D** the imprest system.

106 Which of the statements describes an advantage of use of voucher system?
A assures that expenditure is reviewed and verified before payment is made.
B provides a highly flexible system for handling unusual transactions.
C provides automatically a comprehensive record of business done with particular suppliers.
D reduces the number of cheques that will be written during the period. [Meigs & Ferrara]

107 The most fundamental feature provided by a voucher system is [Horngren, Harrison & Lemon]
A assuring that only approved invoices are paid.
B centralising the recording of all expenditures in one place – the voucher register.
C placing all incoming invoices in the unpaid voucher file.
D using the cheque register along with the voucher register.

108 Given a cash float of $200, if $146 is spent in the period, how much will be reimbursed at the end of the period to the petty cashier? [Wood & Allan]
A $54 **B** $146 **C** $254 **D** $346

109 What is the major internal control measure over the cash receipts of a general dealer store?

A Channelling all cash receipts through the mail room, whose employees have no cash-accounting responsibilities.
B Preparing a petty cash ticket for all disbursements from the fund.
C Pricing merchandise at uneven amounts, coupled with use of a cash register.
D Reporting the day's cash receipts to the controller. [Horngren, Harrison & Lemon]

110 The most important control over cash receipts is [Horngren, Harrison & Lemon]

A assigning an honest employee the responsibility for handling cash.
B centralising the opening of incoming mail in a single location.
C ensuring that cash is deposited in the bank daily.
D separating the cash handling and cash accounting duties.

111 Which of the following is **not** a significant element of internal control over cash disbursements?

A Establish a Petty Cash Book.
B Perforating or stamping '*Paid*' on supporting invoices and invoices.
C Use a Cash Over and Under Account. [Meigs & Ferrara]
D Using serially number cheques and accounting for all numbers in the series.

112 Which of the following practices is undesirable from standpoint of maintaining adequate internal control over cash?

A Appointing as a custodian of the petty cash fund an employee who has no responsibility with respect to the maintenance of accounting records.
B Authorising the official who approves the invoices to sign cheques. [Meigs & Ferrara]
C Authorising the petty cashier to make bank deposits.
D Recording overages and shortages from errors in handling over-the-counter cash receipts in the Cash Over and Under Account.

113 Which of the following is **not** a significant element of internal control over cash receipts?

A Depositing each day's cash receipts intact in the bank.
B Establishing a Petty Cash Account.
C Pre-listing customers' remittances received in the mail.
D Pre-numbering sales tickets. [Meigs & Ferrara]

114 A business owner suspects a loss of cash has occurred and provides you with the data below:

	$
Cash balance at the start of the month	750
Cash balance at the end of the month	250
Cash banked	900
Cash sales per till rolls	1 050

How much cash has been lost? [Author]

A $350 **B** $650 **C** $850 **D** $1 150

115 The bookkeeper of a company has disappeared. There is no cash in the till and theft is suspected?

The following is known:

	$
Cash balance at the beginning of period	750
Total sales during the period	150 000
Decrease in debtors during the period	5 500
Receipts from debtors paid into bank	96 000
Expenses paid from cash received	5 000

How much has the bookkeeper stolen during the period? [J01C04C], [N01Q04C]

A $44 250 **B** $49 750 **C** $55 250 **D** $60 250

116 A debit balance of $100 in the Cash Account shows that [Wood & Allan]

A $100 was the total cash of cash paid out.
B cash has been overspent by $100.
C there was $100 cash in hand.
D total of cash received was less than $100.

117 A credit balance of $200 on the cash columns of the Cash Book would mean [Wood & Allan]
A someone has stolen $200 cash. **C** we have $200 cash in hand.
B the book-keeper has made a mistake. **D** we spent $200 more than we received.

118 When Lee makes out a cheque for $50 and sends it to Young, then Lee is known as a [Wood & Allan]
A banker. **B** creditor. **C** drawer. **D** payee.

119 If you want to make sure that your money will be safe if cheques are lost in the post, you should
A always pay by cash.
B always take the money in person.
C cross your cheques 'Account Payee only, Not Negotiable'. [Wood & Allan]
D not use the postal service in future.

120 Cheques received through the mail should be
A deposited by the mail-room employee.
B handled by the accounting department, which after making appropriate entries in the accounts, should turnover the cheques to the cashier to be made part of the daily bank deposits.
C listed by a mail-room employee and forwarded to the cashier, a copy of the list should be sent to the accounting department.
D transmitted to the accounts receivable department without delay. [Meigs & Ferrara]

121 When banking money into your current account, you should always use a [Wood & Allan]
A Cash Book. **B** cheque book. **C** deposit slip. **D** General Ledger.

122 The Bank Account serves as a control device over
1 Cash disbursements
2 Cash receipts [Horngren, Harrison & Lemon]
3 Petty cash

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

123 A business has a bank balance of $4 800. It pays for materials invoiced at $3 000 less trade discount of 30% and a settlement discount of 10%. A cheque of $450 is received from a debtor.

What is the bank balance after these transactions? [J99Q04C]
A $2 250 **B** $3 360 **C** $3 450 **D** $3 500

124 The bank balance of a business at 1 March 2007 was $6 000 and other transactions were:

	February 2007	**March 2007**
	$	**$**
Credit sales	80 000	90 000
Credit purchases	56 000	48 000
Wages	18 000	18 000
Drawings	1 000	500
Depreciation	800	800

Debtors pay in the month following sales. Creditors are paid in the month following purchases.

What was the bank balance at 31 March 2007? [N01Q30C]
A $10 700 **B** $11 500 **C** $28 700 **D** $29 500

125 A cheque paid by you, but not yet passed through the banking system is [Wood & Allan]
A a credit transfer. **C** a standing order.
B a dishonoured cheque. **D** an unpresented cheque.

126 A 'Not Sufficient Funds' cheque held by the payee should be carried on its records as
A an element of cash on hand. **C** trade creditors.
B cash over and short. **D** trade debtors. [Meigs & Ferrara]

127 Mann Company accepts numerous cheques from its trade credit customers. [Meigs & Ferrara]

When the drawer of the cheque has insufficient funds in the current account, Mann Company should

A debit the Debtors Control Account for the principal of the cheque plus disallowed discount off set by credits to the Bank Account and Discount Allowed Account.
B make no accounting entry if the drawer of the cheques pays the outstanding amount in cash.
C record a contingent liability in respect of the dishonoured cheque.
D transfer the principal amount of the cheque to Debtors Control Account and write of the disallowed cash discount as a loss in the Income Statement. [Meigs & Ferrara]

128 A Bank Reconciliation Statement is a statement
A drawn by the bank to verify the Cash Book.
B drawn by us to verify the Cash Book balance with the bank statement balance.
C sent by the bank when the account is overdrawn. [Wood & Allan]
D sent by the bank when we have made an error.

129 A Bank Reconciliation Statement is drawn up by the
A bank to verify the Cash Book balance with the bank statement balance.
B bank to verify the Cash Book of the business.
C business to verify the Cash Book balance with the bank statement balance.
D business when the bank has made errors. [J05Q08Z]

130 A Bank Reconciliation Statement is
1 not part of the double entry system;
2 part of the double entry system;
3 posted to the Ledger accounts;
4 sent by the firm to the bank. [Wood & Allan]

Which of the above is **not** true?

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

131 Which of the item appears on a Bank Reconciliation Statement? [Horngren, Harrison & Lemon]
A Book errors **C** Not sufficient fund cheque
B Interest earned on bank balance **D** Unpresented cheques

132 Which of the following will be recorded in a Cash Book on receipt of a bank statement?
A Balances **C** Undeposited cheques
B Direct debits **D** Unpresented cheques [N06Q24Z]

133 When preparing a bank reconciliation, Journal entries are required for [Fess & Warren]
1 additions to the Bank Account balance according to the depositor's records.
2 additions to the Bank Account balance according to the drawee-bank's records.
3 deductions from the Bank Account balance according to the depositor's records.
4 deductions from the Bank Account balance according to the drawee-bank's records.

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

134 Which of the following requires a Journal entry on the books of a company.
1 Bank charges
2 Bank interest earned
3 Book error [Horngren, Harrison & Lemon]
4 Not sufficient fund (NSF) cheque
5 Uncleared cheque

A 1 and 2 **B** 1, 2 and 4 **C** 1, 2, 3 and 4 **D** 3 and 5

135 In preparing a bank reconciliation, the cheques outstanding would be [Fess & Warren]
A added to the Bank Account balance according to the bank statement.
B added to the Bank Account balance according to the Cash Book.
C deducted from the Bank Account balance according to the bank statement.
D deducted from the Bank Account balance according to the Cash Book.

136 A bank statement showed an overdraft of $360 at 31 July 2004.

The following discoveries were made:

– cheques totalling $2 100 banked in July had not been credited in the bank statement;
– cheques drawn for $875 in the Cash Book in July had not been entered on the bank statement.

What was the balance in the Cash Book at 31 July 2004? [Randall]

A $865 Cr. **B** $865 Dr. **C** $1 585 Cr. **D** $1 585 Dr.

137 A bank statement at 31 January 2004 showed a balance of $1 000 Dr.

The following did not appear on the statement:

– cheques not presented for payment, $230;
– a cheque of $400 banked on 31 January 2004;
– bank charges of $200 had not been entered in the Cash Book. [Randall]

What was the original balance in the Cash Book at 31 January 2004 before it was amended?

A $630 Cr. **B** $630 Dr. **C** $830 Cr. **D** $830 Dr.

138 In the Cash Book of a company, the Bank Account showed a debit balance of $50 000. The uncleared deposits amounted to $15 000. Bank statement showed bank charges of $7 000 not in the Cash Book.

What is the balance on the bank statement? [Author]

A $28 000 Cr. **B** $35 000 Cr. **C** $42 000 Cr. **D** $58 000 Cr.

139 In the Cash Book of a company the Bank Account showed a credit balance of $5 000. The unpresented cheques amounted to $1 500. The bank statement showed bank charges of $700 not in Cash Book.

What is the balance on the bank statement? [J02Q04Z]

A $3 500 debit **B** $4 200 credit **C** $4 200 debit **D** $5 800 credit

140 A firm's Cash Book shows a debit balance of $6 540. Cheques drawn but not yet presented amounted to $2 460 while deposits not yet credited by the bank are $3 440. Bank charges not yet entered in the Cash Book are $180.

The bank statement shows a balance of [N02Q07Z]

A $3 100 Cr. **B** $4 080 Cr. **C** $5 380 Cr. **D** $5 560 Cr.

141 Extracts from a business' Bank Reconciliation Statement are:

	$
Cash Book balance	5 074 Cr.
Outstanding cheques not presented	12 444
Cheques deposited not credited	20 160

What is the balance as per bank statement? [N07Q21Z]

A $2 642 Cr. **B** $2 642 Dr. **C** $12 790 Cr. **D** $12 790 Dr.

142 A Cash Book of a business shows a credit balance of $37 823.

The following information is also provided:

– Unpresented cheques totalled $5 891;
– The bank debited in error $844 to business Bank Account;
– Bank charges for the month were $729;
– Customer's cheques dishonoured totalled $3 435.

What is the bank statement balance? [J05Q23Z]

A $36 940 credit **B** $36 940 debit **C** $38 706 credit **D** $38 706 debit

143 A Cash Book balance at 31 October 2003 was $1 600.

When the Bank Statement was received, the following were discovered:

– a cheque for $425 sent by a customer had been entered in the Cash Book as $452;
– a cheque for $375 sent to a supplier had not been presented for payment;
– a cheque for $400 paid into the bank had not been credited in the bank statements.

What was the balance on the bank statement at 31 October 2003? [Randall]

A $1 548 **B** $1 575 **C** $1 602 **D** $1 652

144 When preparing a Bank Reconciliation Statement, the following information is available:

	$
Bank balance shown by the Cash Book	20 000 debit
Unpresented cheques	2 500
Uncleared bankings	1 400
Standing order shown on bank statement (not in Cash Book)	300

What is the balance on the bank statement? [J04Q10C]

A $18 600 **B** $19 200 **C** $20 800 **D** $21 400

145 The Cash Book (Bank Account column) of Lillys Ltd had a credit balance of $5 000. Deposits of $2 000 were not yet cleared. The bank statement showed a credit transfer of $600 not yet in the Cash Book.

What is the balance on the bank statement? [J04Q04Z]

A $3 600 Cr. **B** $3 600 Dr. **C** $6 400 Cr. **D** $6 400 Dr.

146 Y's bank statement showed a credit balance of $2 170 at 31 May 2004.

An examination of the statement showed the following:

– a direct debit for $300 had been debited twice in the bank statement;
– a cheque for $1 015 sent to a supplier had not been presented for payment;
– a cheque for $600 paid into the bank had not been credited in the Bank Statement.

What was the original Cash Book balance at 31 May 2004? [Randall]

A $1 455 **B** $2 055 **C** $2 355 **D** $2 885

147 A bank statement had a favourable balance of $12 300 at 31 March 2010. Bank lodgements amounted to $2 442.

Inspections unearthed that the bank had recorded the following:

– bank charges for the month $456;
– bank interest $789;
– bank giro credit $1 200;
– insurance standing order $321.

How much was the bank balance as per original Cash Book on 31 March 2010? [Author]

A $8 646 **B** $11 070 **C** $13 530 **D** $13 833

148 Other than to satisfactorily complete the Bank Reconciliation Statement, the only related entries to be made on the depositor's book are to

A correct errors existing in the bank statement.
B reconcile items which explain the difference between the balance per Cash Book and the Adjusted Cash Book balance.
C record items which explain the difference between the balance per Cash Book and the Updated Cash Book balance.
D record outstanding cheques and bank service charges. [Meigs & Ferrara]

149 The following information is available on 31 December 2007:

	$
Cash Book bank balance	565 O/D
Unpresented cheques	57
Customer's dishonoured cheques	92

The correct bank balance to be shown in the Balance Sheet at 31 December 2007 is [J03Q12Z]

A $530 overdrawn. **B** $600 overdrawn. **C** $657 overdrawn **D** $714 overdrawn.

150 Figures relating to a company's banking transactions at 31 December:

	$
Balance at the bank statement	22 650
Uncleared lodgements	3 110
Unpresented cheques	6 290
Bank credit recorded twice by bank in error	650

Which balance for cash at bank should appear in the Balance Sheet at 31 December? [J01C12C]

A $18 820 **B** $20 120 **C** $25 180 **D** $26 480

151 Before the Bank Reconciliation Statement was prepared, the accounting records of Adams Company showed a balance of $26 440 and the bank statement showed a balance of $32 500. Reconciling items are a deposit-in-transit of $2 620, outstanding cheques of $8 700 and bank service charges of $20.

The amount of cash at bank that should be shown in the Balance Sheet is [Meigs & Ferrara]

A $20 360. **B** $26 420. **C** $26 460. **D** $35 120.

152 At 30 April 2004 the balance in X's Cash Book was $1 740. At the same date the balance on his bank statement was $2 240.

Comparison of the Cash Book and the bank statement showed the following:

– a dividend, $200, credited to X in the bank statement had not been entered in the Cash Book;
– cheques totalling $300 sent to suppliers in April had not been entered in the bank statement.

Which amount should be shown in the Balance Sheet at 30 April 2004? [Randall]

A $1 640 **B** $1 740 **C** $1 940 **D** $2 240

153 Extracts from a business' bank reconciliation is:

	$
Cash Book in hand at 31 December	2 075
Balance per bank statement at 31 December	2 250
Bank charges per bank statement not entered in Cash Book	150
Outstanding cheques not represented at the year end	325

What is the bank balance to be shown in the financial statements? [N01Q08C]

A $1 600 **B** $1 925 **C** $2 075 **D** $2 225

154 At 30 June 2007, a customer's bank statement shows that his Bank Account is overdrawn by $10 136.

At that date, cheques drawn, but not yet presented to the bank totalled $4 998 and cheques paid into his account, but not yet credited by the bank totalled $5 896. His bank statement shows that interest of $181 has been charged, but this has not yet been entered in the Cash Book.

What is the correct bank balance to be shown in the Balance Sheet at 30 June 2007? [J98Q06C]

A $9 057 overdrawn **B** $9 238 overdrawn **C** $10 853 overdrawn **D** $11 034 overdrawn

155 The term ***posting*** means

A determining the balances of the Ledger accounts.
B entering information into a computerised database.
C providing the equality of debits and credits in the Ledger.
D transferring debit and credit balances from the Journal to the Ledger. [Meigs & Ferrara]

156 '***Posting***' the transactions in bookkeeping means

A entering items in a Cash Book.
B making the first entry of the double entry system.
C making the second entry of the double entry system. [Wood & Allan]
D something other than all the above.

157 Posting is the process of transferring information from the [Horngren, Harrison & Lemon]

A Journal to the Ledger. **C** Ledger to the Balance Sheet.
B Journal to the Trial Balance. **D** Ledger to the Trial Balance.

158 A Ledger contains a separate 'account' for each

A asset, liability and element of owners' equity. **C** business transaction.
B business day. **D** Journal entry. [Meigs & Ferrara]

159 An account has two sides called the [Horngren, Harrison & Lemon]

A asset and liability. **C** Journal and Ledger.
B debit and credit. **D** Revenues and expense.

160 Which of the following is **not** an account? [Horngren, Harrison & Lemon]

A Net sales **B** Sales revenue **C** Stationery **D** Stock

161 When there are a large number of individual accounts with a common characteristic, it is common to place then in a separate Ledger called a

A Creditors Ledger.
B Debtors Ledger Control Account.
C General Ledger.
D Subsidiary Ledger. [Fess & Warren]

162 Which of the following are personal accounts? [Wood & Allan]

1 Buildings
2 Creditors
3 Debtors
4 Wages

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

163 A debit balances on a Ledger account may represent cash or goods or services [Randall]

A given, or liabilities, or revenue, or a loss.
B given, or liabilities, or revenue, or a profit.
C received, or assets, or expenses, or a loss.
D received, or assets, or expenses, or a profit.

164 The type of an account with a normal credit balance is [Fess & Warren]

A an asset. **B** an expense. **C** drawings. **D** revenue.

165 Which of the following statements are true? [Horngren, Harrison & Lemon]

1 Accounts receivable, office supplies and rent expenses have credit balances.
2 Accounts receivable, office supplies and rent expenses have debit balances.
3 Increases in liabilities are recorded by credits
4 Increases in liabilities are recorded by debits

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

166 Which statement is correct?

A Carriage inwards is a credit
B Carriage outwards is a debit
C Purchases returns is a debit
D Sales returns is a credit [J01C02C]

167 All of the following normally have debit balances **except**

A dividends.
B purchases.
C returns outwards and allowances.
D sales discounts. [Meigs & Ferrara]

168 Which of the following accounts normally has a credit balance? [Randall]

A Discount allowed **B** Discount received **C** Purchases **D** Sales returns

169 In which of the following would a debit balance indicate an error? [Fess & Warren]

A Cash
B Debtors
C Fees Earned
D Miscellaneous expenses

170 Which of the following is/ are an element of internal control? [Horngren, Harrison & Lemon]

1 Encouraging adherence to company policy
2 Ensuring accurate and reliable accounting records
3 Promoting operational efficiency
4 Safeguarding assets

A 1 only **B** 1 and 2 only **C** 1, 2, and 3 only **D** All of them

171 Internal control over purchases is strengthened when functions of ordering and receiving merchandise are performed by [Meigs & Ferrara]

A a department which has no responsibilities than purchasing and receiving merchandise.
B serially numbered employees.
C the accounting department.
D two separate departments.

172 Which of the following measures is most effective in creating a strong system of internal control in a merchandising business? [Meigs & Ferrara]

A Arrange an annual audit by a firm of certified public accountants.
B Delegate full responsibility to an appropriate employee or supervisor for all aspects of transactions with a designated group of customers or suppliers.
C Establish an organisation structure that will provide separate departments for such functions as purchasing, receiving, selling, accounting, and credit and collection, so that the work of one organisational unit to verify one another.
D Require two signatures of responsible officials on all purchases orders, receiving reports and sales invoices.

173 A major advantage of controlling accounts is that their use makes it possible to [Meigs & Ferrara]

A decrease the number of entries in the General Journal.
B determine on a daily basis the total amount due from customers and owing to creditors.
C increase number of entries in the Journal Proper.
D reduce the number of accounts in the General Ledger.

174 Why are control accounts useful to management? [N06Q06Z]

A Figures for total debtors and creditors affect the working capital of a business.
B Management is able to calculate both the sales and purchases figures.
C Management is able to create a provision for bad debts.
D Workers are not able to commit fraud.

175 Control accounts are kept in the [Author]

A Cash Book.
B Creditors Ledger and Debtors Ledger.
C General Ledger.
D Sales Journal and Purchases Journal.

176 The controlling account in the General Ledger that summarises the debits and credits to the individual customer accounts in the subsidiary Ledger is titled [Fess & Warren]

A Creditors Control Account.
B Debtors Control Account.
C Purchases Ledger.
D Sales Ledger.

177 Supplier's personal accounts are found in the [Wood & Allan]

A General Ledger. **B** Nominal Ledger. **C** Purchases Ledger. **D** Sales Ledger.

178 The following are source documents for entries in Creditors Control Accounts **except** [Author]

A credit notes. **B** debit notes. **C** receipts. **D** sales invoices.

179 Information extracted from a control account at end of 2003 is given below:

	$
Discounts received	5 625
Contra with Debtors Control Account	6 000
Bank	119 250
Credit purchases	124 800
Balance at 31 December 2003	19 380

What was the opening balance at 1 January 2003? [N04Q08Z]

A $13 305 **B** $13 455 **C** $25 455 **D** $36 555

180 If the creditors at 1 January 2003 were $2 500, and the creditors at 31 December 2003 were $4 200, payments to the creditors $32 000, then purchases for 2003 were [Wood & Allan]

A $30 300. **B** $31 600. **C** $33 700. **D** $38 700.

181 On 30 June 2006, a company's creditors amounted to $59 520. In the year to 30 June 2007, $488 640 was paid to creditors. Credit notes from suppliers totalling $3 072 were received. Creditors balance as at 30 June 2007 stood at $65 304.

The purchases figure for the year was [Prestige]

A $485 938. **B** $491 352. **C** $494 424. **D** $497 496.

182 The Purchases Ledger Control Account for the year showed the following transactions:

			$
Opening balances:	Credit		20 000
	Debit		4 000
Transactions for the year:		Suppliers' invoices	45 000
		Discounts received	500
		Credit notes received	1 500
		Sales Ledger contra	5 000
Closing balances:	Credit		23 000
	Debt		Nil

How much cash did the company pay its creditors during the year? [J99Q08C]

A $31 000 **B** $34 000 **C** $35 000 **D** $54 000

183 The balance in the Creditors Ledger Control Account at 1 May was $4 270.

				$
During the period:	Purchases	–	Cash	2 150
		–	Credit	16 000
	Payments to creditors	–	Cash	800
		–	Cheques	17 610

The balance in the Creditors Ledger Control Account at 31 May was [Randall]

A $1 860. **B** $2 660. **C** $4 020. **D** $4 810.

184 A business provides the following information:

	$000
Opening creditors	20
Cash paid to creditors	110
Purchases on credit	120
Balances set-off against Sales Ledger	2
Discount received	3

What is the closing creditors balance? [Prestige]

A $25 000 **B** $29 000 **C** $30 000 **D** $31 000

185 The following information is extracted from the final accounts of a business.

	$
Opening stock	6 000
Purchases (all on credit)	220 000
Closing stock	28 000
Creditors at the end of year	21 096

What is the period taken to pay creditors? [Randall]

A 31 days **B** 32 days **C** 34 days **D** 35 days

186 Amounts extracted from the Ledger of B. Ncube are:

		$
Cash purchases		80 000
Credit purchases		135 000
Returns:	Cash purchases	5 000
	Credit purchases	7 250
Trade creditors		10 500

What is the average number of days' credit taken? [N02Q30Z]

A 18 days **B** 26 days **C** 28 days **D** 30 days

187 A company's creditors total $45 000. The current creditor's payment period is 30 days. The budget for the coming year provides for an increase in purchases of 25%, with the creditor payment period being increased to 60 days.

What will the year-end creditors be? [N07Q12Z]

A $45 000 **B** $56 250 **C** $90 000 **D** $112 500

188 A debit balance in a suppliers account is explained by all of the following **except** [Author]

A overpayment by business in error.
B overcharge by supplier corrected after full payment.
C payment by business in advance for supplies.
D payment in full within the credit period.

189 The closing balance on a Purchases Ledger Control Account is $499 400. The Purchases Day Book is overcast by $3 000 while the discount allowed column is undercast by 700.

What is the correct closing balance on the Purchases Ledger Control Account? [Author]

A $495 700 **B** $496 400 **C** $497 100 **D** $502 400

190 A Purchases Ledger Control Account has a closing balance of $92 460. A debtor for $720 transferred from the Sales Ledger has been entered on the wrong side of the Purchases Ledger Control Account.

What is the correct balance in the Purchases Ledger Control Account? [J00Q02C]

A $91 020 **B** $91 740 **C** $93 180 **D** $93 900

191 The credit balance on a Purchases Ledger Control Account at 31 October is $28 000.

The following errors have been discovered:

– Amount transferred from Cali's Account in the Sales Ledger to his account in the Purchases Ledger not recorded in the control accounts, $1 400;
– A debit balance in the Purchases Ledger at 31 October not carried down in the Purchases Ledger Control Account, $300;
– A refund to a cash customer debited in Purchases Ledger Control Account, $150.

What is the total of the credit balances in the Purchases Ledger? [Randall]

A $26 450 **B** $26 750 **C** $27 050 **D** $28 950

192 The credit balance on the Creditors Control Account is $5 000 less than the total of individual balances in the Purchases Ledger. [N04Q10Z]

Which of the errors could account for this difference?

A A credit note to the value of $2 500 has been omitted from a Purchases Ledger account.
B A Purchases Ledger account with a debit balance of $5 000 was treated as a credit balance.
C The Purchases Journal has been overcast by $5 000.
D The total of contra entries against debtor accounts is overstated by $2 500.

193 A Purchases Ledger Control Account has been reconciled with Purchases Ledger balances as shown:

	$
Balance per Purchases Ledger Control Account	76 000
Total of Purchases Journal for one month not posted to General Ledger	4 000
Cash paid to creditors not posted to Purchases Ledger	5 000
Total of balances in Purchases Ledger	85 000

Which figure for creditors should be shown in the Balance Sheet? [Randall]

A $75 000 **B** $77 000 **C** $80 000 **D** $85 000

194 A company makes purchases from **X** Ltd. At the year-end, the company owes **X** Ltd $500 and **X** Ltd owes the company $750.

What are the correct entries to offset (contra) these amounts?

	Purchases Ledger Control Account	**Sales Ledger Control Account**
	Debit	*Credit*
A	$250	$250
B	$500	$500
C	$750	$500
D	$750	$750

[J01C11C]

195 **X** buys from and sells goods to **Y**. At the end of the month, **X** owes **Y** $3 200 and **Y** owes **X** $1 941. An agreement is in force for the Sales Ledger account and Purchases Ledger account balances to be offset, so that only one payment is made.

Which double entry records the offset in **X**'s books? [N00Q01C]

	Debit	**Credit**	**With**
A	Purchases Ledger Control Account	Sales Ledger Control Account	$1 259
B	Purchases Ledger Control Account	Sales Ledger Control Account	$1 941
C	Purchases Ledger Control Account	Sales Ledger Control Account	$3 200
D	Y's (Purchases Ledger) Account	Sales Ledger Control Account	$1 941

196 **M** buys goods from and sells goods to **Y**. On 31 March 2004, **M** owed **Y** $1 200 while **Y** owed **M** $3 000. An agreement is in force for Sales Ledger and Purchases Ledger balances to be offset for only one payment is made.

Which double entry effects the offset in **M**'s books? [J04Q06Z]

	Debit	**Credit**	**With**
A	Purchases Account	Sales Account	$1 200
B	Purchases Ledger Control Account	Sales Ledger Control Account	$1 200
C	Purchases Ledger Control Account	Sales Ledger Control Account	$1 800
D	Sales Ledger Control Account	Purchases Ledger Control Account	$1 800

197 You buy goods from me and I buy goods from you. You owe me $3 000 and I owe you $2 000.

Which entries correctly sets off these amounts in my books? [Author]

	Debit	**Credit**	**With**
1	Creditors Control Account	Debtors Control Account	$2 000
2	Debtors Control Account	Creditors Control Account	$2 000
3	Your account in Purchases Ledger	Your account in Sales Ledger	$2 000
4	Your account in Sales Ledger	Your account in Purchases Ledger	$2 000

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

198 What would **not** appear in a Debtors Control Account? [Prestige]

A Cash received from customers
B Discount allowed
C Discount received
D Returns inwards

199 What would **not** appear in a Sales Ledger Control Account? [J00Q08C]

A Cash received from customers
B Discount allowed
C Provision for bad debts
D Returns inwards

200 Which of the following items does **not** appear in the Debtors Control Account? [N03Q11Z]

A Discount allowed
B Interest charged on overdue accounts
C Provision for doubtful debts
D Returns inwards

201 Which of the following would **not** appear in a Sales Ledger Control Account? [J04Q02Z]

A Bad debts provision
B Cash received from credit customers
C Discount allowed
D Returns inwards

202 Which of the following amounts appears on both sides of the Debtors Ledger Control Account?

A Bad debts
B Bad debts recovered
C Provision for bad debts
D Set off [Author]

203 In the Sales Ledger Control Account the bad debts written off should be shown in the account

A as a credit.
B as a debit.
C as a balance carried down.
D both as a debit and a credit. [Wood & Allan]

204 What is the purpose of the entry below made by Longview Inc.? [Horngren, Harrison & Lemon]

	$	**$**
Bad Debts Account	2 110	
Debtors Control Account		2 110

A Age the debtors
B Close Bad Debts Account
C Record bad debts expense
D Write off bad debts expense

205 T. Tapera, whose account had been previously written off as bad, settled her account in full.

The accounting entries to reinstate the debt are as follows:

	Debit	**Credit**
A	Bad Debts Account	Bad Debts Recovered Account
B	Bad Debts Recovered Account	T. Tapera Account
C	T. Tapera Account	Bad Debts Recovered Account
D	T. Tapera Account	Bank Account

[N06Q08Z]

206 At 1 March 2003, Allen's debtors amounted to $12 100. In year ended 29 February 2004, he received $63 500 from debtors and allowed them cash discount of $3 426. At 28 February 2004, debtors totalled $14 625.

How much were Allen's sales for the year ended 28 February 2004? [Randall]

A $62 599 **B** $64 401 **C** $66 125 **D** $69 451

207 At 1 October 2006 Maria's debtors amounted to $7 440. In the year ended 30 September 2007 she received $61 080 from debtors. She had to write $384 off as a bad debt. Her debtors at 31 September 2007 were $8 163.

Maria's sales for the year were [Randall]

A $60 741. **B** $61 419. **C** $61 803. **D** $62 187.

208 A Sales Ledger Control Account had a debit balance of $20 500 and a credit balance of $500 on 1 July 2007. During the month cash and cheques received from customers amounted to $50 000. On 31 July 2007, there was a debit balance of $25 000 and a credit balance of $1 500.

Sales for July 2007 amounted to [N02Q03Z]

A $22 000. **B** $50 000. **C** $53 500. **D** $75 500.

209 The following information relates to the business of M. Mambo.

Date	**Details**	**$**
1 October 2004	Debtors (Dr)	150 000
30 September 2005	Receipts from debtors	700 000
	Bad debts written off	25 000
	Debtors (Dr)	80 000

Mambo's sales for the year were [N06Q02Z]

A $630 000. **B** $655 000. **C** $700 000. **D** $780 000.

210 The following information relates to Chifamba Ltd for the year ended 31 December 2003:

		$
Debtors:	1 January 2003	75 000
	31 December 2003	78 000
Cash sales		527 000
Credit sales		715 000
Discount allowed		31 500
Discount received		42 800
Bad debts written off		21 000

The provision for bad debts was retained at 5% total debtors.

How much cash was received from debtors during the year? [N04Q03Z]

A $527 000 **B** $659 500 **C** $1 186 500 **D** $1 192 500

211 Transactions for the month are given below:

	$
Credit sales	16 810
Sales returns	1 150
Discount allowed	276
Bad debts written off	100
Increase in provision for doubtful debts	600
Increase in debtors	5 406

How much cash was received from debtors during the year? [N99Q08C]

A $9 278 **B** $9 878 **C** $10 154 **D** $20 690

212 Transactions for the month are:

	$
Credit sales	32 000
Sales returns	2 200
Discount allowed	300
Bad debts written off	150
Increase in provision for doubtful debts	1 200
Decrease in debtors	10 000

How much cash was received from debtors during the month? [N07Q16Z]

A $19 350 **B** $29 350 **C** $38 150 **D** $39 350

213 What was the balance on the following account on 31 May? [Wood & Allan]

C. De Freitas Account

May	1	Sales	205	May	17	Cash	300
	14	Sales	360		28	Returns inwards	50
	30	Sales	180				

A $350 Cr. **B** $395 Cr. **C** $395 Dr. **D** $745 Dr.

214 Given opening debtors of $11 500, sales of $48 000 and receipts from the debtors $45 000; the closing debtors should total [Wood & Allan]

A $8 500. **B** $14 500. **C** $18 500. **D** $83 500.

215 On 1 July the debit balance on the Sales Ledger Control Account was $5 600.

During the month, sales invoices set to customers totalled $16 000 and $17 200 was received from the debtors. In addition, $102 was received in respect of a debt which had been previously written off as bad in the previous March.

The closing balance on the Sales Ledger Control Account was [Randall]

A $4 298. **B** $4 400. **C** $4 502. **D** $6 800

216 On 1 March, the debit balance in the Debtors Ledger Control Account was $17 240.

During the month, sales invoices sent to customers amounted to $52 300. $51 760 was received from debtors. Discounts for the month totalled $1 455 while returns were $900. It was decided to make a provision for bad debts in the sum of $600.

The balance on the Debtors Ledger Control Account at 31 March was [Randall]

A $14 825. **B** $14 885. **C** $15 425. **D** $17 225.

217 Information relating to Bingaguru Ltd for year ended 31 December 2002 is given below:

	$
Debtors at 1 January 2002	10 000
Bad debts written off	500
Cash from credit customers	20 000
Cash sales	5 000
Credit sales	30 000
Increase in provision for doubtful debts	1 000
Returns inwards	2 000

[N03Q25Z]

What is the balance on Bingaguru LTD's Sales Ledger Control Account at 31 December 2002?

A $16 500 **B** $17 500 **C** $21 500 **D** $22 500

218 The following details relate to a Sales Ledger account for a given period:

	$
Opening balance	10 000
Sales	30 000
Dishonoured cheques	50
Bank	25 000
Returns inwards	1 000

What is the closing balance in the Sales Ledger account? [S03Q15Z]

A $13 850 **B** $13 950 **C** $14 050 **D** $14 950

219 What was the balance on the following account on 17 May 2005? [Wood & Allan]

C. De Fritos Account

May	1	Sales	205	May	17	Cash	300
	14	Sales	360		28	Returns inwards	50
	30	Sales	180				

A $265 Cr. **B** $265 Dr. **C** $395 Cr. **D** $395 Cr.

220 A Sales Ledger Control Account has a closing balance of $63 421. A credit balance of $724 transferred from the Purchases Ledger has been entered on the wrong side of the Sales Ledger Control Account.

What is the correct balance on the Sales Ledger Control Account? [J05Q02Z]

A $61 973 **B** $62 697 **C** $64 145 **D** $64 869

221 **X** Ltd maintains control accounts. The total of the Sales Day Book for the month has been overstated.

Which adjustments are required as a result of this error?

	Sales Ledger Control Account	List of Sales Ledger balances
A	Cr.	No change
B	Cr.	Reduce
C	Dr.	No change
D	Dr.	Reduce

[N00Q09C]

222 A Sales Ledger balance failed to agree with a Debtors Ledger Control Account balance. It is discovered that $5 000 in respect of credit sales to G. Matombo was not posted in his account.

What is the effect of correcting this error?

	Sales Ledger balance	Debtors Ledger Control Account
A	decreases by $5 000	increases by $5 000
B	increases by $5 000	increases by $5 000
C	increases by $5 000	no effect
D	no effect	increases by $5 000

[J03Q02Z]

223 The Sales Journal of a business has been overcast by $800. The business maintains control accounts as part of the double entry bookkeeping system.

The effect of correcting the error will be to make adjustments to the

A control account, with a decrease in net profit of $800.
B control account, with no effect on profit.
C Ledger balances of individual debtors, with a decrease in net profit of $800.
D Ledger balances of individual debtors, with no effect on profit. [J98Q07C]

224 The debit balance on a Sales Ledger Control Account at 30 September 2003 is $104 000.

The following errors have been discovered:

	$
Total of the Sales Journal overstated	1 300
Discounts allowed omitted from Sales Ledger Control Account	870
Bad debts written off not recorded in Sales Ledger Control Account	240
Increase in provision for doubtful debts	600

What is the total of the balances in the Sales Ledger? [Randall]

A $100 990 **B** $101 590 **C** $102 070 **D** $103 330

225 The balance on the Sales Ledger Control Account is $40 000. The following items are then discovered:

	$
Total of the Sales Day Book understated	500
Discounts allowed not entered in the Sales Ledger Control Account	1 200
Bad debts written off not recorded in the Sales Ledger Control Account	400
Provision for bad debts	2 500

What is the total in the Sales Ledger? [J02Q09Z]

A $37 900 **B** $38 600 **C** $38 900 **D** $41 100

226 The Sales Ledger total is $9 800 and does not agree with the total of the Debtors Control Account. The Sales Day Book is understated by $3 400 while an individual debtor's account is over-added by $1 200.

What is the balance on the Debtors Control Account before the errors are corrected? [Author]

A $5 200 **B** $8 600 **C** $12 000 **D** $14 400

227 Summary of the Sales Ledger Control Account at the year end is given below:

	$
Amount owed to the company	712 500
Amount owed by the company for deposits received	27 700
Bad debt, previously written off, now collected from the liquidator	7 500
Payment to a debt collector for a customer's dishonoured cheque	1 500

How will the debtors be shown in the Balance Sheet at the year end? [J98Q11C]

A $677 300 **B** $678 800 **C** $712 500 **D** $714 500

228 The balances in the Sales Ledger total $16 000. A debtor who owes $800 is known to be in financial difficulty. The figure shown in the Balance Sheet for debtors is $15 200.

Which concept has been applied? Randall]

A Matching **B** Prudence **C** Realisation **D** Substance over form

229 A credit balance on Sibanda's Account in a firm's Debtors Ledger means that

A a provision should be made specifically against Sibanda's Account.
B one or more of Sibanda's cheques have *bounced*.
C the amount owed by Sibanda is a bad debt.
D the firm owes money to Sibanda. [Prestige]

230 The existence of a credit balance in a debtor's account might be explained by

A failure to post from the Sales Returns Book to the debtor's account.
B granting a sales discount to a debtor.
C posting of discount allowed to the Debtors Control Account twice.
D return of goods by a debtor after s/he had paid for them. [N04Q07Z]

231 A Sales Ledger Control Account may have a credit balance because

A a creditor may have overpaid in error.
B debtors may have overpaid in error.
C debtors may have requested for deferred settlement.
D debtors may have underpaid in error. [S03Q26Z]

232 A business might seek to reduce the amount of its outstanding debtors by using the following **except**

A debt factoring. **C** constant reminders to debtors. [J05Q24Z]
B charging high interest on overdue accounts. **D** improving the rate of stock turn.

233 Factoring (discounting) trade debtors is a way to [Horngren, Harrison & Lemon]

A charge interest on debtors. **C** decrease rate of stock turn.
B collect on debtors. **D** increase interest revenue.

234 Factoring debtors creates a [Horngren, Harrison & Lemon]

A cash disbursement. **B** contingent liability. **C** contingent asset. **D** interest expense.

235 The following are extracts from some accounts for the year ended 31 December 2006:

	$
Sales	13 000
Cost of sales	9 000
Debtors	1 888
Prepayments	100

What is the debtor turnover for period 2006? [J00Q25C]

A 50 days **B** 53 days **C** 56 days **D** 77 days

236 Some extracts from accounts for the year ended 31 December are:

	$
Good available for resale	13 000
Turnover	9 000
Debtors	1 888
Prepayments	100

What is the debtors turnover for the year to 31 December? [N01Q26C]

A 53 days **B** 56 days **C** 77 days **D** 81 days

237 Amounts included in a Trial Balance are listed below:

		$000
Cash sales		125
Credit sales		250
Returns:	Cash sales	6
	Credit sales	8
Debtors:	Trade	38
	Other	12

What is the debtors' collection period? [N99Q25C]

A 38 days **B** 51 days **C** 55 days **D** 57 days

238 What is the debtors' collection period?

		$000
Cash sales		250
Credit sales		500
Returns:	Cash sales	16
	Credit sales	12
Trade debtors		50
Other debtors		24

[J07Q20Z]

A 37 days **B** 49 days **C** 55 days **D** 57 days

239 Amounts included in a Trial Balance at the end of a financial year are listed below:

	$000
Sales: Cash	100
Credit	300
Returns inwards	8
Trade debtors	40
Prepayments by debtors	1

What is the debtors' collection period? [N03Q03Z]

A 37 days **B** 40 days **C** 50 days **D** 51 days

240 Amounts included in the Trial Balance at the end of the year were:

		$000
Sales: Cash		10
Credit		50
Purchases:	Cash	5
	Credit	30
Trade debtors		7
Trade creditors		6

The debtors' collection period is [S03Q31Z]

A 42.6 days. **B** 51.1 days. **C** 62.6 days. **D** 73 days.

241 Capp Corp is experiencing a severe cash shortage due to inability to collect debtors.

The decision tool most likely to help identify the appropriate corrective action is the [Horngren, Harrison & Lemon]

A acid-test ratio. **C** stock turn.

B days sales in debtors. **D** times-interest-earned ratio.

242 Entering an invoice of $3 926 as $2 963 in the books results in the following **except** [Author]
A difference between total debits and credits.
B error divisible by 9.
C error of original entry.
D error of transposition of figures.

243 Posting a $123 debit as a credit causes an error [Horngren, Harrison & Lemon]
A in the Journal.
B known as transposition.
C that is evenly divisible by 2.
D that is evenly divisible by 9.

244 If Clarkson received a cheque of $600 from P. Green and credited the account of P. Grey, he made [Randall]
A a compensating error.
B an error of commission.
C an error of complete reversal of entries.
D an error of principle.

245 If cash receipt of capital is credited to Capitol Account, this is an error of [Author]
A commission. **B** complete reversal. **C** principle. **D** original entry.

246 A payment of business rent for $800 is made in the books as follows:

Account debited	**Account credited**
Bank $800	Rent $800

Which type of error is this? [Randall]
A Commission **B** Compensating **C** Complete reversal **D** Principle

247 Which of the following are **not** errors of principle?
1 Motor expenses entered in Motor Vehicles Account.
2 Purchases of machinery entered in Purchases Account. [Wood & Allan]
3 Sales of $250 to C. Phillips completely omitted from books.
4 Sales to A. Henriques entered in A. Henry's Account.
A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

248 Cora sent an invoice to Maria for $2 000 less 20% trade discount. Cora has omitted to enter the invoice in her Sales Journal.

What effect will this have on her accounts? [Randall]
A Maria's Account credit side $1 600 undercast and Sales Account debit side $1 600 undercast.
B Maria's Account credit side $2 000 undercast and Sales Account debit side $2 000 undercast.
C Maria's Account debit side $1 600 undercast and Sales Account credit side $1 600 undercast.
D Maria's Account debit side $2 000 undercast and Sales Account credit side $2 000 undercast.

249 A form listing account titles in the Ledger and their corresponding balances on a given date is the
A Balance Sheet.
B Cash Flow Statement.
C Income Statement.
D Trial Balance. [Fess & Warren]

250 Which of the following best describes a Trial Balance? [Wood & Allan]
A It is a list of balances on the books.
B It is a special account.
C Shows all entries in the books.
D Shows the financial position of a business.

251 The purpose of the Trial Balance is to
A ensure that all transactions have been recorded.
B increase assets and owner's equity. [Horngren, Harrison & Lemon]
C indicate whether total debits equal total credits.
D speed the collection of cash receipts from customers.

252 The purpose of Trial Balance is to
A determine they Journal entries are in balance before posting those entries to the Ledger.
B determine that the number of Ledger accounts with debit balances is equal to the number of credit balances.
C indicate the effects of business transactions upon Ledger accounts.
D prove the equality of debits and credits in the Ledger. [Meigs & Ferrara]

253 Is it true that the Trial Balance totals should agree?
A No, because it is not a Balance Sheet.
B No, there are some good reasons why they differ.
C Yes, always. [Wood & Allan]
D Yes, except where the Trial Balance is extracted at the year end.

254 Which of the following pairs of items are **both** on the same side of a Trial Balance? [N04Q15Z]

A Carriage inwards and carriage outwards
B Deferred income and deferred expenditure
C Discounts allowed and discounts received
D Returns inwards and returns outwards

255 In the Trial Balance, the balance on the Provision for Depreciation Account is [Wood & Allan]

A not shown as it is part of depreciation.
B shown as a credit item.
C shown as a debit item.
D sometimes shown as debit or credit item.

256 After which error will a Trial Balance still agree? [Randall]

A A purchase of goods from Ratna for $1 000 credited to Ravin's Account in the Purchases Ledger
B An invoice for $400 in the Sales Journal not posted to customers' account in the Sales Ledger
C Payment of $60 to Jason entered correctly in the Bank Account and credited to Josan Account
D Rent paid $660 entered correctly in the Cash Book but posted to Rent Payable Account as $600

257 After which error will a Trial Balance still balance? [Randall]

A Goods returned to supplier, $150, were entered in the Purchases Returns Journal as $105.
B Rent receivable of $200 was debited to the Rent Payable Account.
C The Sales Journal was undercast by $200.
D Wages paid, $1 500, was entered correctly in the Bank Account but debited to the Wages Account as $2 500.

258 After a Trial Balance had been prepared, four errors were discovered:

1 A purchase of $59 entered in the books on debit and credit side as $95;
2 Cash received from a debtor, $150, entered in the Cash Book only;
3 Insurance undercast by $120;
4 Sales invoice of $210 omitted from the books.

Which of the above errors does **not** affect Trial Balance agreement? [Prestige]

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

259 Which of the following do **not** affect Trial Balance agreement?

1 Cheque payment of $134 for motor expenses entered in the Cash Book only.
2 Purchases of $440 from C. Browne entered in both accounts as $404. [Wood & Allan]
3 Sales of $105 to A. Henry entered in P. Henry's Account.
4 Wages Account added up incorrectly, being totalled $10 too much.

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

260 Which of these errors would be disclosed by a Trial Balance?

A A cheque of $36 from S. Smith entered in his account as $63.
B A purchase of $125 was omitted entirely from the books.
C Credit sales of $200 recorded in both double entry accounts as $300.
D Selling expenses were debited to Sales Account. [Prestige]

261 Which of the following will cause a difference on a Trial Balance?

A A credit note entered in the Sales Journal.
B An invoice for $415 entered in the Sales Journal as $451.
C An invoice for $600 entered in the Sales Journal not included in the monthly total.
D An invoice omitted from the Sales Day Book.. [Randall]

262 Which of these errors would be disclosed by the Trial Balance?

A A purchase of $250 was never recorded in the books.
B Carriage on sales had been debited to the Sales Account. [Wood & Allan]
C Cash purchases of $300 entered in both double entry accounts as $30.
D Cheques of $95 from C. Smith entered in C. Smith's Account as $59.

263 A Trial Balance will **not** be in equilibrium if an invoice from Ace Servicing Co in the sum of $5 000 is

A entered in the Purchases Journal as $500.
B entered in the Sales Day Book.
C entered on the credit side of Ace Servicing Co's Account in the Purchases Ledger without being entered in the Purchases Day Book.
D omitted from the Purchases Journal. [Randall]

264 A Trial Balance will **not** agree if

A a payment to Machine Sales Ltd for a machine purchased on credit is entered in the Machine Repairs Account in error.

B a refund of an insurance premium is credited to the Rent Payable Account.

C a sales invoice for $196 is entered in the Sales Day Book as $169. [Randall]

D total of the discount received column in the Cash Book is debited to Discount Allowed Account.

265 A Trial Balance will fail to agree if a

A credit note has been entered in the Sales Day Book.

B purchases invoice is not recorded in the Sales Journal.

C sales invoice for $415 is entered in the Sales Day Book as $451. [Randall]

D sales invoice for $600 entered in the Sales Journal has not been included in the monthly total.

266 Which errors will affect Trial Balance agreement?

1 Buildings are depreciated using reducing balance instead of straight-line method

2 Cash is stolen by a dishonest employee

3 Closing stock is overstated

4 Double entry is completed using different figures [Author]

5 Freight on purchases is recorded in the Freight on Sales Account

6 Trade discount is recorded in books of account

7 Wages prepaid are brought down on the wrong side

A 1, 2, 3, 5 and 6 **B** 2, 3, 4 and 7 **C** 2, 4, 5 and 6 **D** 4 and 7

267 Discounts allowed of $160 for one month were posted to the credit of the Discounts Received Account. [Randall]

What effect has this had on the Trial Balance?

A $160 too little debit **C** $160 too much credit

B $160 too little debit and $160 too much credit **D** $320 too much credit

268 A credit note for $552 sent to A. Bulle has been debited to A. Bulle's Account in the Debtors Ledger. [Prestige]

On the Trial Balance, there will be

A $552 less on the credit side and $552 more on the debit side.

B $1 104 less on the credit side.

C $1 104 more on the debit side.

D no difference.

269 A debit note for $46 sent to A. Mason was credited to A. Moses' Account in the Debtors Ledger. [Randall]

On the Trial Balance there will be

A $46 too little on the debit side and $46 too much on the credit side.

B $92 too little on the credit side.

C $92 too little on the debit side.

D no difference.

270 A credit note for $46 sent to A. Moses has been debited to A. Mason's Account in the Sales Ledger. [Randall]

What effect will this have on the Trial Balance?

	Debit total	*Credit total*		*Debit total*	*Credit total*
A	$46 overstated	$46 understated	**C**	none	$92 understated
B	$92 overstated	none	**D**	none	none

271 A credit note for $96 to P. Mushonga was credited to R. Mushonga's Account in the Sales Ledger.

What will be the effect of this error o the Trial Balance totals? [J03Q06Z]

A There will be no effect on the totals. **C** Total of credit side will be more by $192.

B Total of credit side will be less by $96. **D** Total of debit side will be less by $96.

272 A credit balance in the sum of $93 had been omitted from the list of balances extracted from the Sales Ledger.

What is the effect on the Trial Balance? [Randall]

A The credit side is overstated by $93. **C** The debit side is overstated by $93.

B The credit side is understated by $93. **D** The debit side is understated by $93.

273 What is the effect of recording a $144 petty cash balance on the wrong side of the Trial Balance? [Author]

A Credit total overcast by $144 and debit total undercast by $144
B Credit total overcast by $288
C Debit total overcast by $144 and credit total undercast by $144
D Debit total undercast by $288

274 A Trial Balance fails to agree. The debits exceed the credits. [N98Q06C], [J01C10C]

Which single error in the Nominal Ledger would cause a difference?

A A contra between the Debtors Ledger and Creditors Ledger has been entered on the credit side of both control accounts.
B A rental receipt has been entered twice in the Rent Receivable Account.
C The closing stock for the previous period has not been entered in the Stock Account.
D The opening electricity accrual has been brought forward on the wrong side of the Ledger account.

275 A company's Trial Balance shows debit balances in excess of credit balances by $1 000. [J99Q09C]

What could explain this?

A Cash overstated by $540 and omission of telephone bill totalling $460.
B Creditors Control Account $450 overstated and Debtors Control Account $550 understated.
C Omission of accumulated depreciation of $500 and sales undercast by $500.
D Purchases $500 understated in Nominal Ledger and omission of sales invoice totalling $500.

276 A Trial Balance failed to agree by $4 200. [N04Q09Z]

Which one of the following could account for this discrepancy?

A A cheque for $4 200 from Chitimbire was posted to Chitemere's Account in the Sales Ledger.
B A petty cash withdrawal of $2 100 was debited to Miscellaneous Expenses Account.
C An amount of $4 200 paid to Chitima was credited to his Purchase Ledger account.
D An asset purchase of $2 100 was credited to the Purchases Account.

277 The totals of a Trial Balance are: Debit column $46 800; [Prestige]
Credit column $39 700.

The following errors have been discovered:

– Rent received, $3 550, has been included as a debit balance;
– Cash received from C. White in settlement of a debt of $2 000 was credited to C. Whiter.

What will be the corrected Trial Balance totals?

A $38 150 **B** $41 250 **C** $43 250 **D** $45 250

278 If a Trial Balance totals do not agree, the difference must be entered in [Wood & Allan]

A a Nominal A/C. **B** a Suspense A/C. **C** the Capital A/C. **D** the Profit & Loss A/C.

279 Which of the following errors requires a correction through the Suspense Account? [N06Q01Z]

A A cheque from a debtor which was treated as a sale in the books.
B An invoice omitted from the books.
C Discounts received not posted to the Discount Received Account.
D Loan interest debited to a Debtor's Account.

280 In the books of a sole-trader, purchases returns of $600 were debited to the creditor's account as $60. A Suspense Account was created to complete the Trial Balance. [N03Q28Z]

What is the balance on the Suspense Account?

A $540 Cr. **B** $540 Dr. **C** $660 Cr. **D** $660 Dr.

281 Purchases returns of $500 were credited to the supplier's account as $50. A Suspense Account is used to bring Trial Balance into equilibrium. [Author]

What is the balance on the Suspense Account?

A $450 Cr. **B** $450 Dr. **C** $550 Cr. **D** $550 Dr.

282 Sales returns of $400 have been credited to the debtor's account as $440. A Suspense Account is opened to complete the Trial Balance. [N98Q07C], N01Q07C]

What is the balance on the Suspense Account?

A $40 Cr. **B** $40 Dr. **C** $840 Cr. **D** $840 Dr.

283 Sales returns of $400 has been debited to the debtor's account as $40. A Suspense Account is created to complete the Trial Balance. [N01Q07C]

What is the balance on the Suspense Account?

A $360 Cr **B** $360 Dr **C** $440 Cr **D** $440 Dr

284 Errors are corrected via the Journal because it [Wood & Allan]

A is much easier to do.
B provides a good record explaining the double entry records.
C saves entering them in the Ledger.
D saves the bookkeeper's time.

285 An invoice of $500 for repairs for machinery was entered in the Machinery at Cost Account. [Randall]

Which entries are required to correct the errors?

	Debit	Credit	With
A	Machinery at Cost Account	Repairs to Machinery Account	$500
B	Repairs to Machinery Account	Machinery at Cost Account	$500
C	Repairs to Machinery Account	Suspense Account	$500
D	Suspense Account	Machinery at Cost Account	$500

286 The motor vehicles purchased for $530 000 at the start of the year were incorrectly depreciated for the whole year using the straight line method at 10% instead of 25%.

Ledger balances **after** the entries were posted:	Motor vehicles	$530 000
	Provision for depreciation	$53 000

Which entries will correct the error? [N99Q03C]

A DR Profit and Loss Account; CR Motor Vehicles Provision for Depreciation Account by $79 500
B DR Profit and Loss Account; CR Motor Vehicles Provision for Depreciation Account by $132 500
C DR Motor Vehicles Provision for Depreciation Account; CR Profit and Loss Account by $79 500
D DR Motor Vehicles Provision for Depreciation Account; CR Profit and Loss Account by $132 500

287 Abdul is a trader in office furniture. He bought furniture worth $7 500 for cash from Farad for his private use out of business cash. He recorded this transaction in the Furniture Account and also provided for depreciation at 10% per annum on cost.

Which accounting entries will correct this error in the books? [Prestige]

	Debit	Credit
A	Drawings Account	Furniture Account
	Provision for Depreciation Account	Profit and Loss Account
B	Drawings Account	Furniture Account
	Provision for Depreciation Account	Suspense Account
C	Drawings Account	Furniture Account
D	Furniture Account	Drawings Account
	Suspense Account	Provision for Depreciation Account

288 The Trial Balance failed to agree and a Suspense Account was opened. It was then found out that rent received of $500 had been debited to the Rent Payable Account.

Which entries are required to correct this error? [Randall]

	Rent Received Account		Rent Payable Account		Suspense Account	
A	Credit	$500	Credit	$500	Debit	$1 000
B	Credit	$500	Debit	$500	No entry	
C	Debit	$500	Credit	$500	Debit	$1 000
D	Debit	$500	Credit	$500	No entry	

289 At the end of a year, a Trial Balance is made to agree with the aid of a Suspense Account. Subsequent investigations reveal that an accrual of $256 on a Wages Account was brought down on the wrong side as $356.

Which Journal entry corrects the error? [N02Q04Z]

A Debit Suspense Account $356, Credit Wages Account $356
B Debit Suspense Account $612, Credit Wages Account $612
C Debit Wages Account $256, Credit Suspense Account $256
D Debit Wages Account $612, Credit Suspense Account $612

290 A bank overdraft of $157 is recorded on the wrong side of the Trial Balance.

Which Journal entries correct the error? [Author]

	Debit	Credit	With		Debit	Credit	With
A	–	Suspense	$314	**C**	Suspense	–	$314
B	Bank	Suspense	$157	**D**	Suspense	Bank	$157

291 The difference on the Trial Balance is entered in a Suspense Account. It is discovered that a discount received had been debited to the Discount Allowed Account.

Which Journal entry corrects the error? [J00Q07C]

	Debit	Credit
A	Discount Allowed Account Discount Received Account	Suspense Account
B	Discount Received Account	Suspense Account
C	Suspense Account	Discount Allowed Account
D	Suspense Account	Discount Allowed Account Discount Received Account

292 The difference on a Trial Balance is entered in a Suspense Account. It is discovered that a discount allowed has been credited to the Discount Received Account.

Which Journal entry corrects the error? [N07Q28Z]

	Debit	Credit
A	Discount Allowed Account Discount Received Account	Suspense Account
B	Discount Received Account	Suspense Account
C	Suspense Account	Discount Allowed Account
D	Suspense Account	Discount Allowed Account Discount Received Account

293 A $400 total in discount allowed column of a Cash Book was credited to Discount Received Account.

Which Journal entries will be used to correct this error? [S03Q21Z]

	Debit	Credit
A	Discount Allowed Account $400	Suspense Account $400
B	Discount Allowed Account $400 Discount Received Account $400	Suspense Account $800
C	Discount Received Account $400	Discount Allowed Account $400
D	Suspense Account $800	Discount Allowed Account $400 Discount Received Account $400

294 In the books of XYZ Ltd, discount allowed of $5 300 was posted as discount received of $3 500 by an inexperienced bookkeeper.

The Journal entry needed to correct this error is: [N03Q17Z]

	Debit	Credit
A	Discount Allowed Account $5 300	Suspense Account $5 300
B	Discount Allowed Account $5 300 Discount Received Account $3 500	Suspense Account $8 800
C	Discount Received Account $3 500	Suspense Account $3 500
D	Suspense Account $8 800	Discount Allowed Account $5 300 Discount Received Account $3 500

295 Which Journal entries correct sales discount of $520 debited to Purchases Discount Account as $205? [Author]

	Debit		Credit	
A	Sales Discount Account	$520	Purchases Discount Account	$205
			Suspense Account	$315
B	Sales Discount Account	$520	Suspense Account	$520
C	Suspense Account	$315	Purchases Discount Account	$315
D	Suspense Account	$725	Purchases Discount Account	$205
			Sales Discount Account	$520

296 A Trial Balance includes Suspense Account. It was found that the only errors were: discounts received of $480 and discounts allowed of $624 were entered on incorrect sides of respective Ledger accounts.

What is the double entry required to clear the Suspense Account total? [Prestige]

		DR $	CR $			DR $	CR $
A	Discounts allowed	624		**C**	Discounts allowed	1 248	
	Discounts received		480		Discounts received		960
	Suspense		144		Suspense		288
B	Discounts allowed	960		**D**	Discounts received	480	
	Suspense	288			Suspense	144	
	Discounts received		1 248		Discounts allowed		624

297 If totals of discount allowed column $300 and discount received column $400 were respectively posted to the Discount Received Account and Discount Allowed Account, which entries correct the error? [Author]

		Dr $	Cr $			Dr $	Cr $
A	Discount Allowed	100		**C**	Discount Received	600	
	Discount Received	100			Suspense	200	
	Suspense		200		Discount Allowed		800
B	Discount Allowed	600		**D**	Suspense	200	
	Suspense	200			Discount Allowed		100
	Discount Received		800		Discount Received		100

298 A payment of $30 000 to a creditor was credited to the Bank Account and debited to the Purchases Account.

Which entries correct the error? [N07Q19Z]

	Debit	Credit	With		Debit	Credit	With
A	Bank	Suspense	$30 000	**C**	Creditors	Suspense	$30 000
B	Creditors	Purchases	$30 000	**D**	Suspense	Purchases	$30 000

299 The Trial Balance was in disequilibria and the difference was entered into the Suspense Account. A debit balance of $10 710 in the Creditors Ledger was wrongly extracted a credit balance.

Which Journal entry will correct this error? [Prestige]

	Debit		Credit	
A	–		Suspense	$21 420
B	Purchases	$10 710	Suspense	$10 710
C	Purchases	$21 420	Suspense	$21 420
D	Suspense	$21 420	Purchases	$21 420

300 Total for Sales Journal for one month is $9 160. It has been entered in the Sales Account as $9 610.

Which entries are required to correct the error? [Randall]

	Debit	Credit	With
A	Sales Account	Sales Journal	$450
B	Sales Account	Suspense Account	$450
C	Sales Journal	Sales Account	$450
D	Suspense Account	Sales Account	$450

301 The difference on a Trial Balance has been entered in a Suspense Account. A receipt of $5 000 from a debtor has been debited to the Bank Account and credited to the Sales Account.

Which Journal entry is necessary to correct the error? [J00Q12C]

	Debit	Credit	With
A	Sales Account	Debtor's Account	$5 000
B	Sales Account	Suspense Account	$5 000
C	Suspense Account	Bank Account	$5 000
D	Suspense Account	Bank Account	$10 000

302 A Trial Balance failed to agree and the difference was entered in a Suspense Account. A credit balance of $1 530 in the Sales Ledger had been wrongly extracted as a debit balance.

Which Journal entry will correct this error? [N99Q07C]

	Debit	Credit		Debit	Credit
A	Sales by $3 060	Suspense $3 060	**C**	Suspense by $3 060	–
B	Suspense by $1 530	Sales $1 530	**D**	Suspense by $3 060	Sales $3 060

303 The balance on the Sales Ledger Control Account amounting to $43 000 has been entered in the Trial Balance as $34 000. The difference on the Trial Balance was entered in a Suspense Account.

Which Journal entry will correct this error? [Prestige]

	Account to be debited	Account to be credited
A	–	Suspense Account $9 000
B	Sales Ledger Control Account $9 000	Suspense Account $9 000
C	Suspense Account $9 000	–
D	Suspense Account $9 000	Sales Ledger Control Account $9 000

304 In the preparation of a Trial Balance, a credit balance of $500 in the Sales Ledger had been included in the list of debtors as a debit balance.

The Journal entry to correct this error is [N05Q21Z]

	Debit	Credit		Debit	Credit
A	–	Suspense $1 000	**C**	Suspense $500	Debtor $500
B	Sales Ledger $1 000	Suspense $1 000	**D**	Suspense $1 000	–

305 Which Journal entry corrects recording carriage on sales of $1 000 in the Cash Book only? [Author]

	Debit	Credit	With
A	–	Suspense	$1 000
B	Carriage on sales	Suspense	$1 000
C	Suspense	–	$1 000
D	Suspense	Carriage on sales	$1 000

306 The Trial Balance of the business does not agree. The difference is entered in the Suspense Account. The error was caused by a cheque of $400 from Omar being debited to Omar's Account.

What is the Journal entry to correct the error? [J02Q10Z]

	Debit	Credit	With
A	Bank Account	Suspense Account	$400
B	Suspense Account	Bank Account	$800
C	Suspense Account	Omar's Account	$400
D	Suspense Account	Omar's Account	$800

307 A receipt of $630 from D. Tamba, a debtor, was recorded as a credit sale in the Sales Ledger.

Which Journal entry corrects the error? [J05Q04Z]

		Debit	Credit			Debit	Credit
A	D. Tamba	$630		**C**	Suspense	$630	
	Suspense		$630		D. Tamba		$630
B	D. Tamba	$1 260		**D**	Suspense	$1 260	
	Suspense		$1 260		D. Tamba		$1 260

308 A Trial Balance does not agree. The difference has been entered in a Suspense Account.

The following errors are found:

1 Purchases Ledger Control Account balance of $48 000 has been included as a debit balance.
2 Provision for depreciation has been overcast by $960.
3 A cash payment of $630 for rent has been credited in the Cash Book and debited to a Bad Debts Accounts.

What is the correcting debit entry to the Suspense Account? [J04Q11C]

A $47 040 **B** $95 040 **C** $95 670 **D** $97 290

309 A Trial Balance failed to agree and an investigation revealed the following three errors:

– A cheque of $186 received from K. Keith was correctly entered in the Cash Book but not entered in K. Keith's Account;
– A cheque of $300 paid to L. Lewis was correctly entered in the Cash Book but was not entered in L. Lewis' Account;
– The Purchases Account had been undercast by $40.

What was the Suspense Account balance before the error was corrected? [Prestige]

A $154 Cr. **B** $154 Dr. **C** $226 Dr. **D** $446 Cr.

310 What should happen if the balance on a Suspense Account is of a material amount? [Wood & Allan]

A Carry forward the balance of the next period.
B Find the error(s) before publishing the final accounts.
C Should be shown in the Balance Sheet.
D Write it off to the Profit and Loss Account.

311 After a thorough investigation and correction of errors, the Suspense Account had $0.12 debit balance.

This small and immaterial amount is [Author]

A credited to the Profit and Loss A/C as revenue.
B debited to the Profit and Loss A/C as an expense.
C shown in the Balance Sheet as a current asset.
D show in the Balance Sheet as a current liability.

312 The Work Sheet is a [Horngren, Harrison & Lemon]

A convenient device for completing the accounting cycle.
B financial statement.
C Journal.
D Ledger.

313 The Work Sheet is useful for all of the following **except** [Horngren, Harrison & Lemon]

A aiding the preparation of financial statements.
B identifying the accounts that need to be adjusted.
C locating the book where recording errors were made.
D summarising the effects of all the transactions of the period.

314 In the Manufacturing Account is calculated the [Wood & Allan]

A gross profit on goods sold.
B production cost of goods completed in the period.
C production costs paid in the year.
D total cost of goods produced.

315 Manufacturing costs include [Doost RK]

A marketing, distribution and service.
B marketing, research and development.
C research, development and design.
D research, development and distribution.

316 The following items appear in the accounts of a manufacturing company:

1 carriage inwards
2 carriage outwards
3 depreciation of warehouse machinery
4 provision for unrealised profit

Which items will be included in the Manufacturing Account? [Randall]

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

317 When preparing a Manufacturing Account, distinction is made between direct costs and indirect costs.

1 Cost of acquiring raw materials;
2 Loose tools;
3 Royalties payable relating to production process in use;
4 Salaries to a production supervisor;
5 Wages paid to production line operators in respect of current accounting period.

Which of the following correctly distinguishes the costs above? [Author]

	1	2	3	4	5
A	Direct	Indirect	Direct	Direct	Direct
B	Direct	Indirect	Direct	Indirect	Direct
C	Direct	Direct	Indirect	Direct	Direct
D	Direct	Direct	Indirect	Indirect	Direct

318 A manufacturing firm provides you the following facts:

		$
Opening stock of raw materials		12 300
Purchases:	Direct materials	56 700
	Indirect materials	9 800
Carriages outwards		3 500
Closing stock of raw materials		7 600

The cost of raw materials consumed is [Author]

A $61 400. **B** $64 900. **C** $71 200. **D** $74 700

319 Which of the following is **not** a conversion cost in a production company? [N06Q23Z]

A Depreciation of office equipment **C** Royalties
B Direct labour **D** Sub-contracted work

320 The estimated unit costs for a company operating at a production level of 12 000 units per month are as follows:

Cost item	**Estimated unit cost ($)**
Direct material	32
Direct labour	20
Variable manufacturing overhead	15
Fixed manufacturing overhead	6
Variable selling costs	3
Fixed selling expenses	4

The estimated conversion costs per unit are [L. G. Rayburn]

A $35. **B** $41. **C** $44. **D** $48.

321 You are given the following data for Pengapenga: [Author]

	$
Cost of raw materials consumed	54 300
Prime cost	78 900
Factory overheads	45 600

What is the cost of conversion?

A $70 200 **B** $99 900 **C** $124 500 **D** $178 800

322 The following information relates to Risotto Limite for the month of May 2010: [L. G. Rayburn]

	$
Direct materials purchased	84 000
Direct labour cost	60 000
Direct labour rate per hour	7.50
Factory overhead rate per direct labour-hour	10.00

The cost of conversion was

A $56 000. **B** $140 000. **C** $144 000. **D** $172 000.

323 What is the definition of prime cost?

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 + Factory overheads [J99Q10C], [J04Q16C]

324 Prime cost includes [Randall]

A cost of oil to lubricate machine.
B direct materials carriages.
C factory heating and lighting.
D storekeepers' wages.

325 Which of the following is part of prime cost? [N02Q25Z]

A Carriage on raw materials
B Depreciation of plant and equipment
C Factory rent and maintenance
D Variable overhead costs

326 Prime cost includes:

1 direct expenses;
2 direct labour; [Wood & Allan]
3 factory overhead expenses;
4 Raw materials consumed.

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

327 The estimated unit costs for a company operating at a production level of 12 000 units per month are as follows:

Cost item	**Estimated unit cost ($)**
Production material	64
Direct labour	40
Variable manufacturing overhead	30
Fixed manufacturing overhead	12
Variable selling costs	6
Fixed selling expenses	8

[L. G. Rayburn]

The estimated prime costs per unit are

A $64. **B** $104. **C** $134. **D** $146.

328 TG Partnership, a recruitment agency, incurred the following costs last year:

	$000
Direct labour	150
Direct expenses	250
Indirect labour	50
Indirect materials	50

What was the total prime cost of operating the firm last year? [Upchurch]

A $100 000 **B** $150 000 **C** $250 000 **D** $400 000

329 A manufacturing company has the following balances at its year end:

	$
Closing stock of raw materials	24 500
Direct manufacturing wages	162 800
Purchases of raw materials	85 200
Supervisors' wages	44 000
Opening stock of raw materials	27 800

What is the prime cost for the year? [J98Q08C]

A $244 700 **B** $248 000 **C** $251 300 **D** $295 300

330 The following information relates to Arp Company:

Stocks as at	**01–03–2007**	**31–03–2007**
	$000	**$000**
Direct materials	36	30
Work in progress	18	12

Additional information for the month of March 2007:

	$
Direct materials purchased	84 000
Direct labour cost	60 000
Direct labour rate per hour	7.50
Factory overhead rate per direct labour-hour	10.00

[L. G. Rayburn]

The prime cost was

A $90 000. **B** $120 000. **C** $144 000. **D** $150 000.

331 Given below is information about a business:

	$000
Production wages	66
Production overheads	46
Opening stock of raw materials	6
Purchases of raw materials	70
Closing stock of raw materials	4
Carriage outwards	4
Royalties	2
Packing materials used	10

What is the prime cost? [N07Q14Z]

A $140 000 **B** $148 000 **C** $150 000 **D** $154 000

332 The following balances appeared in the books of a manufacturing firm at the end of a financial year.

	$000
Raw materials, at beginning of year	10
Purchases of raw materials during the year	100
Carriage outwards	2
Carriage inwards	3
Raw materials, at end of year	15
Royalties	5
Direct wages	20
Factory overheads	7

What is the prime cost for the year? [S03Q17Z]

A $118 000 **B** $120 000 **C** $123 000 **D** $130 000

333 Which cost is part of the factory overhead cost in microcomputer manufacture? [Fess & Warren]

A Cost of disk drives
B Cost of memory chips
C Depreciation of testing equipment
D Wages of computer assemblers

334 An example of a factory overhead cost is [Fess & Warren]

A bearings for electric motors being manufactured.
B patent fees being paid to the design holder.
C salaries of factory plant supervisors.
D wages to factory assembly-line workers.

335 Which items make up the factory overhead? [Prestige]

1 Carriage inwards
2 Depreciation of factory machinery
3 Machine operators wages
4 Insurance of machinery
5 Loose tools
6 Patent fees on production

A 1, 2 and 4 **B** 2, 3 and 5 **C** 2, 4 and 5 **D** 4, 5 and 6

336 Variable overheads of $6 760 were included twice in a Manufacturing Account.

The effect of correcting the error will [J04Q09Z]

A increase the prime cost by $6 760.
B increase the production cost by $6 760.
C reduce the prime cost by $6 760.
D reduce the total factory overheads by $6 760.

337 The following information relates to Gringo Industries:

Stocks as at	**01–02–2007 $000**	**28–02–2007 $000**
Direct materials	36	30
Work in progress	18	12
Finished goods	54	72

Additional information for the month of February 2007: [L. G. Rayburn]

	$
Production materials purchased	84 000
Direct labour cost	60 000
Direct labour rate per hour	7.50
Factory overhead rate per direct labour-hour	10.00

The cost of goods manufactured was

A $218 000. **B** $224 000. **C** $230000. **D** $236000.

338 A manufacturing company has the following balances at its financial year end:

	$
Closing stock raw materials	1 000
Direct manufacturing wages	5 000
Purchases of raw materials	5 000
Production overheads	2 000
Opening work in progress	200
Closing work in progress	300
Opening stock raw materials	500

The factory cost of finished goods produced is [N03Q19Z]

A $9 400. **B** $11 400. **C** $11 500. **D** $12 400.

339 The following cost data were taken from the record of a manufacturing company:

[L. G. Rayburn]

	$
Depreciation on factory equipment	1 000
Depreciation on sales office	500
Advertising	7 000
Freight outwards (shipping)	3 000
Wages of production workers	28 000
Raw materials used	47 500
Sales salaries and commissions	10 000
Factory insurance	500
Material handling	1 500
Administrative salaries	2 000

Manufacturing costs incurred during the year were

A $78 500. **B** $80 000. **C** $80 500. **D** $83 000.

340 Cost of goods manufactured is used to compute [Horngren, Harrison & Lemon]

A cost of goods sold.
B direct materials used.
C factory overheads absorbed.
D stock of finished goods.

341 If cost price is $90 and selling price is $120, then

1 margin is 25%
2 margin is $33^1/_3$% [Wood & Allan]
3 mark-up is 25%
4 mark-up is $33^1/_3$%

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

342 If the mark-up is ½, then the gross profit percentage is [Author]

A $33^1/_3$%. **B** 50%. **C** $66^2/_3$%. **D** 100%.

343 What is the company's mark-up given that the company purchases a product that costs $120 and the company expects to make a gross profit margin of one third? [J00Q10C]

A $30 **B** $40 **C** $50 **D** $60

344 Doe wants to sell a product at a margin of 20%. The cost of the product is $2. [L. G. Rayburn]

The selling price should be

A $1.60 **B** $2.10 **C** $2.40 **D** $2.50

345 Given cost of goods is $16 000 and margin of 20%, then the sales figure is [Wood & Allan]

A $13 600. **B** $20 000. **C** $20 160. **D** $21 000.

346 Diva wants to establish a selling price that will yield a gross profit margin of 40% on sales of a product whose cost is $12 per unit.

The selling price should be [L. G. Rayburn]

A $16.80 **B** $19.20 **C** $20.00 **D** $30.00

347 Ms Makombe, a sole trader, maintains a constant gross profit margin of 20%. During 2004 she expects purchases of $90 000 will be required to increase stock levels by $10 000.

What sales revenue is she expecting? [N04Q24Z]

A $96 000 **B** $100 000 **C** $108 000 **D** $112 500

348 Adly wishes to earn a 30% return on its $100 000 investment in equipment used to produce product X.

Based on estimated sales of 10 000 units of product X next year, the costs per unit would be as follows:

	$
Variable manufacturing costs	5
Fixed selling and administrative costs	2
Fixed manufacturing costs	1

[L. G. Rayburn]

At how much should product X be priced for sale?

A $5 **B** $8 **C** $10 **D** $11

349 During the year ended 31 December 2003, Meys sold goods worth $416 000. The sales were made an even rate throughout the year, **except** for March and August when monthly sales were 50% more than other months.

What were the sales in March? [N04Q28Z]

A $32 000 **B** $34 667 **C** $48 000 **D** $52 000

350 A Balance Sheet showed creditors of $45 000. Creditors days are 60 days and margin is $16^2/_3$%.

Given that there was no opening stock and closing stock, the sales for the year are [Author]

A $219 000. **B** $328 500. **C** $319 375. **D** $438 000.

351 Beta Ltd had the following information recorded in its books at 31 December 2006: [Randall]

	$
Credit sales invoiced to customers during the year	120 600
Goods sent on sale or return to customers on 31 December	25 800
Goods dispatched to customers on 31 December but invoiced on 2 January 2007	17 420
	163 820

Beta Ltd should credit its Trading Account for the year to 31 December 2006 with sales of

A $120 600. **B** $138 020. **C** $146 400. **D** $163 820.

352 Information from the books of a business at 30 April 2008 given in the table below : [J02Q08Z]

Invoiced	**$**
Credit sales during the year	79 000
Goods sent to customers on 28 April 2007 but invoiced on 4 May 2008	6 100
Goods sent to customers on sale or return but not sold by 30 April 2008	8 300

What is the amount to be credited to the Trading Account as sales for the year ended30 April 2008?

A $96 800 **B** $85 100 **C** $85 300 **D** $93 400

353 Jones financial year ends 30 June 2005. His stock at that date was valued at cost $17 000. He adds a mark up of $^1/_3$ to all goods. On 29 June 2005, Smith had told Jones that he would buy goods for $900 on 1 July 2005. Jones' sales for the year, ignoring Smith's intended purchase, amounted to $183 450.

In his accounts for the year ended 30 June 2005, Jones should record sales of [Randall]

A $183 450 and closing stock at $16 700.
C $184 350 and closing stock at $16 700.
B $183 450 and closing stock at $17 000.
D $184 350 and closing stock at $17 000.

354 By adding purchases during the period to opening stock and deduction closing stock, figure obtained is

A cost of turnover.
C gross profit on sales.
B goods available for resale.
D operating expenses. [Meigs & Ferrara]

355 At the end of a financial year, the following information is available:

	$000
Sales	200
Opening stock	15
Carriages on sales	6
Closing stock	18

If the business makes standard mark-up of 25%, what were the purchases for the year? [Prestige]

A $147 000 **B** $153 000 **C** $157 000 **D** $163 000

356 A business makes sales with a gross profit margin of 30%. At 1 April 2006, stock was valued at $2 600, and 31 March 2007 at $3 800. During the year the sales totalled $80 800.

What was the value of purchases during the period? [J98Q09C]

A $56 560 **B** $57 760 **C** $60 360 **D** $63 350

357 The business of a sole-trader has the following information for the year ended 31 December 2003.

Mark-up	$^3/_7$
Stock at 1 January	$20 000
Stock at 31 December	$25 000
Sales	$220 000

What is the value of purchases during the year? [N07Q06Z]

A $130 000 **B** $149 000 **C** $154 000 **D** $159 000

358 The cost of putting goods in a saleable condition should be charged to [Wood & Allan]

A Balance Sheet.
C Trading Account.
B Profit and Loss Account.
D Trial Balance.

359 Carriage on purchases is charged to the Trading Account because

A carriage on sales goes to the Profit and Loss Account.
B it is an expense connected with buying goods.
C it is not part of the motor expenses. [Wood & Allan]
D it should not go to the Balance Sheet.

360 The following information is available for Cookie Company in 2007:

	$000
Net sales (Gross profit is 40% of net sales)	1 800
Freight-in	45
Purchases discounts	25
Closing stock	120

What is the cost of the goods available for resale? [Spiceland, Sepe & Tomassini]

A $840 000 **B** $960 000 **C** $1 200 000 **D** $1 220 000

361 For an enterprise using periodic inventory system, which of the following is added when computing the cost of merchandise sold? [Fess & Warren]

A Closing stock
B Purchases
C Purchases discounts
D Purchases returns and allowances

362 Which of the following list of accounts is used to compute cost of goods sold? [Meigs & Ferrara]

A Closing stock, net sales, opening stock and purchases
B Closing stock, opening stock, purchases, sales returns and allowances
C Gross profit, purchases returns and allowances and transportation-in
D None of the above

363 Cost of goods sold is computed by adding opening stock and net purchases and subtracting

A closing stock.
B goods available for resale.
C gross profit.
D net sales. [Horngren, Harrison & Lemon]

364 The closing stock of Bar Marine was $42 000 and cost of goods available for resale totalled $104 000.

If the opening stock was $50 000, the cost of goods sold must have been [Meigs & Ferrara]

A $62 000. **B** $96 000. **C** $112 000. **D** $196 000.

365 You are given these figures:

	$
Sales	8 200
Opening stock	1 300
Closing stock	900
Purchases	6 400
Carriage inwards	200

[Wood & Allan]

The cost of turnover figure is

A $6 200. **B** $6 800. **C** $7 000. **D** $8 200.

366 Total payments to creditors during the year were $20 000. Trade creditors at the start of year were $8 000 and at the end of the year $10 000. Stock at the beginning was $6 000 and increased by $3 000 at the end of the year.

What is the cost of sales for the year? [N00Q10C]

A $15 000 **B** $19 000 **C** $21 000 **D** $25 000

367 In each of the last two years, closing stock was valued at $5 000 more than the corresponding opening stock. In both years, the stock turnover was 10 times and in the earlier year the cost of goods sold was $125 000.

What is the cost of the goods sold in the second year? [J02Q22Z]

A $125 000 **B** $150 000 **C** $175 000 **D** $200 000

368 The following information was taken from Kay Ltd's accounting records for the year ended 1 May 2007:

	$000
Increase in raw materials stocks	15
Decrease in finished goods stocks	35
Raw materials purchased	430
Direct labour	200
Factory overhead	300
Freight outwards	45

[L. G. Rayburn]

If there was no work in progress at the start and at the end of the year, Kay Ltd's cost of goods sold is

A $950 000. **B** $965 000. **C** $975 000. **D** $995 000.

369 Bren Company's opening stock was understated by $26 000 and its closing stock was overstated by $52 000.

As a result, Bren Company's cost of goods sold was [Spiceland, Sepe & Tomassini]

A overstated by $26 000. **C** understated by $26 000.
B overstated by $78 000. **D** understated by $78 000.

370 Which of the following is the greatest in dollar value? Horngren, Harrison & Lemon]

A Average stock **C** Goods available for resale
B Cost of sales **D** Net purchases

371 In a periodic inventory system, the entry to adjust opening stock is [Fess & Warren]

	Debit	Credit		Debit	Credit
A	Cost of Sales	Income Statement	**C**	Income Statement	Stock
B	Income Statement	Purchases	**D**	Stock	Income Statement

372 The opening stock is removed from the books by a closing entry which [Meigs & Ferrara]

	Debits	Credits		Debits	Credits
A	Income Statement	Cost of sales	**C**	Cost of sales	Income Statement
B	Income Statement	Stock	**D**	Stock	Income Statement

373 Which of the following is a Stock Account of a manufacturer but not a merchandiser?

A Cost of goods manufactured **C** Trading stock [Horngren, Harrison & Lemon]
B Direct labour **D** Work-in-progress

374 A measure useful in evaluating the management of stock is [Fess & Warren]

A liquid ratio. **C** quick ratio.
B number of days sales in inventory. **D** working capital ratio.

375 Stock turnover is computed by dividing [Horngren, Harrison & Lemon]

A average stock by cost of goods sold. **C** credit sales by average stock.
B cost of goods sold by average stock. **D** sales revenue by average stock.

376 If opening stock is $300, closing stock $500, sales $4 000 and margin 20%, stockturn is [Wood & Allan]

A 5 times. **B** 6 times. **C** 7½ times. **D** 8 times.

377 Joy Enterprises' listed balances for the month of September 2007 include:

	$000
Opening stock	7
Closing stock	9
Sales	96

If mark up was 20%, what was the rate of stock turn? [J03Q36Z]

A 5 times **B** 7.2 times **C** 10 times **D** 14.4 times

378 Opening stock of a business is $10 000. The closing stock is $15 000. Sales for the year amounted to $156 250. The mark-up is 25%. [N02Q24Z]

What is the stock turnover ratio?

A 5 times **B** 6.25 times **C** 8.33 times **D** 10 times

379 Opening stock is valued at $13 500 and closing stock is valued at $14 500. [N00Q24C]

What will be the resulting stock turn from a mark-up of 25% and sales for the period of $175 000?

A 10 times **B** 12 times **C** 12.5 times **D** 13 times

380 If the net sales for Regent Musical Supply in October were $20 000, goods available for resale $18 000 and gross profit amounted to $8 000, the closing stock must have been [Meigs & Ferrara]

A $4 800. **B** $6 000. **C** $10 000. **D** $12 000.

381 The closing stock of a business was $30 000 and the cost of goods sold was $600 000. Stock turnover is based on the average value of the opening and closing stocks.

If the stock turnover was 15 times, what was the opening stock? [Randall]

A $10 000 **B** $40 000 **C** $50 000 **D** $80 000

382 You are given the following information: [N07Q29Z]

Rate of stock turn	12½ times
Sales for period	$240 000
Closing stock	$20 000
Gross profit	$40 000

What is the value of opening stock?

A $12 000 **B** $18 400 **C** $19 200 **D** $24 000

383 The opening stock of a business is $10 000 and the cost of the goods sold is $200 000.

Using the average figure for opening and closing stock figure, what value of closing stock is needed to ensure a stock turnover ratio of 10 times? [N98Q22C]

A $10 000 **B** $20 000 **C** $30 000 **D** $40 000

384 A sole-trader has not kept complete record. However, it is known that closing stock in trade was $7 000 more than in the previous year. Cost of goods sold was $102 000 and the rate of stock-turn is 15 times.

The closing stock is [S03Q24Z]

A $3 300. **B** $6 600. **C** $6 800. **D** $10 300.

385 What is the value of closing stock? [J05Q27Z]

Opening stock	Nil
Purchases	$130 000
Returns outwards	$10 000
Rate of stock turn	18 times

A $11 000 **B** $12 000 **C** $13 000 **D** $20 000

386 Opening stock was $35 000, purchases were $146 000 and sales totalled $240 000.

With a normal gross margin of 35%, how much is the closing stock? [Horngren, Harrison & Lemon]

A $25 000 **B** $35 000 **C** $97 000 **D** $181 000

387 The net sales of Austin Saddlery are $200 000 and gross profit rate is 35% for the current month.

If the cost of goods available for resale is $180 000, the closing stock figure is [Meigs & Ferrara]

A $50 000. **B** $63 000. **C** $70 000. **D** $130 000.

388 All of Grayson's stock was stolen when his business was burgled on 4 February 2004. His stock at 31 December 2003 was $23 000. From 1 January 2004 to 4 February 2004, sales totalled $42 000, and purchases were $38 000. Grayson's mark-up on goods is $33^1/_3$% to arrive at selling price.

What was the cost of the stock that was stolen? [Randall]

A $28 000 **B** $29 500 **C** $33 000 **D** $40 000

389 On 20 March 2007, Major had a burglary and lost most of his stock except goods which had cost $900.

Major supplies you with the following information:

Sales:	1 January 2007 to 20 March 2007	$100 000	
Purchases:	1 January 2007 to 20 March 2007	$ 85 000	
Stock:	1 January 2007		$ 10 000
Mark up			25%

What is the cost of stolen goods? [S03Q20Z]

A $14 100 **B** $15 000 **C** $15 900 **D** $19 100

390 Ben's stock was destroyed by fire on 31 January. His stock on 1 January was $20 000. The sales for the month totalled $150 000 while purchases were $110 000. Ben's mark up is $33^1/_3$%.

The cost of the stock destroyed by fire was [N05Q06Z]

A $17 500. **B** $20 000. **C** $22 500. **D** $30 000.

391 Nada, who established pricing structure to yield a 30% margin, has the data below: [L. G. Rayburn]

	$000
Sales	1 000
Stock as at 1 January 2007	500
Stock, per actual count at 31 December 2007	80
Purchases	400

Nada is satisfied that all sales and purchases have been fully and properly recorded.

How much might Nada reasonably estimate as shortage in stock at 31 December 2007?

A $100 000 **B** $120 000 **C** $200 000 **D** $276 000

392 On 6 January 2006 a firm lost all of its stock on fire. On 31 December 2005, stock had a Balance Sheet valuation of $650 000. In the period 1 – 5 January 2006, purchases were $75 000 and sales $96 000.

If average gross profit made on selling price is 25%, what was the stock on 5 January? [J02Q11Z]

A $629 000 **B** $647 000 **C** $653 000 **D** $671 000

393 Ben's shop was broken into on the 5th of February 2007. All the stock was stolen. His stock on 31 December 2006 was $161 000. From 1 January 2007 to 5 February 2007, sales totalled $294 000 and purchases were $266 000. Ben's mark-up on goods is $33^1/_3$% to arrive at the selling price.

The cost of stolen stock was [Author]

A $196 000. **B** $206 500. **C** $231 000. **D** $280 000

394 City Fashion Store had its warehouse burned down on the night of 28 February 2004. Most of its stock was destroyed except for goods worth $20 000 which were salvaged. Mark-up on sales is $33^1/_3$%.

The following information is available:

	$000
Sales	240
Stock on 1 April 2003	60
Purchases	150

What was the value of goods destroyed by fire? [N06Q10Z]

A $10 000 **B** $30 000 **C** $50 000 **D** $60 000

395 Towards end of April Year 2, there was a severe earthquake which collapsed the warehouse of Tremor Express and destroyed all the merchandise therein but you are provided with the following facts:

As at 31 December	**Year 1**	**Year 2**
	$000	**$000**
Trade creditors	432	678
Trade debtors	323	504
Trading stock	240	?

During Year 2, cheques to suppliers totalled $3 450 000 and cash from customers totalled $4 139 000.

If stock turn is 12 times and mark up is 25%, value of goods destroyed in the earthquake is [Author]

A $144 000. **B** $300 000. **C** $336 000. **D** $396 000.

396 A manufacturing company's cost of production was $100 000. Finished goods were transferred from its factory to the warehouse at $110 000. At year-end 9% of these goods were still in stock.

The stock of the finished goods will be shown in the Trading Account [Randall]

A and the Balance Sheet as $9 000.
B and the Balance Sheet as $9 900.
C as $9 000 and in the Balance Sheet as $9 900.
D as $9 900 and in the Balance Sheet as $9 000.

397 The production cost of manufactured goods is $400 000 while the market value is $500 000. The shop marked-up this stock by 25% and fetched sales of $600 000.

In the Balance Sheet, the net closing stock is [Author]

A $15 000. **B** $16 000. **C** $20 000. **D** $50 000.

398 To find the value of closing stock at the end of a period we [Wood & Allan]

A deduct cost of goods sold from sales.
B deduct opening stock from cost of sales.
C do this by stock taking.
D look in the stock.

399 Which of the following characteristics of an effective system of internal control is violated by allowing the employee who handles stock to also account for stock? [Horngren, Harrison & Lemon]
A Assignment of responsibilities **C** Proper authorisation
B Competent and reliable personnel **D** Separation of duties

400 A method of valuing stock which is **not** generally acceptable is [Randall]
A cost. **B** net realisable value. **C** replacement cost. **D** standard cost.

401 The following methods of stock valuation are generally not acceptable **except** [Author]
A base cost. **B** current cost. **C** replacement cost. **D** standard cost.

402 How should stocks be valued in published accounts?
A Cost **C** Net realisable value
B Lower of cost and net realisable value **D** Replacement cost [N99Q21C]

403 A company should value its stocks at the lower of [Randall]
A cost and net realisable value. **C** net realisable value and replacement cost.
B cost and replacement cost. **D** selling price and net realisable value.

404 How should stock be valued in the Balance Sheet? [Randall]
A At the lower of cost and net realisable value
B At the lower of cost and replacement cost
C At the lower of net realisable value and the selling price
D At the lower of replacement cost and net realisable value

405 Application of the lower of cost and net realisable value often results in [Horngren, Harrison & Lemon]
A a change from one inventory costing method to another.
B a counter-balancing error.
C higher closing stock.
D lower closing stock.

406 Valuing closing stock at the lower of cost and net realisable value is an application of the [N03Q07Z]
A consistency concept. **C** money measurement concept.
B materiality concept. **D** prudence concept.

407 Obsolete stock in a business is valued at the lower of cost and net realisable value.
The accounting principle applied is [J07Q15Z]
A consistency. **B** going concern **C** materiality **D** prudence

408 Which accounting concept is applied by a business when its damaged goods are valued at the net realisable value (NRV)? [N07Q23Z]
A Consistency **B** Going concern **C** Materiality **D** Prudence

409 *Net realisable value* as at term used in relation to stock valuation means [Meigs & Ferrara]
A cost of goods on a FIFO basis increased by anticipated selling expenses.
B replacement cost of the goods in inventory.
C sales price of the goods minus anticipated selling expenses and profit margin.
D selling price of the goods minus anticipated selling expenses.

410 The costs and net realisable values of the stock for five grades of cotton are as follows:

Grade	Cost	Net realisable value
	$	$
1	80 000	110 000
2	90 000	65 000
3	120 000	120 000
4	40 000	77 000
5	66 000	65 500
	396 000	437 000

What is the value of stock in the Balance Sheet? [N06Q33Z]
A $370 500 **B** $396 000 **C** $437 500 **D** $463 000

411 A company has two items of stock, which require to be repaired before sale:

	Cost	Selling price	Repair costs
Item 1	$5 260	$7 600	$880
Item 2	$2 360	$2 450	$190

What is the total stock value of these items? [Prestige]

A $6 550 **B** $7 520 **C** $7 620 **D** $8 980

412 At the end of the financial year M & N Ltd had the following items in stock:

Item	P	Q	R
	$	$	$
Cost	2 400	4 000	3 200
Realisable value	2 800	4 700	4 200
Selling expenses	600	900	400

What is the company's value of closing stock? [N03Q18Z]

A $9 000 **B** $9 200 **C** $9 600 **D** $10 200

413 Stocks of the four products below should be valued at lower of cost and net realisable value.

Product	W	X	Y	Z
	$	$	$	$
Cost	18	19	17	24
Realisable value	15	18	21	26
Selling expenses	–	3	2	3

At how much should the stocks be valued? [J99Q24C]

A $70 **B** $74 **C** $78 **D** $80

414 Huruyadzo Hardware had the following inventory at 31 December 2003:

	Purchase price	Production costs incurred	Expected selling costs	Sales value
	$	$	$	$
Bolts	1 976	1 680	384	4 640
Nuts	7 488	2 184	120	9 632
Rivets	1 160	680	232	2 048
Total	10 624	4 544	736	16 320

What was the value of stock shown in the Balance Sheet at 31 December 2003? [N04Q13Z]

A $10 624 **B** $14 984 **C** $15 168 **D** $15 720

415 The normal selling price of stock item is $22 per item. The item originally cost $15 per unit, but can only be sold at the normal selling price after modifications costing $14 per unit. The scrap value of the item is $7 per unit.

According to IAS 2, ***Inventories***, at how much should the item be valued in the Balance Sheet? [N98Q08C]

A $7 per unit **B** $8 per unit **C** $14 per item **D** $15 per unit

416 Information relating to end of year stock is:

	$000
Cost	50
Realisable value	45
Realisation costs	5
Replacement cost	35

[N00Q22C]

According to IAS 2, ***Inventories***, what is the value of the closing stock at the Balance Sheet date?

A $35 000 **B** $40 000 **C** $45 000 **D** $50 000

417 Stock of a company on 31 December 2007 was:

Nature of stock	Replacement cost	Net realisable value	At historic cost
Television sets	$60 000	$50 000	$61 000
Hi-fi	$40 000	$32 000	$38 000
Watches	$25 000	$23 000	$20 000

What is the value of total stock to be included in the Balance Sheet? [J03Q10Z]

A $102 000 **B** $105 000 **C** $119 000 **D** $125 000

418 A company sells school desks and values its stock at cost. Closing stock is $10 000. Included in stock is a damaged desk which cost $100 and would cost $70 to repair before it can be sold for $150. Cost of replacing the damaged desk is $110.

The stock should be valued at [S03Q08Z]

A 9 900. **B** $9 980. **C** $10 050. **D** $10 070.

419 Part of the stock on 31 December 2007 was damaged during the year. Its cost was $15 000 and it can be restored to its original condition at a cost of $2 500 after which it can be sold for $15 600.

Which of the following amounts should be included in the stock valuation? [N02Q16Z]

A $12 500 **B** $13 100 **C** $15 000 **D** $17 500

420 A trader sends goods on sale or return to a customer. When the trader prepares his Balance Sheet at 31 March 2004, the customer has still not indicated that he has accepted the goods. [Randall]

Which concept should the trader apply when he prepares his accounts at 31 March 2004?

A Consistency **B** Matching **C** Prudence **D** Realisation

421 What is the closing stock, in units, for an enterprise with 4 300 units in its warehouse of which 200 were received on sale or return and 100 were sent to customers on sale or return? [Author]

A 4 000 units **B** 4 200 units **C** 4 300 units **D** 4 400 units

422 Sound Warehouse counted 15 000 albums, including 1 000 albums held on sale or return basis, in its Gutu store. The business purchased an additional 2 000 albums still in transit. Each album cost $3.40.

The cost of stock to report in the Balance Sheet is [Horngren, Harrison & Lemon]

A $47 600. **B** $51 000. **C** $54 400. **D** $57 800.

423 Bofu sells goods on a sale or return basis at a mark-up of 20%.

At the Balance Sheet date, the following is available:

	$
Stock in warehouse, at cost	450 000
Goods sent on sale or return, at selling price	300 000

What will be the value of closing stock in the accounts? [S03Q05Z]

A $450 000 **B** $690 000 **C** $700 000 **D** $750 000

424 A company sells goods on sale or return at a mark-up of 25%.

At the Balance Sheet the following information is available:

– Goods in warehouse $300 000 (cost)
– Goods on sale or return $200 000 (at invoice price)

What will be the value of closing stock in the company accounts? [J00Q13C]

A $300 000 **B** $450 000 **C** $460 000 **D** $500 000

425 Herc Corp's stock at 31 December 2003 was $1 500 000 based on a physical count priced at cost, and before any adjustment for the following:

– Merchandise costing $90 000 that was shipped from a vendor on 30 December 2003 was received and recorded on 5 January 2004;
– Goods in a shipping area were excluded from stock although shipment was not made until 4 January 2004. These goods had a cost of $120 000. [Spiceland, Sepe & Tomassini]

What amount should Herc Corp report as stock in its 31 December 2003 Balance Sheet?

A $1 500 000 **B** $1 590 000 **C** $1 620 000 **D** $1 710 000

426 The stock figure on 30 June 2007 was $11 500. This figure included goods which had cost $1 200 but no invoice had been received.

On 20 June 2007, stock costing $200 was sent on sale or return to a customer who was invoiced with selling of $280. The customer had not indicated if he wanted to purchase the goods.

The revised stock figure at 30 June 2007 was [J05Q13Z]

A $10 100. **B** $10 300. **C** $11 300. **D** $11 700.

427 A company's year-end is 30 June, but because of staff shortages the stock could not be counted until 6 July. The stock valuation at this date was $86 500.

However, detailed records were kept of stock movements between 30 June and 6 July and are shown:

	$
Sales (at cost)	1 750
Purchases	1 550
Returns inwards (at cost)	310
Returns outwards	190

What is the value of stock on the company's Balance Sheet at 30 June? [N99Q10C]

A 86 180 **B** $86 420 **C** $86 580 **D** $86 820

428 A business ends its financial year on 31 December. The stock was not counted until 10 January when it was found to be $104 000 at cost.

The following transactions took place between 1 to 10 January:

	$000
Stock purchased	16
Stock sold at selling price (mark -up is 25%)	15

What was the value of stock at 31 December? [J04Q17C]

A $99 250 **B** $100 000 **C** $108 000 **D** $108 750

429 Due to staff illness, stock taking which should have been completed by 31 December 2004 was only completed on 15 January 2005. On that date, stock was valued at $30 000.

The following information is available concerning stock movements between 1st January 2005 and 15th January 2005 is available:

– Cash sales $6 000 at a profit margin of 20%.
– Purchases $10 000.
– Credit sales $15 000 at a profit margin of 30%. [N05Q09Z]

If all goods were delivered, the stock figure at 31 December 2004 for inclusion in the final accounts is

A $19 000. **B** $24 700. **C** $35 300. **D** $41 000.

430 A perpetual inventory system [Meigs & Ferrara]

A eliminates the need for taking an annual physical stock taking.
B maintains a continuously updated Stock Account as well as a continuously updated Cost of Sales Account.
C provides such strong internal control that custody of assets need not be separate from the accounting records for stock.
D requires the use of the First In, First Out (FIFO) basis of pricing goods sold.

431 Which of the following statements is **not** descriptive of the perpetual inventory system? [Meigs & Ferrara]

A A Ledger account keeps track of the cost of goods sold in the period.
B Amount of closing stock is determined by physical count and the cost of goods sold is determined by computation.
C Stock Account balance is adjusted each time merchandise is purchased, sold or returned during the period.
D Two entries are made when merchandise is sold.

432 Under periodic inventory system, cost of closing stock as determined by physical stock count appears

A as a debit balance in the Stock Account in the Trial Balance.
B on the credit side of the Income Statement and debit side of the Balance Sheet.
C on the debit side of both the Trial Balance and the Balance Sheet.
D only in the Balance Sheet on the debit side. [Meigs & Ferrara]

433 Which of the following statements is true? [Horngren, Harrison & Lemon]

A An annual physical count of stock is needed regardless of the type of inventory system used.
B Separation of duties is not an important element of internal control for inventories.
C The periodic system is used for low priced units.
D The perpetual system is used for low priced units.

434 The consistency principle has the most direct impact on whether to [Horngren, Harrison & Lemon]
A change from one inventory method to another. **C** use periodic or perpetual inventory system.
B include or exclude an item in closing stock. **D** write down stock to net realisable value below cost.

435 IAS 2, ***Inventories***, demoted which stock valuation method to alternative method? [Author]
A First In First Out (FIFO) **C** Standard Costing
B Last In First Out (LIFO) **D** Weighted Average Cost (AVCO)

436 Which of the following is **not** an acceptable inventory method? [Meigs & Ferrara]
A First in, first out **C** Sales value
B Lower of cost or net realisable **D** Specific identification

437 Which of the following is **always** acceptable as a means of stock valuation under IAS 2, ***Accounting for Inventories***? [J00Q23C]
A Base stock **B** FIFO **C** LIFO **D** Replacement cost

438 The stock costing method that is based on assumption that costs should be charged against revenue in order in which they were incurred is [Fess & Warren]
A AVCO . **B** FIFO. **C** LIFO. **D** perpetual inventory.

439 Which stock costing method best matches current expense with current revenues? [Horngren, Harrison & Lemon]
A Average Cost. **B** FIFO. **C** LIFO **D** Standard Cost

440 The following units of a particular item were available for sale during a period: [Fess & Warren]

Opening stock	40 units @ $20
First purchase	50 units @ $21
Second purchase	50 units @ $22
Third purchase	50 units @ $23

What is the unit cost of the 35 units on hand at the end of the period, as determined under the periodic inventory system by FIFO costing method?
A $20 **B** $21 **C** $22 **D** $23

441 A company bought and sold goods as follows:

		Bought	Sold
May	1	20 units @ $2.00 each	
	3	10 units @ $2.50 each	
	4		12 units
	5	20 units @ $3.00 each	
	6		16 units

What is the value of the stock at 6 May based on FIFO? [Randall]
A $44 **B** $45 **C** $65 **D** $66

442 A business was started on 1 May with the following purchases and sales of stock:

May	Purchases	Sales
4	3 items @ $800 each	
13		2 items @ $1 600 each
26	3 items @ $1 000 each	
28		2 items @ $1 600 each

[Prestige]

If the business uses First In First Out (FIFO) method of stock valuation, what is the gross profit for May?
A $2 600 **B** $2 800 **C** $3 000 **D** $4 600

443 Transactions relating to a commodity during a period are given below:

	Units	Cost per unit
Purchased	50	$ 4
Sold	30	$10

Of the remaining units, 8 are damaged and therefore worthless.
What is the profit for the period? [J99Q15C]
A $68 **B** $100 **C** $148 **D** $180

444 The following units of a particular item were purchased and sold during the period:

Opening stock	40 units @ $20	
First purchase	50 units @ $21	[Fess & Warren]
Second purchase	50 units @ $22	
First sale	110 units	
Third purchase	50 units @ $23	
Second sale	45 units	

What is the unit cost of 35 units on hand at the end of the period, as determined under the perpetual inventory system by the LIFO costing method? [Fess & Warren]

A $20 **B** $20 and $21 **C** $20 and $23 **D** $23

445 A company purchased 100 kilos of raw material for $400 on 1 March, another 40 kilos on 15 March for $180and further 70 kilos for $350 on 26 March. 20 kilos were issued on 13 March and another 60 kilos on 25 March.

The stock of raw materials at the end of the month, valued on LIFO basis, was [Randall]

A $590. **B** $610. **C** $630. **D** $650.

446 During 2007, Brock Co, which maintains perpetual inventory system, recorded the following information pertaining to its stocks: [Spiceland, Sepe & Tomassini]

	Units	Unit cost	Total cost	Units on hand
Balance on 01/02/07	1 000	$1	$1 000	1 000
Purchased on 07/02/07	600	$3	$1 800	1 600
Sold on 20/02/07	900			700
Purchased on 25/02/07	400	$5	$2 000	1 100

Under the LIFO method, what amount should Brock Co report as stock at 28 February 2007?

A $1 300 **B** $2 700 **C** $3 400 **D** $3 900

447 What is the value of stock on 30 June for a company which uses LIFO method of stock valuation?

During June the following transactions took place:

June 1	Opening stock	100 units at $1 per unit	
10	Received	150 units at $1.10 per unit	
20	Sold	100 units at $2 per unit	[N07Q22Z]
29	Received	50 units at $1.20 per unit	

A $210 **B** $215 **C** $225 **D** $240

448 Given the stock movements, what is the value of closing stock per unit at 30 June based on AVCO?

June 1	Purchased 50 units of stock at $3 per unit	
14	Purchased 100 units at $4.50 per unit	[Randall]
23	Sold 70 units	
30	Purchased 60 units at $5 per unit	

A $4.292 **B** $4.429 **C** $4.50 **C** $5.00

449 A company uses the Weighted Average Cost (AVCO) method of stock valuation.

During November the following transactions took place:

November 1	Opening stock of 100 units @ 2.00 per unit
12	Received 150 units @ $2.10 per unit
15	Issued 100 units
27	Received 50 units @ $2.20 per unit

What was the value of closing stock on 30 November? [Prestige]

A $410 **B** $419 **C** $425 **D** $440

450 During 2003 Metro Ltd, which maintains perpetual inventory system, recorded the following information pertaining to its stocks:

	Units	Unit cost	Total cost	Units on hand
Balance on 01/01/03	1 000	$1	$1 000	1 000
Purchased on 07/01/03	600	$3	$1 800	1 600
Sold on 20/01/03	900			700
Purchased on 25/01/03	400	$5	$2 000	1 100

Under the moving-average cost inventory method, what amount should Metro Ltd report as stock at 31 January 2003? [Spiceland, Sepe & Tomassini]

A $2 640 **B** $3 225 **C** $3 300 **D** $3 900

451 During a period of rising prices, which inventory pricing method is expected to give the lowest valuation for stock on the Balance Sheet and the lowest net profit figure? [Meigs & Ferrara]

A Cost on FIFO basis.
B Cost on LIFO basis.
C Lower of cost or net realisable value
D Weighted average cost.

452 If the trading stock is being valued at cost and the price level is rising steadily, the method of costing that will yield the highest profit is [Fess & Warren]

A first in first out. **B** last in first out. **C** simple average cost. **D** weighted average cost.

453 The First In First Out (FIFO) system of pricing materials charges material issues at the [N05Q05Z]

A average price of materials in stock.
B price of first component used in the period.
C price of the most recent batch in stock.
D price of the oldest batch in stock .

454 A firm uses the First-In-First-Out (FIFO) system for pricing stock. During a period, product costs were overstated and the profits understated.

This meant that during the period, the prices were [Upchurch]

A falling. **B** rising rapidly. **C** rising slowly. **D** unchanged.

455 In times of rising prices which of the following is **not** an advantage of FIFO method of stock valuation?

A Closing sock valuation is based upon the most recent prices paid.
B It is easy to calculate stock values.
C Raw materials are issued to production at the most recent prices.
D Values are based on prices actually paid for the stock. [N02Q20Z]

456 Gross profit is [Wood & Allan]

A cost of goods sold plus opening stock.
B excess of sales over cost of goods sold.
C net profit less expenses for period.
D sales less purchases.

457 How much is the gross margin given that: the sales total $440 000, cost of goods sold is $210 000 and operating expenses are $160 000. [Horngren, Harrison & Lemon]

A $70 000 **B** $210 000 **C** $230 000 **D** $440 000

458 The following information has been extracted from the Trial Balance of a business:

	$
Sales	100 000
Purchases	60 000
Wages	21 000

Given that: closing stock was $3 000 more than opening stock and one third of the wages was charged to the Trading Account, what is the gross profit? [Randall]

A $30 000 **B** $33 000 **C** $36 000 **D** $37 000

459 Annual accounts of a business include:

Sales	$160 000
Opening stock	$ 10 000
Closing stock	$ 14 000

Stock turnover rate using the average of opening and closing stock is 10 times.

What is the gross profit? [J01C26C]

A $20 000 **B** $40 000 **C** $60 000 **D** $120 000

460 For the eleven months ended 30 April 2006, bar takings were correctly recorded at $109 340. For May 2006, the bar takings were mixed with other income. The bar profit margin was 30%.

The figures for the bar for May 2006 were:

	$
Opening stock (at cost)	6 303
Purchases	8 844
Closing stock (at cost)	7 370

What was the gross profit of the bar for the year ended 31 May 2006? [J98Q12C]

A $27 566 **B** $36 135 **C** $36 593 **D** $43 912

461 A company manufactures a single product with a selling price of $30 per unit.

Based on production and sales of 4 000 units, costs are:

	$000
Direct costs	48
Variable production overhead	10
Fixed production overhead	20
Variable selling overhead	5
Fixed administration overhead	17
Total costs	100

What is the gross profit per unit of the product? [J02Q27Z]

A $5.00 **B** $10.50 **C** $15.50 **D** $18.00

462 A company's accounts showed a gross profit of $84 200. It was found that the opening stock had been overstated by $4 200 and the closing stock had been understated by $3 700.

What is the corrected gross profit? [J00Q11C]

A $78 300 **B** $83 700 **C** $84 700 **D** $92 100

463 A company's accounts showed a gross profit for the year of $30 000.

After preparing the final accounts, it was discovered that the opening stock was understated by $1 000 while the closing stock had been overstated by $2 000.

What is the corrected gross profit for the year? [N05Q02Z]

A $27 000 **B** $29 000 **C** $31 000 **D** $33 000

464 The gross profit for the year before correcting the errors was $60 200.

The following errors are found and to be corrected:

i. A credit for $120 to **X** was debited to **Y** Account;
ii. A purchases invoice for $250 was omitted from the books of account;
iii. The Sales Day Book was over-added by $100.

What is the corrected gross profit for the year? [Prestige]

A $59 850 **B** $59 970 **C** $60 350 **D** $60 550

465 A company's Trading Account showed a gross profit of $92 300. It was found that the opening stock had been understated by $3 500 and that the closing stock had been understated by $4 600.

What is the correct gross profit? [N07Q05Z]

A $84 200 **B** $91 200 **C** $93 400 **D** $100 400

466 After draft accounts had been prepared, the following errors were discovered:

– Opening stock was overvalued by $2 000;
– Closing stock was overvalued by $3 000. [J01C17C]

If the original gross profit was $90 000, what was the gross profit after the errors were corrected?

A $85 000 **B** $89 000 **C** $91 000 **D** $95 000

467 The draft accounts of a company for the year ended 31 December 2007 include the following:

		$000
–	Turnover	280
–	Gross profit	60

It was subsequently discovered that the closing stock was understated by $10 000.

What will be the gross profit percentage after correcting the error? [J98Q24C]

A 17.9% **B** 20.7% **C** 21.4% **D** 25.0%

468 A business has a gross profit to sales ratio of 40% and a net profit to sales ratio of 10%.

If the sales volume increase by 8%, which of the following will generally be true? [J02Q20Z]

	Gross profit to sales ratio	Net profit to sales ratio
A	increases	decreases
B	increases	increases
C	unchanged	decreases
D	unchanged	increases

469 Which ratios represent reaction to competition for a company operating in a very competitive market?

	Gross profit percentage	Period of credit allowed to debtors
A	20%	30 days
B	20%	45 days
C	25%	30 days
D	25%	45 days

[J99Q27C]

470 Which of the following may lead to a decrease in the gross profit percentage? [J03Q11Z]

A Buying and selling goods on credit
B Including stolen stock as part of cost of sales
C Overstating closing stock
D When advertising and distribution expenses exceed the budgeted figures.

471 The gross profit margin and net profit margin of a company are:

Year ended 31 March	2006	2007
Gross profit margin	38.6%	40.1%
Net profit margin	13.5%	13.1%

What caused these changes between 2006 and 2007? [J04Q21C]

A A change in products sold leading to lower selling costs.
B A loss of trade discounts on purchases but an increase in cash discounts taken from suppliers.
C An advertising campaign to promote higher sales leading to higher selling prices.
D An increase in both production and selling costs.

472 Profit and Loss Account extracts for years 2006 and 2007 are:

	2006 $	2007 $
Sales	50 000	100 000
Cost of sales	20 000	34 000

What might explain the cause in profit margin?

A A cut in sales price **C** Expensive suppliers
B Cheaper suppliers **D** Loss of a major customer [J01Q25Z]

473 Extracts from the Profit and Loss Accounts for years 2002 and 2003 are shown below:

	2002 $	2003 $
Sales	25 000	50 000
Cost of sales	7 500	17 000

What might explain the change in profit margin? [J04Q26Z], [N01Q25C]

A A cut in sales price. **C** Cheaper suppliers.
B An increase in sales price. **D** Loss of a major customer.

474 Extracts from the Profit and Loss Accounts for two years for a business are given below:

	Year 1	Year 2
	$	$
Sales	100 000	200 000
Gross profit	30 000	70 000

What might explain the change in the gross profit margin in Year 2? [Randall]

A A reduction in stock
B An increase in selling price per unit
C An increase in stock
D Suppliers offering higher cash discounts

475 The profit shown in cost accounts was $234 500 but the financial accounts showed a different figure. The following stock valuations were used, which were the only different figures between the accounts except for the profits:

	Cost accounts	*Financial accounts*
Opening stock	$48 200	$53 100
Closing stock	$65 400	$59 300

What was the profit in the financial accounts? [Upchurch]

A $223 500 **B** $233 300 **C** $235 700 **D** $245 500

476 The following data is taken from the books of CB Plc which uses a non-integrated accounting system:

	Financial accounts	*Cost accounts*
	$	$
Opening stock of materials	5 000	6 400
Closing stock of materials	4 000	5 200
Opening stock of finished goods	9 800	9 600
Closing stock of finished goods	7 900	7 600

The effect of these stock valuation differences on the profit reported by financial and cost accounting Ledgers is the

A cost accounting profit is $100 greater than the financial accounting profit.
B cost accounting profit is $300 greater than the financial accounting profit.
C financial accounting profit is $100 greater than the cost accounting profit.
D financial accounting profit is $300 greater than the cost accounting profit. [Hussey], [Upchurch]

477 Closing stock is valued on FIFO basis as $5 000. On LIFO, it would have been valued at $4 800.

If FIFO instead of LIFO is used, the gross [Randall]

A and net profits are increased by $200.
B and net profits are reduced by $200.
C profit is increased by $200 but the net profit is not affected.
D profit is reduced by $200 but the net profit is not affected.

478 A company's closing stock of goods is valued on the First In First Out (FIFO) basis at $10 000. On the Last In First Out (LIFO) basis it would have been valued at $9 600.

If LIFO had been used instead of FIFO, the company's gross [J07Q16Z]

A and net profits would have been increased by $400.
B and net profits would have been reduced by $400.
C profit would have been increased by $400 but the net profit not affected.
D profit would have been reduced by $400 but the net profit not affected.

479 A trader has valued his opening stock and closing stock using LIFO. He has now heard that LIFO is not acceptable under current accounting standards and amended his accounts to value stocks on FIFO.

His stocks valued at FIFO and LIFO are as follows:

	FIFO	LIFO
Opening stock	$2 000	$1 500
Closing stock	$4 000	$3 200

What effect did this amendment make to the trader's gross and net profit? [Randall]

	Gross profit	Net profit
A	decrease $300	decrease $300
B	decrease $300	no change
C	increase $300	increase $300
D	increase $300	no change

480 The major expense of a merchandising business is [Horngren, Harrison & Lemon]
A cost of sales. **B** depreciation. **C** interest. **D** rent.

481 The major item on a merchandiser's Income Statement that a service business does not have is
A closing stock. **C** net purchases.
B cost of goods sold. **D** net sales. [Horngren, Harrison & Lemon]

482 Which account causes the main difference between a merchandiser's adjusting and closing process and that of a service business? [Horngren, Harrison & Lemon]
A Closing stock **C** Sales returns and allowances
B Purchases **D** Sales revenue

483 Which of the following pairs include items which are most similar? [Horngren, Harrison & Lemon]
A Cost of sales and closing stock **C** Purchases discount and purchases returns
B Net sales and sales discount **D** Sales returns and sales allowances

484 The accrual basis of accounting may be best described as [Meigs & Ferrara]
A a series of procedures, beginning with journalising transactions and ending with the preparation of the Balance Sheet.
B recording revenue by credit entries and expenses by debit entries.
C recording revenue when it is earned and expenses when the related goods and services are used to produce revenue.
D recording revenue when cash is collected from customers and recording expenses when cash is paid to suppliers.

485 Accrual basis accounting [Horngren, Harrison & Lemon]
A is not acceptable under Generally Accepted Accounting Principles (GAAPs).
B leads to the reporting of more complete information than does cash basis accounting.
C omits adjusting entries at the end of the period.
D results in higher income than cash basis accounting.

486 Which of the following will cause the cash payments to suppliers of goods and services to exceed the amount of expense recorded on the accrual basis? [Meigs & Ferrara]
A An increase in accrued expenses payable.
B An increase in prepaid insurance.
C Depreciation expense.
D Payment of a cash dividend declared in a prior period.

487 The primary objective of matching principle is to [Spiceland, Sepe & Tomassini]
A promote comparability between financial statements of different periods.
B provide full disclosure.
C provide timely information to decision makers.
D record expenses in the period that related revenues are recognised.

488 The matching principle provides guidelines in accounting for [Horngren, Harrison & Lemon]
A assets. **B** expenses. **C** liabilities. **D** revenues.

489 The matching principle implies that expenses [Meigs & Ferrara]
A for a period should be equal in amount to the revenue recognised during the period.
B should be deducted from revenue in the period in which the suppliers of the goods or services are paid.
C should be deducted in the period in which use of the related goods or services help to produce revenue.
D should be equal to the cash payments made during the period.

490 Business anticipates losses but not profits in preparing their annual accounts. [Prestige]

Which accounting concept is applied?
A Accruals **B** Consistency **C** Going concern **D** Prudence

491 The writing off of a bad debt is an example of the [N00Q06C]
A going concern concept. **C** prudence concept.
B matching concept. **D** substance over form concept.

492 What is the correct treatment of bad debts recovered in the final accounts of a business? [N04Q04Z]

A A credit in the Profit and Loss Account **C** A debit in the Profit and Loss Account
B A credit in the Trading Account **D** A debit in the Trading Account

493 Mill Ltd's provision for doubtful debts was $100 000 at the end of 2006 and $90 000 at the end of 2005. For the year ended 31 December 2006, Mill Ltd reported a bad debt expense of $16 000 in its Income Statement.

How much was debited to the appropriate account to write off the actual bad debts? [Spiceland, Sepe & Tomassini]

A $6 000 **B** $10 000 **C** $16 000 **D** $26 000

494 Which of the following should be charged in the Profit and Loss Account? [Wood & Allan]

A Carriage on raw materials **C** Office rent
B Direct materials **D** Work in progress

495 Which of the following does **not** appear in a Profit and Loss Account? [Randall]

A Carriage inwards **B** Carriage outwards **C** Discount allowed **D** Discount received

496 Which of the following accounts would **not** be closed in the Income Statement? [Fess & Warren]

A Accumulated Depreciation **C** Rent Expense
B Fees Earned **D** Wages Expense

497 The Sales Discounts Account is [Meigs & Ferrara]

A a contra-revenue account deducted in the Income Statement.
B a credit balance account deducted from sales on the Income Statement.
C credited at the time of collection if merchandise is paid for within the discount period.
D debited at the time of each credit sale.

498 Which of the following amounts appear on the credit side of the Income Statement and on the debit side of the Balance Sheet? [Meigs & Ferrara]

A Depreciation **B** Dividends **C** Net loss **D** Net profit.

499 The credit entry for net profit is on the credit side of the [Wood & Allan]

A Capital A/C. **B** Drawings A/C. **C** Profit and Loss A/C. **D** Trading A/C.

500 Net profit is calculated in the [Wood & Allan]

A Balance Sheet. **B** Profit and Loss A/C. **C** Trading A/C. **D** Trial Balance.

501 If revenue was $45 000, expenses $37 500 and owner's withdrawals $10 000, there is [Fess & Warren]

A $2 500 net loss. **B** $7 500 net profit. **C** $37 500 net loss. **D** $45 000 net profit

502 Gains and losses are most similar to [Horngren, Harrison & Lemon]

A assets and liabilities. **C** receipts and payments.
B capital and drawings. **D** revenues and expenses.

503 A major shortcoming in use of historical costs to measure net profit during periods of inflation is that

A expenses such as depreciation are overstated, because historical cost dollars had more purchasing power than current dollars.
B historical costs may understate current economic value of resources being consumed in the effort to generate revenue.
C revenue tends to be understated because of the declining value of the dollar.
D the price index used to determine historical costs is based on the general price level, not on prices of company's specific assets. [Meigs & Ferrara]

504 Which of the following is **not** a current cost operating adjustment?

A Cost of sales adjustment **C** Gearing adjustment
B Depreciation adjustment **D** Monetary working capital [J98Q25C]

505 Current cost accounting requires adjustments to be made to convert historical cost profit into current cost profit.

Which of the following can be stated without adjustment?

A Cost of sales **C** Monetary working capital
B Depreciation **D** Turnover [N98Q26C]

506 The Profit and Loss Account of a manufacturing company will **not** include annual depreciation charge for the depreciation of [Randall]

A delivery vehicles. **B** factory machinery. **C** office machinery. **D** warehouse.

507 "Prepayments and accruals have to be adjusted for in the preparation of financial accounts."

On which accounting convention is this statement based? [Prestige]

A Consistency **B** Going concern **C** Matching **D** Prudence

508 Recording a prepaid expense initially as an asset [Horngren, Harrison & Lemon]

A has no effect on the amount of asset and expense reported in the financial statements so long as the correct adjusting entry is made at the end of the period.
B is illogical. It is more logical to record the prepaid expense in the financial statements.
C leads to reporting an incorrect amount of asset and the expense in the financial statements.
D leads to reporting the correct amount of asset and expense in the financial statements.

509 The purpose of adjusting entries is to [Meigs & Ferrara]

A allocate revenues and expenses among accounting periods when related business transactions affect more than one period.
B correct errors made in the accounting records.
C prepare the revenue and expense accounts for recording the transactions of the next accounting period.
D update the balance of Retained Earnings Account for changes in the owners' equity temporarily recorded in revenue and expense accounts.

510 The following are true about adjusting entries **except** that they [Horngren, Harrison & Lemon]

A assign revenues to the period in which they are earned.
B bring asset and liability accounts to correct balances.
C help to accurately measure business liquidity position.
D help to properly measure the period's net income or net loss.

511 Failure to make an adjusting entry to recognise accrued interest receivable would cause [Meigs & Ferrara]

A an overstatement of assets, net income and owner's equity.
B an overstatement of liabilities and an understatement of both net income and owner's equity.
C an understatement of assets, net income and owner's equity.
D an understatement of liabilities and an overstatement of both net income and owner's equity.

512 The adjusting entry to accrue salary expense is [Horngren, Harrison & Lemon]

	Debit	Credit		Debit	Credit
A	Salary Expense	Cash	**C**	Salary Payable	Cash
B	Salary Expense	Salary Payable	**D**	Salary Payable	Salary Expense

513 If the Supplies Account, before adjusting on 28 February, indicated a balance of $2 250 and supplies in hand at 28 February totalled $950, the adjusting entry would be [Fess & Warren]

	Debit	Credit	With
A	Supplies	Supplies Expense	$950
B	Supplies	Supplies Expense	$1 300
C	Supplies Expense	Supplies	$950
D	Supplies Expense	Supplies	$1 300

514 A business received $3 000 in advance for rent. The receipt was debited to Cash Account and credited to Rent Unearned Account. At the end of the period, $1 100 is still unearned.

The adjusting entry for this situation is to debit [Horngren, Harrison & Lemon]

A Rent Earned Account and to credit Rent Unearned Account with $1 100.
B Rent Earned Account and to credit Rent Unearned Account with $1 900.
C Rent Unearned Account and to credit Rent Earned Account with $1 100.
D Rent Unearned Account and to credit Rent Earned Account with $1 900.

515 The entry recording the liability to employees for work done during the period for which they are not yet paid is an example of which type of adjusting entry? [Meigs & Ferrara]

A Apportion recorded costs.
B Apportion unrecorded costs.
C Recognise unrecorded expenses.
D Recognise unrecorded revenues.

516 Advertising expenditure paid by a firm in its first year in business but relating to subsequent accounting period should be shown in the financial statements for the current accounting period as [Prestige]

A a deduction from figure for bank in Balance Sheet and as revenue in Profit and Loss Account.
B a prepayment in the Balance Sheet and as a deduction from total of advertising expenditure paid in the Profit and Loss Account.
C a prepayment in the Balance Sheet and as an expense in the Profit and Loss Account.
D an accrual in the Balance Sheet and as revenue in the Profit and Loss Account.

517 An account was debited with an amount of $1 240 for the office supplies purchased during the first year of operations. At year-end, office supplies on hand were counted and determined to represent a cost of $360.

The appropriate adjusting entry would [Meigs & Ferrara]

A consist of a debit to expense of $360 and a credit to the Balance Sheet.
B decrease assets by $1 240.
C have no effect on net income.
D increase operating expenses by $880.

518 On 1 April Hudson Company received and paid a $700 bill for advertising done in March. In addition to this bill, the company paid $6 100 during April for expenses incurred in that month. On 2 May, Hudson Company paid a $4 600 payroll for employees for work done in April.

Based on these facts, total expenses for the month of April were [Meigs & Ferrara]

A $6 100. **B** $6 800. **C** $10 700. **D** $11 400.

519 A law firm began November with supplies of $160. During the month, the firm purchased supplies of $290. At 30 November, the supplies on hand totalled $210.

Supplies expense for the period is [Horngren, Harrison & Lemon]

A $210. **B** $240. **C** $290. **D** $450.

520 A business has an accounting year that ends on 30 September. Its insurance premiums are paid in advance on 1 July each year.

Premiums have been paid in the past three years as follows:

	$
Year 1	1 800
Year 2	2 000
Year 3	2 400

How much will be debited in the Profit and Loss Account for insurance in Year 3? [Randall]

A $2 000 **B** $2 100 **C** $2 300 **D** $2 400

521 A company's accounting year end is 31 December. It always pays its insurance premiums annually, in advance, on the due date 1 September.

During last few years the following premiums have been paid:

Year	1	$2 400
	2	$2 760
	3	$3 840

[N01Q04C]

What will be the charge for insurance in the company's Profit and Loss Account for Year 3?

A $2 760 **B** $3 120 **C** $3 480 **D** $3 840

522 A business paid $15 000 for the electricity in the year. The opening prepayment was $1 000 and the closing accrual was $2 000.

What is the charge for electricity that year? [J00Q03C]

A $15 000 **B** $16 000 **C** $17 000 **D** $18 000

523 The following information was available on 31 March 2004:

	Administration expenses		
2007	**Accrued due at month end**	**Payments**	**Prepaid at month end**
January	$8 470	$600	$300
February	$8 470	$7 800	$300
March	$8 470	$8 130	$270

What is the administration expenses figure to be charged to the Profit and Loss Account for the three months ended 31 March 2007? [J05Q10Z]

A $16 330 **B** $16 530 **C** $24 730 **D** $41 070

524 **X** Ltd rents its buildings to **Y** Ltd. At 30 June 2006, **Y** Ltd owed $4 500 for rent, but at 31 June 2007 had paid $3 200 in advance. During the year, **X** Ltd had received $17 100 in rental from **Y** Ltd. [N00Q03C]

What is the rental income shown in **X** LTD's Income Statement for the year ended 30 June 2007?

A $9 400 **B** $15 800 **C** $18 400 **D** $24 800

525 You are given the following information for the year ended 31 December 2007:

	$
Rent paid during the year	6 000
Outstanding at 1 January 2007	300
Paid in advance at 31 December 2007	400

The transfer to the Profit and Loss Account for the year is [S03Q19Z]

A $5 300. **B** $6 000. **C** $6 100 **D** $6 700

526 A sole trader's year end is 31 December. Rent is paid in arrears. Until 30 April 2007, the rent was $240 per month. This was increased to $270 per month from 1 May 2007.

What is the sole trader's rent payable for the year ending 31 December 2007? [N98Q02C]

A $2 880 **B** $3 120 **C** $3 150 **D** $3 240

527 The opening and closing Rent Receivable Account balances are given below:

	Start of year	**End of year**
	$	**$**
Rent receivable in advance	4 200	1 600
Rent due in arrears	2 000	2 400

[N99Q04C]

If During the year, $111 000 rental income was received, what was the rental income for the year?

A $110 600 **B** $111 000 **C** $112 800 **D** $114 000

528 A trader commenced business on 1 February 2003 and paid rent on his premises as follows:

Date	**Period**	**Amount**
1 Feb. 2003	1 Feb. – 31 Mar	$1 200
1 Apr. 2003	1 Apr. – 30 Jun.	$1 800
1 Jul. 2003	1 Jul. – 30 Sept.	$1 800
1 Oct. 2003	1 Oct. – 31 Dec.	$2 100
1 Jan 2004	1 Jan – 31 Mar	$2 100

[Randall]

What amount of rent should be shown in the Profit and Loss Account for year ended 31 January 2004?

A $6 900 **B** $7 600 **C** $7 800 **D** $9 000

529 A business starts trading on 1 May 2009.

Date	**Period**	**Rent paid**
2 May 2009	1 May – 30 June	$1 000
3 July 2009	1 July – 30 Sept.	$1 500
2 Oct. 2009	1 Oct. – 31 Dec.	$1 500
4 Jan 2010	1 Jan – 31 March	$1 560
1 April 2010	1 April – 30 June	$1 560

[J01C01C]

Which amount should be shown in the accounts for the year ended 30 April 2010 for rent payment?

A $5 560 **B** $6 080 **C** $6 600 **D** $7 120

530 A company issued $10 000 9% convertible loan stock on 31 July. [Horngren, Harrison & Lemon]

The Income Statement on 31 December will show an interest charge of

A $0. **B** $375. **C** $450. **D** $900

531 Full interest amount on a $30 000 9% short-term loan for 6 months is [Horngren, Harrison & Lemon]

A $450. **B** $900. **C** $1 350. **D** $2 700.

532 When final accounts are prepared, the Bad Debts Account is closed by a transfer to the [Wood & Allan]

A Profit and Loss Account.
C Trading Account.
B Provision for Doubtful Debts Account.
D Trial Balance.

533 Which of the following items represents a deferral? [Fess & Warren]

A Accumulated depreciation
C Insurance prepaid
B Fees earned
D Wages payable

534 Which of the following accounts is **not** closed? [Horngren, Harrison & Lemon]

A Drawings **B** Interest Income **C** Prepaid Insurance **D** Wages Expense

535 The closing entry for sales discounts is [Horngren, Harrison & Lemon]

A Income Statement
    Sales Discounts

C Sales Discounts
    Sales Revenue

B Sales Discounts
    Income Statement

D Sales Revenue
    Sales Discounts

536 The closing entry for Salary Expense, with a balance of $322 000 is [Horngren, Harrison & Lemon]

A	Income Statement	$322 000	
	Salary Expense		$322 000
B	Salary Expense	$322 000	
	Income Statement		$322 000
C	Salary Expense	$322 000	
	Salary Owing		$322 000
D	Salary Owing	$322 000	
	Salary Expense		$322 000

537 Rent is paid by a business monthly in advance on the first day of each month.

The payments during this financial year have been as follows: [J98Q02C]

– Up to and including 1 June $500 per month
– From 1 July thereafter $600 per month

Which amount(s) will appear in the accounts for the year ended 31 October?

	Profit and loss expense	Balance Sheet
A	$6 400	–
B	$6 400	$600 accrual
C	$6 400	$600 prepayment
D	$7 000	–

538 The Rent Receivable Account for Fish Estate Agents showed an overdue amount of $4 000 on 1 June 2006. By year-end, a total of $13 100 was banked and the tenant had made a prepayment of $110. [J03Q08Z]

The amount transferred to the Profit and Loss Account and the amount shown in the Balance Sheet are

	Transferred to the Profit and Loss Account	Used in Balance Sheet
A	$8 990 credit	$110 current liability
B	$8 990 debit	$110 current asset
C	$13 100 credit	$110 current asset
D	$13 100 debit	$110 current liability

539 During 2003, Dr Kondo collected $142 600 from his patients and paid $55 470 in expenses.

The following balances were extracted from his books: [N04Q05Z]

	1 January 2003	**31 December 2003**
	$	**$**
Fees receivable	9 250	15 927
Prepaid fees	2 840	1 620
Accrued expenses	3 435	2 108
Prepaid expenses	1 917	1 774

Which of the following statements is **not** correct?

A Accrued expenses of $2 108 appeared as a current liability in the Balance Sheet at 31 December 2003.
B Fees revenue of $150 497 was credited to the Profit and Loss Account for the year 2003.
C Prepaid fees of $1 620 appeared as a current liability in the Balance Sheet at 31 December 2003.
D Total expenses for 2003 were $56 654.

540 A trader prepares his accounts annually to 30 April. He pays annual rent of $12 000 and makes the payments quarterly in arrears on 1 January, 1 April, 1 July and 1 October.

Which amount should be included in his accounts for the year ended 30 April 2004? [Randall]

A $1 000 accrual **B** $1 000 prepayment **C** $2 000 accrual **D** $2 000 prepayment

541 A tenant pays an annual rent of $6 000. Payment is made quarterly in advance on 1 January, 1 April, 1 July and 1 October.

Which of the following should be included in his accounts for the year ended 31 October 2007? [N01Q01C]

A $500 accrual **B** $500 prepayment **C** $1 000 accrual **D** $1 000 prepayment

542 Inclusion of unpaid commission in year-end accounts is in accordance with which accounting concept? [J01C08C]

A Consistency **B** Going concern **C** Matching **D** Money measurement

543 A trader has included rent which is due but not paid in the Profit and Loss Account. [Randall]

Which concept has been applied?

A Historic cost **C** Money measurement
B Matching **D** Prudence

544 On 1 July 2005 Pettit paid insurance premium of $1 250 for the 15 months to 31 March 2006. When he prepared his Profit and Loss Account for the year to 31 December 2005, Pettit debited only $1 000 of the insurance premium to the account and carried forward the balance of $250 forward to 2006.

This was an example of [Randall]

A going concern. **B** matching. **C** prudence. **D** realisation.

545 The best method of departmental accounts is to [Wood & Allan]

A allocate expenses in proportion to purchases.
B allocate expenses in proportion to sales.
C charge against each department its controllable costs.
D charge against each department its uncontrollable costs.

546 One of the most difficult accounting tasks in departmental accounting is [Horngren, Harrison & Lemon]

A allocating direct costs to departments. **C** assigning responsibility to managers.
B allocating indirect costs to departments. **D** measuring departmental gross profit.

547 Which basis should be used to apportion cost of insuring plant and machinery between departments? [Randall]

A Net book value **C** Present disposable value
B Original cost **D** Replacement cost

548 Which basis is suitable for apportioning advertising cost between departments? [Randall]

A Departmental cost of goods sold **C** Departmental turnover
B Departmental gross profit **D** Number of staff in each department

549 In a business which operates a number of departments, the expenses of the staff canteen should be apportioned on the basis of [N04Q19Z]

A departmental salaries. **C** number of personnel in the departments.
B floor area occupied by departments. **D** turnovers of the departments.

550 When a company is preparing its departmental Profit and Loss Accounts, rent should be apportioned on the basis of

A actual payroll costs of each department. **C** floor area occupied by each department.
B annual department sales. **D** total value of assets in each department. [N06Q19Z]

551 The most logical basis for allocating building depreciation to departments is [Horngren, Harrison & Lemon]

A building depreciation can be separately traced to each department.
B hours used on business activities.
C number of employees.
D squire metres of space.

552 Which of the following costs is most difficult to allocate to departments? [Horngren, Harrison & Lemon]

A Direct labour **B** Direct materials **C** Janitorial services **D** Purchases

553 A manager is paid a commission of 5% based on net profit after charging the commission. Net profit before commission is $157 500.

How much commission is paid to the manager? [Randall]

A $1 500 **B** $1 658 **C** $7 500 **D** $7 875

554 Departmental sales are $277 500, gross profit margin is 40% and operating costs excluding manager's commission are $31 200. The manager's commission is 5% of profit after charging the commission.

How much is the manager's commission? [Author]

A $3 800 **B** $3 990 **C** $4 200 **D** $5 550

555 A company's policy is to close any branch that does not benefit the company financially. [N00Q32C]

When should a branch be closed?

A When its gross profit is declining every year **C** When its variable costs are greater than its sales
B When both its sales and its net profit are declining **D** When its fixed costs are greater than its net profit

556 The annual results of a company with three departments are as follows:

Department	**X**	**Y**	**Z**
	$	**$**	**$**
Sales	210 000	100 000	140 000
Variable costs	(100 000)	(80 000)	(90 000)
Head office fixed costs	(75 000)	(35 000)	(50 000)
Net profit/ (loss)	35 000	(15 000)	0

Head office costs have been apportioned on the basis of the respective sales of the departments and will not be reduced if any department is closed.

Which action should the company take, based on these results? [Randall]

A Close department Y **C** Close departments Y and Z
B Close department Z **D** Keep all departments open

557 Annual results of three departments are shown below:

Department	**X**	**Y**	**Z**
	$	**$**	**$**
Sales	200 000	240 000	320 000
Variable costs	(205 000)	(150 000)	(100 000)
Headquarters fixed costs – Apportioned	(5 000)	(90 000)	(130 000)
Net profit/(loss)	(10 000)	–	90 000

Headquarters fixed costs will not be reduced if any department is closed.

What should the company do, on the basis of these results? [N00Q35C], [N01Q34C]

A Close department **X**. **C** Close departments **X** and **Y**.
B Close department **Y**. **D** Keep all departments open.

558 Administration expenses of a business amount to $30 000. They are apportioned to three departments as follows: department **A** $^3/_6$, department **B** $^2/_6$, department **C** $^1/_6$. Its been decided to close department **C** but there will not be any reduction in administration costs. [Randall]

How will administration expenses be apportioned to department **A** and **B** after department **C** is closed?

	Department A	Department B		Department A	Department B
A	$15 000	$10 000	**C**	$21 000	$14 000
B	$18 000	$12 000	**D**	$22 200	$14 800

559 Net profit was $240 000 in 2005, $210 000 in 2006 and $252 000 in 2007. [Horngren, Harrison & Lemon]

The change from 2006 to 2007 is

A a decrease of 12½%.
B an increase of 5%.
C an increase of $16^2/_3$%.
D an increase of 20%.

560 Vertical trend analysis of financial statements shows the [Horngren, Harrison & Lemon]

A net profit expressed as a percentage of shareholders' equity.
B percentage change in an item from period to period.
C relationship of an item to its total on the statement.
D trend percentages.

561 Common-size statements are useful for comparing the following **except** [Horngren, Harrison & Lemon]

A a company to its industry.
B accounting policies between different trades.
C changes in makeup of assets from period to period.
D different companies.

562 How are financial ratios used in decision making? [Horngren, Harrison & Lemon]

A They aren't useful because decision making is too complex.
B They help identify the reasons for success and failure in business, but decision-making requires information beyond ratios.
C They give clear signals about the appropriate course of action to take.
D They remove uncertainty of the business environment.

563 Profitability ratios include [Doost RK]

A earnings per share, gross margin percentage, mark-up, return on assets and return on equity.
B cash flow ratios, creditors days, current ratio, quick ratio and rate of stockturn.
C creditors payment period, debtors collection period, dividend cover and interest cover.
D asset turnover, debt equity ratio, gearing and return on investment.

564 Information about a business is given below: [Randall]

	Year 1	**Year 2**
	$	**$**
Turnover	200 000	250 000
Less: Cost of sales	125 000	140 000
	75 000	110 000
Less: Operating expenses	32 000	64 000
Profit before interest and taxation	43 000	46 000
Fixed assets	140 000	120 000
Net current assets	60 000	80 000
Long-term loans	(80 000)	(40 000)

Which of the following is true in Year 2?

	Gross profit margin	*Return on capital employed*
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

565 The carriage inwards of a business amounted to $6 000, and the carriage outwards was $7 000.

Carriage outwards was charged in the Trading Account in error, and the carriage inwards was debited in the Profit and Loss Account.

What has been the effect of these errors? [Randall]

	Gross profit	Net profit
A	overstated by $1 000	not affected
B	overstated by $1 000	overstated by $1 000
C	understated by $1 000	not affected
D	understated by $1 000	understated by $1 000

566 A business receives $2 000 from a debtor whose account had been previously written off.

What is the effect of this transaction? [J05Q08Z]

	Net profit	Debtors
A	decrease by $2 000	decrease by $2 000
B	increase by $2 000	increase by $2 000
C	increase by $2 000	no effect
D	no effect	increase by $2 000

567 The wages of staff employed to add value into the saleable condition of merchandise were debited in the Profit and Loss Account.

What is the effect of this error? [Prestige]

	Gross profit	Net profit		Gross profit	Net profit
A	overstated	no effect	**C**	understated	no effect
B	overstated	overstated	**D**	understated	understated

568 Discounts received amount to $10 500 and discounts allowed to $13 000. The discounts received have been debited and the discounts allowed have been credited in the Profit and Loss Account.

What has been the effect of these errors on net profit? [Randall]

A Overstated by $2 500 **C** Understated by $2 500
B Overstated by $5 000 **D** Understated by $5 000

569 Carriage inwards in a Trial Balance is $3 200. It has been entered in the Trading Account as $2 300. In addition, motor expenses of $600 have been posted to the Motor Vans Account.

What effect has this had on the Trading and Profit and Loss Account? [Randall]

	Gross profit	Net profit
A	overstated by $900	overstated by $300
B	overstated by $900	overstated by $1 500
C	understated by $900	understated by $300
D	understated by $900	understated by $1 500

570 A rent prepayment of $3 000 was treated as accrual in preparing the Profit and Loss Account. [N05Q11Z]

As a result, the net profit was

A overstated by $3 000. **C** understated by $3 000.
B overstated by $6 000. **D** understated by $6 000.

571 Rent prepaid of $367 was treated as an accrual of $376 in preparing a trader's Profit and Loss Account.

What was the effect on the net profit? [J05Q01Z]

A Overstated by $376 **C** Understated by $376
B Overstated by $743 **D** Understated by $743

572 A $400 rent prepayment at the end of the year was treated as an accrual in preparing a trader's Profit and Loss Account.

What was the effect on profit? [N07Q04Z]

A Overstated by $400 **C** Understated by $400
B Overstated by $800 **D** Understated by $800

573 An electricity accrual of $375 was treated as a prepayment in preparing a trader's Income Statement.

What is the effect on profit? [J99Q16C]

A Overstated by $375
B Overstated by $750
C Understated by $375
D Understated by $750

574 If $50 000 salaries accrual was inadvertently treated as prepayment, net profit would be [Prestige]

A overstated by $50 000.
B overstated by $100 000.
C understated by $50 000.
D understated by $100 000.

575 The balance in the Rent Receivable Account of Jones Co is $1 200 on 31 December. [Fess & Warren]

If Jones Co failed to record the adjusting entry of $600 for rent earned during December, the effect on the Income Statement and Balance Sheet is

A net profit overstated by $600 and assets understated by $600.
B net profit overstated by $600 and liabilities understated by $600.
C net profit understated by $600 and liabilities overstated by $600.
D net profit understated by $600 and liabilities understated by $600.

576 The accounts of a business have been prepared, but no adjustments have been made for accrued expenses at the end of the year.

What effect will these omission have been on the accounts? [Randall]

	Net profit	Current assets	Current liabilities
A	overstated	no effect	understated
B	overstated	understated	no effect
C	understated	no effect	overstated
D	understated	overstated	no effect

577 A business discovers that two errors have been made after the draft accounts had been made:

– Office expenses, $420, were debited to the Office Equipment Account;
– Purchase of machine for $3 400 was debited to the Purchases Account. [Prestige]

How do these errors affect the net profit and the total fixed assets shown in the Balance Sheet?

	Net profit	Fixed assets in the Balance Sheet
A	increase by $2 980	increase by $2 980
B	increase by $3 820	increase by $3 820
C	reduce by $2 980	reduce by $2 980
D	reduce by $3 820	reduce by $3 820

578 After preparing a set of final accounts, the owner discovered that no adjustment was made for the goods s/he took for own use.

What is the effect of the error on the net profit and the closing stock? [N05Q14Z]

	Net profit	Closing stock		Net profit	Closing stock
A	decrease	decrease	**C**	increase	decrease
B	decrease	no effect	**D**	no effect	decrease

579 Goods costing $750 are sold for $1 000 at the end of Year 1, but the sell is recorded in Year 2. These goods were included in the closing stock at end of Year 1.

The most likely effect of this error is [Meigs & Ferrara]

A Net profit for Year 1 was overstated by $250.
B Net profit for Year 1 was understated by $1 000.
C Net profit for Year 2 was overstated by $250.
D Opening stock for Year 2 is understated by $750.

580 If closing stock of 2007 is understated, this error will [Horngren, Harrison & Lemon]

A not affect owner's capital at end of 2007.
B not affect owner's capital at end of 2008.
C overstate 2008 cost of turnover.
D understate 2007 cost of sales.

581 An overstatement of $1 000 in the Stock Account at the end of Year 4 would [Meigs & Ferrara]

A have no effect on Year 3 net profit.
B have no effect on Year 4 net profit.
C overstate purchases for Year 5.
D understate opening stock for Year 5.

582 If merchandise at the end of the year is overstated by $7 500, the error will cause an [Fess & Warren]

A overstatement of cost of sales for the year by $7 500.
B overstatement of gross profit for the year by $7 500.
C understatement of gross profit for the year by $7 500.
D understatement of goods available for resale by $7 500.

583 A rent prepayment of $250 was treated as an accrual in preparing a Profit and Loss Account. The draft net profit figure was $7 200.

What would be the net profit when the error is corrected? [J04Q14Z]

A $6 700 **B** $6 950 **C** $7 450 **D** $7 700

584 A company has prepared draft accounts for the year ended 31 December 2002. [N03Q15Z]

It has now discovered that the following were not taken into consideration:

	$
Trade discount allowed	100
Cash discount received	700
Prepayment for insurance	200

What is the adjustment required to the Profit and Loss Account?

A $400 Cr. **B** $600 Cr. **C** $800 Cr. **D** $1 000 Cr.

585 When preparing the final accounts for the year the following errors were discovered:

– Sales Day Book was undercast by $300;
– No provision had been made for accrued overtime costs, $200;
– No account had been taken of prepaid rent, $400. [J99Q14C]

If the draft net profit figure is $8 050, what will be the net profit when the errors are corrected?

A $8 150 **B** $8 550 **C** $8 750 **D** $8 950

586 The draft accounts of a business show a net profit of $64 000 before taking account of the following:

i. Reduction of the provision for doubtful debts by $300;
ii. Purchase of office stationery costing $2 400 which has not been entered in the records, only one sixth of this stationery was used by the year-end.

What is the corrected net profit? [N01Q03C]

A $61 900 **B** $63 900 **C** $64 100 **D** $64 300

587 A business had a draft net profit of $15 000 before the following errors are discovered:

i. Discounts Received Account had been undercast by $600;
ii. Rent Account had been undercast by $140;
iii. Sales Day Book had been undercast by $200;
iv. Sales of $500 to J. Kent had been debited in error to J. Kentemere's Account;
v. Sales of a motor vehicle at book value, $720, were credited to Sales Account.

What is the corrected net profit? [Prestige]

A $14 940 **B** $15 660 **C** $15 740 **D** $16 660

588 Danda LTD's final accounts showed a net profit of $46 800. It was discovered that the opening stock had been overcast by $4 620 and the closing stock had been undercast by $2 760.

What is the effect, on the net profit, of correcting the error? [J04Q10Z]

A Net profit decreases by $1 860.
B Net profit decreases by $7 380.
C Net profit increases by $1 860.
D Net profit increases by $7 380.

589 An extract from the Trial Balance is shown below:

	Debit $000	Credit $000
Trade debtors	2 700	
Provision for doubtful debts		135
Finished goods	3 500	

The following adjustments are needed:
- The provision for doubtful debts is to be 4% of book values;
- Finished goods stock costing $50 000 is found to be unsalable. [N99Q13C]

What is the effect of the changes on the net profit?

A Decrease by $23 000 **C** Increase by $23 000
B Decrease by $77 000 **D** Increase by $77 000

590 Lee, the accountant for Jee Ltd, had prepared the draft final accounts for the year. S/he has discovered now that a purchase of goods costing $3 000 had been credited to the supplier's account but no other entry had been made in the books.

What is the effect of correcting the error on gross profit, net profit and working capital? [N05Q20Z]

	Gross profit	Net profit	Working capital
A	–$3 000	–$3 000	–$3 000
B	–$3 000	–$3 000	no effect
C	+$3 000	+$3 000	+$3 000
D	+$3 000	+$3 000	no effect

591 If a business increases its provision for bad debts by $1 600, what is the effect of this adjustment on the final accounts? [J02Q05Z]

	Net profit	Net debtors
A	decrease by $1 600	decrease by $1 600
B	decrease by $1 600	increase by $1 600
C	increase by $1 600	decrease by $1 600
D	increase by $1 600	increase by $1 600

592 If the closing stock for Year 0 was overstated, what is effect of correcting the error in Year 1? [Author]

	Capital	Net profit		Capital	Net profit
A	decrease	decrease	C	increase	decrease
B	decrease	increase	D	increase	increase

593 If a company's opening stock was overvalued by $500, what effect will the correction of the error have on the following items? [J05Q29Z]

	Net profit	Retained profit brought forward
A	decreases by $500	increases by $500
B	decreases by $500	nil
C	increases by $500	decreases by $500
D	nil	decreases by $500

594 The directors of a company are finishing the accounts for the year ended 30 June 2007. They discover that the stock at 1 July 2006 was over-valued by $50 000 ($150 000).

What is the effect of correcting this error in the accounts? [J04Q15C], [N98Q10C]

	Net profit for year-end 30 June 2007	Reserves brought forward at 1 July 2006
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

595 A company discovers that its opening stock was over-valued by $30 000. This amount is considered to be significant.

Which effect will the correction have on the financial statement of the year? [N98Q11C]

	Net profit	Retained profit brought down	Closing stock
A	–$30 000	–$30 000	Nil
B	+$30 000	–$30 000	–$30 000
C	+$30 000	–$30 000	Nil
D	Nil	–$30 000	–$30 000

596 Which adjustment will result in an increase in a company's stated profit? [J98Q27C]

A Amortisation of goodwill
B Application of reserves for issue of bonus shares
C Capitalisation of development costs
D Upward revaluation of fixed assets

597 When a manufacturing company adds factory profit to the cost of the goods transferred from its factory to its warehouse, it [J07Q03Z]

A has no effect on the gross profit but increases the net profit.
B increases both the gross profit and the net profit.
C reduces both the net profit and the net profit.
D reduces the gross profit but increases the net profit.

598 A factory loss is [Randall]

A credited to the Manufacturing Account and debited to the Profit and Loss Account.
B debited in both the Manufacturing Account and in the Profit and Loss Account.
C debited to the Manufacturing Account and credited to the Profit and Loss Account.
D ignored in the Manufacturing Account and in the Profit and Loss Account.

599 The following information is available from the books of PQ, a manufacturing company:

	$000
Production cost of finished goods	60
Transferred cost of finished goods	75
Opening stock of finished goods	30
Closing stock of finished goods	25

What is the provision for unrealised profits? [N05Q31Z]

A $5 000 **B** $6 000 **C** $6 250 **D** $7 500

600 A manufacturing company calculates factory profit at 20% of production cost. The Balance Sheet as at 31 December 2006 showed $220 000 stock of finished goods, Manufacturing Account for the year ended 31 December 2007 had cost of production $1 200 000 while the Trading Account for the same year had closing stock of finished goods of $250 000. [Prestige]

How much is credited for year ended 31 December 2007 to Profit and Loss Account as factory profit?

A $230 000 **B** $235 000 **C** $240 000 **D** 245 000

601 A manufacturing company adds a factory profit of 25% to its cost of production has the following data:

	$000
Stock of finished goods at 1 April 2003 (per Balance Sheet at that date)	30
Cost of goods produced (per Manufacturing Account for year ended 31 March 2004)	300
Closing stock of finished goods (per Trading Account for year ended 31 March 2004)	60

How much is credited as factory profit in the Profit and Loss Account for year ended 31 March 2004? [Randall]

A $67 500 **B** $69 000 **C** $70 500 **D** $71 500

602 Moyo Manufacturing Company transfers production to the warehouse at 25% mark-up. At 1 January the provision for unrealised profit was $9 000. At 31 December 2007, the closing stock figure of finished goods was $50 000.

Which entry in the Profit and Loss Account for the provision for unrealised profit on 31 December 2007 was made?

A Credit $1 000 **B** Credit $3 500 **C** Debit $1 000 **D** $3 500 [N07Q11Z]

603 Goods are transferred from Manufacturing Account to Trading Account at factory production cost plus 20% mark-up.

The transfer prices of the closing stocks of finished goods were as follows: Year 1 $39 600 [Randall]
Year 2 $42 000
Year 3 $45 600

What is the provision for unrealised profit charged against Year 3?

A $400 **B** $600 **C** $720 **D** $1 200

604 A company transfers its products from its Manufacturing Account to its Trading Account at factory cost plus a 25% mark up.

Closing stocks of manufactured goods at transfer price: Year 1 $50 000 [N01Q10C]
2 $50 000
3 $60 000

What is the provision for unrealised profit charged against Year 3 profits?

A $2 000 **B** $2 500 **C** $10 000 **D** $12 000

605 All goods are transferred from the factory into the warehouse at a mark-up of $33^1/_3$%. At 1 August 2009 the balance on the Provision for Unrealised Profit Account was $17 000. At 31 July 2010, the closing stock of finished goods was $60 000. [Randall]

What was the effect on the profit of the entry made in the Provision for Unrealised Profit Account on 31 July 2010?

A Decrease of $2 000 **B** Decrease of $3 000 **C** Increase of $2 000 **D** Increase of $3 000

606 A manufacturing company charges out goods from the factory to the warehouse at production cost plus a mark up of 25%. At 1 September 2006, the balance on the Provision for Unrealised Profit Account is $26 000. At 31 August 2007, the closing stock of finished goods is $102 600.

What is the effect of the entry in the Provision for Unrealised Profit Account on 31 August 2007? [J01C16C]

A Decrease in profit of $350
B Decrease in profit of $5 480
C Increase in profit of $350
D Increase in profit of $5 480

607 The draft accounts of a limited company show a net profit of $461 442 on 30 September 2007.

At that date, stocks were valued as follows:

– Raw materials at cost $20 000;
– Finished goods at transferred cost $49 726.

As from 1 October 2006 goods manufactured were transferred to Trading Account at factory plus 15%.
No adjustment has been made in the draft final accounts for the provision for unrealised profit.

What is the net profit figure after making the adjustment? [J05Q09Z]

A $453 984 **B** $454 956 **C** $467 928 **D** $468 900

608 Material gain in the condemnation of land for public use would be reported in the Income Statement as

A a change in an estimate.
B an extraordinary item.
C an other income item.
D revenue from sales. [Fess & Warren]

609 The cumulative effect of a change in accounting principle may be best described as [Meigs & Ferrara]

A a correction of an error in the measurement of the profit of prior periods.
B a material and unusual event that is not expected to recur in the foreseeable future.
C a retroactive adjustment to the amount of profit reported in prior accounting periods as a result of applying a different accounting method.
D the profit and loss associated with the disposal of a segment of the business.

610 A prior period adjustment [Meigs & Ferrara]

A is shown in a separate section of the Income Statement.
B is shown in Statement of Retained Earnings as a correction to retained earnings at the beginning of the period.
C results in a change in the amount of the paid-in capital.
D shows the retroactive effect upon the profit of the prior periods of switching to different account method.

611 An item treated as a prior period adjustment should be reported in the financial statements as [Fess & Warren]
- **A** a change in estimate.
- **B** an adjustment to opening balance of Retained Earnings Account.
- **C** an extraordinary item.
- **D** an other expense item.

612 Which of the following would **not** be shown in a separate section of Income Statement, after the determination of the profit from the normal ongoing activities. [Meigs & Ferrara]
- **A** A prior period adjustment.
- **B** An extraordinary item.
- **C** Cumulative effect of a change in accounting principles upon the profit in prior years.
- **D** Operation results of a segment of the business discontinued during the year.

613 The focal point of the accounting cycle is [Horngren, Harrison & Lemon]
- **A** Balance Sheet.
- **B** Financial Statements.
- **C** Trial Balance
- **D** Work Sheet.

614 Which order sequentially represents the accounting cycle? [Horngren, Harrison & Lemon]
1. Complete the Work Sheet
2. Journalise and post adjusting entries
3. Prepare the post-closing Trial Balance
4. Journalise and post cash transactions
5. Prepare the Financial Statements
6. Journalise and post closing entries

- **A** 4, 1, 2, 6, 3 and 5
- **B** 4, 1, 5, 2, 6 and 3
- **C** 4, 2, 1, 5, 3 and 6
- **D** 4, 2, 3, 6, 1 and 5

615 Which of the following is **not** an advantage achievable by a computer based accounting system? [Meigs & Ferrara]
- **A** Accuracy of computers eliminates the need for internal control systems.
- **B** Need for manual labour to perform the posting function is virtually eliminated.
- **C** Operating data is made available to managers faster than with a manual system.
- **D** Sales transactions are recorded instantaneously in accounting records as the sales clerk rings up the sale on the electronic cash register.

616 Which of the following steps in the accounting cycle requires human judgment and therefore, cannot be performed automatically by a properly programmed computer? [Meigs & Ferrara]
- **A** making appropriate adjusting Journal entries.
- **B** making appropriate closing entries.
- **C** making appropriate reversing entries.
- **D** preparation of a Trial Balance from General Ledger.

617 In a computer-based accounting system, which of the following steps in the accounting cycle requires the most human judgment analysis? [Meigs & Ferrara]
- **A** Posting to the Ledger
- **B** Preparation of financial statements
- **C** Preparation of Trial Balance
- **D** Recording business transactions

618 Which of the following items is a revenue expenditure? [Horngren, Harrison & Lemon]
- **A** Building permit to construct a warehouse on land.
- **B** Legal fees to acquire land.
- **C** Property tax paid on land one year after it is acquired.
- **D** Survey fees paid during the acquisition of land.

619 Which of the following is a revenue expense? [N98Q01C]
- **A** Acquisition of another business.
- **B** Auditors' fees.
- **C** Legal expenses on purchase of property.
- **D** Purchase of premises.

620 Which item is revenue expenditure? [J02Q03Z]
- **A** Cost of painting new office premises during construction.
- **B** Cost of repairs to factory plant and machinery.
- **C** Legal fees for the purchase of new factory premises.
- **D** Wages of a company's own workmen for building office extension.

621 Which payment should be treated as revenue expenditure in the accounts of a hotel? [J99Q01C]
A Installation cost of a new alarm
B Legal fees or debt collection
C Legal fees incurred in purchase of the hotel
D Purchase of a computer

622 Capital expenditure is [Wood & Allan]
A money spent on buying fixed assets or adding value to them.
B money spent on selling fixed assets.
C the cost of running the business on a day-to-day basis.
D the extra capital paid in by the proprietor.

623 Capital expenditure is an investment which requires the commitment of a [Doost RK]
A large sum of funds and has expected expenditures and benefits during the current time period.
B large sum of funds and has expected expenditures and benefits well into the future.
C small sum of funds and has expected expenditures and benefits during the current time period.
D small sum of funds and has expected expenditures and benefits well into the future.

624 What is an example of capital expenditure? [J01C03C]
A Payment for an electricity bill
B Payment of employees' wages
C Purchase of a brand name
D Purchase of stocks

625 Which item should be treated as capital expenditure? [Prestige]
A Cost of carriage on the purchase of assets
B Cost of replacement of part of a fixed asset
C Depreciation of a fixed asset
D Repairs to fixed assets

626 Which of the following is classified as capital expenditure? [N02Q06Z]
A Annual licence for a motor van.
B Depreciation charged on motor van.
C Legal costs on acquiring property.
D Purchase of goods for resale.

627 All expenditure when incurred, is shown as cost of sales, or an expense in the Profit and Loss Account or as a fixed asset in the Balance Sheet. [Prestige]

In deciding where to show the expenditure, which of the following is **not** relevant?
A Date on which the expenditure was incurred.
B Improvement value, if any, of the expenditure.
C Likelihood of being able to recover the expenditure in future accounting periods.
D None of the above.

628 It is necessary to distinguish between revenue and capital expenditure. [J98Q01C]

When must this distinction be made?
A When preparing Cash Budgets.
B When preparing investment appraisal calculations.
C When preparing Profit and Loss Accounts.
D When preparing Purchases Ledger Control Accounts.

629 Which of the following is **not** included in the cost of land? [Horngren, Harrison & Lemon]
A Broker's commission
B Cost of fencing and lighting
C Legal fees
D Property taxes at acquisition

630 Which expenditures incurred in connection with the acquisition of machinery is a proper charge to the asset account?
1 Annual insurance
2 Installation costs [Fess & Warren]
3 Replacement of vandalised parts
4 Transportation charges

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

631 In a business of C. Sangster, who owns a clothing store, which of the following are capital expenditure?
1 New van bought
2 Petrol for van
3 Shop fixtures bought [Wood & Allan]
4 Wages of assistants

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

632 Expenditure on a machine during the year included the following

	$
Insurance costs	2 400
New engine – machine will now produce more units per hour	22 300
Cleaning costs	7 200

How much of this expenditure should be treated as capital expenditure? [J04Q01C]

A $22 300 **B** $24 700 **C** $29 500 **D** $31 900

633 During 2006, Yvo Corp installed a production assembly line to manufacture furniture. In 2007, Yvo Corp purchased a new machine and rearranged its assembly line to install this machine. The rearrangement did not significantly increase the estimated useful life of the assembly line, but did result in significantly more efficient production.

The following expenditures were incurred in connection with this project: [Spiceland, Sepe & Tomassini]

	$000
Machine	75
Labour to install machine	14
Parts added in rearranging the assembly line to provide future benefits	40
Labour and overhead to rearrange the assembly	18

What amount of the above expenditures should be capitalised in 2007?

A $75 000 **B** $89 000 **C** $107 000 **D** 147 000

634 Hypo Ltd bought patent **A** for $40 000 and patent **B** for $60 000. Hypo Ltd paid $5 000 acquisition cost for patent **A** and $7 000 for patent **B**. Both patents were challenged in legal actions. $20 000 was paid for a successful defence of patent **A** and $30 000 in legal fees for an unsuccessful defence of patent **B**.

What amount should Hypo Ltd capitalise for patents? [Spiceland, Sepe & Tomassini]

A $45 000 **B** $67 000 **C** $112 000 **D** $162 000

635 On 1 January 2006, a second hand truck was purchased for $15 000. It was discovered on the date of purchase that the truck's engine did not work.

Work subsequently carried out on the truck is detailed below:

Date	Work	Cost
3 January 2006	Engine replaced	$8 500
15 January 2006	Shelving fitted	$2 100
10 October 2006	Gear box replaced	$1 800

How much should be debited to the Truck Account? [J00Q04C]

A $15 000 **B** $17 100 **C** $25 600 **D** $27 400

636 On 1 April 2006, Shaw Corp purchased a machine for $126 000 that was placed in service on 30 May.

Shaw Corp incurred the following costs for this machine:

	$000
Shipping	3
Installation	4
Testing	5

[Spiceland, Sepe & Tomassini]

In Shaw Corp's 31 December 2006 Balance Sheet, the machine was reported as

A $126 000. **B** $129 000. **C** $133 000. **D** $138 000.

637 On 1 October 2007, Boyd Ltd purchased a $400 000 tract of land for a factory site. Boyd Ltd razed an old building on the property and sold the materials it salvaged from the demolition.

Boyd Ltd incurred additional costs and realised salvage proceeds during November 2007 as follows:

	$000
Demolition of old building	50
Legal fees for purchase contract and recording of ownership	10
Title guarantee insurance	12
Proceeds from sale of salvaged materials	8

On 31 December 2007, the Balance Sheet reported land at [Spiceland, Sepe & Tomassini]

A $422 000. **B** $442 000. **C** $460 000. **D** $464 000.

638 Big Company purchased land for $80 000, subject to a ZIMRA tax surcharge of $4 000. The tax along with interest of $320 was immediately paid by Big Company.

The cost of this land should be recorded by Big Company at [Meigs & Ferrara]

A $80 000. **B** $80 320. **C** $84 000. **D** $84 320.

639 If a business paid $120 000 cash in full settlement for two machines valued at $90 000 and $60 000, the business should record these two machines at

A $60 000 each.
B $70 000 and $60 000.
C $72 000 and $48 000.
D $90 000 and $60 000. [Fess & Warren]

640 Morgan Company has traded in a machine on a similar asset, paying cash for the difference between list price and the trade-in allowance.

The cost of the new asset should be recorded as the [Meigs & Ferrara]

A book value of the old asset plus the cash paid.
B estimated fair value of the old asset plus the cash paid.
C list price of the new asset plus trade-in allowance on old the asset.
D trade-in allowance on the old asset plus the cash paid.

641 If $9 100 capital receipt from disposal of fixed assets at book value is credited to a Sales Account, the [Author]

A gross and net profit are overstated.
B gross and net profit are understated.
C gross profit is overstated.
D gross profit is understated.

642 If $500 was shown added to purchases instead of being added to a fixed asset [Wood & Allan]

A gross and net profits would be understated.
B it would not affect net profits.
C net profit only would be overstated.
D net profit only would be understated.

643 If revenue expenditure is debited to the Plant Asset Account in error [Meigs & Ferrara]

A expenses for the current period are overstated.
B net profit in the future periods will be unaffected by this error.
C net profit of the current period is overstated.
D revenue for the current period is understated.

644 What is the effect of capitalising a revenue expenditure item? [N06Q28Z]

	Net profit	Assets
A	overstate	overstate
B	overstate	understate
C	understate	overstate
D	understate	understate

645 An item of capital expenditure was incorrectly treated as revenue expenditure in business accounts.

What is the effect of the error on the accounts of the business? [J04Q02C]

	Assets	Profits
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated

646 An item of revenue expenditure was incorrectly treated as capital expenditure in business accounts.

What effect will the correction of this error have on the accounts? [J04Q12C]

	Net profit	Net assets
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

647 The capitalisation of development costs is an example of the convention of [J99Q04C]

A business entity. **B** matching. **C** prudence. **D** substance over form.

648 Which accounting concept explains the capitalisation of development costs? [J04Q17Z]

A Business entity **B** Matching **C** Prudence **D** Substance over form

649 The capitalisation of assets held under hire purchase is an example of the convention of [N05Q15Z]

A business entity. **B** matching. **C** prudence. **D** substance over form.

650 What accounting convention is observed when leased assets are shown in Balance Sheets? [J00Q06C], [J05Q04Z]
A Accruals **B** Materiality **C** Prudence **D** Substance over form

651 When a leased asset worth $40 000 is shown in a Balance Sheet under fixed assets, this in compliance with the concept of [J03Q28Z]
A accruals. **B** materiality. **C** prudence. **D** substance over form.

652 Which of the following is an example of substance over form? [J99Q06C]
A Accruing expenses in order to match them with related revenues.
B Capitalising a motor vehicle bought on hire purchase.
C Capitalising goodwill on acquisition of a business entity.
D Not depreciating freehold land.

653 Which of the following is an example of an application of substance over form? [N99Q05C], [J07Q13Z]
A Capitalising assets held under finance lease.
B Charging operating lease rental to Profit and Loss Account.
C Providing for expenses not yet paid
D Recognising a contingent liability

654 What is an example of the accounting principle of 'substance over form'? [J01C09C]
A Accruing expenses in order to match them with related revenues
B Revaluing freehold land
C Showing a motor van acquired on hire purchase as a tangible fixed asset in the Balance Sheet
D Showing goodwill on business entity acquisition as an intangible fixed asset in the Balance Sheet

655 Which of the following is an application of the accounting principle of substance over form? [N07Q10Z]
A Capitalising development costs
B Not depreciating freehold property
C Recording a motor vehicle bought on hire purchase as a fixed asset
D Recording goodwill on acquisition of a company

656 Which of the following contravenes the principle of substance over form? [Author]
A Capitalising assets held under capital leases.
B Capitalising assets held under operating lease.
C Depreciating asset bought on hire purchase.
D Depreciating asset held under finance lease.

657 What should companies **not** show as fixed assets in their Balance Sheets? [J00Q21C]
A Plant bought on hire purchase **C** Plant held on finance lease
B Plant fully depreciated **D** Plant held on operating lease

658 In a capital lease, the lessee does **not** record [Horngren, Harrison & Lemon]
A a leased asset and a lease liability. **C** interest on lease liability.
B depreciation on the leased asset. **D** interest on leased asset.

659 Assume that a capital lease is erroneously treated as an operating lease in the accounting records of the lessee. One effect of this error will be [Meigs & Ferrara]
A an overstatement of assets and liabilities.
B an overstatement of rent expense and understatement of interest expense and depreciation expense.
C an understatement of rent expense and an overstatement of liabilities.
D none of the above.

660 A company will capitalise the value of its brands in order to improve [N98Q28C]
A gearing. **B** liquidity. **C** profitability. **D** working capital.

661 The following are characteristics of provisions **except** that [Author]
A increases are debited to the Profit and Loss account.
B they are profits set aside for the replacement of assets.
C they have credit balances.
D they reduce assets.

662 Provisions are amounts set aside out of profits to provide for the following **except** [J04Q01Z]
A cash for buying fixed assets.
B depreciation of fixed assets.
C liabilities, amounts of which cannot be estimated with substantial accuracy.
D possible losses by bad debts.

663 Which of the following assets would **not** normally be depreciated? [N05Q10Z]
A Buildings **B** Goodwill **C** Land **D** Plant and machinery

664 Which of the following assets would normally **not** be depreciated? [J02Q12Z]
A Coal mine **B** Leasehold land **C** Oil well **D** Quarry

665 Which asset is **not** normally depreciated? [S03Q01Z], [N07Q24Z]
A A revalued property **B** Fixtures and fittings **C** Leasehold buildin **D** Land gs

666 A company will **not** take depreciation into account in the preparation of the [S03Q16Z]
A Cash Budget. **C** Fixed Asset Disposals Account.
B Cash Flow Statement. **D** Income and Expenditure Account.

667 The **three** concepts governing depreciation are [J03Q05Z]
A Consistency, prudence and matching. **C** historical cost, matching and money measurement.
B Consistency, realisation and substance over form. **D** materiality, money measurement and prudence.

668 In depreciating cost of an asset, accountants are most concerned with [Spiceland, Sepe, Tomassini]
A conservatism. **B** full disclosure. **C** matching principle. **D** realisation principle.

669 Certain information must be disclosed in the notes to the financial statements.

To which of the following does this rule **not** apply? [J02Q09Z]
A Estimated useful life of asset **C** Scrap value of asset
B Method of depreciation used **D** Total depreciation for period

670 Depreciation is the [Wood & Allan]
A amount of the money spent in replacing assets.
B amount spent to buy a fixed asset.
C part of the cost of the fixed asset consumed during its period of use by the firm.
D salvage value of a fixed asset.

671 Depreciation is [Prestige]
A a way of setting aside the money to provide for eventual replacement of fixed assets.
B a way of writing off the cost of fixed assets over their estimated revenue generating period.
C the writing off of the cost of fixed assets evenly over their useful economic life.
D the writing off of the cost of fixed assets over their estimated useful economic life in ever decreasing amounts.

672 Depreciation, as the term used in accounting, means the [Meigs & Ferrara]
A allocation of the cost of the plant asset to expense to reflect the use of the asset services.
B decrease in the market value of the asset.
C physical deterioration of the asset.
D systematic write-off of the cost of a natural resource over its productive life.

673 Which of the following definitions fits depreciation? [Horngren, Harrison & Lemon]
A Allocation of the asset's cost expense over its useful life.
B Allocation of the asset's market value over its productive life.
C Decrease in the asset's market value over its economic life.
D Increase in the fund set aside to replace the asset when its worn out.

674 Why is a provision for depreciation made in accounts? [N99Q11C]
A To charge the cost of fixed assets against profits
B To make a provision for repairs
C To make cash available to replace fixed assets when necessary
D To show the current market values of fixed assets

675 Why is depreciation charged in accounts? [N01Q06C]
- **A** To provide cash for the replacement of fixed assets
- **B** To show fixed assets at their market value
- **C** To show the profits or losses on the disposal of fixed assets
- **D** To spread the cost of fixed assets over their useful lives

676 Why is depreciation charged in accounts? [N07Q01Z]
- **A** To charge the cost of fixed asset against profits
- **B** To provide the cash for the replacement of fixed assets
- **C** To show fixed assets at current market value
- **D** To show the realisable value of the assets in the Balance Sheet

677 Why do businesses charge depreciation on their fixed assets? [N00Q07C], [J01C06C]
- **A** To ensure that sufficient cash is available to replace the assets.
- **B** To show the net realisable value of the assets in the Balance Sheet.
- **C** To show when the assets must be replaced.
- **D** To spread the cost of the assets over their estimated useful life.

678 Why is depreciation on fixed assets charged in the accounts of a business? [Randall]
- **A** To ensure that assets are replaced when they are worn out.
- **B** To make sure that cash is available to replace assets when they are worn out.
- **C** To show what assets are worth in the Balance Sheet.
- **D** To spread the cost of assets over their useful lives.

679 Why are fixed assets depreciated? [J99Q02C]
- **A** So that the Profit and Loss Account includes a charge for their use.
- **B** To allow for increase in repairs with use.
- **C** To provide cash for replacement.
- **D** To show their current value in the Balance Sheet.

680 Why are fixed assets depreciated? [N05Q22Z]
- **A** To ensure that liquid funds will be available to replace the asset at the end of its life.
- **B** To match the cost of the asset against the annual cash inflow.
- **C** To spread the cost of the asset over its expected life.
- **D** To value an asset at the end of each financial year.

681 Fixed assets are depreciated in order to [J07Q01Z]
- **A** charge the cost of fixed assets consumed against the revenues generated.
- **B** make a provision for repairs
- **C** make cash available to replace fixed assets when necessary.
- **D** show the current market values of fixed assets.

682 Depreciation expense on an automobile represents [Meigs & Ferrara]
- **A** a systematic allocation of the cost of the automobile to expense over the automobile's useful life.
- **B** the cash payment on the car loan during the period.
- **C** the cost of operating the automobile during the period.
- **D** the decline in the market value of the automobile during the period.

683 The accountant of the company has revalued plant and machinery from its book value of $15 000 to $10 000. She believes that this is its market value if the company were to cease operations.

This contravenes the concept of [S03Q22Z]

A consistency. **B** going concern. **C** prudence. **D** realisation.

684 A company decides to change from straight-line method of depreciation to reducing balance method.

Which accounting concept does this proposal contravene? [J98Q04C]

A Consistency **B** Going concern **C** Historical cost **D** Materiality

685 Which depreciation method's amounts are **not** computed based on time? [Horngren, Harrison & Lemon]
A Declining balance **B** Straight-line **C** Sum of digits **D** Units of production

686 Which depreciation method gives the largest amount of expense in the early years of using the asset and therefore is best for income tax purposes? [Horngren, Harrison & Lemon]
A Accelerated **B** Machine hour **C** Straight-line **D** Revaluation

687 In periods of rising prices, depreciation expenses based on historical cost of plant assets [Meigs & Ferrara]
A causes net profit to be higher than it would be if depreciation expenses were based on estimated replacement cost.
B causes reported net profit to be incorrect.
C is higher than depreciation expense based on estimated current replacement cost.
D is not permitted according to generally accepted accounting principles.

688 IAS 16, ***Plant, Property and Equipment*** [Prestige]
A allows either the straight-line method or the reducing balance method to be used provided that only one of them is used at a particular time.
B does not specify that any particular method of depreciation must be used at any time.
C specifies that the straight-line method of depreciation must always be used.
D specifies that the reducing balance method of depreciation must always be used.

689 An example of an accelerated depreciation method is [Fess & Warren]
A composite rate. **B** straight-line. **C** sum-of-years-digits. **D** units of production.

690 In a manufacturing company, loose tools will normally be depreciated using [Randall]
A machine-hour method. **C** revaluation method.
B reducing balance method. **D** straight-line method.

691 Depletion is the same manner as which method of depreciation? [Horngren, Harrison & Lemon]
A Reducing balance **B** Revaluation **C** Sum of year's digits **D** Units of production

692 In January 2007, Vorst Co purchased a mineral mine for $2 640 000 with removable ore estimated at 1.2 million tons. After it has extracted all the ore, Vorst Co will be required by the law to restore the land to its original condition. The present value of the expected restoration expenditures is $180 000. Vorst believes it will be able to sell the property afterwards for $300 000.

During 2007, Vorst Co incurred $360 000 of development costs preparing the mine for production and removed and sold 60 000 tons of ore. [Spiceland, Sepe & Tomassini]

In its 2007 Income Statement, what amount should Vorst Co report as depletion expense?
A $135 000 **B** $144 000 **C** $150 000 **D** $159 000.

693 Lucky Strike Mine recognises $2 of depletion for each ton of ore mined. This year 750 000 tons of ores were mined, but on 700 000 tons were sold.

The amount of depletion that should be deducted from this year is [Meigs & Ferrara]
A $100 000. **B** $1 400 000. **C** $1 500 000. **D** $2 900 000.

694 A machine with a 5-year estimated service life and an estimated 10% residual value is acquired on 1 January 2009.

On 31 December 2012, accumulated depreciation using the sum-of-the-years'-digits method would be
A (Original value less residual value) multiplied by $^{1}/_{15}$.
B (Original value less residual value) multiplied by $^{14}/_{15}$.
C Original value multiplied by $^{1}/_{15}$.
D Original value multiplied by $^{14}/_{15}$. [Spiceland, Sepe, Tomassini]

695 What is the depreciation amount, using sum-of-years-digits method, for first year on equipment costing $9 500, with an estimated residual value of $500 and a useful life of 3 years. [Fess & Warren]
A $2 500 **B** $3 000 **C** $3 166.67 **D** $4 500

696 **F** and **M** companies purchase identical equipment having an estimated service life of 10 years. **F** uses the straight-line method of depreciation while **M** uses the sum-of-years'-digits method.

Assuming that the companies are identical in all other respects [Meigs & Ferrara]

A at the end of the third year, the book value of the asset will be lower on **F**'s books than on **M**'s.
B company **F**'s depreciation expense will be greater in the first year than company **M**.
C company **F**'s net profit will be lower in the ninth year than company **M**.
D company **M** will record more depreciation on this asset over the entire 10 years than will **F**.

697 The straight-line method of depreciation [Meigs & Ferrara]

A generally gives the best results because it is easy to apply.
B ignores fluctuations in the rate of usage.
C is the best method to use for taxation purposes.
D should be used in the period of inflation because it accumulates, at a uniform rate, the fund for the replacement of the asset.

698 Which of the following is **not** required in order to calculate the straight line method of depreciation? [N99Q09C]

A Annual cost of repairs **C** Expected residual value
B Cost of the asset **D** Useful life of the asset

699 What is ignored in the calculation of depreciation of a fixed asset? [J98Q13C]

A Its cost.
B Its estimated residual value at the end of its useful life in the business.
C Its length of expected useful economic life to the business.
D The cost of repairs.

700 A firm bought a machine for $16 000. It is expected to be used for 5 years then sold for $1 000.

What is the annual amount of depreciation if the straight-line method is used? [Wood & Allan]

A $3 000 **B** $3 100 **C** $3 200 **D** $3 750

701 A firm bought a machine for $165 000 and expects to use it for 11 years and then sell it for $55 000.

If the firm calculates depreciation by reference to straight-line method, the annual depreciation charge, in respect of this machine, will be [Prestige]

A $5 000. **B** $10 000. **C** $12 500. **D** $15 000.

702 A business buys a computer for $2 200 on 1 January 2007. The computer will be used for four years, after which it will be sold for $280. The business uses the straight-line method of depreciation.

What is the depreciation charge for the year ended 31 December 2007? [J04Q03C], [N00Q04C]

A $480 **B** $550 **C** $960 **D** $1 100

703 What is the depreciation charge per annum for fixtures bought for $328 000 which are expected to last for eight years after which they will be sold at 10% of historical cost? [Author]

A $32 800 **B** $36 900 **C** $41 000 **D** 45 100

704 A company acquired new computer system for $500 000 on 1 November 2006. Computer's estimated useful life is 5 years, at the end of which it is expected to have a scrap value of $45 500.

If the company's financial year ends on 31 March, and straight-line depreciation is applied on a pro-rata (time-apportioned) basis, what is the depreciation charge on the computer in the Income Statement for the year to 31 March 2007? [Prestige]

A $37 875 **B** $45 450 **C** $90 900 **D** $109 100

705 A company uses straight-line method of depreciation for all its fixed assets. On 1 January the company bought machinery on hire purchase. The cash price was $115 000 and interest is $19 550 for the year. The estimated useful life of the machinery is five years with no residual value.

What is the depreciation charge for the year ended 31 December? [N99Q14C]

A $19 090 **B** $23 000 **C** $26 910 **D** $42 550

706 A company paid $450 000 for a building and was depreciating it by the straight-line method over a 40-year life with estimated residual value of $50 000. After 10 years, it became evident that the building's useful life would be 50 years.

Depreciation for the eleventh year is [Horngren, Harrison & Lemon]

A $7 500. **B** $8 750. **C** $10 000. **D** $12 500.

707 The following details relate to a delivery van as at 31 October 2005:

Date acquired	Historical cost	Estimated residual value	Estimated useful life
1 November 2001	$200 000	$25 000	10 years

Depreciation is provided for using the straight-line method. On 31 October 2006, the estimated useful economic life of the van is then reduced from 5 to 4 years with no change in estimated residual value.

What is the depreciation charge for the year ended 31 October 2007? [J03Q03Z]

A $17 500 **B** $20 000 **C** $21 875 **D** $43 750

708 The following appeared in the books of a sole-trader. [S03Q28Z]

Vehicles Account

Year 1	Bank – ABC 11	20 000			
	Bank – ABC 12	30 000	Year 1	Balance c/d	50 000
		50 000			50 000
Year 2	Balance b/d	50 000			
	Bank – ADR 21	40 000	Year 2	Balance c/d	90 000
		90 000			90 000

In Year 3, the business paid $20 000 for vehicle ADC 31 which was bought in part exchange for vehicle ABC 11. The trade-in allowance for ABC 11 was $5 000. It is business policy to depreciate vehicles at 10% on the cost at the end of the year.

The depreciation for the vehicles charged to the Profit and Loss Account at the end of Year 3 was

A $7 500. **B** $9 000. **C** $9 500. **D** $11 500.

709 Green and Bean were in a partnership for some years. The firm's financial year ends on 31 December. On 31 March 2006, they admitted Haricot as a partner. In addition to introducing cash capital, Haricot brought his private car (cost when new $16 000) into the business at a valuation of $10 000.

If the firm depreciates its fixed assets at 20% on cost each year, the depreciation provided in respect of Haricot's car for the year ended 31 December 2006 is [Randall]

A $1 500. **B** $2 000. **C** $2 400. **D** $3 200.

710 A company produces historical cost accounts plus summary information on a current cost basis. The historical cost of its building is $40 000 and its current replacement cost is $90 000. The depreciation is charged at a rate of 2% per annum on buildings. [N98Q25C]

What is the depreciation adjustment to the historical cost Income Statement for current cost purposes?

A $800 Dr. **B** $1 000 Dr **C** $1 800 Dr **D** $2 600 Dr.

711 What is the depreciation charge for second year of a machine purchased for $40 000 and depreciated at the rate of 10% per year using reducing balance method. [N98Q09C]

A $3 200 **B** $3 240 **C** $3 600 **D** $4 000

712 A fixed asset is purchased on 1 April 2005 at a cost of $240 000. It has an estimated residual value at the end of its 5-year life and is to be depreciated on reducing balance basis at a rate of 30% each year.

What is the depreciation charge for the year ending 31 March 2007 (to the nearest $)? [J04Q06C]

A $42 000 **B** $50 400 **C** $98 000 **D** $117 600

713 South Co purchased a machine that was installed and placed in service on 1 January 2003 at cost of $240 000. Salvage value was estimated at $40 000. This machine is being depreciated over ten years by the declining balance method. [Spiceland, Sepe & Tomassini]

For the year ended 31 December 2004, what amount should South Co report as depreciation charge?

A $21 600 **B** $32 000 **C** $38 400 **D** $48 000

714 If an estimated amount of depreciation on equipment for a period is $2 000, an adjusting entry to record depreciation would be [Fess & Warren]

	Debit	Credit	With
A	Accumulated Depreciation	Depreciation Expense	$2 000
B	Depreciation Expense	Equipment	$2 000
C	Depreciation Expense	Accumulated Depreciation	$2 000
D	Equipment	Depreciation Expense	$2 000

715 If an Accumulated Provision for Depreciation Account is in use, the entries for a year's depreciation charge would be [Wood & Allan]

	Debit	Credit
A	Asset Account	Profit and Loss Account
B	Profit and Loss Account	Provision for Depreciation Account
C	Provision for Depreciation Account	Asset Account
D	Provision for Depreciation Account	Profit and Loss Account

716 A plant purchased at the beginning of Year 0 for $120 000 is depreciated at a rate of 25% on reducing balance basis. At the end of Year 1, the plant was depreciated on straight-line method.

Which entries correct the error? [Author]

A Debit Accumulated Plant Depreciation Account and Credit Income Statement by $7 500.
B Debit Accumulated Plant Depreciation Account and Credit Income Statement by $22 500.
C Debit Income Statement and Credit Accumulated Plant Depreciation Account by $7 500.
D Debit Income Statement and Credit Accumulated Plant Depreciation Account by $22 500.

717 Motor vehicles purchased for $530 000 at the start of the year have been incorrectly depreciated for the whole year using the straight-line method at 10% instead of 25%.

The Ledger balances **after** the entries have been posted:

Motor vehicles	$530 000
Provision for depreciation	$ 53 000

[N99Q03C]

Which entries correct the error?

A Debit Profit and Loss $79 500; Credit Provision for Motor Vehicles Depreciation $79 500
B Debit Profit and Loss $132 500; Credit Provision for Motor Vehicles Depreciation $132 500
C Debit Provision for Motor Vehicles Depreciation $79 500; Credit Profit and Loss $79 500
D Debit Provision for Motor Vehicles Depreciation $132 500; Credit Profit and Loss $132 500

718 ABC Ltd purchased a lathe machine for $12 000. Depreciation is provided on a reducing balance basis at the rate of 20% per annum.

At the end of the third year, the accumulated depreciation will be [N02Q02Z]

A $4 800. **B** $5 856. **C** $6 144. **D** $7 200.

719 Below is a Balance Sheet extract as at 31 October 2007:

Fixed tangible assets	Cost ($)	Depreciation ($)	NBV ($)
Buildings	600 000	100 000	500 000
Plant and machinery	70 000	31 300	38 700

It was discovered after preparing the Balance Sheet that depreciation on plant and machinery of 10% using the reducing balance method was charged at 10% using the straight-line method.

What is the aggregate depreciation on plant and machinery after correcting the error? [J05Q16Z]

A $24 300 **B** $28 870 **C** $35 170 **D** $38 300

720 Accumulated depreciation, as used in accounting, may be defined as [Meigs & Ferrara]

A an expense of doing business.
B earnings retained in the business that will be used to purchase another asset when the present asset is fully depreciated.
C funds (or cash) set aside to replace the asset being depreciated.
D the portion of the plant asset recognised as an expense since the asset was acquired.

721 Accumulated depreciation is reported on the [Horngren, Harrison & Lemon]

A Balance Sheet.
B Income Statement.
C Statement of owner's equity.
D Trial Balance.

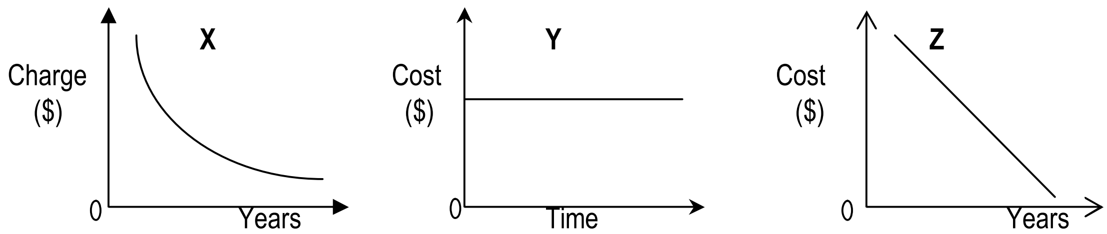
722 At the Balance Sheet date, the balance on the Accumulated Provision for Depreciation Account is [Wood & Allan]

A simply deducted from the asset in the Balance Sheet (Statement of Financial Position).
B transferred to Depreciation Account.
C transferred to Profit and Loss Account (Statement of Comprehensive Income).
D transferred to the Asset Account.

723 Obsolescence means [Prestige]

A decline in the book value of fixed assets as a result of being depreciated using the reducing balance method.
B decline in the book value of fixed assets as a result of being depreciated using the straight-line balance method.
C decline in value of fixed assets as a result of becoming outdated by technical improvement and invention.
D none of the above.

724 Which of the following correctly represents annual depreciation charges? [Author]



	Reducing balance	Sum of digits	Straight-line
A	**X**	**Y**	**Z**
B	**X**	**Z**	**Y**
C	**Z**	**X**	**Y**
D	**Z**	**Y**	**X**

725 The book value or carrying value of a depreciable asset is best defined as [Meigs & Ferrara]

A accumulated depreciation on the asset since acquisition.
B original cost of the asset.
C the price that the asset will bring if offered for sale.
D the un-depreciated cost of the asset.

726 A building that cost $120 000 has accumulated depreciation of $50 000.

The book value of the building is [Horngren, Harrison & Lemon]

A $50 000. **B** $70 000. **C** $120 000. **D** $170 000.

727 If Equipment Account has a balance of $22 500 and its Accumulated Depreciation Account has a balance of $14 000, the net book value of the equipment is [Fess & Warren]

A $8 500. **B** $14 000. **C** $22 500. **D** $36 500.

728 A machine is bought for $3 200. It is depreciated at the rate of 25% using the reducing balance method.

What would be the remaining book value after 2 years? [Wood & Allan]

A $1 400 **B** $1 600 **C** $1 800 **D** $2 400

729 On 1 January 2007, a company entered into two 5-year lease contracts. [N01Q22C]

	Lease X	**Lease Y**
Cost of asset	$20 000	$10 000
Type of lease	Finance	Operating

The economic life of both assets is 5 years. At 31 December 2007, the company owned other tangible fixed assets with net book value of $150 000.

What is the figure for the net value of tangible assets in the company's Balance Sheet at 31 December 2007?

A $150 000 **B** $158 000 **C** $166 000 **D** $174 000

730 On 1 January 2005, a company entered into two 5-year lease contracts.

	Lease X	**Lease Y**	
Cost of asset	$20 000	$10 000	
Type of lease	Operating	Capital	[Author]

The economic life of both assets is 5 years. At 31 December 2005, the company owned other tangible fixed assets with net book value of $150 000.

What is the figure for the net value of tangible assets in the company's Balance Sheet at 31 December 2005?

A $150 000 **B** $158 000 **C** $166 000 **D** $174 000

731 A business purchases a computer for $3 200. It is estimated that it will have a useful life of 5 years and a residual value of $700. Straight-line depreciation is charged each year.

What is the net book value at the end of year 2? [J99Q03C]

A $1 920 **B** $2 200 **C** $2 560 **D** $2 700

732 In January 2005, Winn Corp purchased equipment at cost $500 000. The equipment had an estimated residual value of $100 000, an estimated 8-year useful life and was depreciated by straight-line method.

Two years later, it became apparent to Winn Corp that this equipment suffered a permanent impairment of value. In January 2007, management determined the carrying amount should be only $175 000, with a 2-year remaining useful life, and the residual value to be reduced to $25 000.

Balance Sheet on 31 December 2007 reported equipment net value of [Spiceland, Sepe & Tomassini]

A $100 000. **B** $150 000. **C** $175 000. **D** $350 000.

733 On 1 July 2001, Lane Inc acquired a machine for $100 000 with an estimated 10-year useful life and an estimated $10 000 residual value using the straight-line method. During 2006, after 2005 financial statements had been issued, Lane Inc determined that, due to obsolescence, this machine's remaining useful life was only 4 years and its residual value would be $4 000. [Spiceland, Sepe & Tomassini]

In Lane Inc's Balance Sheet as at 30 June 2006, what was the carrying amount of this asset?

A $39 000 **B** $41 500 **C** $49 000 **D** $51 500

734 Equipment that was acquired for $250 000, has a current book value of $100 000 and an estimated market value of $120 000. [Fess & Warren]

If replacement cost is $350 000, at what amount should the equipment be reported in Balance Sheet?

A $100 000 **B** $120 000 **C** $150 000 **D** $350 000

735 A business had the following information on 31 December 2004.

	$
Machinery at cost	750 000
Aggregate depreciation	187 500

On 1 April 2005, modifications to machinery were made at a cost of $90 000 to increase its capacity.

Depreciation is at 25% per annum on cost for each month of ownership. [N06Q03Z]

Which of the following is the correct Balance Sheet extract on 31 December 2005?

	Machinery at cost	**Aggregate deprecation**	**Net book value**
	$	**$**	**$**
A	750 000	187 500	562 500
B	750 000	375 000	375 000
C	840 000	204 375	635 625
D	840 000	391 875	448 125

736 A vehicle was part exchanged for a new vehicle. The value placed on the old vehicle was $12 000.

Which entries record the $12 000 part exchange? [J04Q04C], [N00Q01C]

	Debit	**Credit**		**Debit**	**Credit**
A	Cash A/C	Motor Vehicles A/C	**C**	Motor Vehicles A/C	Cash A/C
B	Disposals A/C	Motor Vehicles A/C	**D**	Motor Vehicles A/C	Disposals A/C

737 A plant asset priced at $100 000 is acquired by trading-in a similar asset with a book value of $25 000.

Assuming that the trade-in allowance is $30 000 and $70 000 cash is paid, what is the cost of the cost of the new asset for financial reporting purposes? [Fess & Warren]

A $30 000 **B** $70 000 **C** $95 000 **D** $100 000

738 A profit on disposal of fixed assets could be a result of [N06Q07Z]

A a provision for depreciation.
B over-depreciation of the asset.
C selling an asset at net book value.
D under-depreciation of an asset.

739 A asset cost $120 000 and has accumulated depreciation of $72 400. The asset is sold for $46 500.

What is the loss or profit on disposal? [N00Q13C]

A Loss $1 100 **B** Loss $73 500 **C** Profit $1 100 **D** Profit $73 500

740 On 1 July 2003 a company bought a delivery van for $100 000. It was decided to depreciate the van using reducing balance at the rate of 20% per annum. On 30 June 2005 the van was sold for $50 000.

What was the profit or loss on disposal? [N07Q20Z]

A $10 000 loss **B** $10 000 profit **C** $14 000 loss **D** $14 000 profit

741 A business purchased a crane for $40 000 on 1 January 2001. The crane was depreciated at the rate of 30% per annum using reducing balance. The crane was sold on 31 December 2003 for $17 470.

What was the profit or loss on disposal? [Randall]

A $3 750 loss **B** $3 750 profit **C** $13 470 loss **D** $13 470 profit

742 The tangible fixed assets of a company which had cost of $2 696 000 in 2004 and on which there was accumulated depreciation of $98 000 at 31 March 2007 were revalued on 1 April 2007 to $2 800 000. These assets were sold on 1 February 2008 for $2 695 000.

What was the profit or loss on disposal of the fixed asset? [J05Q19Z]

A $95 000 loss **B** $95 000 profit **C** $105 000 loss **D** $105 000 profit

743 Which entries will be required to record a loss on disposal of fixed asset? [J03Q04Z]

	Debit	Credit
A	Asset Disposal Account	Fixed Asset Account
B	Profit and Loss Account	Depreciation Account
C	Profit and Loss Account	Fixed Asset Account
D	Profit and Loss Account	Fixed Asset Disposal Account

744 Thomas Ltd provides annual depreciation of its fixed assets at the rate of 20% on cost. At 31 December 2005, the provision provided to date on one of the fixed assets is $8 000. The asset had cost $12 000. The asset was sold on 30 April 2006 for $2 200.

In the Profit and Loss Account for the year ended 31 December 2006, the entries in respect of the asset will be provision for depreciation [Randall]

A $800; loss on sale $1 000.
B $800; profit on sale $1 000.
C $2 400; loss on sale $600.
D $2 400; profit on sale $600.

745 Scott Plc purchased a machine for $40 000 on 1 March 2002. It sold the machine on 30 September 2005 for $18 000. The company depreciates all machinery owned at 31 December each year at the rate of 25% using the reducing balance method.

In the year ended 31 December 2005, Scott Plc will [Randall]

A credit the Profit and Loss Account with a profit on disposal of $1 125.
B credit the Profit and Loss Account with a profit on disposal of $5 344.
C debit the Profit and Loss Account with a loss on disposal of $1 125.
D debit the Profit and Loss Account with a loss on disposal of $5 344.

746 Buchan Ltd purchased a motor lorry on 1 July 2002 for $15 000. The company depreciates its motor vehicles at the rate of 20% per annum on cost. It sold the motor lorry on 31 March 2006 for $3 000.

In the year to 31 December 2006 Buchan Ltd will [Randall]

A credit Profit and Loss Account with a profit on sale of motor lorry, $750.

B credit Profit and Loss Account with a profit on sale of motor lorry, $3 750 and debit Profit and Loss Account with depreciation of motor lorry, $750.

C debit Profit and Loss Account with a loss on sale of motor lorry, $750 and debit Profit and Loss Account with depreciation on motor lorry, $750.

D debit Profit and Loss Account with a loss on sale of motor lorry $3 750.

747 Labrador Inc scrapped an automobile that cost $14 000 and had book value of $1 100.

The entry to record this disposal is [Horngren, Harrison & Lemon]

		Dr $	Cr $
A	Accumulated automobile depreciation	1 100	
	Loss on automobile disposal	12 900	
	Automobile at cost		14 000
B	Accumulated automobile depreciation	12 900	
	Loss on automobile disposal	1 100	
	Automobile at cost		14 000
C	Automobile at cost	14 000	
	Accumulated automobile depreciation		1 100
	Profit on automobile disposal		12 900
D	Automobile at cost	14 000	
	Accumulated automobile depreciation		12 900
	Profit on automobile disposal		1 100

748 A vehicle cost $30 000. The vehicle was later sold for $9 000 and the profit on disposal was $1 500.

What was the accumulated depreciation of the vehicle on disposal? [J98Q03C]

A $7 500 **B** $9 000 **C** $21 000 **D** $22 500

749 A motor van which costs $400 000 was sold for $100 000 and the net profit on disposal was $10 000.

What was the accumulated depreciation of the motor van on disposal? [N05Q18Z]

A $100 000 **B** $290 000 **C** $300 000 **D** $310 000

750 During the year a company sold a fixed asset.

The following information is made available:

	$000
Original cost	60
Profit on sale	4
Proceeds from sale	24

What was the accumulated depreciation at the date of sale? [N03Q04Z]

A $32 000 **B** $36 000 **C** $40 000 **D** $44 000

751 During the year a business sells a fixed asset and the following information is known:

	$
Original cost	500
Accumulated depreciation at date of sale	240
Profit on sale	70

What were the proceeds from the sale of the fixed asset? [J01C18C], [N01Q19C]

A $170 **B** 190 **C** $310 **D** $330

752 The following information is extracted from the books of a business:

	At 31.12.02	At 31.12.03
	$000	$000
Fixed assets (at cost)	230	275
Less: Accumulated depreciation	85	98

Further information for the year ended 31 December 2003 is as follows:

	$000
Depreciation charged in the Profit and Loss Account	25
Additions to fixed assets (at cost)	60
Loss on sale of fixed assets	1

How much was received from the sale of fixed assets? [Randall]

A $2 000 **B** $3 000 **C** $4 000 **D** $5 000

753 Extracts from the Balance Sheet of a business are as follows:

	2006	2007
	$000	$000
Fixed assets (at cost)	190	245
Less: Accumulated depreciation	75	90
	115	155

Other information for the financial year 2006/2007 is as follows:

	$000
Depreciation charged	40
New fixed assets purchased (at cost)	105
Loss on sale of fixed assets	10

Which amount was received from the sales of the fixed assets? [N01Q05C]

A $15 000 **B** $25 000 **C** $30 000 **D** $35 000

754 The following information was extracted from the records of Kushinga Enterprises:

		$000
Fixed assets, at cost:	1 January	560
	31 December	740
Provision for depreciation:	1 January	300
	31 December	270
During the year:	Expenditure on new fixed assets	520
	Loss on disposal of old assets	100
	Depreciation provided	150

What were the proceeds from the disposal of fixed assets? [N04Q06Z]

A $60 000 **B** $210 000 **C** $260 000 **D** $480 000

755 The following information relates to the fixed assets of a business:

	$
Cost at 1 April 2002	32 000
Accumulated depreciation at 1 April 2002	13 600
Fixed assets purchased in year ended 31 March 2003	7 000
Depreciation charged for the year ended 31 March 2003	4 200

Depreciation is calculated on the reducing balance basis at the rate of 30%. [Randall]

What was the net book value of assets that were disposed of in the year ended 31 March 2003?

A $11 400 **B** $16 800 **C** $18 400 **D** $25 400

756 Which Journal entry reflects revaluation of loose tools from $27 000 to $15 000? [Author]

		$000	$000			$000	$000
A	Depreciation	12		**C**	Loose Tools	12	
	Loose Tools		12		Revaluation		12
B	Loose Tools	12		**D**	Revaluation	12	
	Depreciation		12		Loose Tools		12

757 Extracts from the Balance Sheet of a company are shown below:

Fixed asset	Cost	Depreciation	Net book value
Freehold buildings	$700 000	$200 000	$500 000
Plant and machinery	$450 000	$100 000	$350 000

Freehold buildings are revalued to $950 000. Plant and machinery is to be written down to $250 000.

How much will be credited to the Asset Revaluation Reserve Account? [N01Q12C]

A $50 000 **B** $150 000 **C** $250 000 **D** $450 000

758 Details of freehold property are: Historical cost $80 000
Depreciation $25 000

The property is to be shown in the Balance Sheet at current valuation of $100 000.

Which entries are made in the Ledger accounts? [J00Q05C]

		Debit $000	Credit $000
A	Freehold Property Account	20	
	Profit and Loss Account		20
B	Freehold Property Account	20	
	Revaluation Reserve Account		20
C	Freehold Property Account	20	
	Provision for Depreciation Account	25	
	Revaluation Reserve Account		45
D	Freehold Property Account	45	
	Profit and Loss Account		20
	Provision for Depreciation Account		25

759 Fixed assets were shown in the Balance Sheet as follows:

	$000
Fixed asset at cost	120
Accumulated depreciation	(18)
Net book value	102

The assets are revalued to $136 000.

What is the Journal entry to record the revaluation? [N00Q05C]

		Debit $000	Credit $000
A	Accumulated depreciation	18	
	Fixed asset at cost	16	
	Revaluation reserve		34
B	Fixed asset at cost	16	
	Profit and loss		16
C	Fixed asset	16	
	Revaluation reserve		16
D	Fixed asset	34	
	Revaluation reserve		34

760 The following information is available in the books of a business:

	$000
Premises at cost	400
Provision for depreciation	80

The premises were revalued to $680 000: [J07Q02Z]

	Account	Debit $000	Credit $000
A	Premises	280	
	Profit and Loss		280
B	Premises	240	
	Provision for Depreciation	80	
	Revaluation Reserve		320
C	Premises	280	
	Revaluation Reserve		280
D	Premises	280	
	Provision for depreciation	80	
	Revaluation Reserve		360

761 Freehold property is shown in the books as $400 000 and accumulated depreciation at $60 000. The property is to be revalued to $500 000.

What is the double entry to record this transaction? [N07Q18Z]

	Account	Dr $000	Cr $000		Account	Dr $000	Cr $000
A	Freehold property	100		**C**	Freehold property	100	
	Profit and loss		100		Provision for depreciation	60	
					Profit and loss		160
B	Freehold property	100		**D**	Freehold property	100	
	Revaluation reserve		100		Provision for depreciation	60	
					Revaluation reserve		160

762 Buildings of Chako Ltd had an original cost of $100 000 and an accumulated depreciation of $20 000 on 1 January 2003. Depreciation for the year was $7 240.

On 31 December 2003, the buildings were revalued to $105 000. [J04Q20Z]

What is the profit on revaluation?

A $5 000 **B** $12 240 **C** $25 000 **D** $32 240

763 The following information relates to Fibs LTD's Plant and Machinery Account at 31 December 2003.

	$000
Closing balance	220
Depreciation for the year	15
Cost of disposed plant	19
New plant acquired	91

One of the machines was revalued from $38 000 to $50 000 during the year.

What was the opening balance for the plant and machinery, at cost, on 1 January 2003. [J04Q03Z]

A $136 000 **B** $138 000 **C** $153 000 **D** $200 000

764 The following are intangible fixed assets **except** [Author]

A copyrights. **B** goodwill. **C** investments. **D** patents.

765 Which of the following is **not** an intangible asset? [Horngren, Harrison & Lemon]

A A patent
B A trademark
C An investment in marketable securities
D Goodwill

766 Which of the following is true for intangible assets? [N06Q05Z]

A Intangible assets are a class of long-lived assets that have a physical form.
B Intangible assets are amortised by using the reducing balance method.
C Obsolescence is another cause of depreciation for intangible assets.
D The estimated residual value of intangible assets is always zero.

767 The following are amortised **except** [Author]

A a patent. **B** a trademark. **C** goodwill. **D** investments.

768 Mark Co bought a franchise from Fred Co on 1 January 2005 for $204 000. An independent consultant retained by Mark Co estimated that the remaining life of the franchise is 20 years. Its unamortised cost on Fred Co's books at 1 January 2005 was $68 000. [Spiceland, Sepe, Tomassini]

What amount should be amortised for the year ended 31 December 2005?

A $3 400 **B** $6 800 **C** $10 200 **D** $13 600

769 On 1 January 2003, Taft Co purchased a patent for $714 000. The patent is being amortised over its remaining legal life of 15 years expiring on 1 January 2018. During 2006, Taft Co determined that the economic benefits from the patent would not last longer than 10 years from the date of acquisition.

On 31 December 2006, what amount should be reported in the Balance Sheet for the patent, net of the accumulated amortisation? [Spiceland, Sepe, Tomassini]

A $428 400 **B** $489 600 **C** $504 000 **D** $523 600

770 What is goodwill? [J99Q18C]
A Goodwill is the excess of the current market value of freehold property over its net book value.
B Goodwill is the excess of the issue price of the shares over their par or nominal value.
C Goodwill is the excess of the value of the business over the total of fair values of net assets.
D Goodwill is the value of the loyalty of the company's staff, customers and suppliers.

771 Which of the following statements about goodwill is **false**? [J03Q15Z]
A It is an intangible asset.
B It is purchase price less total assets.
C It should be disclosed in the company's Balance Sheet.
D It should be written off against reserves in the year in which it is acquired.

772 The best evidence of goodwill existing in a business is [Meigs & Ferrara]
A a long record of earnings greater than those of like-size firms.
B a long-standings reputation for manufacturing high quality products.
C appearance of goodwill on the Balance Sheet.
D numerous contributions to charitable organisations.

773 Goodwill of a business can be estimated by finding the difference between the value of the business as a whole and the aggregate value of its separable net assets.

How should such goodwill be treated in a company's financial statements? [N04Q22Z]
A It should be amortised through the Profit and Loss Account over its useful life.
B It should be carried down in the Balance Sheet as a permanent asset.
C It should be eliminated from the accounts immediately on acquisition against reserves.
D It should never be recorded.

774 What is the correct treatment of non-purchased goodwill in the accounts of a company? [N00Q21C]
A Do not recognise it.
B Include it in the Balance Sheet as an asset at valuation
C Include it in the Balance Sheet as an asset, to be amortised
D Write it off against reserves

775 What may be done to goodwill arising on purchase of a business? [N01Q20C]
A It may be added to investments in the Balance Sheet.
B It may be amortised over its useful economic life through Profit and Loss Account.
C It may be shown as a tangible asset in the Balance Sheet and amortised through the Profit and Loss Account.
D It may be written off immediately following the purchase as an administrative expense.

776 Which goodwill is **not** recorded in the Balance Sheet? [J04Q18Z]
A Negative goodwill **C** Positive goodwill
B Non-purchased goodwill **D** Purchased goodwill

777 Goodwill is shown in the Balance Sheet under which caption? [Author]
A Current assets **B** Current liabilities **C** Non-current assets **D** Non-current liabilities

778 Negative goodwill should be recorded in the Balance Sheet as [J07Q06Z]
A an intangible asset. **C** capital reserve.
B an investment. **D** non-purchased goodwill.

779 Under which heading should negative goodwill be included in a company's Balance Sheet? [N07Q03Z]
A Capital reserves **B** Current assets **C** Current liabilities **D** Long-term liabilities

780 The fair value of the net assets of a business is $300 000. The business is acquired as a going concern by a company for $275 000.

Which term is used to describe difference between valuation of the net assets and purchase price? [N00Q16C]
A Badwill **B** Inherent goodwill **C** Negative goodwill **D** Purchased goodwill

781 In relation to the purchase of business, when the purchase price exceeds the values ascribed to the assets taken over, the difference is known as [Prestige]

A a capital reserve. **B** a premium. **C** goodwill. **D** negative goodwill.

782 You are to buy an existing business which has assets valued at:

	$000
Buildings	50
Motor vehicles	15
Fixtures	5
Stock	40

[Wood & Allan]

If you are to pay $140 000, this means that

A the seller made a loss of $30 000.
B you are paying $30 000 for goodwill.
C you are receiving $30 000 for goodwill.
D you have made an arithmetical mistake.

783 Lacy Corporation paid $550 000 to acquire Gentsch Inc. Gentsch Inc's assets had a market value of $900 000 and its liabilities were $400 000. [Horngren, Harrison & Lemon]

In recording the acquisition, Lacy Corporation will record goodwill of

A $50 000. **B** $100 000 **C** $750 000. **D** $1 050 000

784 A company paid $1.8 million to acquire the business of a sole-trader.

The sole trader's assets and liabilities were valued as follows:

	$000
Fixed assets	700
Current assets	300
Current liabilities	50
Long-term loan	100

How much was paid for goodwill? [Randall]

A $650 000 **B** $750 000 **C** $850 000 **D** $950 000

785 A business was purchased by a company for $1.5 million.

Extracts from the Balance Sheet of the business purchased are given below: [N98Q14C]

	$000
Fixed assets	400
Net current assets	120
Revaluation reserve	200

The above values were agreed by the purchasing company.

How much was paid for goodwill?

A 520 000 **B** $780 000 **C** $980 000 **D** $1 180 000

786 S. Sakala agreed to take over the existing businesses of K. Khumalo for $180 000 excluding the cash balance. She paid K. Khumalo the full amount by cheque on 31 December 2005.

The Balance Sheet of Khumalo at the date of acquisition was as follows:

	$		$
Capital	90 000	Premises	100 000
Creditors	56 000	Stock	25 000
		Debtors	15 000
		Cash	6 000
	146 000		146 000

S. Sakala agreed to take over the assets at the following valuations:

	$000
Premises	130
Stock	20

What is the value of goodwill? [N06Q25Z]

A $65 000 **B** $71 000 **C** $90 000 **D** $96 000

787 The following information is extracted from the books of the sole-trader prepared for the purpose of acquisition. [J04Q29Z]

	$000
Fixed assets at cost	340
Provision for depreciation to date	120
Net current assets	100

If a limited company intends to purchase the sole trader's business for $290 000, what is the value of goodwill?

A $30 000 negative **B** $30 000 positive **C** $150 000 negative **D** $150 000 positive

788 Given below are the fair values of net assets for a business: [J98Q16C]

	$000
Intangibles other than goodwill	65
Tangible fixed assets	160
Net current liabilities	(25)

The existing book value of goodwill is $40 000. The assets are acquired by a company for $215 000.

What is the value of the goodwill arising on acquisition in the purchaser's books?

A Negative goodwill $15 000 **C** Positive goodwill $15 000
B Negative goodwill $25 000 **D** Positive goodwill $80 000

789 An extract from the Balance Sheet of a business is: [J02E06C]

		$000
Intangible fixed asset:	Goodwill	20
Tangible fixed assets		162
Net current assets		58
		240

A company offers to buy the business and to pay for fixed and current assets at Balance Sheet values. The purchase price is agreed at $200 000.

What will appear in the company's Balance Sheet after the acquisition?

A Capital reserve $20 000 **C** Goodwill $20 000
B Capital reserve $40 000 **D** Goodwill $40 000

790 The following is information about the assets and liabilities of a business:

	Book value	**Market value**
	$	**$**
Tangible fixed assets	90 000	101 000
Current assets	32 000	29 000
	122 000	
Current liabilities	(14 000)	14 000
	108 000	

If Goodwill is valued at $50 000, what should be paid for the net assets of the business? [Randall]

A $116 000 **B** $119 000 **C** $166 000 **D** $169 000

791 Assets and liabilities of a company are:

	Book value	**Market value**
	$000	**$000**
Tangible fixed assets	60	70
Current assets	50	45
Goodwill	Nil	15
	110	
Share capital	40	
Retained profits	40	
Current liabilities	30	25
	110	

What would be the purchase price of the net assets of the company? [N01Q16C]

A $95 000 **B** $105 000 **C** $110 000 **D** $130 000

792 The rationale for making a provision in respect of doubtful debts is that the provision [Prestige]

A is an estimate of future debts.
B matches the estimated cost of future bad debts against the revenue earned in giving rise to the potential bad debts.
C records bad debts without taking them out of the *books* of an entity, thus showing the full amount owed by debtors as a current asset.
D records the expense of bad debts as they are incurred.

793 Provision for Doubtful Debts Account is created [Wood & Allan]

A to provide for possible bad debts.
B to write off bad debts.
C when debtors become bankrupt.
D when debtors cease to be in business.

794 Kapil has decided to maintain a *provision for doubtful debts*.

Which of the following concepts should he apply in his accounts?

1 Going concern
2 Matching
3 Prudence
4 Realisation [Randall]

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

795 When a Provision for Doubtful Debts Account is in use, writing off of an individual account as worthless

A decreases the balance in the Provision for Doubtful Debts Account.
B has no effect on the Provision for Doubtful Debts Account
C increases the balance in the Provision for Doubtful Debts Account.
D is recorded by a credit to the Bad Debts Account. [Meigs & Ferrara]

796 When the provision for doubtful debts method is in use, entry made to write off a specific account

A decreases both trade debtors and the net profit. [Spiceland, Sepe & Tomassini]
B decreases both trade debtors and the provision for doubtful debts.
C decreases debtors and increases the provision for doubtful debts balance.
D increases the provision for doubtful debts and decreases net profit.

797 The purpose of the entry made below by Longview Inc is to: [Horngren, Harrison & Lemon]

	Dr	Cr
	$	$
Profit and Loss	1 900	
Provision for bad debts		1 900

A age the debtors.
B close Provision for Bad Debts Account.
C record a bad debt expense.
D write off doubtful debts.

798 Bryan CO, after ageing its debtors, estimated that $3 500 of the $125 000 debtors would probably be uncollectible. The provision for doubtful debts was $2 300 prior to adjustments.

The appropriate accounting entry is: [Meigs & Ferrara]

	Account debited	Account credit	With
A	Profit and loss	Provision for doubtful debts	$1 200
B	Profit and loss	Provision for doubtful debts	$5 800
C	Provision for doubtful debts	Profit and loss	$1 200
D	Provision for doubtful debts	Profit and loss	$5 800

799 At the end of a fiscal year, before accounts are adjusted, debtors have a balance of $200 000 while the provision for doubtful debts is $2 500. [Fess & Warren]

If the estimated doubtful debts determined by ageing debtors is $8 500, the doubtful debts expense is

A $2 500. **B** $6 000. **C** $8 500. **D** $11 000.

800 Pine Company uses Income Statement approach in estimating doubtful debts and has found that such expense has consistently approximated 1% of net sales. At the end of the current year, trade debtors totalled $150 000, net sales amounted to $600 000 and provision for doubtful debts balance is $400.

The adjusting entry for this year is a [Meigs & Ferrara]

	Debit to	Credit to	With
A	Income Statement	Provision for doubtful debts	$1 100
B	Income Statement	Provision for doubtful debts	$5 600
C	Provision for doubtful debts	Income Statement	$1 100
D	Provision for doubtful debts	Income Statement	$5 600

801 The balance on the Provision for Bad Debts Account is $14 300 prior to the adjustments at the end of the period. The ageing of debtors indicate that a provision of $78 900 is needed.

The amount of expense to record is [Horngren, Harrison & Lemon]

A $14 300. **B** $64 600. **C** $78 900. **D** $93 200

802 Alpha Ltd makes a provision for doubtful debts equal to 4% of its debtors at the year-end. Debtors at 31 December 2005 amounted to $39 000. Debtors at 31 December 2006 amounted to $42 620 of which $1 570 are known to be bad. [Randall]

The debit to Profit and Loss Account for the year ended 31 December 2006 for provision for doubtful debts will be

A $82. **B** $144,80. **C** $1 642. **D** $1 704,80.

803 The figures show a calculation of the provision for doubtful debts:

	1 July 2006	30 June 2007
	$	$
Debtor **X**	750	–
Debtor **Y**	1 000	2 000
Debtor **Z**	–	1 500
	1 750	3 500
General provision	4 150	7 200
Total provision	5 900	10 700

During the period, debtor **X** was made bankrupt and a final payment of $50 was received.

What is the charge for the year to 30 June 2007 for bad and doubtful debts? [J98Q10C]

A $3 050 **B** $4 750 **C** $4 800 **D** $5 500

804 At the end of a financial period, a business has the following balances: [J04Q05C]

	$
Total debtors balances	10 620
Bad debts not yet written off	260
Provision for doubtful debt brought forward	460

What should the business do if it wishes to maintain the bad debt provision at 5% of debtors?

A Decrease the existing provision by $58. **C** Increase the existing provision by $58.
B Decrease the existing provision by $71. **D** Increase the existing provision by $71.

805 On 1 March 2006 the provision for bad debts brought forward was $435. Bad debts written off during the year were $1 375. On 28 February 2007 the provision carried forward was $545.

The net amount transferred to the Profit and Loss Account was [N02Q05Z]

A $1 485. **B** $1 810. **C** $1 920. **D** $2 355.

806 At the start of the year a company has a provision for doubtful debts of $1 000. At the end of the year the required provision is $2 500. During the year debts of $1 500 were written off and $100 is received in respect of a debt written off many years ago.

What is the net amount charged to the Profit and Loss Account for bad and doubtful debts? [J00Q14C]

A $1 500 **B** $2 500 **C** $2 900 **D** $3 000

807 A Trial Balance at 30 April 2007 before making end of year adjustments showed:

	Debit	**Credit**
Trade debtors	$35 600	
Provision for doubtful debts		$160

At 30 April 2007, it was decided to write off a bad debt of $1 600 and to make provision for doubtful debts of 2% of trade debtors. During the year, an amount of $400 was received from a customer relating to a debt which was written off in the year ended 30 April 2006.

What was the total bad and doubtful debts expense for the year ended 30 April 2007? [Prestige]

A $680 **B** $1 720 **C** $1 880 **D** $2 120

808 Details for AB Ltd for the year are given below: [N05Q4Z]

	$
Debtors at start	4 000
Cash sales	5 000
Credit sales	10 000
Sales returns	200
Receipts from debtors	10 000
Discount allowed	1 000
Provision for doubtful debts at start	500

It is the company policy to make a provision for bad debts equal to 5% of its debtors at the year end.

What is the Journal entry for the adjustment for the provision of doubtful debts at the end of the year?

		Debit	**Credit**
A	Profit and Loss Account	$360	
	Provision for Doubtful Debts Account		$360
B	Profit and Loss Account	$635	
	Provision for Doubtful Debts Account		$635
C	Provision for Doubtful Debts Account	$360	
	Profit and Loss Account		$360
D	Provision for Doubtful Debts Account	$635	
	Profit and Loss Account		$635

809 A company started trading in 1999. Its Bad Debts Provision Account showed the following balances at the year end:

Year	**$**
1999	2 400
2000	2 300
2001	6 000
2002	8 000

The charges to the Profit and Loss Account were highest in year [N03Q13Z]

A 1999. **B** 2000. **C** 2001. **D** 2002.

810 At the end of a year, debtors have a balance of $100 000 and the provision for doubtful debts is $7 000.

The expected net realisable value from the debtors is [Fess & Warren]

A $7 000. **B** $93 000. **C** $100 000. **D** $107 000.

811 The following is a Trial Balance at 31 October 2002.

		$	**$**
Trade debtors (gross of 5% provision for bad debts)		30 000	
Provision for bad debts:	1 September 2002		2 500
Bad debts		600	

The accounting entries to effect the changes in the provision for bad debts are: [S03Q29Z]

	Debit	**Credit**	**With**
A	Profit and Loss	Provision for Bad Debts	$1 000
B	Profit and Loss	Provision for Bad Debts	$1 500
C	Provision for Bad Debts	Profit and Loss	$1 000
D	Provision for Bad Debts	Profit and Loss	$1 030

812 Before any end-of-year adjustments had been made, the Trial Balance of a business at 31 March 2004 included the following:

	Debit	Credit	
Trade debtors	$13 400		[Randall]
Provision for doubtful debts		$730	

At 31 May 2004, it was found that debtors included a bad debt of $650. It was decided to adjust the provision for doubtful debts to 4% of debtors.

A debt of $420 which had bee written off as bad in January 2003 was recovered in January 2004.

What was the effect of these events on the Profit and Loss Account for the year ended 31 May 2004?

A Credit $10 **B** Credit $26 **C** Debit $10 **D** Debit $36

813 The following information pertains to Tara CO's trade debtors at 31 December 2003:

Days outstanding	Account $000	Estimated uncollectible
0 – 6	120	1%
61 – 120	90	2%
over 120	100	6%
	310	

[Spiceland, Sepe & Tomassini]

During 2003, Tara CO wrote off $7 000 in debts and recovered $4 000 that was written of in prior years. Tara CO's 31 December 2002 provision for doubtful debts was $22 000.

What amount of provision for doubtful debts should Tara CO report at 31 December 2003?

A $9 000 **B** $10 000 **C** $13 000 **D** $19 000

814 At 1 January 2005, Jamin Ltd had a credit balance of $260 000 in Provision for Doubtful Debts Account. Based on past experience, 2% of Jamin's credit sales have been uncollectible. During 2005, Jamin Ltd wrote off $325 000 of the trade debtors. Credit sales for 2005 were $9 000 000. [Spiceland, Sepe & Tomassini]

On 31 December 2005, what amount should be reported in the Balance Sheet as provision for doubtful debts?

A $115 000 **B** $180 000 **C** $245 000 **D** $440 000

815 A company's year-end Sales Ledger balances are:

Debit	$14 240
Credit	$960

When preparing the annual accounts, it was decided to write off bad debts of $200 and to maintain the provision for doubtful debts at 2½%.

What will be the provision for doubtful debts at the year-end? [N99Q02C]

A $151 **B** $327 **C** $332 **D** $351

816 At 31 December 2002 a business had a provision for doubtful debts of $1 200. At 31 December 2003, the provision was adjusted to $900.

How did this affect the final accounts? [Randall]

	Net profit	Net debtors
A	decrease by $300	decrease by $300
B	decrease by $300	increase by $300
C	increase by $300	decrease by $300
D	increase by $300	increase by $300

817 A company increases its provision for bad debts by $1 600. [J99Q05C]

What will be the effect of this on the year-end Balance Sheet?

	Net profit	Net debtors
A	decrease by $1 600	decrease by $1 600
B	decrease by $1 600	increase by $1 600
C	increase by $1 600	decrease by $1 600
D	increase by $1 600	increase by $1 600

818 The following information is available about a business: [Randall]

	$
Provision for doubtful debts at 1 April 2003	1 000
Debtors at 31 March 2004	24 800
Bad debt included in debtors at 31 March 2004	600
Charge to Profit and Loss Account for bad and doubtful debts, including $600 bad debt	1 194

Which percentage was used to calculate the provision for doubtful debts at 31 March 2004?

A 6.6% **B** 7.0% **C** 9.3% **D** 9.5%

819 Information about a business is as follows: [N01Q02C]

	$
Provision for doubtful debts at 1 January 2007	700
Debtors at 31 December 2007 (after writing off bad debt of $30)	15 000
Charge to Income Statement for bad and doubtful debts, including the $30 bad debt	200

What is the percentage provision that has been made for doubtful debts at 31 December 2007?

A 3.3% **B** 4.7% **C** 5.8% **D** 6.0%

820 A business maintains a provision for bad debts of 4% and a provision for discount allowed of 5%.

As at 31 March	**2007**	**2008**
	$000	**$000**
Trade debtors	1 200	1 000

Which of the following entries are correct on 31 March 2008? [Author]

		Debit	**Credit**
		$	**$**
1	Provision for Bad Debts Account	7 600	
	Profit and Loss Account		7 600
2	Provision for Bad Debts Account	8 000	
	Profit and Loss Account		8 000
3	Provision for Discount Allowed Account	9 600	
	Profit and Loss Account		9 600
4	Provision for Discount Allowed Account	10 000	
	Profit and Loss Account		10 000

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

821 Provision for discount allowed on outstanding debtors balances should be calculated at an appropriate rate on total debtors [Prestige]

A before account is taken of bad debts.
B less total creditors.
C net of any bad debts written off after deducting the cumulative amount of any provision for doubtful debts.
D net of any bad debts written off.

822 Which of the following violates the prudence concept? [J04Q24Z]

A Increasing the provision for bad and doubtful debts.
B Understating depreciation of plant and equipment.
C Valuing stock at the lower of cost and net realisable value.
D Writing off development costs against profits.

823 Financial statements that are dated for a time period rather than a specific time are the

A Balance Sheet and Income Statement.
B Balance Sheet and Statement of owner's equity.
C Income Statement and Statement of owner's equity.
D Income Statement and Trial Balance. [Horngren, Harrison & Lemon]

824 A list of assets, liabilities and capital of a business entity at a specific date is the [Fess & Warren]

A Balance Sheet. **C** Income Statement.
B Cash Flow Statement. **D** Statement of Changes in Equity.

825 A document reporting assets, liabilities and owner's equity is the [Horngren, Harrison & Lemon]
A Balance Sheet. **C** Income Statement.
B Financial Statement. **D** Statement of owner's equity.

826 Which of these best describes a Balance Sheet (Statement of Financial Position)? [Wood & Allan]
A A listing of balances. **C** A statement of assets.
B A record of closing entries. **D** An account proving the books balance.

827 Which item may be included in the Balance Sheet at more than historical cost? [J98Q05C], [J01C07C]
A Goodwill **B** Land and buildings **C** Research expenditure **D** Work in progress

828 Which item may be included in a Balance Sheet at more than historical cost? [N01Q07], [N07Q13Z]
A Goodwill **B** Land and Premises **C** Research expenditure **D** Work in process

829 The party that holds a receivable is called the [Horngren, Harrison & Lemon]
A creditor. **B** debtor. **C** drawee. **D** drawer.

830 Economic resources an entity owns expected to be useful to the enterprise are called [Horngren, Harrison & Lemon]
A assets. **B** equity. **C** liabilities. **D** receivables.

831 The properties owned by a business enterprise are called [Fess & Warren]
A accounting equation. **B** assets. **C** capital. **D** liabilities.

832 The classification of assets and liabilities as current or long-term (non-current) depends on
A the format of the Balance Sheet – account format or report format.
B the relative liquidity of the item. [Horngren, Harrison & Lemon]
C their order of listing in the General Ledger.
D whether they appear on the Balance Sheet or Income Statement.

833 Which one of the following best describes the nature of an asset? [Meigs & Ferrara]
A An economic resource, which will provide some future benefits, owned by a business.
B Something with a ready market value.
C Tangible property (something with a physical form) owned by a business.
D The amount of the owner's investment in a business.

834 The following accounting principles relate to valuation of assets **except** [Meigs & Ferrara]
A cost principle – assets generally are recorded at cost rather than estimated market values.
B going concern assumption – accountants assume that a business acquires assets such as land, buildings and equipment for use and not for resale.
C objectivity – accounts prefer to use values that can be objectively vouched and verified.
D safety principle – assets are recorded in accounting records at the lower of cost or insured value.

835 Assets would be overstated if necessary adjusting entry were omitted for [Meigs & Ferrara]
A accrued interest earned.
B accrued salaries.
C expired insurance.
D revenue collected in advance during the period.

836 Which of these **best** describes a fixed asset? [Wood & Allan]
A Are bought to be used in the business.
B Are expensive items bought for the business.
C Are items which will not wear out quickly.
D Are of long life and are not bought specifically for resale.

837 Which of the following is **not** an asset? [Wood & Allan]
A Buildings **B** Cash balance **C** Debtors **D** Loan from Haris

838 Which of the following is **not** a current asset? [J05Q07Z]
A Rent receivable owing **C** Subscriptions received in advance
B Stock of raw materials unused **D** Unused stationery at the end of the year

839 The cash and other securities established for the payment of debentures at maturity are classified in a Balance Sheet as [Fess & Warren]

A current assets. **B** current liabilities. **C** investments. **D** plant assets.

840 Which of the following accounts would be classified as a current asset on the Balance Sheet? [Fess & Warren]

A Accumulated Depreciation **C** Land
B Debtors **D** Office Equipment

841 The descending order in which current assets should be shown in the Balance Sheet is: [Wood & Allan]

A cash, bank, debtors, stock. **C** stock, debtors, bank, cash.
B debtors, stock, bank, cash. **D** stock, debtors, cash, bank.

842 Which of the following four items would **not** be included in inventories on the Balance Sheet? [Meigs & Ferrara]

A Building materials used in construction.
B Cars left by owners at an auto repair shop.
C Goods purchased but not yet delivered to the premises (title passed)
D Raw materials used in the manufacture of chemicals.

843 A trader who sells food does excluded food that is past its 'sell by' date in his stock in the Balance Sheet.

Which concept has he applied in valuing his stock? [Randall]

A Going concern **B** Matching **C** Prudence **D** Realisation

844 Under what caption should short-term investments be reported in Balance Sheet? [Fess & Warren]

A Current assets **B** Current liabilities **C** Fixed assets **D** Plant assets

845 Short-term investments are reported in Balance Sheet immediately after [Horngren, Harrison & Lemon]

A cash. **B** current assets. **C** debtors. **D** stock.

846 An extract from a company's Trial Balance is shown:

	Debit	**Credit**
	$	**$**
Debtors Control Account	225 000	2 800
Creditors Control Account	3 200	261 000
Directors Loan Account	12 000	

How much should be disclosed as trade debtors in the company's financial statements? [N99Q06C]

A $222 200 **B** $228 200 **C** $237 400 **D** $240 200

847 Which total for current assets should be shown in the Balance Sheet? [N06Q04Z]

	Debit	**Credit**
	$	**$**
Bank		92 750
Cash	15 000	
Trade debtors	60 000	
Net profit		96 580
Stock	26 420	
Prepaid revenue		18 680

A $101 420 **B** $120 100 **C** $194 170 **D** $198 000

848 What is the total for current assets? [N03Q09Z]

	Debit	**Credit**
	$	**$**
Sales Ledger Control Account	16 000	600
Purchases Ledger Control Account	700	17 000
Bank		1 000
Cash	500	

A $15 000 **B** $16 200 **C** $16 500 **D** $17 200

849 Which of the following is a liability? [Wood & Allan]
A Cash at bank **B** Creditors for goods **C** Machinery **D** Motor vehicles

850 Which of the following will appear under current liabilities in the Balance Sheet of a company? [N06Q21Z]
A Final dividends **B** General reserves **C** Proposed dividends **D** Share Premium A/C

851 What will be classified in a Balance Sheet at 31 December 2007 as a current liability? [J99Q03C], [J02Q06Z]
A Debentures **B** Preference shares **C** Prepaid expense **D** Proposed dividend

852 Which of the following is **not** included among the current liabilities of a manufacturing company? [Meigs & Ferrara]
A Contingent liability for a cheque received from a now known to be fraudulent customer.
B Estimated liability for warranty repairs on products sold.
C Liability for PAYE tax withheld from employees.
D Portion of a 30-year mortgage loan payable in the next 12–monthly instalments.

853 Which item will be included in a Balance Sheet as a creditor? [Author]
A Debenture stock issued by a company **C** Merger reserve
B Investments **D** Ordinary shares issued by a company

854 Which of the following will be included in the Balance Sheet as a creditor? [J99Q11C], [J04Q14C]
A Loan stock issued by a company **C** Revaluation reserve
B Preference shares issued by the company **D** Share Premium Account

855 An extract from the Trial Balance as at 30 April 2007 is shown:

	Debit	**Credit**
	$	**$**
Creditors Control Account	1 300	26 800
Debtors Control Account	38 600	800

In addition, a purchase invoice for the goods received on 29 April 2007 for $1 000 was omitted from the Creditors Control Account.

Which figure for creditors should appear in the Balance Sheet at 30 April 2007? [J01C13C]
A $25 500 **B** $27 600 **C** $27 800 **D** $28 600

856 Extracts from a company's Trial Balance at 31 March 2007 are given below: [J01C05C], [N01Q05C]

	Debit	**Credit**
	$	**$**
Bank overdraft		7 000
Debentures (2015)		18 000
Preference shares		9 000
Proposed preference dividend		900
Bad debt provision		800
Balances on Creditors Ledger	1 500	30 000

Which total for *Creditors: Amounts falling due within one year* (*current liabilities*) should be disclosed in the financial statements?
A $30 900 **B** $36 400 **C** $37 900 **D** $38 700

857 A $30 000 9% debenture was issued on 31 August and the firm's accounting year ends 31 December.

The year-end Balance Sheet will report interest liability of [Horngren, Harrison & Lemon]
A $450. **B** $900. **C** $1 350. **D** $2 700.

858 A business has cash of $3 000, bank overdraft of $2 500, accounts payable of $4 300, service revenue of $7 000 and rent expense of $1 800.

Based of these data, how much are the total liabilities? [Horngren, Harrison & Lemon]
A $5 500 **B** $6 800 **C** $9 800 **D** $13 800

859 Extracts from a Trial Balance are given below:

	Debit $	Credit $
Prepayments	4 620	
Accruals		8 125
Bank balances	14 920	3 612
Trade creditors		18 148
Loan (10 years)		15 000

What total for current liabilities should be disclosed in a Balance Sheet? [J99Q05C]

A $26 273 **B** $26 380 **C** $29 885 **D** $44 885

860 What is the total amount due to an enterprise at maturity from $5 000 invested in a 90-day 12% short-term investment with a local bank? [Fess & Warren]

A $5 000 **B** $5 150 **C** $5 450 **D** $5 600

861 The bookkeeper failed to classify a 13% Loan as a current liability in preparing Burbank Corporation's Balance Sheet.

As a result of this error, Burbank Corporation's [Meigs & Ferrara]

A current ratio is overstated.
B interest expense is understated.
C liabilities are understated.
D working capital is understated.

862 Draft accounts include a loan due for repayment in 20 months' times as part of trade creditors. [J00Q01C]

What effect will the necessary adjustment have?

A Increase net assets
B Increase net current assets
C No effect on net current assets
D Reduce net current asses

863 What type of analysis is represented by the following? [Fess & Warren]

	$000	%
Plant assets	4 000	80
Current assets	1 000	20
Total assets	5 000	100

A Contribution analysis
B Cross-sectional analysis
C Horizontal analysis
D Vertical analysis

864 Asset turnover is [Doost RK]

A assets ÷ sales **B** assets ÷ profit. **C** profit ÷ assets. **D** sales ÷ assets.

865 The following measures indicate the ability to liquidate current liabilities **except** [Fess & Warren]

A current ratio. **B** quick ratio. **C** stock turn. **D** working capital.

866 Dividing total current assets by total current liabilities gives the following **except** [Fess & Warren]

A acid test ratio. **B** bankers' ratio. **C** current ratio. **D** working capital ratio.

867 What is the current ratio for a business with current assets of $120 000, working capital of $40 000 and capital employed of $240 000? [Author]

A 1.5:1 **B** 2:1 **C** 3:1 **D** 6:1

868 A portion of the Balance Sheet is as follows:

	$000
Debtors	200
Creditors	100
Stocks	250
Bank overdraft	50

What is the current ratio? [N00Q25C]

A 1.3:1 **B** 2.5:1 **C** 3.0:1 **D** 4.5:1

869 The following items were extracted from a Balance Sheet:

	$000
Stock	60
Debtors	40
Bank overdraft	20
Creditors	30
Cash in hand	25

What is the current ratio? [N02Q23Z]

A 1.5:1 **B** 2:1 **C** 2.5:1 **D** 3.3:1

870 Current assets and current liabilities of Tomtom Ltd are listed below: [J04Q23Z]

	$000
Stock	50
Debtors	250
Dividends payable	20
Trade creditors	180
Short-term investments	50
Prepayments	10
Taxation	30
Bank overdraft	40

What is the current ratio?

A 1.15 **B** 1.3 **C** 1.5 **D** 2

871 The ratio of the quick assets to current liabilities, that indicates the 'instant' debt paying ability is the [Fess & Warren]

A bankers' ratio. **B** current ratio. **C** liquid ratio. **D** working capital ratio.

872 Cash is $10 000, net debtors amount to $22 000, stock is $55 000, prepaid expenses total $3 000 and current liabilities are $40 000.

What is the acid test ratio? [Horngren, Harrison & Lemon]

A 25% **B** 87.5% **C** 218% **D** 225%

873 The following balances are found in the Balance Sheet of a business:

	$000
Stock	192
Debtors	378
Creditors	261
Bank (debit balance)	63
Bank loan (repayable in 2 years)	150

What is the quick (acid-test) ratio? [Prestige]

A 1.1 times **B** 1.2 times **C** 1.7 times **D** 2.4 times

874 The following information appeared in the Balance Sheet at the year end:

	$000
Fixed assets	100
Stock	50
Debtors	40
Cash at bank	20
Trade creditors	10

What is the quick (acid test) ratio? [J98Q22C]

A 2:1 **B** 6:1 **C** 11:1 **D** 21:1

875 The following information appeared in the Balance Sheet at the year end:

	$000
Fixed assets	200
Stock	100
Debtors	119
Cash in hand	1
Bank overdraft	10
Trade creditors	20

What is the quick (acid test) ratio? [N05Q19Z]

A 4:1 **B** 6.5:1 **C** 7.3:1 **D** 10.7:1

876 Checkers Ltd had a current ratio of 150% on 31 December 2007. On the same date, the closing stock was $60 000 while the current liabilities amounted $80 000.

What was the quick ratio? [Author]

A 0.75:1 **B** 0:89:1 **C** 1:1 **D** 1.125:1

877 Extracts from the Balance Sheet of a company are given below:

	$000
Stock	25
Debtors	125
Dividends payable	10
Trade creditors	90
Short term investments	25
Prepayments	5
Tax creditors	15
Bank overdraft	20

What is the quick ratio? [N99Q24C]

A 0.96:1 **B** 1.15:1 **C** 1.24:1 **D** 1.33:1

878 Below are balances from a manufacturing company:

	$000
Raw materials	15
Work in progress	10
Trade creditors	60
Finished goods	20
Bank overdraft	20
Cash	1
Dividends payable	10
Trade debtors	50

The quick ratio is [S03Q09Z]

A 0.57:1. **B** 0.64:1. **C** 0.79:1. **D** 1.07:1

879 Extracts from the Balance Sheet of a company are given below:

	$000
Stocks	95
Trade debtors	25
Prepaid expenses	21
Cash	9
Proposed dividends	10
Tax	6
Trade creditors	4
Goodwill	2

What is the acid test ratio? [N06Q22Z]

A 2.5:1 **B** 2.75:1 **C** 2.85:1 **D** 3.93:1

880 How much are the debtors of the firm if the current ratio is 200%? [Prestige]

	$000
Stock	30
Provision for doubtful debts	6
Cash and bank	12
Creditors	30

A $12 000 **B** $18 000 **C** $24 000 **D** $30 000

881 The following figures and ratios were extracted from a company's final accounts: [N00Q27C]

Closing stock	$22 500
Creditors	$15 000
Current ratio	3:1
'Acid-test'	1.5:1

Which figures appeared on the Balance Sheet at the end of the year for debtors and bank?

	Debtors	Bank		Debtors	Bank
A	$10 000	$5 000	**C**	$25 000	$12 500
B	$17 500	$5 000	**D**	$25 000	$20 000

882 A small business has the following assets and current liabilities:

	$
Debtors	18 000
Bank overdraft	4 500
Cash in hand	150
Creditors	15 150
Prepayment	2 000

If the current ratio is 2:1, what is the value of stock? [N07Q07Z]

A $9 500 **B** $10 150 **C** $19 150 **D** $21 150

883 The business has the following current assets and current liabilities:

	$
Debtors	6 000
Bank overdraft	1 500
Cash in hand	50
Creditors	5 050

The only other item in working capital is stock. The current ratio is 2:1.

What is the value of the stock? [J02Q23Z]

A $2 550 **B** $4 050 **C** $5 050 **D** $7 050

884 The current liabilities of a business total $84 000. The current ratio is 2:1 and the quick ratio is 0.7:1.

What is the value for stock? [J99Q25C]

A $58 800 **B** $109 200 **C** $117 600 **D** $120 000

885 A company has a current ratio of 2:1 and a quick ratio of 0.5:1.

What is the effect on the two ratios, if the company uses cash to buy stock? [J98Q23C]

	Current ratio	Quick ratio		Current ratio	Quick ratio
A	decrease	decrease	**C**	no change	decrease
B	decrease	no change	**D**	no change	no change

886 A company has a current ratio of 2:1 and a quick ratio of 0.5:1.

What is the effect on the two ratios, if the company uses cash to buy stock? [N01Q24C]

	Current ratio	Quick ratio		Current ratio	Quick ratio
A	decrease	decrease	**C**	unchanged	decrease
B	decrease	increase	**D**	unchanged	increase

887 What is the effect on the current ratio and quick ratio of a business if it uses cash to buy stock? [Randall]

	Current ratio	Quick ratio		Current ratio	Quick ratio
A	decrease	decrease	**C**	no change	decrease
B	decrease	increase	**D**	no change	increase

888 A business purchases stock on credit.

Which of the following is now true? [J02Q19Z]

	Current ratio	Acid test		Current ratio	Acid test
A	decreases	decreases	**C**	unchanged	decreases
B	increases	increases	**D**	unchanged	increases

889 What is the effect on the acid test ratio and the current ratio of purchasing stocks for three months on credit? [J03Q24Z]

	Acid test ratio	Current ratio		Acid test ratio	Current ratio
A	decreases	increases	**C**	increases	decreases
B	decreases	no effect	**D**	no effect	decreases

890 A company has current ratio of 2:1 and a quick ratio of 0.5:1.

What is the effect on the two ratios, if the company uses cash to pay creditors? [J01C23C]

	Current ratio	Quick ratio		Current ratio	Quick ratio
A	decrease	decrease	**C**	increase	decrease
B	decrease	increase	**D**	increase	increase

891 What effect does a payment made by a trade debtor have on the *current ratio* and *quick ratio* of the company? [N03Q08Z]

	Current ratio	Quick ratio		Current ratio	Quick ratio
A	increase	decrease	**C**	no effect	decrease
B	increase	increase	**D**	no effect	no effect

892 The current ratio of a company increases from 1.4 to 1.9.

Which of the following movements could explain this movement? [J02Q21Z]

A An issue of more share capital for cash
B The giving of more generous credit to customers
C The granting of cash discount to customers
D The purchase of short-term investments

893 How can a business increase its current ratio? [J00Q24C]

A Increase creditors **B** Increase debtors **C** Reduce bank balance **D** Reduce stock

894 A company wishes to improve its current ratio and quick ratio. [N98Q40C]

How can this be done?

A By granting increased discounts to debtors.
B By increasing provision for doubtful debts.
C By purchasing additional stock on credit.
D By the sale of fixed assets.

895 How can a business increase its quick asset ratio? [J04Q12Z]

A Increase creditors **B** Increase debtors **C** Increase stock **D** Reduce bank balance

896 The following relates to a business:

	Days
Debtor's collection period	26
Creditor's payment period	34
Rate of stock turnover	33

What is the business' working capital cycle? [J04Q24C]

A 25 days **B** 27 days **C** 59 days **D** 93 days

897 From the Balance Sheet extracts below, how can the business improve its quick (acid test) ratio?

		$000	$000
Current assets:	Stock	45	
	Debtors	45	
	Cash at bank	35	
		125	
Current liabilities:	Creditors	75	
Net current assets			50
Long term liabilities:	Debentures	30	
Net current assets less long term liabilities		20	

[J99Q26C]

A By collecting all outstanding debtors
B By redeeming the debentures
C By selling the stock
D By using all cash at bank to pay creditors

898 The quick (acid test) of the business has fallen. [Randall]

What is the reason for the fall?

A A decrease in creditors
B A decrease in stock
C An increase in bank overdraft
D An increase in cash

899 The acid test (quick) ratio of a business has fallen while turnover has remained constant.

What is the reason for the fall? [N01Q24C]

A A decrease in the bank overdraft
B A decrease in stock
C An increase in cash
D An increase in creditors

900 The acid-test (quick) ratio of a business has risen when turnover has remained constant.

What is the reason for the rise? [J01C24C]

A A decrease in cash
B A decrease in creditors
C An increase in bank loan
D An increase in stock

901 If the Toy Castle, a retail toy store, had current assets of $72 000 and its current ratio was 2:1, then its working capital was [Meigs & Ferrara]

A $36 000. **B** $72 000. **C** $108 000. **D** $144 000.

902 Working capital is a term meaning the [Wood & Allan]

A amount of capital invested by the proprietor.
B capital less drawings.
C excess of the current assets over current liabilities.
D total of the fixed assets and current assets.

903 An extract from a summarised Balance Sheet is shown:

	$000
Fixed assets	3 500
Stocks	900
Debtors	1 100
Cash at bank	500
	6 000
Creditors	(700)
Bank overdraft	(200)
Short-term loan	(2 500)
Net assets	2 600

[J98Q26C]

In calculating the monetary working capital adjustment, what is the total of the net monetary assets?

A $700 000 **B** $900 000 **C** $1 300 000 **D** $1 600 000

904 Which of the following items increases working capital? [J03Q21Z]

A A rights issue
B Buying stocks on credit
C Increasing a bank overdraft
D Receiving cash from debtors

905 What would increase the working capital (current) ratio of a business? [J04Q23C]

A Buying stock on credit for $2 000 and selling immediately for $3 000 cash.
B Paying creditors $1 000 cash.
C Purchasing a fixed asset for $10 000 on credit.
D Selling stock of $1 000 at cost price on credit.

906 A company wishes to increase its working capital. [N02Q26Z]

This is best achieved by

A factoring debtors.
B paying creditors.
C selling fixed assets for cash.
D selling stock on credit.

907 How is a company best able to reduce its working capital in the short term? [N99Q23C]

A By decreasing the rate of stock turnover
B By disposing some surplus fixed assets
C By reducing the debtor collection period by offering discounts
D By reducing the time taken to pay its suppliers

908 A sole-trader can **best** improve his working capital in the short term by [J04Q22Z]

A decreasing the rate of stock turn.
B disposing some of the fixed assets.
C paying back loans.
D reducing the debtor collection period by offering discounts.

909 What is the accounting equation for capital employed? [N99Q01C], [J02Q01Z]

A Current assets – Current liabilities
B Fixed assets + Current Assets – Current liabilities
C Fixed assets + Current Assets + Current liabilities
D Net current assets – Current liabilities

910 Which transaction will result in an increase in capital employed? [N04Q29Z]

A Disposal of fixed assets at net book value
B Increasing the provision for bad debts
C Receipt of a long-term loan
D Receipt of cash from a debtor

911 Which transaction will cause an increase in capital employed? [N00Q26C]

A Disposal of a fixed asset at more than its book value (carrying amount).
B Increasing the provision for bad debts.
C Receipt of a loan.
D Receipt of payment from a debtor in cash.

912 A company wants to increase its return on capital employed in the short term. [J01Q25C], [J04Q22C]

Which course of action will achieve this?

A Investment in new plant and machinery
B Reducing level of dividends paid to investors
C Reducing level of overhead expenses
D Revaluing freehold land and buildings upwards

913 What is the correct definition of return on net capital employed? [J01C22C]

A Net profit for the year as a percentage of fixed asset
B Net profit for the year as a percentage of fixed asset plus current assets
C Net profit for the year as a percentage of fixed asset plus current liabilities
D Net profit for the year as a percentage of fixed asset plus working capital

914 The profit before interest from a company's Profit and Loss Account is $128 000 (interest is $8 000).

Amounts included in the Balance Sheet include:

	$000
Fixed assets	485
Net current assets	27
Amounts falling due after one year: Debentures	80

How much is the return on the total capital employed? [J00Q27C]

A 20.3% **B** 21.6% **C** 23.4% **D** 25.0%

915 A company's return on capital employed would generally increase when [L. G. Rayburn]
A assets increase. **B** costs decrease. **C** costs increase **D** selling prices decrease.

916 The expanded formula for Return On Investment (Capital Employed) is [Doost RK]
A Asset turnover × Gross profit.
B Asset turnover × Return on sales.
C Operating income × Stock turnover.
D Return on sales × Stock turnover.

917 Which of the following ratios expresses the relationship between secondary and primary ratios? [J03Q16Z]

A ROCE = $\frac{\text{Gross profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Average capital employed}}$

B ROCE = $\frac{\text{Net profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total sales}}$

C ROCE = $\frac{\text{Profit before interest and tax}}{\text{Sales}} \times \frac{\text{Gross profit}}{\text{Sales}}$

D ROCE = $\frac{\text{Profit before interest and tax}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Average capital employed}}$

918 Which statement correctly expresses the relationship between return on capital employed, net asset turnover and profit margin? [N00Q23C]
A Net asset turnover = Return on capital employed × profit margin
B Return on capital employed = Net asset turnover + Profit margin
C Return on capital employed = Net asset turnover × Profit margin
D Return on capital employed = $\frac{\text{Profit margin}}{\text{Net asset turnover}}$

919 Which combination maximises return on total capital employed? [L. G. Rayburn]

	Asset turnover	Net profit percentage		Asset turnover	Net profit percentage
A	decrease	decrease	**C**	increase	decrease
B	decrease	increase	**D**	increase	increase

920 $100 000 is available for investment opportunities which are as follows:

Business	Purchase price	Estimated future maintainable profits
1	$50 000	$8 500
2	$70 000	$10 500
3	$90 000	$12 600

Which course of action will give the highest return on capital employed if the money not used in the purchase of a business is lent at an interest of 15% per annum? [N01Q17C]
A Lending $100 000
B Purchasing Business 1
C Purchasing Business 2
D Purchasing Business 3

921 Purchase of office supplies (or any other asset) on account will increase [Horngren, Harrison & Lemon]
A an asset and decrease a liability
B both an asset and a liability.
C both an asset and the owner's equity.
D one asset and decrease another asset.

922 Which of the following are correct? [Wood & Allan]

	Accounts	To record	Entry in account
1	Assets	a decrease	Credit
		an increase	Debit
2	Capital	a decrease	Credit
		an increase	Debit
3	Liabilities	a decrease	Debit
		an increase	Credit

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

923 Which of the following adjusting entries will result in a decrease in assets and owners' equity? [Meigs & Ferrara]
A Entering accrued wages payable
B Entering revenue earned but not yet received.
C Entering the earned portion of rent received ahead.
D None of the above.

924 Which of the following related effects may Red Hill Vineyards also incur if it completes a transaction which causes an asset account to decrease? [Meigs & Ferrara]

A An increase of an equal amount in a liability account.
B An increase of an equal amount in another asset account.
C An increase of an equal amount in the owners' equity.
D None of the above.

925 Which of the following transactions causes total assets to increase by $10 000? [Meigs & Ferrara]

A Collecting a $10 000 account receivable.
B Paying a $10 000 liability.
C Purchasing $10 000 of office furniture on account.
D Purchasing an automobile for $10 000 cash.

926 Performance of a service for a customer or client and immediate receipt of cash will [Horngren, Harrison & Lemon]

A decrease both an asset and a liability.
B increase both an asset and a liability.
C increase both an asset and the owner's equity.
D increase one asset and decrease another asset.

927 The payment of a creditor (or any other liability) will [Horngren, Harrison & Lemon]

A decrease both an asset and a liability.
B decrease both an asset and owner's equity.
C increase both an asset and a liability.
D increase one asset and decrease another asset

928 Which of the following statements is correct? [Wood & Allan]

		Effects upon	
		Assets	**Liabilities**
A	A debtor paid us $90 in cash	+ cash	+ debtors
B	Bought goods on credit	+ stock	+ capital
C	J. Hall lent us $500 by cheque	+ bank	– Loan from J. Hall
D	We paid a creditor by cheque	– bank	– creditors

929 Which of the following **cannot** be derived from the basic accounting equation? [Meigs & Ferrara]

A Assets = Owners' equity + Liabilities
B Liabilities = Assets – Owners equity
C Owners' equity = Assets – Liabilities
D Owners' equity = Liabilities – Assets

930 Which of the following statements is incorrect? [Wood & Allan]

A Assets = Capital + Liabilities
B Capital = Assets – Liabilities
C Capital = Assets + Liabilities
D Liabilities = Assets – Capital

931 Which of the following statements is incorrect? [Randall]

A Assets = Capital – Liabilities
B Assets = Capital + Liabilities
C Capital = Assets – Liabilities
D Liabilities = Assets – Capital

932 Which of the following is incorrect? [Wood & Allan]

	Assets	Liabilities	Capital
	$	$	$
A	6 540	1 120	5 420
B	7 850	1 250	6 600
C	8 200	2 800	5 400
D	9 550	1 150	8 200

933 A business has assets of $140 000 and liabilities of $60 000.

How much is the owner's equity? [Horngren, Harrison & Lemon]

A $60 000 **B** $80 000 **C** $140 000 **D** $200 000

934 A business does not keep proper accounting records but the data is available at the start of a year is:

– A loan to a friend from the business bank account $7 000;
– Bank overdraft of $3 500;
– Motor car valued at $17 500;
– Stocks which cost $28 000 with a sales value of $42 000.

What was the Capital Account balance at the start of the year? [Prestige]

A $35 000 **B** $49 000 **C** $56 000 **D** $63 000

935 Jackson commenced business with $10 00 that he had received as a gift from his aunt and $8 000 that he had received as a loan from his father. He used some of this money to purchase a new machine for $15 000. He obtained a mortgage for $20 000 to purchase a workshop.

How much was Jackson's capital? [Randall]

A $3 000 **B** $10 000 **C** $18 000 **D** $38 000

936 You are given the following:

		$
Assets:	Premises	20 000
	Stock	8 500
	Cash	100
Liabilities:	Creditors	3 000
	Loan – A. Adams	4 000

[Wood & Allan]

What is the amount of capital?

A $21 100 **B** $21 400 **C** $21 600 **D** $32 400

937 The following information has been extracted from the Balance Sheet at 31 December 2003:

	$000
Fixed assets	300
Working capital	30
Long-term loan	20
Profit for the year	35
Drawings	25

What was the balance on the Capital Account at 31 December 2003? [Randall]

A $310 000 **B** $320 000 **C** $340 000 **D** $350 000

938 If total assets increased by $20 000 during a period and total liabilities increased by $12 000 during the same period, the amount and direction of the period's change in owner's equity is [Fess & Warren]

A $8 000 decrease. **B** $8 000 increase. **C** $32 000 decrease. **D** $32 000 increase

939 The following information relates to Banda's Tuck-shop which commenced operating on 1 August 2002.

	$000
Capital at 1 August 2002	20
Drawings during the year	1
Gift from friend	6
Net profit for the year	11

What is the value of the net assets at 30 July 2003? [N03Q27Z]

A $30 000 **B** $36 000 **C** $37 000 **D** $38 000

940 The owner has taken goods for his own use but no entry has been made in the books to record this.

What is the effect of this on the Balance Sheet? [Randall]

	Stock	**Capital**		**Stock**	**Capital**
A	no effect	no effect	**C**	no effect	overstated
B	no effect	overstated	**D**	overstated	overstated

941 The purchase of an office computer has been debited to office expenses instead of office equipment?

What effect will this have on the Balance Sheet? [Randall]

	Fixed assets	**Profit**	**Capital**
A	no effect	understated	no effect
B	no effect	understated	understated
C	understated	no effect	understated
D	understated	understated	no effect

942 When preparing a sole-trader's annual accounts, no adjustment was made for closing amount prepaid.

What is the effect of this omission? [J02Q02Z]

A	Current assets overstated	Owner's capital overstated
B	Current assets understated	Owner's capital understated
C	Net profit overstated	Creditors understated
D	Net profit understated	Creditors understated

943 Which of the following entries closes the owner's Drawings Account at the end of the period? [Fess & Warren]

	Debit	**Credit**		**Debit**	**Credit**
A	Capital	Drawings	**C**	Drawings	Income Statement
B	Drawings	Capital	**D**	Income Statement	Drawings

944 Which of the following is correct? [Wood & Allan]

A Capital can only come from profit.
B Profit does not alter capital.
C Profit increases capital.
D Profit reduces capital.

945 Which formula can be used to calculate net profit? [N04Q14Z]

A Closing capital – drawings + capital added – opening capital
B Closing capital + drawings – capital added – opening capital
C Opening capital – drawings – capital added – closing capital
D Opening capital + drawings – capital added – closing capital

946 At 1 January 2003 Robert's business assets were valued at $36 000 and liabilities amounted to $2 000. At 31 December 2003 Robert's assets amounted to $57 000 and included his private car which he had brought into the business on 1 November 2003 when it was valued at $9 000.

What was Robert's profit for the year ended 31 December 2003 if his creditors and his drawings for the year totalled $17 000 and $27 000 respectively? [Randall]

A $6 000 **B** $14 000 **C** $24 000 **D** $33 000

947 Given opening capital of $16 500, closing capital as $11 350 and drawings were $3 300 then [Wood & Allan]

A loss for year was $1 850.
B loss for year was $8 450.
C profit for year was $1 850.
D profit for year was $8 450.

948 P. Tsoro, a sole trader, provided you with the following information:

	1 January 2007	**31 December 2007**
	$	**$**
Assets	18 000	30 000
Liabilities	2 600	6 500
Drawings for the year	–	1 900

During the year, P. Tsoro paid her lottery winnings of $5 000 into the business' Bank Account.

What is her profit and loss for the year? [N02Q08Z]

A $3 100 loss **B** $3 100 profit **C** $5 000 profit **D** $7 000 loss

949 A new business was established with opening capital of $15 000. At the end of the year, the net assets were $20 000. During the year, the proprietor's drawings were $3 000 and this resulted in a year-end overdraft of $3 000.

What was the profit made during the year? [J99Q07C]

A $2 000 **B** $3 000 **C** $5 000 **D** $8 000

950 On 1 May 2004, Betty's business assets were valued at $324 000 and her liabilities amounted $21 600.

At 30 April 2005, her assets equalled $513 000. This figure includes a legacy from the late uncle which she brought into the business on 28 February 2005, valued at $81 000.

Creditors at 30 April 2005 were $153 000 while total drawings for the year were $243 000.

Betty's profit for the year to 30 April 2005 was [Prestige]

A $57 600. **B** $219 600. **C** $300 000. **D** $522 000.

951 At 1 April 2002 Tonkin's business assets were:

	$
Motor van at valuation (cost $8 000)	5 000
Tools	1 600
Stock	700
Debtors	168
Cash	400

Tonkin's business liabilities totalled $1 120 at 1 April 2002 and amounted to $800 on 31 March 2003.

On 31 March 2003, his assets were:

	$
Workshop at cost (mortgage outstanding $16 000)	20 000
Motor van	4 000
Tools	1 900
Stock	1 000
Debtors ($70 is known to be bad)	240
Cash	500

During the year, Tonkin's drawings amounted to $5 200.

What was Tonkin's profit for the year ended 31 March 2003? [Randall]

A $6 222 **B** $6 292 **C** $9 222 **D** $9 292

952 Data below relates to Ngwenya, a sole trader:

Details	**At beginning of year** $	**At end of year** $
Fixed assets	–	30 000
Revaluation profit	–	2 000
Current assets	–	20 000
Liabilities	–	4 000
Drawings	–	3 000
Capital	40 000	?

What is the profit made during the year? [J03Q07Z]

A $6 000 **B** $7 000 **C** $8 000 **D** $9 000

953 A retained loss appears on the Balance Sheet [Meigs & Ferrara]

A among the assets.
B among the liabilities.
C as a deduction from Income Statement.
D as a deduction from total paid-in capital.

954 The benefit of reversing entries is that they [Horngren, Harrison & Lemon]

A close out the balances in all the revenues and expenses.
B eliminate the need for adjusting entries.
C increase the amounts of assets and decrease the amounts of liabilities reported on the Balance Sheet.
D streamline the accounting for transactions in the period following an adjusting entry.

955 Reversing entries are dated at [Horngren, Harrison & Lemon]

A any date in the accounting period.
B the beginning of the next accounting period.
C the date on which the entry is made.
D the end of the current accounting period.

956 The reversing entry for a salary accrual is [Horngren, Harrison & Lemon]

A Salary Expense
    Cash

B Salary Expense
    Salary Payable

C Salary Payable
    Cash

D Salary Payable
    Salary Expense

957 Which of the following entries would be helpful to reverse? [Horngren, Harrison & Lemon]

1 Cash
  Interest Receivable
2 Interest Receivable
  Interest Revenue
3 Rent Expense
  Prepaid Rent
4 Supplies
  Supplies Expense

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

958 Which of the following accounts would be extended from Adjusted Trial Balance columns to Balance Sheet columns?

A Drawings – J. C. Smith **C** Rent Income
B Miscellaneous Expense **D** Utilities Expense [Fess & Warren]

959 The purpose of a post-closing Trial Balance is to [Horngren, Harrison & Lemon]

A aid the journalising and posting of the closing entries.
B ensure that the Ledger is in balance for completion of the Work Sheet.
C ensure that the Ledger is in balance for start of the next period.
D provide the account balances for the preparation of the Balance Sheet.

960 Which of the following accounts will appear on the post-closing Trial Balance? [Horngren, Harrison & Lemon]

A Buildings At Cost **C** Drawings
B Buildings Depreciation Expense **D** Service Revenue

961 Which of the following would **not** be included in the post-closing Trial Balance? [Fess & Warren]

A Accumulated Depreciation **C** Cash
B Capital – J. C. Smith **D** Fees Earned

962 The following debit balance appears on a Trial Balance at 31 December 2007 after the preparation of the company's annual accounts.

Stationery $8 000 [N00Q02C]

What is the stationery item?

A An accrual for stationery at 31 December 2007
B An amount due to the company's stationery supplier
C Stationery stock in hand at 31 December 2007
D The annual stationery charge for 2007

963 A debit balance on a Packing Materials Account means we [Wood & Allan]

A are owed for packing materials. **C** have lost money on packing material.
B have a stock of packing materials unused. **D** owe for packing materials.

964 A credit balance brought down on a Rent Account means we [Wood & Allan]

A have paid that rent in advance at that date. **C** have paid too much in rent.
B have paid too little in rent. **D** owe that rent at that date.

965 Which of the following is an example of off-Balance Sheet financing? [Horngren, Harrison & Lemon]

A Convertible loans **C** Finance lease
B Current portion of debenture loans **D** Operating lease

966 Which of the following is a method of 'window dressing' (creative accounting) financial statements? [Randall]

A Omitting an asset acquired on hire purchase.
B Overstating goodwill.
C Transferring a large amount to the general reserve.
D Writing off debts before they become bad.

967 What is an example of a method used to "window dress" financial statements? [J02E19C]

A Accepting orders from new, high-risk customers. **C** Delaying payments to suppliers.
B Anticipating profits on long-term contracts. **D** Having an excessive gearing ratio.

968 Which of the following is **not** found in the accounts of a club? [Randall]

A Accumulated Fund
B Balance Sheet
C Drawings Account
D Receipts and Payments Account

969 Which of the following is false? [Author]

A A Receipts and Payments Account is the equivalent of the Cash Book
B Accumulated fund is the equivalent of capital
C Excess of income over expenditure is the equivalent of net loss
D Income and Expenditure Account is the equivalent of Profit and Loss Account

970 Which of the following would appear in **both** the Receipts and Payments Account and in the Income and Expenditure Account of a cricket club? [J02Q14Z]

A Club bank balance
B Depreciation of club pavilion
C Purchase of motorised lawn mower
D Rent for the cricket ground

971 A Receipts and Payments Account is one [Wood & Allan]

A in which the opening and closing cash balances are shown.
B in which the profit is calculated.
C in which the surplus of income over expenditure is calculated.
D which is accompanied by a Balance Sheet.

972 An Income and Expenditure Account shows subscriptions amounting to $38 940. [J05Q06Z]

The following information relating to subscriptions is also given:

– Decrease in subscriptions received in advance $2 700;
– Subscriptions written off $250;
– Increase in subscriptions owing $1 780.

How much was recorded as a receipt in the Receipts and Payments Account?

A $34 210 **B** $37 770 **C** $39 610 **D** $43 670

973 The following information relates to a club for a year: [Randall]

Number of members	60
Annual subscription	$20
Subscriptions owing at beginning of year	$100
Subscription owing at end of year	$60

How much should be credited to the club's Income and Expenditure Account for annual subscriptions for the year?

A $1 100 **B** $1 160 **C** $1 200 **D** $1 260

974 Jingo Sports Club had the following balances in respect of subscriptions receivable: [N03Q12Z]

	1 January 2002	**31 December 2002**
	$	**$**
Subscriptions due	180	60
Subscriptions prepaid	130	50

If cash received during the year was $4 000, what was the income for the year?

A $3 960 **B** $4 000 **C** $4 040 **D** $4 050

975 The information about subscriptions in the books of a social club is given below: [J04Q05Z]

	$
Subscriptions due on 1 January 2003	3 000
Subscriptions in advance on 1 January 2003	2 340
Subscriptions received during the year	15 670
Subscriptions due on 31 December 2003	340

What is the income credited to Income and Expenditure Account for the year?

A $15 350 **B** $15 990 **C** $16 670 **D** $18 350

976 A social club whose year ends 31 December receives an annual donation from a company based on 50% of total membership fees due in that year. This donation is paid on 28 March of the following year.

The following is provided:

		$
Subscriptions received in Year	1	2 940
	2	3 180
Subscriptions outstanding in Year	1	60
	2	70

How much should be recorded in the Income and Expenditure Account in Year 2? [Prestige]

A $3 190 **B** $4 500 **C** $4 690 **D** $4 785

977 A club charges each of its 100 members an annual subscription of $12. At the end of a year, four of its members had not paid their annual subscription.

What will be the entries in the financial statements for subscriptions? [J04Q13C]

	Income and Expenditure Account	**Balance Sheet**
A	$1 152	Current asset $48
B	$1 152	Current liability $48
C	$1 200	Current asset $48
D	$1 200	Current liability $48

978 A club's records provide the following information for a year:

	$
Annual subscriptions received in the year	4 000
Annual subscriptions received in advance at end of year	50
Balance on Life Subscriptions Account at beginning of year	500
Life subscriptions received during the year	100

[Randall]

The club's policy is to credit life subscriptions to the Income and Expenditure Account over five years.

How much should be credited to the Income and Expenditure Account for subscriptions for the year?

A $4 050 **B** $4 070 **C** $4 150 **D** $4 170

979 A club's bar stocks as at 1 January 2007 cost $4 750. During the year ended 31 December 2007, cash receipts from customers of $34 450 were banked. Staff wages of $2 600 were paid from the till receipts. Bar purchases during the period were $26 200. All of the bar prices are fixed to give a uniform gross profit percentage of 40%.

What is the net profit on bar trading shown in the club's Income and Expenditure Account for 2007? [N00Q11C]

A $11 180 **B** $12 220 **C** $13 780 **D** $14 820

980 The following information for a year is extracted from a sports club's accounts:

	$
Subscriptions received	10 000
Sales of equipment to members	7 000
Opening stock of equipment	1 300
Closing stock of equipment	800
Purchases of equipment	5 000

What was the club's total income for the year? [Randall]

A $10 000 **B** $11 500 **C** $12 500 **D** $17 000

981 Which one of the following will an Income and Expenditure Account of a club or association show? [Prestige]

A Accumulated fund
B Deficit or surplus
C Income and expenses
D Receipts and payments

982 The following items are included in the Income and Expenditure Account **except** [N05Q13Z]

A a portion of life membership fee.
B donation for future skills development.
C net profit from bar sales.
D part of cost of equipment bought many years back.

983 The Journal entry 'Dr Subscriptions income, Cr Creditors' was made in accounting records of a club.

What does this represent? [Prestige]

A Subscriptions owed by members
B Subscriptions received by cheque
C Subscriptions received in advance
D Subscriptions refunded to members

984 When a club recognises subscriptions in arrears, which accounting concept is it following? [N04Q16Z]

A Accruals **B** Consistency **C** Going concern **D** Prudence

985 When preparing club accounts, the treatment of subscriptions in arrears as an asset contravenes the [N02Q09Z]

A accrual concept.
B consistency concept.
C materiality concept.
D prudence concept.

986 The inclusion of subscriptions in arrears as current assets in the club's Balance Sheet contravenes the [N06Q09Z]

A accruals concept. **B** materiality concept. **C** prudence concept. **D** realisation concept.

987 Life membership fees in club accounts are treated as [Randall]

A additions to accumulated fund.
B deferred income.
C income for the year they are received.
D loans to the club.

988 Tashinga Sports Club offers life membership for one lump-sum payment. [S03Q25Z]

The balance in the Life Membership Account is shown in the Balance Sheet as

A a current asset. **B** Accumulated Fund. **C** general reserve. **D** long-term liability.

989 A donation to a Young People's Sports and Recreational club to help build a new pavilion (common-room) is shown as [Randall]

A a special fund in the Balance Sheet.
B an addition to the accumulated fund.
C an asset in the Balance Sheet.
D income in the Income and Expenditure Account.

990 A donation to a writer's association intended for the extension of the association's building should be shown in the Balance Sheet as [N06Q11Z]

A a current liability.
B a fixed asset.
C a special fund.
D an increase in the accumulated fund.

991 Any donation received by a club for specific purpose is [J04Q07Z]

A credited to the Donations Special Fund Account.
B credited to the Income and Expenditure Account.
C debited to the Donations Special Fund Account.
D debited to the Income and Expenditure Account.

992 A club's surplus of income over expenditure for the year is represented by the [Randall]

A balance in its Accumulated Fund at the year end.
B increase in net assets over the year.
C increase in its total assets over the year.
D increase in the balance of the Receipts and Payments Account over the year.

993 If a club incurs excess of expenditure over income for a year, this is represented by [N02Q29Z]

A balance of its accumulated fund at the year end.
B increase in its total assets over the year.
C reduction in its net assets over the year.
D reduction in the balance of the Receipts and Payments Account for the year.

994 In the Balance Sheet of All Seasons Sports and Social Club at 31 December 2010, the Accumulated Fund represents the [Randall]

A assets of the club less liabilities at 31 December 2010.
B surplus of income over expenditure for the year.
C surplus of receipts over payments for the year.
D total assets for the club at 31 December 2010.

995 Muyamba Social Club had the following assets and liabilities as at 31 May 2010.

	$
Buildings	40 000
Pool tables	3 000
10% Debentures (investments)	4 500
Bar supplies unpaid	6 400
Subscriptions in advance	400
Bank overdraft	2 500

What is the club's accumulated fund? [J04Q32Z]

A $32 200 **B** $38 200 **C** $39 200 **D** $43 200

996 Which of the following is **not** a characteristic of most partnerships? [Meigs & Ferrara]

A Ease of formation **B** Limited liability **C** Limited life **D** Mutual agency

997 Which of these characteristics does **not** apply to a partnership? [Horngren, Harrison & Lemon]

A Mutual agency
C Unlimited liability
B No business income tax
D Unlimited life

998 The following apply to all partnerships **except** [Author]

A business privacy. **B** limited life. **C** separate entity. **D** unlimited liability.

999 Where there is no partnership agreement, then profits and losses must [Wood & Allan]

A be shared equally.
B be shared equally after adjusting for interest on capital.
C be shared in the same proportion as capitals.
D never be shared.

1000 Karl and Roberta agree to form a partnership. Karl is to contribute $50 000 in net assets and to devote one-half time to partnership. Roberta is to contribute $20 000 and to devote full time to partnership.

How should Karl and Roberta divide the profit or loss respectively? [Fess & Warren]

A 1:1 **B** 1:2 **C** 5:2 **D** 11:6

1001 In the absence of partnership agreement, the partners claim that they are:

1 entitled to interest on capitals at the rate of 8% per annum;
2 entitled to interest on loans to the firm at 5% per annum;
3 entitled to interest on loans to the firm at 8% per annum;
4 not entitled to interest on capital;
5 not entitled to interest on loans to the firm.

Which claims are correct? [Prestige]

A 1 and 2 **B** 2 and 4 **C** 3 and 4 **D** 4 and 5

1002 Where no partnership agreement exists, which of the following does **not** apply? [N02Q10Z]

A Partners' loans attract interest at the rate of 5% per annum.
B Profits and losses are to be shared according to the amount of capital invested.
C There is to be no interest on capital.
D There is to be no interest on drawings.

1003 A partnership records a partner's investment of assets in the business at [Horngren, Harrison & Lemon]

A a special value set by the partners.
B any amount, depending upon partnership agreement.
C the market value of the assets invested.
D the partner's book value of the assets invested.

1004 As part of the initial investment, a partner contributes office equipment that had a cost of $20 000 and on which accumulated depreciation of $12 500 has been recorded. [Fess & Warren]

If the partners agree on valuation of $9 000, what amount is debited to the Office Equipment Account?

A $7 500 **B** $9 000 **C** $12 500 **D** $20 000

1005 Periodic withdrawals by partners are best viewed as [Meigs & Ferrara]

A distribution of partnership assets to the partners.
B expense of doing business.
C payment for partners' personal services to the partnership.
D taxable income to the partners.

1006 A partner withdrew stock costing $10 000 for own use. [N03Q24Z]

What is the correct double entry used to record this transaction?

	Debit	**Credit**
A	Partner's Drawings Account	Purchases Account
B	Profit and Loss Account	Stock Account
C	Purchases Account	Partner's Drawings Account
D	Stock Account	Profit and Loss Account

1007 The correct Journal entry for recording partners' interest on loan is: [N05Q12Z]

	Debit	**Credit**
A	Profit and Loss Account	Capital Account
B	Profit and Loss Account	Current Account
C	Profit and Loss Appropriation Account	Capital Account
D	Profit and Loss Appropriation Account	Current Account

1008 Interest charged on partners' drawings should be [J00Q09C]

A credited to the Appropriation Account
B credited to the Profit and Loss Account
C debited to the Appropriation Account
D debited to the Profit and Loss Account

1009 In partnership accounts, interest on partners drawings should be [N07Q17Z]

A credited to Current Accounts.
B credited to Profit and Loss Account.
C debited to Current Accounts.
D debited to Profit and Loss Account.

1010 What is the double entry used to record interest due on partners' drawings? [N04Q12Z]

	Debit	**Credit**
A	Appropriation A/C	Current A/Cs
B	Current A/C	Appropriation A/C
C	Drawings A/C	Current A/C
D	Drawings A/C	Interest Payable A/C

1011 Which of the following best describes the nature of salary and interest allowances in a partnership profit and loss sharing agreement? [Meigs & Ferrara]

A A means of determining reasonable monthly withdrawals by each partner.
B A means of distributing net profit in relation to services rendered and capital invested by partners
C Expenses of the business, which should be deducted from revenue in determining net profit.
D The amount upon which each partner will pay personal income tax.

1012 What appears as a credit side entry in a partnership Appropriation Account? [Prestige]

A Goodwill **B** Interest on capital **C** Net trading profit **D** Partners' salaries

1013 Which of the following is **not** an appropriation of profit? [Prestige]

A Partner's interest on Current Account
B Partner's interest on loan
C Partner's salary
D Partner's share of profit

1014 Which is **not** an appropriation of profit? [J01C15C]

A Partner's interest on capital
B Partner's interest on drawings
C Partner's interest on loan
D Partner's share of profit

1015 A partnership maintains fixed Capital Accounts and Current Accounts for its partners. [Prestige]

What is the correct accounting entry for recording interest on capital for partner **X**?

	Debit	**Credit**
A	Profit and Loss Appropriation Account	**X**'s Capital Account
B	Profit and Loss Appropriation Account	**X**'s Current Account
C	**X**'s Capital Account	Profit and Loss Appropriation Account
D	**X**'s Current Account	Profit and Loss Appropriation Account

1016 A partnership Profit and Loss Appropriation Account may show interest on capitals, profit shares, [Randall]
A interest on drawings and interest on partners' loans.
B interest on drawings and partners' salaries.
C interest on drawings, goods taken by partners for own use and partners' salaries.
D partner's drawings and partners' salaries.

1017 Amos and Bead are in partnership. Their capitals are fixed by agreement and Current Accounts are maintained for them in the partnership books. They are allowed interest on capitals and are charged an interest on their drawings.

At the end of the year, the following Journal entries will be made [Randall]
A credit Appropriation Account and debit partners' Current Accounts with interest on capitals and drawings.
B credit Appropriation Account with interest on drawings and debit it with interest on capitals; credit interest on capitals and debit interest on drawings to their Current Accounts.
C credit Appropriation Account with interest on drawings and debit it with interest on capitals; credit interest on capitals to partners' Capital Accounts and debit interest on drawings to their Current Accounts.
D debit Appropriation Account and credit partners' Current Accounts with interest on capital and drawings.

1018 Given the following facts, what profit figure is to be appropriated between the partners? [J99Q13C]

	$000
Net profit before interest	15
Interest on partners' loan to the firm	1
Interest on Capital Accounts	2
Drawings	10

A $3 000 **B** $13 000 **C** $14 000 **D** $15 000

1019 Information from Tee Pee partnership's accounts is shown below:

	$
Net loss before interest	12 460
Interest on partner's loan to the firm	2 000
Interest on Capital Accounts	1 000
Drawings	7 000

Which loss figure is to be appropriated between partners? [J04Q16Z]
A $9 460 **B** $12 460 **C** $14 460 **D** $15 460

1020 A partnership of Lane, Murdock and Nu divides profits in the ratio 4:5:3. During the year 2010, the business earned $40 000. [Horngren, Harrison & Lemon]

Nu's share of this income is
A $10 000. **B** $13 333. **C** $16 000. **D** $16 667

1021 Cruz and Peci invest $100 000 and $50 000 respectively in a partnership and agree to a division of net profit that provides allowance of interest at 10% on original investments, salary allowances of $12 000 and $21 000 respectively, with the remainder being shared equally.

What would be Cruz's share of the periodic net profit of $68 000? [Fess & Warren]
A $10 000 **B** $15 000 **C** $20 000 **D** $25 000

1022 If Thomas, Valik and Wollenberg shared profits in the ratio 4:5:3 and made a loss of $40 000, Valik's share of this loss is [Horngren, Harrison & Lemon]
A $10 000. **C** $13 333. **C** $16 000. **D** $16 667

1023 McMillan, Bronson and Skydome are in partnership, sharing profits or losses in the ratio 2:2:1. McMillan is allowed an annual salary of $170 000. Bronson has made a loan to the partnership on which the partnership pays an interest of $85 000 each year. Profit for year before appropriations is $2 550 000.

What is Skydome's total appropriation of profit for the year? [Prestige]
A $459 000 **B** $476 000 **C** $493 000 **D** $510 000

1024 Stump and Bail are in partnership. Stump has lent the partnership $10 000 on which he is entitled to interest at 10%. He is also entitled to a salary of $12 000 per annum. The profits and losses are shared equally. The partnership made a net loss of $25 000.

How much is Stump's share of the loss? [Randall]

A $6 000 **B** $6 500 **C** $18 500 **D** $19 000

1025 Cue and Rest are partners sharing profits and losses in the ratio of 2:1. They are allowed interest at 10% per annum on capitals and loans to the partnership. Net profit for the year is $40 000.

Other information is as follows:

	Cue	Rest
	$	**$**
Capitals	20 000	8 000
Loan to firm	3 000	–

How much is Cue's total share of profit? [Randall]

A $24 800 **B** $25 100 **C** $26 800 **D** $27 100

1026 Gohl and Poast are partners sharing profits and losses equally. Gohl has lent the partnership $8 000 on which he is entitled to an interest of 10% per annum. The partners are entitled to annual salaries as follows: Gohl $6 000; Poast $4 000. The partnership made a profit of $17 800.

How much is Gohl's share of the profit? [Randall]

A $3 500 **B** $3 900 **C** $8 500 **D** $9 300

1027 Chato and Domic are in a partnership sharing profits and losses in the ratio 2:1. For one year, net profit was $30 000.

Other information for that year was as follows:

	Chato	Dominic
	$	**$**
Interest on drawings	500	400
Interest on capital	1 200	800
Salary	–	4 000

The balance of profit will be shared: Chato [Randall]

A $15 400, Dominic $7 700. **C** $23 400, Dominic $11 700.
B $16 600, Dominic $8 300. **D** $24 600, Dominic $12 300.

1028 Mary and Anne are partners in a business and share profits in the ratio 3:1, their net profit is $80 000.

	Mary	**Anne**
	$	**$**
Interest on capitals	3 000	2 500
Interest on drawings	500	1 000

How will the residual net profit be shared? [Prestige]

A Mary $57 000 and Anne $19 000 **C** Mary $59 500 and Anne $20 500
B Mary $58 875 and Anne $21 125 **D** Mary $60 500 and Anne $19 000

1029 Elif and Fahdi, partners in a firm, divided profits and losses in the ratio 2:1. The year's profit is $63 000.

Additional data is as follows:

	Elif	Fahdi
	$	**$**
Interest on loan to firm	900	–
Interest on capital	2 000	1 500
Salary	–	10 000

The balance of profit will be shared: [Randall]

A Elif $16 500, Fahdi $33 000. **C** Elif $37 066, Fahdi $18 534.
B Elif $33 000, Fahdi $16 500. **D** Elif $37 617, Fahdi $18 833.

1030 The following information relates to a partnership of Dube and Moyo for the year ended 30 June 2007:

	Dube	**Moyo**
	$	**$**
Interest on capital	1 200	800
Interest on drawings	440	360
Salary	3 000	–
Loan interest	500	–
Profit sharing ratio	$^3/_5$	$^2/_5$

If the net trading profit was $10 000, the profit share for each partner was [N02Q28Z]

A Dube $2 220, Moyo $1 480 **C** Dube $3 480, Moyo $2 320
B Dube $2 520, Moyo $1 680 **D** Dube $4 980, Moyo $3 320

1031 Chirwa and Mafigu are partners in a partnership sharing profits in the ratio 3:2. For the year ended 31 December 2004, the net profit was $100 000.

Additional information is as follows:

	Chirwa	Mafigu
	$	**$**
Interest on capital	4 400	5 000
Interest on drawings	1 000	1 400
Salary	30 000	
Drawings	3 000	2 000
Interest on loan to the firm		2 000

The balance of the profit will be shared as: [N05Q3Z]

	Chirwa	Mafigu		Chirwa	Mafigu
A	$34 800	$23 200	**C**	$37 800	$27 200
B	$37 800	$25 200	**D**	$39 000	$26 000

1032 Leo, Mac and Nick are in a partnership sharing profits in the ratio 3:2:1. Leo is entitled $1 200 interest on a loan to the firm. Nick is guaranteed a minimum profit share $8 000.

When profit is $47 000, the profit shares would be [Randall]

A Leo $18 900, Mac $12 600, Nick $8 000. **C** Leo $22 680, Mac $15 120, Nick $8 000.
B Leo $19 500, Mac $13 000, Nick $8 000. **D** Leo $23 400, Mac $15 600, Nick $8 000.

1033 Chipo, Rudo and Shingai are in partnership, sharing profits and losses in the ratio of 4:3:3 respectively. Shingai is guaranteed a minimum profit share of $8 000.

You are given the following information: Profit before interest on loan $20 000
Loan interest $5 000

What is the profit share to be received by each partner? [J03Q09Z]

	Chipo	Rudo	Shingai		Chipo	Rudo	Shingai
A	$2 800	$2 100	$10 100	**C**	$4 000	$8 000	$8 000
B	$4 000	$3 000	$8 000	**D**	$6 000	$4 500	$4 500

1034 If it is required to maintain fixed capitals, then the partners' shares of profit must be [Wood & Allan]

A credited to partners' Capital Accounts. **C** debited to partners' Capital Accounts.
B credited to partners' Current Accounts. **D** debited to partners' Current Accounts.

1035 The following Appropriation Account for a partnership contains one error:

		$	$	
Profit as per Profit and Loss Account			18 861	
Interest on capital:	Able	1 000		
	Baker	500	1 500	17 361
Salary: Able				900
Balance of profit				18 261
Share of profit:	Able		12 174	
	Baker		6 087	18 261

What would be Able's share of balance of profit, when the error is corrected? [N96Q15C]

A 10 974 **B** $11 574 **C** $12 974 **D** $14 074

1036 Kudzi and Tatenda are in a partnership sharing profits and loses in the ratio 3:2. Interest on capital is allowed at 10% per annum and interest on drawings is charged at the same rate.

Details for the year whose net profit is $8 000 are: [S03Q26Z]

	Kudzi	Tatenda
	$	$
Capital Account	30 000	30 000
Current Accounts, at the beginning of the year	10 000 Cr.	15 000 Dr.
Drawings for the year	20 000	25 000

After taking the above into accounts, the balance on Tatenda's Current Account is

A $6 900 Dr. **B** $21 900 Dr. **C** $36 700 Dr. **D** $36 900 Dr.

1037 Assets can be revalued in a partnership change because [Wood & Allan]

A depreciation charged need to be reversed.
B inflation affects all values.
C it helps prevent injustice to some partners.
D the law insists upon it.

1038 In a partnership business, profit on revaluation should be [J04Q08Z]

A credited to Capital Accounts.
B credited to Current Accounts.
C debited to the Capital Accounts.
D debited to the Current Accounts.

1039 Any loss on revaluation in a partnership is [Wood & Allan]

A credited to new partners in new profit-sharing ratios.
B credited to old partners in old profit-sharing ratios.
C debited to new partners in new profit-sharing ratios.
D debited to old partners in old profit-sharing ratios.

1040 What is the correct double entry for recording the loss arising from the revaluation of a partnership's fixed assets? [N03Q26Z]

	Debit	Credit		Debit	Credit
A	Capital A/Cs	Revaluation A/C	**C**	Revaluation A/C	Capital A/Cs
B	Current A/Cs	Revaluation A/C	**D**	Revaluation A/C	Current A/Cs

1041 Dickens and Chaucer are in a partnership sharing profits and losses equally. They admit Swift as a partner. A revaluation of the firm's net assets at the same date shows a loss on revaluation of $52 000. The new profit sharing is Dickens $^2/_5$, Chaucer $^2/_5$ and Swift $^1/_5$.

The revaluation of the assets will be recorded in the books as [Randall]

A increases on the balances on Dickens and Chaucer's Capital Accounts.
B increases on the balances on Dickens and Chaucer's Capital Accounts and a reduction in Swift's capital.
C reductions in the balances on Dickens and Chaucer's Capital Accounts.
D reductions in the balances on Dickens and Chaucer's Capital Accounts and an increase in Swift's capital.

1042 Prior to Hogg's withdrawal from the partnership comprising Hogg, Hamm and Bacon, the partner's capital balances were $140 000, $110 000 and $250 000 respectively. The partners share profits and losses in the ratio $^1/_3$, $^1/_4$ and $^5/_{12}$. The appraisal indicates that assets should be written down by $36 000.

Hamm's share of the write-down is [Horngren, Harrison & Lemon]

A $7 970. **B** $9 000. **C** $12 000. **D** $18 000.

1043 **L** and **M** are in partnership sharing profits and losses in the ratio 3:2. They admit **N** as a partner on 1 January. On the same date the partnership net assets are revealed and show a loss on revaluation of $40 000. The new profit sharing ratio is: **L** $^2/_5$, **M** $^2/_5$, **N** $^1/_5$.

How will the revaluation of the net assets be recorded in the partner's Capital Accounts? [Randall]

	Capital Accounts		
	L	M	N
A	Credit $16 000	Credit $16 000	Credit $8 000
B	Credit $24 000	Credit $16 000	–
C	Debit $16 000	Debit $16 000	Debit $8 000
D	Debit $24 000	Debit $16 000	–

1044 The coming together of two or more businesses of sole proprietors and partnerships to form a single business entity this is called [Author]

A amalgamation. **B** consolidation. **C** joint venture. **D** merger.

1045 **X** and **Y** are sole traders. On 1 October 2007, they agreed to form a partnership which will take over the assets of the separate businesses.

At 30 September 2007, the following information was available:

	X	Y
	$000	**$000**
Goodwill	75	60
Machinery	125	90
Stock and trade debtors	40	15
Cash at bank (bank overdraft)	50	(20)

What were the total tangible assets taken over by the partnership? [Prestige]

A $300 000 **B** $320 000 **C** $435 000 **D** $455 000

1046 How much are the net separable assets of the new partnership formed by Felix and Oliver, sole traders who combined their businesses at agreed valuations of $800 000 ($200 000 goodwill) and $500 000 ($100 000 negative goodwill) respectively? [Author]

A $1 000 000 **B** $1 200 000. **C** $1 300 000. **D** $1 400 000.

1047 The summarised Balance Sheet for F and G in partnership is given:

	$			$
Goodwill	12 000	Capital Accounts:	F	24 000
Net assets	28 800		G	16 800
	40 800			40 800

F and G have previously shared profits and losses in the ratio 2:1 but have now decided to change the ratio to 3:2. Goodwill is to be revalued and shown in the Balance Sheet at $30 000.

What is the new balance on F's Capital Account? [Randall]

A $23 800 **B** $24 000 **C** $34 800 **D** $36 000

1048 Holly and Ivy have been in partnership for some years sharing profits and losses equally. They admit Berry as a partner and adjust the profit sharing ratio to Holly $^2/_5$, Ivy $^2/_5$ and Berry $^1/_5$. Goodwill is valued at $36 000 but no Goodwill Account is to be kept in the books.

Adjustments for goodwill in the firm's books will be [Randall]

A credit Berry's Capital Account with $7 200 and debit the Capital Accounts of Holly and Ivy with $3 600 each.
B credit the Capital Accounts of Holly and Ivy with $3 600 each and debit Berry's Capital Account with $7 200.
C debit Berry's Current Account with $7 200 and credit the Current Accounts of Holly and Ivy with $3 600 each.
D debit the Current Accounts of Holly and Ivy with $3 600 each and credit Berry's Current Account with $7 200.

1049 J and K are partners sharing profits and losses equally. They do not record goodwill in the firm's books. [Randall]

L joins the partnership, paying $24 000 for his share of goodwill. Profits and losses are shared equally between J, K and L.

Which of the following shows the increases in the partners' accounts on the admission of L as partner?

	Goodwill	**Cash**	**Capital Accounts**		
			J	**K**	**L**
	$	**$**	**$**	**$**	**$**
A	–	24 000	4 000	4 000	–
B	–	24 000	8 000	8 000	8 000
C	–	72 000	12 000	12 000	–
D	24 000	72 000	12 000	12 000	–

1050 **X** and **Y** are partners in business and share the profits and losses equally. They decided to admit **Z** as a partner. The new profit sharing ratio between **X**, **Y** and **Z** is to be 3:2:1. Goodwill valued at $24 000 is **not** to be retained in the firm's books.

What will be the goodwill adjustments in the partners' Capital Accounts? [J00Q17C]

	Debit			**Credit**		
	X	**Y**	**Z**	**X**	**Y**	**Z**
	$	**$**	**$**	**$**	**$**	**$**
A	8 000	8 000	8 000	12 000	8 000	4 000
B	12 000	8 000	4 000	8 000	8 000	8 000
C	12 000	8 000	4 000	12 000	12 000	Nil
D	12 000	12 000	Nil	12 000	8 000	4 000

1051 Shoko and Shumba have been in partnership for many years sharing profits and losses in the ratio 2:1. They admit Shava as a partner and adjust the profit and loss sharing ratios to Shoko $^4/_7$, Shumba $^2/_7$ and Shava $^1/_7$. Goodwill is valued at $42 000 but no Goodwill Account is to be kept in the books.

Adjustments for goodwill in the firm's books should be [N02Q11Z]

	Debit			**Credit**		
	Shoko	**Shumba**	**Shava**	**Shoko**	**Shumba**	**Shava**
	$	**$**	**$**	**$**	**$**	**$**
A	14 000	14 000	14 000	24 000	12 000	6 000
B	24 000	12 000	6 000	14 000	14 000	14 000
C	24 000	12 000	6 000	28 000	14 000	Nil
D	28 000	14 000	Nil	24 000	12 000	6 000

1052 Kamba, Mambo and Tambo are in partnership sharing profits in the ratio 4:3:2. A new partner, Sambo, is to be admitted. Sambo is to bring $5 000 000 cash as capital. Goodwill is agreed at $900 000. The new profit sharing ratio is 4:3:2:1.

The Journal entry to eliminate Goodwill Account is

			$	**$**
A	Capital:	Kamba	360 000	
		Mambo	270 000	
		Tambo	180 000	
		Sambo	90 000	
	Goodwill			900 000
B	Capital:	Kamba	400 000	
		Mambo	300 000	
		Tambo	200 000	
	Goodwill			900 000
C	Goodwill		900 000	
	Capital:	Kamba		360 000
		Mambo		270 000
		Tambo		180 000
		Sambo		90 000
D	Goodwill		900 000	
	Capital:	Kamba		400 000
		Mambo		300 000
		Tambo		200 000

1053 Archer, Belloc and Conrad were in a partnership sharing profits and losses in the ratio 3:2:1. Conrad retired but Archer and Belloc remained partners sharing profits equally.

The entries in the firm's books to record the adjustment of goodwill will be [Randall]

A credit Capital Accounts of Archer and Belloc with $450 each and debit Conrad's Capital Account with $900.
B credit Capital Accounts of Archer and Belloc with $450 each and debit Conrad's Capital Account with $900.
C debit Belloc's Capital Account with $900 and credit Conrad's Capital Account with $900.
D debit Conrad's Capital Account with $900 and credit Belloc's Capital Account with $900.

1054 **X** and **Y** are partners sharing profits equally. On the admission of **Z** as a partner, goodwill is agreed at $18 000 and they agree to share the profits equally.

What is the effect of this change on the Capital Account balance of **X**? [N00Q14C]

A Decrease $3 000 **B** Decrease $6 000 **C** Increase $3 000 **D** Increase $6 000

1055 Chuma and Dube are partners sharing profits equally. On the admission of Zebra as partners, goodwill is valued at $60 000. In the new partnership, the profits will be shared equally. No Goodwill Account will be maintained in the books.

What is the effect of this change on the Capital Account balance of Chuma? [N05Q24Z]

A $10 000 decrease **B** $10 000 increase **C** $20 000 increase **D** $30 000 increase

1056 **S** and **T** are partners sharing profits and losses in the ratio 1:2. They admit **V** as a partner and revise the profit-sharing ratio to: **S** $^2/_5$; **T** $^2/_5$; **V** $^1/_5$. The goodwill is valued at $60 000 but no goodwill is to be recorded in the books.

Which entries will be made in the partners' Capital Accounts? [Randall]

	Capital Accounts		
	S	**T**	**V**
A	Credit $4 000	Debit $16 000	Credit $12 000
B	Credit $24 000	Credit $24 000	Debit $48 000
C	Debit $4 000	Credit $16 000	Debit $12 000
D	Debit $24 00	Debit $24 000	Credit $48 000

1057 A Balance Sheet for a partnership is given below:

	$			$
Goodwill	5 000	Capital Account:	Partner **X**	10 000
Net assets	12 000		Partner **Y**	7 000
	17 000			17 000

X and **Y** have shared profits in ratio 3:2. They now wish to change the profit-share ratio to 2:1. Goodwill is revalued to $10 000 and remains in the Balance Sheet at this value.

What is the new Capital Account balance of partner **X**? [N01Q11C]

A $9 000 **B** $10 000 **C** $13 000 **D** $13 333

1058 Two partners, **X** and **Y**, each with a Capital Account of $10 000 and sharing profits and losses equally, agree to admit **Z** to the partnership, with profits and losses continuing to be shared equally. Goodwill is valued at $15 000 but is not to be retained in books.

What will be the balance on **X**'s Capital Account after the admission of **Z**? [N99Q12C]

A $10 000 **B** $12 500 **C** $15 000 **D** $17 500

1059 Chipo and John are in partnership, sharing profits and losses equally. Chipo's capital is $9 000 and John's capital is $8 000. They agree to admit Zenzo as a new partner and to share profits and losses equally. Goodwill is valued at $18 000, but is not to be shown in the accounts.

What is John's new Capital Account balance? [N07Q30Z]

A $5 000 **B** $11 000 **C** $14 000 **D** $17 000

1060 Box, Match and Better are in partnership and share profits in the ratio 2:1:1.

Their Capital Accounts on 31 December 2007 showed the following balances:

	$
Box	204 500
Match	119 600
Better	137 100

Box decides to retire and his share of goodwill is $80 000. Goodwill is not to be shown in the Balance Sheet of the business.

What is Match's new capital balance after goodwill adjustment? [J05Q20Z]

A $79 600 **B** $99 600 **C** $139 600 **D** $159 600

1061 Abel and Ben are sharing profits and losses equally. They contributed capital of $60 000 each. Cain is admitted as a new partner. After admission of Cain, profits and losses will be shared equally. Goodwill is valued at $90 000. Cain contributed $80 000 in cash including share of goodwill.

What is the balance of Abel's Capital Account after the admission of Cain? [S03Q10Z]

A $45 000 **B** $60 000 **C** $75 000 **D** $105 000

1062 Ndoro and Mhako are in partnership sharing profits and losses equally. They each contributed capital of $56 000 and have agreed to admit Sadza to the partnership. Profits and losses to be shared in the ratio 2:2:1 respectively. Goodwill is valued at $30 000 but is not to be retained in the books.

What will be the balance on Ndoro's Capital Account after the admission of Sadza? [J04Q21Z]

A $56 000 **B** $59 000 **C** $65 000 **D** $71 000

1063 Nkomo and Muleya were in a partnership sharing profits and losses equally.

Their Balance Sheet extract as at 31 December 2005 was as follows:

	Nkomo	**Muleya**	**Total**
Equity	**$**	**$**	**$**
Capital Accounts	64 000	64 000	128 000
Current Accounts	60 000	20 000	80 000
			208 000

The partners agreed to share profits and losses as from 1 January 2006 between Nkomo and Muleya in the ratio 3:2 respectively. Goodwill was valued at $50 000.

If Goodwill Account is not kept in partnership books, what are the balances in their Capital Accounts? [N06Q30Z]

	Nkomo	**Muleya**		**Nkomo**	**Muleya**
A	$59 000	$69 000	**C**	$89 000	$89 000
B	$69 000	$59 000	**D**	$94 000	$84 000

1064 Placido, Quinn and Rolfe share profits and losses $^1/_5$, $^1/_6$ and $^{19}/_{30}$. During 2003, the first year of their partnership, the business earned $120 000 and each partner withdrew $50 000 for personal use.

What is the balance in Rolfe's Capital Account after all closing entries? [Horngren, Harrison & Lemon]

A ($10 000) **B** $26 000 **C** $70 000 **D** Not determinable

1065 **P**, **Q** and **R** were partners, sharing profits and losses equally. **P** retired while **Q** and **R** continued in the partnership sharing profits and losses equally. Goodwill valued at $60 000 but not shown in the books.

Which entries will record the adjustments for **P**'s retirement in the books? [Randall]

	Capital Accounts		
	P	**Q**	**R**
A	–	Credit $10 000	Credit $10 000
B	–	Credit $30 000	Credit $30 000
C	Credit $20 000	Debit $10 000	Debit $10 000
D	Debit $20 000	Credit $10 000	Credit $10 000

1066 Brian and Chipo, having shared profits and losses equally, admitted Zenzo to their partnership on May 1 2003. Thereafter, the profit sharing ratio was to be: Brian $^1/_2$, Chipo $^1/_3$ and Zenzo $^1/_6$.

Zenzo paid $10 000, of which $6 000 was for fixed capital. The goodwill of the business was valued at $12 000 and was not to appear in the Balance Sheet. [N03Q05Z]

What is the balance on Zenzo's Current Account after the entries for his admission have been made?

A $2 000 credit **B** $2 000 debit **C** $3 000 credit **D** Nil

1067 Dube and Mpofu were partners sharing profits in the ratio 3:1. Mpofu decides to leave the partnership. His Capital Account balance is $20 000 and his Current Account has a credit balance of $200. Goodwill is estimated to be $4 000 and is not recorded in the books.

The amount due to Mpofu is [N04Q11Z]

A $19 800. **B** $20 200. **C** $20 800. **D** $21 200.

1068 **X**, **Y** and **Z** are in business sharing profits in the ratio 3:2:1. At the end of the year, the balance on **Y**'s Capital Account is $39 400.

Y retires at the end of the year and, to determine his settlement, the assets are revalued upwards by $57 000. The partnership does not account for goodwill.

If **Y** takes a car valued at $4 800 as part of his settlement, what is the balance remaining on his Capital Account to be settled in cash? [N99Q18C]

A $39 400 **B** $44 400 **C** $53 600 **D** $59 000

1069 Closing the business, selling the assets, paying the liabilities and disbursing the remaining balance to the owners is called [Horngren, Harrison & Lemon]

A dissolution. **B** incorporation. **C** liquidation. **D** withdrawal.

1070 When a partnership is dissolved the net profit on dissolution is debited to [N02Q12Z]

A partners' Capital Accounts and credited to Realisation Account.
B partners' Current Accounts and credited to Realisation Account.
C Realisation Account and credited to partners' Capital Accounts.
D Realisation Account and credited to partners' Current Accounts.

1071 Graff and Harrell shared profits and losses equally. Immediately prior to the final cash disbursement in a liquidation of their partnership, the books show:

Cash	=	Liabilities	+	Graff Capital	+	Harrell Capital
$100 000		$0		$60 000		$40 000

How much cash should Graff receive? [Horngren, Harrison & Lemon]

A $40 000 **B** $50 000 **C** $60 000 **D** $100 000

1072 Sommers and C. Tibbs share profits and losses in the ratio 2:1. After selling all assets for cash, dividing losses on realisation and paying liabilities, the balances in the Capital Accounts are: Sommers $10 000 and C. Tibbs $2 000.

How much of the cash of $12 000 would be distributed to Sommers? [Fess & Warren]

A $2 000 **B** $8 000 **C** $10 000 **D** $12 000

1073 When a partnership is sold to a limited company, the Journal entries made using value of assets taken over to close partnership books are: [J03Q14Z]

	Debit	Credit		Debit	Credit
A	Asset Account	Realisation Account	**C**	Realisation Account	Asset Account
B	Asset Account	Revaluation Account	**D**	Revaluation Account	Asset Account

1074 Which of the following statements is applicable to both corporations and single proprietorships? [Meigs & Ferrara]

A A distribution of cash to the owner(s) reduces ownership equity, but is not considered an expense of the business.
B Revenue and expense accounts are closed into Income Statement, which is then closed to Retained Earnings Account.
C The Balance Sheet shows the entire ownership equity as a single dollar amount.
D The Income Statement shows the income tax expense.

1075 The person with the most power in a company is the [Horngren, Harrison & Lemon]

A chairperson. **B** incorporator. **C** president. **D** shareholder.

1076 Which one is **not** a characteristic of the corporate form of organisation? [Meigs & Ferrara]

A Centralised authority **C** Limited liability of shareholders
B Continuous existence **D** Mutual agency.

1077 Which one is a disadvantage of corporate form of business organisation? [Horngren, Harrison & Lemon]

A Government regulation **C** No mutual agency
B Limited liability of shareholders **D** Transferability of ownership

1078 Private limited companies may **not** [Randall]

A issue bonus shares. **C** make a rights issue.
B issue debentures. **D** offer its shares to the public.

1079 Which event does **not** require entries in the company's Ledger accounts? [J00Q28C]
A A bonus issue of shares
B A rights issue of shares
C A sale by a shareholder of shares at a price above nominal value
D An issue of the company's shares at a price above nominal value

1080 A shareholder sold 1 000 ordinary shares of $1 for $1 500.
What effect will this have on the share capital of the company? [Randall]
A It will decrease by $1 000. **C** It will increase by $1 500.
B It will decrease by $1 500. **D** It will remain unchanged.

1081 A shareholder sells his shares to another person. [N99Q15C]
What is the effect of the Share Capital Account of the company?
A It is increased by any premium paid for the shares.
B It is increased by the selling price of the shares.
C It is reduced by the value of shares sold.
D It remains unaltered.

1082 When a shareholder sells some shares for more than s/he paid for them, what will happen to the share capital of the company? [J01C20C]
A It will remain the same as before.
B It will rise by the amount received from the sale of the shares.
C It will rise by the nominal value of the shares sold.
D It will rise by the sales proceeds of the shares sold.

1083 When a shareholder sells some shares for less than s/he paid for them, what will happen to the share capital of the company? [N01Q14C]
A It will fall by the nominal value of the shares sold.
B It will fall by the sales proceeds of the shares sold.
C It will increase by the amount received from the sale of the shares.
D It will remain the same as before.

1084 Which of the following are **not** capital instruments? [N99Q22C]
A Debentures **C** Shares
B Share options **D** Title deeds to freehold property

1085 The following are capital instruments **except** [J07Q28Z]
A debentures. **C** shares.
B share options. **D** title deeds to freehold property.

1086 Which if the following items is **not** an example of a capital instrument (stock investment)? [N03Q21Z]
A Debentures issued **B** Ordinary shares **C** Preference dividends **D** Preference shares

1087 Which of the following are **not** debt securities? [Author]
A Convertible loan stock **C** Preference shares
B Debentures **D** Ordinary shares

1088 Which is the safest form of investment in a limited company? [Randall]
A Long-dated debentures **C** Preference shares
B Ordinary shares **D** Short dated debentures

1089 The dollar amount of the shareholder investments in a company is called [Horngren, Harrison & Lemon]
A capital stock. **B** equity. **C** outstanding stock. **D** retained profits.

1090 What is *convertible loan stock*? [J04Q13Z]
A A loan which can be en-cashed at any time.
B A loan which may be exchanged for shares at a future date.
C Goods lent to a company.
D Preference shares which may be converted into ordinary shares.

1091 *Convertible loan stock* is the term used for [Randall]

A a loan which can be converted into cash anytime.
B a loan which may be exchanged for shares at a future date on predetermined terms.
C goods lent to the company for resale.
D preference shares that may be converted into ordinary shares.

1092 A company's convertible loan stock will be converted to ordinary shares on 1 July 2009.

Under which heading should the company that has issued the convertible loan stock, show the stock in its Balance Sheet at 31 December 2008? [J98Q21C]

A Authorised capital
B creditors: amounts falling due after more than one year.
C creditors: amounts falling due within one year.
D issued share capital.

1093 A company's convertible loan stock will be converted to ordinary shares on 1 January 2010.

The convertible loan stock should be show the Balance Sheet at 31 December 2007 as [J07Q26Z]

A authorised capital.
B creditors: amounts falling due after more than one year.
C creditors: amounts falling due within one year.
D issued share capital.

1094 CBC Inc has 10 000 5% preference shares of $55 each and 10 000 ordinary shares of $5 each. Each preference share is converted into 10 ordinary shares. [Horngren, Harrison & Lemon]

The entry to record the conversion of these preference shares into ordinary shares is

		$	$
A	5% Preference Share Capital	550 000	
	Ordinary Share Capital		500 000
	Share Premium		50 000
B	Cash	550 000	
	5% Preference Share Capital		50 000
	Ordinary Share Capital		500 000
C	Cash	550 000	
	Ordinary Share Capital		500 000
	Share Premium		50 000
D	Ordinary Share Capital	550 000	
	5% Preference Share Capital		500 000
	Share Premium		50 000

1095 Which of the following is required by FRS 4, *Capital Instruments*, to be disclosed by way of note to the accounts? [Randall]

A Basis on which depreciation has been calculated
B Exceptional items
C Number of shares held by directors
D Reason for any issue of shares during the year

1096 When an investor is buying a capital instrument, the value of most direct concern is [Horngren, Harrison & Lemon]

A book value. **B** liquidation value. **C** market value. **D** par value.

1097 Company formation (organisation) cost is classified as [Horngren, Harrison & Lemon]

A current asset.
B intangible fixed asset.
C operating expense.
D tangible fixed asset.

1098 The 'Financed By' section of the Balance Sheet include the following **except** [Fess & Warren]

A asset replacement reserve.
B convertible loan stock.
C ordinary share capital.
D preference share capital.

1099 The unique rights that attach to a share of stock are defined by the [Horngren, Harrison & Lemon]

A Articles of Association.
B Certificate of Incorporation.
C Companies Act 24:03.
D Generally Accepted Accounting Principles.

1100 What is the meaning of a company's 'authorised share capital'? [N98Q27C], [N01Q28C]
- **A** The maximum amount that is permitted to borrow.
- **B** The maximum nominal value of shares it is permitted to issue.
- **C** The nominal value of ordinary shares and preference shares in issue.
- **D** The total of the shareholders' funds.

1101 Which statement is true for a company with an authorised capital of $800 000? [Prestige]
- **A** The company must issue $800 000 in shares.
- **B** The company must not issue more than 800 000 in shares.
- **C** The shares and debentures issued must not exceed $800 000.
- **D** The shares issued must not exceed $800 000.

1102 The issued capital of the company is [Wood & Allan]
- **A** always the same as the authorised capital.
- **B** equal to the reserves of the company.
- **C** greater than or equal to authorised capital.
- **D** less than or equal to authorised capital.

1103 A company's Balance Sheet includes the following extract:

		$000
Authorised share capital		10 000
Issued share capital:	2 million ordinary shares of $1 each	2 000
	2 million 5% preference shares of $1 each	2 000
Reserves:	Share premium	2 000
	General	400
	Profit and loss	1 000

What is the maximum number of shares that could be legally issued? [J99Q17C]
- **A** 2 500 000
- **B** 2 600 000
- **C** 6 000 000
- **D** $7 400 000

1104 What is the effect of issuing new ordinary shares in the short run? [J05Q11Z]
- **A** Decrease authorised share capital
- **B** Decrease earnings per share
- **C** Increase authorised share capital
- **D** Increase earnings per share

1105 Which of the following statements is **not** true? [J04Q25Z]
- **A** A share must have a face value.
- **B** Authorised share capital is higher or the same as issued share capital.
- **C** Shares can be issued at a discount or premium.
- **D** There are only two classes of share capital.

1106 Which statement is true about debentures and ordinary shares? [Prestige]

	Debentures	**Ordinary shares**
A	can be issued at a premium	are never issued at a premium
B	holders are owners of a company	holders are creditors of company
C	interest is charged against profits	dividends are an appropriation
D	interest varies yearly	dividends are paid at same rate yearly

1107 Which statement is **not** true? [Author]
- **A** Convertible loan stock matures into ordinary shares.
- **B** Equity is sum of ordinary share capital and all reserves.
- **C** Gearing refers to all fixed cost capital of a company.
- **D** Preference shareholders are the owners of a company.

1108 An advantage of financing operations with debt versus stock is [Horngren, Harrison & Lemon]
- **A** legal requirement to pay interest and principal.
- **B** lower interest payments compared to dividends payment.
- **C** tax deductibility of interest expense on debt.
- **D** the effect on the gearing position of the company.

1109 The following are alternative names for owners' capital in a company **except** [Fess & Warren]
- **A** capital employed.
- **B** net worth.
- **C** shareholder's investment.
- **D** stockholder's equity.

1110 What do reserves of limited companies include? [J99Q12C]
A Debentures **B** Ordinary shares **C** Preference shares **D** Share premium

1111 Under the Companies Act 24:03, which reserve is available for distribution as cash dividend? [J99Q30C]
A Asset Revaluation Reserve **C** General Reserve
B Capital Redemption Reserve **D** Share Premium Account

1112 Which reserve is available for distribution as a cash dividend? [N07Q26Z]
A Asset replacement reserve **C** Capital redemption reserve
B Asset revaluation reserve **D** Debenture redemption reserve

1113 Which of the following is a non-distributable reserve? [N05Q28Z]
A Asset Replacement Reserve **C** Foreign Exchange Reserve
B Capital Redemption Reserve **D** Retained Profit

1114 Non-distributable reserves can only be used for [J05Q26Z]
A bonus issues. **C** payment of dividends.
B exchange rate purposes. **D** rights issues.

1115 Which of the following represents owners' equity? [J03Q13Z]
A Fixed cost capital + Equity **C** Ordinary shares + Preference shares + Reserves
B Ordinary shares + Preference shares **D** Ordinary shares + Reserves

1116 Which of the following will **not** form part of the shareholders' funds? [N05Q01Z]
A Authorised share capital **C** Capital Redemption Reserve
B Called up share capital **D** Revaluation Reserve

1117 Which of the following does **not** form part of a limited company's equity capital? [N03Q16Z]
A Asset replacement reserve **C** Ordinary share capital
B Debenture redemption reserve **D** Preference share capital

1118 Which of the following is **not** part of the shareholders' equity? [N04Q23Z]
A Ordinary share capital **C** Revaluation reserve
B Preference share capital **D** Share premium

1119 Which of the following will **not** be shown as *capital and reserves* in the Balance Sheet? [Randall]
A Debentures **B** Retained profit **C** Revaluation reserve **D** Share premium

1120 From which of the following do revenue reserves arise? [J99Q29C]
A Issue of new shares by a company.
B Revaluation of fixed assets.
C Share premium received on shares issued by the company.
D Trading activities of a company.

1121 Which of the following reserves originates from the Profit and Loss Appropriation Account? [J03Q01Z]
A Asset replacement reserve **C** Capital redemption reserve
B Asset revaluation reserve **D** Share premium

1122 Which of the following is a capital reserve? [N02Q01Z]
A Asset revaluation reserve **C** Foreign exchange reserve
B Fixed asset replacement reserve **D** General reserve

1123 When a company is short of liquid funds, for what purpose may the reserves be used: [J04Q18C]
A To finance the take-over of another business the company is anxious to acquire.
B To maintain dividends during periods of low profitability.
C To pay creditors promptly so as to obtain cash discounts.
D To write down assets whose value to the business has fallen.

1124 Which of the following is most likely to increase market value of common stock? [Meigs & Ferrara]
A A large ordinary dividend **C** Higher than expected earnings per share
B A two for one bonus issue **D** The arrival of the 'ex-dividend' date

1125 Which of the following relates to preference shares? [N06Q18Z]
A All reserves belong to the preference shareholders.
B Dividends are paid at a fixed rate.
C Interest is paid at a fixed rate.
D Investors have an option to convert the share into loan stock.

1126 Which statement is true for a company that has issued non-cumulative preference shares and ordinary shares?
A If no preference dividend is paid, it is carried forward to a future year.
B Only preference shares always get a dividend.
C Preference shares and ordinary shares always get a dividend.
D Preference shares may get a dividend. [J01C19C]

1127 Which of the following is most relevant in determining the cost of assets acquired in exchange for capital stock?
A Estimated useful life of the assets.
B Issuance price of stock already outstanding.
C Market value of the stock.
D Par or stated value of the stock. [Meigs & Ferrara]

1128 A company is set up with an authorised share capital of $3 million. It plans to purchase a factory for $1 million immediately. The preliminary expenses will be $100 000 and the immediate requirement for working capital will be $800 000. It will also require new equipment costing $600 000 in 12 month's time.

What is the minimum amount that the company needs to raise now? [J00Q29C]
A $1 000 000 **B** $1 900 000 **C** $2 500 000 **D** $3 000 000

1129 A sole trader sold his business to a limited company on 31 March. The net assets of his business had a total book value of $160 000 and a total fair value of $200 000. Consideration for the sale was satisfied by the issue of 200 000 $1 Ordinary shares (worth $1.25 each) and a cash payment of $20 000.

What is the amount of goodwill arising on the transfer? [N99Q17C], [N04Q04C]
A $20 000 **B** $60 000 **C** $70 000 **D** $110 000

1130 X Ltd buys the business of Y & Co by an issue of 100 000 X Ltd $1 shares at a premium of 25c ($0.25) plus $50 000 cash. Y & Co's last Balance Sheet at the date of acquisition shows assets of $230 000 and liabilities of $10 000.

How would the difference between the agreed purchase consideration and the value of the business acquired be shown in X Ltd's Balance Sheet?
A $45 000 capital reserve
B $45 000 goodwill
C $55 000 capital reserve
D $70 000 capital reserve [N98Q16C]

1131 A company is to purchase a business which has net tangible assets valued at $60 000. Purchase price will consist 150 000 ordinary shares of $0.50 fully paid. The shares are currently worth $0.65 each.

How much is paid for the goodwill of the business? [N01Q16C]
A $15 000 **B** $22 500 **C** $37 500 **D** $97 500

1132 A company acquired the business of a sole trader on 31 March 2007. The purchase consideration was 2 million ordinary shares of 50 cents each, fully paid. Market value of the shares was $0.70 per share.

The Balance Sheet of the sole trader as at 31 March 2007 was as follows:

	$000	$000
Fixed assets (including goodwill $100 000)		600
Current assets	400	
Less: Current liabilities	350	50
		650
Capital		650

The company valued tangible fixed assets of the sole trader at $750 000, current assets at $450 000 and current liabilities at $350 000.

What is the value of purchased goodwill? [Prestige]
A $100 000 **B** $250 000 **C** $450 000 **D** $550 000

1133 The Balance Sheet of a sole trader is as follows:

			$000
Fixed assets: Intangible	–	Goodwill	30
Tangible			100
Net current assets			50

A company purchased the business, paying for the tangible fixed assets and the net current assets at the valuations shown above.

The company settled the purchase price by issuing 200 000 ordinary shares of $1 at $1.50 per share.

How much did the company pay for goodwill? [Randall]

A $30 000 **B** $50 000 **C** $120 000 **D** $150 000

1134 A limited company purchases a business by issuing 320 000 ordinary shares of $2 each at a market of $3.50 per share. Goodwill of $300 000 arises on the purchase.

What is the fair value of the separable net assets? [Prestige]

A $340 000 **B** $820 000 **C** $940 000 **D** $1 420 000

1135 A limited company purchases a business by issuing 320 000 $1 ordinary shares at a premium of $0.75 per share. Goodwill of $150 000 arises on the purchase.

What is the fair value of the separable net assets? [J02E05C]

A $410 000 **B** $470 000 **C** $560 000 **D** $710 000

1136 A limited company is acquiring the business of a sole trader by:
- the issue of 50 000 shares of $0.50 at a premium of $0.20 and;
- the issue of $20 000 debentures at a discount of 10% and;
- a cash payment.

If the fair value of the business is $80 000, how much will the cash payment be? [N01Q15C]

A $10 000 **B** $25 000 **C** $27 000 **D** $35 000

1137 A business is purchased for $250 000 satisfied by:
- cash payment of $100 000
- a debenture loan of $30 000
- an issue of 60 000 $1 ordinary shares at a premium of 100%

Prior to acquisition, the company had the following capital and reserves:

	$000
Ordinary shares of $1 each	200
Share premium	40
Profit and Loss Account	20

What is the shareholders' funds following the acquisition? [J07Q29Z]

A $320 000 **B** $360 000 **C** $380 000 **D** $400 000

1138 A company agrees to buy assets from another company for $400 000. The book value of the assets is $340 000. The purchase price comprises of cash $120 000, issue of $100 000 debenture stock at a discount of 5% and an issue of 18 500 ordinary shares with nominal value of $1 each.

What is the market value of each ordinary share? [Prestige]

A $0.48 **B** $6.76 **C** $9.72 **D** $10

1139 A business has the following assets and liabilities:

		$
Fixed assets		25 000
Current assets:	Stock	13 000
	Debtors	18 500
Current liabilities		17 000

A company agrees to purchase the business by issuing $0.50 shares at par for the agreed price.

The agreement is that all the assets and the liabilities will be taken over at the above values, subject to the following adjustments:

– allowance for stock loss $1 500;
– bad debts $500;
– goodwill, valued at $10 000.

What is the number of shares to be issued so satisfy the purchase price? [J00Q18C]

A 47 500 **B** 49 500 **C** 95 000 **D** 99 000

1140 Ncube Limited acquires the business of Moyo by issuing $1 shares at a premium of $0.40.

Ncube Limited agrees to take over Moyo's assets and liabilities at the following values:

	$000
Fixed assets	300
Current assets	150
Creditors	10
Bank loan	40

If goodwill is valued at $20 000, how many shares will Moyo receive from Ncube Limited? [J07Q07Z]

A 285 715 **B** 300 000 **C** 400 000 **D** 420 000

1141 A business, which has net assets of $130 000, is sold to a company for $180 000. The purchase price is to be satisfied by an issue of $1 ordinary shares at a premium of $2.60 per share.

How many shares are to be issued? [N02Q13Z]

A 50 000 **B** 69 321 **C** 78 000 **D** 150 000

1142 The net assets of a business are valued at $180 000. The business is sold to a limited company for $250 000. The purchase price is to be settled by an issue of 200 000 ordinary shares of $1 each, fully paid.

Each of the shares is issued at [J04Q27Z]

A a premium of 10 cents.
B a premium of 25 cents.
C a premium of 35 cents.
D par value.

1143 A business of a sole trader is acquired by a limited company. The net assets of the business are valued at $167 000, but the purchase price of the business is agreed at $137 000. The company pays $50 000 in cash and issues 60 000 shares at $1 each.

What is the premium per share? [N00Q17C], [N04Q05C]

A $0.45 **B** $0.95 **C** $1.28 **D** $1.78

1144 A trader's business is acquired by a limited company for $150 000 although its net assets are valued at $175 000. The company will pay $60 000 in cash and an issue of 72 000 ordinary shares of $1 each.

What is the premium per share? [N04Q20Z]

A $0.25 **B** $0.60 **C** $1.08 **D** $1.43

1145 For which purpose can a Share Premium Account be legally used? [J98Q14C], [J01Q17C]

A To make a rights issue.
B To pay an ordinary dividend.
C To repay debentures.
D To write off preliminary expenses.

1146 Which of the following may **not** be charged to a Share Premium Account? [N98Q12C]

A Bonus issue of shares
B Preliminary expenses
C Premium on redemption of shares, which were not issued at a premium
D Share and debenture issue expenses

1147 A Share Premium Account **cannot** be used for [N02Q22Z]

A issuing bonus shares.
B making a rights issue of shares.
C writing off debenture and share issue expenses.
D writing off preliminary expenses.

1148 The following can be uses of Share Premium Account **except** the [N04Q18Z]

A issue of bonus shares.
B payment of ordinary dividends.
C writing off of preliminary expenses.
D writing off of share redemption premiums.

1149 Share premium can be used for the following **except** [J04Q11Z]
- **A** paying up unissued shares as fully paid bonus shares.
- **B** providing any premium payable on the redemption of shares.
- **C** providing cash for dividend payment.
- **D** writing off preliminary expenses.

1150 The following are uses of the share premium **except** [Author]
- **A** creation of the Capital Redemption Reserve.
- **B** providing premium payable on redemption or purchase of shares or debentures.
- **C** writing off discounts on issue of shares and debentures.
- **D** writing off incorporation costs and commissions paid on issue of shares and debentures.

1151 A company acquires a business with net assets of $220 000. The purchase price of the business is settled by the issue of 80 000 $2 ordinary shares. Goodwill of the business is valued at $20 000.

What entry should be made in the Share Premium Account? [J07Q17Z]

A $60 000 Cr **B** $60 000 Dr **C** $80 000 Cr **D** $80 000 Dr

1152 A company purchases for $150 000, a business with net tangible assets of $110 000.

The company completes the transaction by cash payment of $20 000 and an issue of its $0.50 ordinary shares, fully paid, at $1.30 each. [J99Q19C], [J02E04C]

By how much will the company's Ordinary Share Capital Account balance increase?

A $50 000 **B** $90 000 **C** $100 000 **D** $130 000

1153 A company issues $100 000 of 0% debentures at a discount of $30 000, redeemable at $100 000 in 5 years' time.

According to FRS 4, *Capital Instruments*, how should the issue be recorded? [N98Q13C]

		Dr $	Cr $
A	Cash	70 000	
	Interest	30 000	
	Debenture creditor		100 000
B	Cash	70 000	
	Share premium	30 000	
	Debenture creditor		100 000
C	Cash	70 000	
	Debenture creditor		70 000
D	Cash	100 000	
	Debenture creditor		100 000

1154 A limited company purchases a business from a sole trader. Net assets of the business total $612 000 and purchase price is agreed at $700 000. The goodwill element is to be paid in cash. The balance of the purchase consideration is to be made by the issue of 300 000 shares of $0.50 each valued at $1.80 per share and the balance in 7% loan stock valued at $90 per $100.

What is the par value of the loan stock? [J07Q18Z]

A $64 800 **B** $72 000 **C** $80 000 **D** $160 000

1155 X made a loan of $20 000 to his partnership with interest at 8% per annum. The partnership business has been sold to a limited company. The company issued sufficient 10% debentures to X to ensure that he continued to receive the same amount of interest.

What is the nominal amount of debentures that X received? [J99Q20C], [N04Q06C]

A $12 800 **B** $16 000 **C** $20 000 **D** $25 000

1156 If a company issued a $10 000 9% debenture at a discount equal to the interest rate, how much cash is received from the investor? [Horngren, Harrison & Lemon]

A $900 **B** $9 100 **C** $10 000 **D** $10 900

1157 How much will an investor pay for a $100 000 debenture priced at $101^{7}/_{8}$ plus a brokerage commission of $1 100?

A $100 000 **C** $101 875

B $101 000 **D** $102 975 [Horngren, Harrison & Lemon]

1158 Magnum Incorporation receives a subscription for 1 000 4% preference shares at $104 per share.

This transaction increases the 4% Preference Share Capital Account by [Horngren, Harrison & Lemon]

A $4 000. **B** $100 000. **C** $104 000 **D** $108 160.

1159 The following information relates to Tanaka Ltd:

	$000
Ordinary shares of $1 each	200
6% Redeemable preference shares of $1 each	160
Profit and loss	40

The 6% preference shares of $1 each were redeemed at $1.10. In order to finance the redemption, 7% redeemable preference shares of $1 each were issued at $1.25.

What is the Journal entry for the issue of the shares? [N05Q25Z]

		Dr $000	**Cr $000**
A	Bank	160	
	7% Preference shares		128
	Share premium		32
B	Bank	160	
	7% Preference shares		160

		Dr $	**Cr $**
C	Bank	176 000	
	7% Preference shares		140 800
	Share premium		35 200
D	Bank	200 000	
	7% Preference shares		160 000
	Share premium		40 000

1160 A company's share capital consists 80 000 $0.50 shares that are all issued at a premium of 20%. The market value is now $0.80 per share.

What amount will appear in the Balance Sheet for equity? [N01Q10C]

A $40 000 **B** $48 000 **C** $51 200 **D** $64 000

1161 Aaron Company is authorised to issue 1 million shares of $10 par value of capital stock. It issues one half of the stock for $25 a share, earns $20 000 during the first three months of operation and declares a cash dividend of $5 000.

The net worth of Aaron Corporation after three months of operation is [Meigs & Ferrara]

A $1 000 000. **B** $1 020 000. **C** $1 250 000. **D** $1 265 000.

1162 A company's share capital consists of 80 000 $0.50 shares which are all issued at a premium of 20%. The market value of each share is now $0.80.

What amount will appear in the company's Balance Sheet for ordinary share capital? [J01C14C]

A $40 000 **B** $48 000 **C** $51 200 **D** $64 000

1163 The following information relates to a limited company.

	$000	**$000**		**$000**	**$000**
Fixed assets			Share capital		
Plant and machinery		500	200 000 Ordinary shares of $2 each		400
Office equipment		400	Reserves		
Current assets			Revenue reserves	250	
Stock	90		Retained profits	150	400
Debtors	60		Current liabilities		
Bank	50	200	Creditors		300
		1 100			1 100

The value of one ordinary share based on the Balance Sheet is [N06Q13Z]

A $2,00. **B** $4,00. **C** $4,50. **D** $5,50.

1164 The following is a company's summarised Balance Sheet:

Share capital and reserves	**$000**
1 200 000 Ordinary shares of $0.50	600
100 000 7% Preference shares of $1	100
Share premium	200
General reserve	80
Retained profit	20
	1 000

What is the Balance Sheet value of each ordinary share? [Randall]

A $0.75 **B** $0.83 **C** $1.50 **D** $1.67

1165 An extract from a company Balance Sheet is given below:

	$000
400 000 Ordinary shares of $0.50 each	200
100 000 6% Preference shares of $1 each	100
Share Premium Account	40
General Reserve	70
Profit and Loss Account	30
	440

What is the value of each ordinary share? [J03Q27Z]

A $0.50 **B** $0.85 **C** $1.10 **D** $1.70

1166 The following is an extract from the Balance Sheet of ABC Ltd on 31 December 2007

Share capital and reserves	**$000**
500 000 Ordinary shares of $1 each	500
200 000 7% Preference share of $1 each	200
Revaluation Reserve	100
Profit and Loss Account	30

The company also issued 12% debentures amounting to $100 000.

The fair value of each ordinary share is [N03Q14Z]

A $1.26 **B** $1.66 **C** $1.86 **D** $2.06

1167 The following extract is from a Balance Sheet of a company:

Share capital and reserves	**$m**
1 000 000 Ordinary shares of $1 each	1.0
200 000 8% Preference shares of $1 each	0.2
Share Premium Account	0.4
Property Revaluation Reserve	0.8
General Reserve	0.7
Profit and Loss Account	0.5
	3.6

The company also has issued 10% debentures amounting to $1m.

Each ordinary share will be valued on a Balance Sheet basis at [Randall]

A $2.40 **B** $2.60 **C** $3.40 **D** $3.60

1168 The shareholders funds section of the Balance Sheet of Kudzi Ltd is as follows:

	$000
Ordinary shares of $1 each	175
8% Preference shares at $1 each	125
Share premium	15
Retained profit	50

The company has also issued 5% debentures amounting to $30 000.

The fair value of each ordinary share is [N05Q30Z]

A $1,00. **B** $1,20. **C** $1,37. **D** $2,09.

1169 The following are extracts from a company's Balance Sheet:

Fixed asset: Freehold premises, at cost $400 000
Provision for depreciation of freehold premises $160 000

Share capital and reserves	**$000**
Ordinary shares of $1	500
8% Preference shares of $1	100
Share premium	80
Retained profit	40
	720

It has been decided to revalue the freehold premises to $500 000.

What will be the Balance Sheet value of the ordinary shares after the revaluation? [Randall]

A $1.44 **B** $1.64 **C** $1.76 **D** $1.96

1170 The following is an extract from the Balance Sheet of a company:

Share capital and reserves	**$000**
200 000 Ordinary shares of 50 cents	100
50 000 6% Preference shares of $1	50
Share Premium Account	20
General Reserve	35
Profit and Loss Account	15
	220

The Balance Sheet includes a fixed asset of land and buildings with a net book value of $80 000. It has now been ascertained from a professional valuation that at the date of the Balance Sheet the fair value of the land and buildings was $120 000.

The fair value of each ordinary share is [Randall]

A 85c. **B** 105c. **C** 170c. **D** 210c.

1171 The Deltron Corporation has a total stockholders' funds of $4 400 000. The company has outstanding 100 000 shares of $2 par value common stock and 10 000 shares of 9% preferred stock of par value $100 but called at $110. There are no dividends in arrears.

The book value per ordinary share is [Meigs & Ferrara]

A $31. **B** $33. **C** $34. **D** $40.

1172 A company has an issued share capital of 50 000 $1 ordinary shares. Profits for distribution average $20 000 per annum. The expected rate of return in similar companies is $0.25.

What are the 50 000 shares worth? [N01Q25C]

A $32 500 **B** $50 000 **C** $62 500 **D** $80 000

1173 Which statement about a bonus shares is true? [J04Q20C]

A They may be issued as repayment of debentures.
B They may be issued at a premium.
C They may be issued to holders of preference shares.
D They may be issued using the premium received from an issue of preference shares.

1174 Which of the following is a reason for a company issuing bonus shares? [N04Q17C]

A To increase liquidity
B To increase profitability
C To reduce gearing
D To reduce revenue reserves

1175 Which of the following statements is true for a rights issue? [N06Q16Z]

A The number of shares issued to shareholders is not based on shareholders' investment.
B The shares are offered to existing shareholders only.
C The shares are offered to shareholders and the general public.
D The shareholders do not pay any cash for the shares.

1176 An extract from a company Balance Sheet is shown: [N99Q29C]

Capital and reserves	**$000**
Issued share capital: 4 million ordinary shares of $0.50 each	2 000
Share Premium Account	800
	2 800

The company decides to make rights issue to existing shareholders. The issue was made on the basis of 1 new ordinary share for every 4 held, at a price of $3 a share.

What was the impact on the Share Premium Account of this issue?

A Increase by $2.5 million
B Increase by $3 million
C Increase by $12 million
D No change

1177 A company decides to make a rights issue to those holding ordinary shares. The issue, which was fully subscribed, was on a 1-for-4 basis, at a price of $2 per share.

The capital and reserves immediately before the rights issue is shown below:

Capital and reserves	**$000**
Issued share capital: 2 million ordinary shares of $0.50 each	1 000
1 million preference shares of $1 each	1 000
Share Premium Account	400
	2 400

The listed share price was $3.

What was the impact on the Share Premium Account (SPA) of the rights issue? [N00Q28C]

A SPA did not change
B SPA increased by $375 000
C SPA increased by $750 000
D SPA increased by $1 million

1178 The ordinary share capital of a company is $5 million divided into ordinary shares of $0.50 each. So far 4 million shares have been issued. Directors propose a bonus issue of 1 share for every 2 shares held.

After the bonus issue, the Ordinary Share Capital Account shows a balance of [N02Q15Z]

A $1.2 million. **B** $2 million. **C** $3 million. **D** $4 million.

1179 A company has issued 300 000 ordinary shares of $0.50 each. It makes a bonus issue of 2 shares for 3 already held. It follows that with a rights issue of 1 share for every 2 already held at $0.75 per share. The rights issue was fully taken up. [Randall]

What was the increase in the Share Capital Account as a result of the bonus and rights issues?

A $150 000 **B** $175 000 **C** $225 000 **D** $275 000

1180 The authorised share capital of a company is $2 000 000 and the issued share capital is 600 000 ordinary of $2 each.

The company makes a 1 for 4 bonus issue followed by a 1 for 5 rights issue.

What is the Share Capital Account balance after the rights issue? [J07Q05Z]

A $750 000 **B** $900 000 **C** $1 500 000 **D** $1 800 000

1181 A company with an existing 400 000 $2 ordinary shares made a 1-for-5 rights issue followed by 1-for-3 bonus issue.

What is the balance on the Ordinary Share Capital Account after these transactions? [Prestige]

A $400 000 **B** $960 000 **C** $1 226 666 **D** $1 280 000

1182 A company's share capital consists of 150 000 ordinary shares of $0.50 each. It makes a rights issue of 1 ordinary share for every 3 already held at $1.20 per share. It then makes a bonus issue of 1 share for every 5 held.

Which amount will be shown in the Balance Sheet for share capital? [J04Q19C]

A $120 000 **B** $145 000 **C** $155 000 **D** $165 000

1183 A company's Balance Sheet as at 31 December 2006 included:

	$000
Ordinary shares of $0.50 each, fully paid	320
Cash at bank	100

The following then took place:

i. In February 2007, a one-for-two rights issue of ordinary shares of $0.50 each at $1.10 was fully subscribed;

ii. In April 2007, a bonus issue of one for four ordinary shares of $0.50 each was made.

Assume no other transactions took place between 31 December 2006 and 30 April 2007. [J02Q18Z]

What were the balances on the Ordinary Share Capital Account and Bank Account on 30 April 2007?

	Ordinary share capital	**Bank**		**Ordinary share capital**	**Bank**
A	$600 000	$452 000	**C**	$840 000	$452 000
B	$600 000	$572 000	**D**	$840 000	$620 000

1184 What will be the effect of a bonus issue of shares on the share capital and net assets? [J00Q16C]

	Share capital	**Net assets**		**Share capital**	**Net assets**
A	increase	increase	**C**	increase	reduce
B	increase	no effect	**D**	no effect	increase

1185 A company which has already issued ordinary shares of $1.00 each, issues 200 000 bonus shares and follows this with a rights issue of 100 000 ordinary shares at $1.50 per share. [Randall]

What is the increase in the share capital and reserves of the company after these transactions?

A $100 000 **B** $150 000 **C** $300 000 **D** $350 000

1186 Shungu Ltd had 300 000 ordinary shares of $1 each in issue as at 1 January 2007. The directors of the company proposed to make a bonus issue on the basis of 2 shares for every share already held. They further proposed a rights issue on a 2 for 3 basis.

What would be the Ordinary Share Capital Account balance after these transactions? [J03Q19Z]

A $750 000 **B** $1125 000 **C** $1 500 000 **D** $2 250 000

1187 A limited company with authorised share capital of $500 000 and an issued share capital of $300 000 in ordinary shares makes a 1 for 4 bonus issued followed by a 1 for 5 rights issue.

What will be the balance on the Share Capital Account following these transactions? [N01Q13C]

A $375 000 **B** $450 000 **C** $500 000 **D** $750 000

1188 A company, with an existing issued share capital of 400 000 $1 ordinary shares, made a 1-for-5 bonus issue. A 1-for-3 rights issue followed this.

What will be the balance on the Share Capital Account after these transactions? [N00Q15C]

A $400 000 **B** $480 000 **C** $613 333 **D** $640 000

1189 A company with an existing issued share capital of $400 000 $1 ordinary shares made a one-for-five rights issue at $1.20 per share. This was later followed by a one-for-three bonus issue.

What will be the balance on the Ordinary Share Capital Account after these transactions? [N04Q19Z]

A $480 000 **B** $496 000 **C** $640 000 **D** $768 000

1190 A company's Balance Sheet shows the following balances: [N07Q15Z]

	$000
Ordinary shares of $2 each	200
Share premium	20
Profit and loss	50
Bank	30

A 1 for 5 bonus issue takes place, leaving the reserves in the most flexible form.

What are the new balances?

	Bank	**Profit and loss**	**Share premium**		**Bank**	**Profit and loss**	**Share premium**
A	$30 000	$10 000	$20 000	**C**	$70 000	$10 000	$20 000
B	$30 000	$30 000	–	**D**	$70 000	$30 000	–

1191 A company's Balance Sheet includes the following extract: [N06Q15Z]

Issued share capital and reserves	**$000**
Ordinary shares of $1 each	800
Share premium	480
Revaluation reserve	260
Profit and Loss Account	270

It is company policy to maintain reserves in the most flexible form. The company issued bonus shares on a 1 for 1 basis.

Which of the following shows how the share capital and reserves should be presented in Balance Sheet?

	A	**B**	**C**	**D**
Ordinary shares of $1 each	$1 600 000	$1 600 000	$1 600 000	$1 600 000
Share premium	–	–	$70 000	$105 000
Revaluation reserve	–	$60 000	$70 000	$105 000
Profit and Loss Account	$210 000	$150 000	$70 000	–

1192 A company's Balance Sheet includes:

Capital and reserves	**$000**
Ordinary shares of $1 each fully paid	300
Revaluation reserve	220
Profit and Loss Account	100

The company makes a one-for-two rights issue of ordinary shares at nominal value. The issue was fully subscribed.

A bonus issue of two-for-three ordinary shares of $1 each followed. Directors wish to retain maximum flexibility regarding future dividends payments.

What is now the balance of the Profit and Loss Account? [N05Q16Z]

A $20 000 **B** $65 000 **C** $100 000 **D** Nil

1193 A company currently has the following capital and reserves:

	$000
$1 Ordinary share capital	400
Share Premium Account	60
Revaluation reserve	120
General reserve	310
Profit and Loss Account	90
	980

The company is about to make a 1-for-4 bonus issue. [N99Q32C]

What is the maximum amount of distributable reserves for the company after the bonus issue?

A $300 000 **B** $360 000 **C** $400 000 **D** $420 000

1194 A company's Balance Sheet includes:

Capital and reserves	**$**
Ordinary shares of $0.50 each fully paid	84 000
Profit and Loss Account	50 000
	134 000

The company makes a 1-for-2 rights issue of ordinary shares of $0.50 each, at a market price of $1.30. The issue was fully subscribed. A bonus issue of 2-for-3 ordinary shares of $0.50 followed.

What is now the maximum possible balance on the Profit and Loss Account? [J98Q29C]

A $33 200 **B** $41 600 **C** $50 000 **D** Nil

1195 A company may purchase part of its ordinary share capital because [J07Q19Z]

A it wishes to decrease its gearing.
B its cash reserves exceed its requirements.
C its shareholders need cash.
D its shares are valued below their nominal value on the open market.

1196 A company is considering redeeming its debentures at par at the start of its financial year.

What will be the effect on the company's profit and net current assets in the year of redemption? [J02E01C]

	Profit	Net current assets		Profit	Net current assets
A	decrease	decrease	**C**	increase	decrease
B	decrease	increase	**D**	increase	increase

1197 When a company redeems debentures, it may create a Capital Redemption Reserve. [J07Q8Z]

This is because it wants to

A protect the creditors.
B protect the shareholders.
C provide cash for redemption.
D replace the cash used in the redemption.

1198 When a company redeems shares, it may create a Capital Redemption Reserve to [Prestige]

A make the Balance Sheet agree.
B protect the creditors' rights.
C provide cash for redemption.
D replace the cash used in redemption.

1199 A company redeems its debentures at a premium. [Randall]

How may the company treat the premium on the redemption?

A Dr Bank Account
B Dr Capital Redemption Reserve
C Dr Share Capital Account
D Dr Share Premium Account

1200 A company's Balance Sheet has the following capital structure:

	$000
Ordinary share capital	1 200
Debenture premium	24
Share premium	400
Retained profit	500
	2 124
10% Debentures 2007/8	240

All its debenture stock is redeemed at a premium of 10%. [J07Q09Z]

Which of the following statements is true?

A The company must create a Capital Redemption Reserve.
B The debenture stock must be debited to the Share Premium Account.
C The premium may be debited to the Share Premium Account.
D The premium must be debited to the Share Premium Account.

1201 The Balance Sheet of a company includes the following:

	$000
Ordinary share capital	600
Share Premium Account	200
Retained profit	100
	900
10% Debenture stock (2010/2013)	120

The company has decided to redeem all its debenture stock at a premium of 10%.

Which of the following is true? [J02E03C]

A The company must create a Capital Redemption Reserve.
B The debenture stock must have been issued at a premium.
C The premium may be debited to the Share Premium Account.
D The premium must be debited to the Profit and Loss Account.

1202 If shares were issued at par, the premium on redemption is [Author]

A credited to Income Statement.
B credited to Share Premium Account.
C debited to Income Statement.
D debited to Share Premium Account.

1203 A company redeems 60 000 $1 redeemable preference shares at a premium of $0.25 per share. The shares were originally issued at par. No new issue of shares was made to finance the redemption.

What effect does the redemption have on Profit and Loss Account and Capital Redemption Reserve? [Randall]

	A	**B**	**C**	**D**
Profit and Loss Account decrease by	$60 000	$60 000	$75 000	$75 000
Capital Redemption Reserve increase by	$60 000	$75 000	$60 000	$75 000

1204 A company redeems $20 000 $1 ordinary shares at a premium of $0.30 per share. The shares were originally issued at par. There is no issue to finance the redemption.

What are the effects on the Profit and Loss Account and the Capital Redemption Reserve? [N01Q15C]

	Profit and Loss Account	*Capital Redemption Reserve*
A	decrease by $26 000	increase by $20 000
B	decrease by $26 000	increase by $26 000
C	increase by $20 000	decrease by $20 000
D	increase by $26 000	decrease by $20 000

1205 A company's Balance Sheet is as follows: [J02E02C]

	$000
Issued share capital – $1 ordinary shares	600
Share Premium Account	150
Distributable profits	130
	880

A cash redemption of 100 000 ordinary shares at a premium of 20% is now proposed.

What will the company's Balance Sheet include following the redemption of shares?

	A	**B**	**C**	**D**
Share Premium Account	$130 000	$130 000	$150 000	$150 000
Capital Redemption Reserve	$100 000	$120 000	$100 000	$120 000

1206 A company's Balance Sheet at 31 December 2006 included the following extract: [J05Q17Z]

	$000
Ordinary shares of $1 each	2 000
10% Redeemable preference shares of $1 each	250
Share premium	2 000
Profit and loss	1 000

At that date the company decided to redeem the preference shares at par, partly out of the proceeds of an issue of 200 000 ordinary shares of $1 each at par.

Which Journal entry is required to effect the creation of the Capital Redemption Reserve?

		Dr	Cr
A	Capital redemption reserve	$50 000	
	Profit and loss		$50 000
B	Capital redemption reserve	$50 000	
	Share premium		$50 000
C	Profit and loss	$50 000	
	Capital redemption reserve		$50 000
D	Share premium	$50 000	
	Capital redemption reserve		$50 000

1207 A company's Balance Sheet extract is given below:

Share capital and reserves	**$000**
Ordinary share capital (shares of $500 each)	5 000
Profit and Loss Account	(1 500)
	3 500

It has been decided to write off the debit balance in the Profit and Loss Account together with goodwill of $500 000. The shareholders agreed to exchange their shares for new ordinary shares of $2.50.

How many shares will the directors have to issue to the shareholders? [Prestige]

A 600 000 **B** 700 000 **C** 1 200 000 **D** 1 400 000

1208 Andy holds 1 000 ordinary shares of $1 each in Busted Ltd. He has paid in full all calls made amounting to 80 cents on each share.

If the company runs into financial difficulty, Andy will be liable at most [Randall]

A for $200.
B for $800.
C for $1 000.
D jointly with all other shareholders for all the debts of the company.

1209 In the event of liquidation, a company repays the capital of its investors in the following order: [N02Q14Z]

A debentures, preference shares, ordinary shares.
B ordinary shares, debentures, preference shares.
C ordinary shares, preference shares, debentures.
D preference shares, debentures, ordinary shares.

1210 In which order are investors repaid in the event of liquidation? [Author]

A Creditors, debenture holders, preferred stockholders then ordinary stockholders.
B Debenture holders, creditors, preferred stockholders then ordinary stockholders.
C Debenture holders, preferred stockholders, creditors then ordinary stockholders.
D Preferred stockholders, debenture holders, creditors then ordinary stockholders.

1211 A company has just been wound up and the only assets that remain have realised $45 000.

The summary of the company's capital structure shows: [J98Q15C]

		$000
–	Ordinary shares	20
–	Preference shares	40
–	Loan stock	30

How will the $45 000 be distributed?

	Ordinary shares	**Preference shares**	**Loan stock**
A	–	$15 000	$30 000
B	–	$40 000	$ 5 000
C	$10 000	$20 000	$15 000
D	$20 000	$25 000	–

1212 The following information is extracted from the accounts of a company:

Year ended 31 December	**2003**	**2004**
	$000	**$000**
Retained profit at 31 December	50	70
Dividends paid and proposed	40	45
Transferred to general fund	100	100
Taxation	35	38
Interest payable on debentures	30	36

What was the operating profit for the year ended 31 December 2003? [Randall]

A $194 000 **B** $239 000 **C** $244 000 **D** $289 000

1213 What does the Appropriation Account of a limited company show? [J05Q28Z]

A Capital and revenue reserves
B How the net profit is applied
C How the net profit is earned
D The directors' salaries

1214 The following appear in the Profit and Loss Appropriation Account **except** [Author]

A goodwill amortisation.
B interest on convertible loan stock.
C interim ordinary dividend.
D proposed preferred dividend.

1215 Which of the following is found in the Appropriation Account? [Author]

A Debenture interest
B Directors' remuneration
C Dividends
D Taxation

1216 In a limited company, which of the following are shown in the Appropriation Account?
1 Debenture interest
2 Directors' remuneration
3 Proposed dividends [Wood & Allan]
4 Transfers to reserves
A 1 and 2 **B** 1 and 3 **C** 2 and 3 **D** 3 and 4

1217 The following appear in the Appropriation Account and Balance Sheet **except** [Author]
A capital redemption reserve. **C** proposed dividends.
B premium on redemption of shares. **D** retained profit.

1218 An appropriation for plant extension would be reported in the Balance Sheet in the [Fess & Warren]
A current liabilities section. **C** non-current assets section.
B financed by section. **D** non-current liabilities section.

1219 The order of priority which a company must give to payment of interest and dividends is [Randall]
A debenture interest, ordinary dividends, preference dividends.
B debenture interest, preference dividends, ordinary dividends.
C preference dividends, debenture interest, ordinary dividends.
D preference dividends, ordinary dividends, debenture interest.

1220 An investor in common stock normally recognises dividend revenue [Meigs & Ferrara]
A in an adjusting entry at the end of each accounting period.
B when the dividend cheque arrives.
C when the dividend is declared.
D when the ordinary shares are sold.

1221 Which is **not** considered by directors when recommending a dividend? [S03Q27Z]
A Availability of cash **B** Capital reserves **C** Inflation **D** Revenue reserves

1222 Overall effect of declaring and distributing a dividend has all of the following the effects **except** reducing
A stockholders' equity. **C** the net profit reported for the period.
B the balance of Retained Earnings Account. **D** total assets. [Meigs & Ferrara]

1223 A company has an authorised share capital of 3 000 000 $0.50 ordinary shares. After declaring a 3% dividend, the amount payable to shareholders is $15 000. The number of shares issued is [N05Q29Z]
A 250 000. **B** 500 000. **C** 1 000 000. **D** 1 500 000.

1224 The data shows the Profit and Loss Account for a company for the year ended 31 August 2007:

	$000
Operating profit	40
Less: Debenture interest	6
	34
Profit on sale of investment shares	68
	102
Transfer to general reserve	30
Unappropriated profit for year	72

What was the distributable profit for the accounting year ended 31 August 2007? [J98Q28C]
A $34 000 **B** $40 000 **C** $72 000 **D** $102 000

1225 Profit and Loss Account of a company for the year ended 31 August 2006:

	$000
Operating profit	60
Convertible loan interest	(9)
Profit on sale of investments	102
Proposed dividends	(45)
Unappropriated profit for year	108

What is the distributable profit for the accounting year ended 31 August 2006? [N01Q29C]
A $51 000 **B** $60 000 **C** $108 000 **D** $153 000

1226 An extract of the Profit and Loss Account of the company for the year ended 31 August 2005 is given:

	$000
Operating profit before taxation	9 000
Taxation for the year	(40)
	8 960
Debenture interest	(2 750)
	6 050
Proposed dividends	(4 550)
	1 500
Retained profits brought forward	5 500
Unappropriated profits for the year	7 000

What were the distributable profits for the year ending 31 August 2005? [N06Q20Z]

A $6 050 000 **B** $7 000 000 **C** $8 800 000 **D** $9 000 000

1227 A company has $100 000 as total shareholders' equity, including retained earnings of $19 000. The cash balance is $35 000. [Horngren, Harrison & Lemon]

The maximum cash dividend the company can declare and pay is

A $19 000. **B** $35 000. **C** $54 000. **D** $100 000.

1228 Meyer's Thrifty Acres Ltd has 10 000 issued ordinary shares with a stated value of $20 per share. The market value is $37 per share. Meyer's Thrifty Acres Ltd's board of directors declares and distributes an ordinary dividend of one share for every ten held. [Horngren, Harrison & Lemon]

Which of the following entries shows the full effect of declaring and distributing the dividend?

		Dr	Cr
A	Profit and Loss	20 000	
	Ordinary Share Capital		20 000
B	Profit and Loss	20 000	
	Share Premium	17 000	
	Ordinary Share Capital		37 000
C	Profit and Loss	37 000	
	Ordinary Share Capital		20 000
	Share Premium		17 000
D	Profit and Loss	37 000	
	Ordinary Share Capital		37 000

1229 The *Statement of Retained Earnings* [Meigs & Ferrara]

A has no relationship with the Balance Sheet.
B indicates whether the cash position of the corporation will permit the payment of dividends.
C provides a link between the Income Statement and Balance Sheet.
D shows the revenue and expenses of a business for a given time period.

1230 The Balance Sheet item, *Retained Earnings*, [Meigs & Ferrara]

A appears among the assets of any form of a business organisation in which earnings have exceeded amounts distributed to the owners.
B appears on 'financed by' section for a company in which earnings have exceeded dividends.
C appears on the Balance Sheet of a single proprietorship if the earnings of the business have exceeded the withdrawals by the proprietor.
D is always equal to the amount of cash owned.

1231 Which of the following best describes the relationship between *revenue* and *retained earnings*?

A Retained earnings is equal to revenue income minus expenses.
B Revenue increases net profit which, in turn, increases retained earnings.
C Revenue represents a cash receipt whereas retained earnings is an element of stockholders' equity.
D Revenue represents the price of goods sold or services rendered, whereas retained earnings represents the cash available for paying dividends. [Meigs & Ferrara]

1232 Lang Real Estate Investment Corp declared and distributed a 50% stock dividend.

Which of the following stock splits would have the same effect on the number of shares of Lang Real Estate Investment Corp shares outstanding? [Horngren, Harrison & Lemon]

A 2 for 1 **B** 3 for 2 **C** 4 for 3 **D** 5 for 4

1233 Entry debiting dividends payable and crediting cash is recorded on the [Horngren, Harrison & Lemon]

A date of record. **B** declaration date. **C** payment date. **D** issue date.

1234 Which of the following ratios would be most be useful potential speculative investor? [S03Q07Z]

A Dividend cover **B** Dividend yield **C** Earnings yield **D** Price earnings ratio

1235 Which of the following is **not** a stock exchange ratio? [S03Q22Z]

A Dividend cover
B Dividend yield
C Interest cover
D Return on capital employed

1236 The capital structure of the company is shown below: [J07Q24Z]

	$000
Share capital, $1 shares	200
Share premium	400
Retained profits	600
15% loan stock (issued 5 years ago)	800
	2 000

What is the return on the shareholders' funds if operating profits average $520 000 per annum?

A 26.0% **B** 33.3% **C** 43.3% **D** 50.0%

1237 Capital structure of a company is:

	$000
Share capital, $1 shares	100
Share Premium Account	200
Retained profits	300
	600
15% Convertible loan stock - 2020	400
	1 000

Operating profits average $260 000 per annum.

What is the return on shareholders' funds? [J02E13C]

A 26% **B** 33.3% **C** 43.3% **D** 66.7%

1238 Which of the following is most likely to be true? [Horngren, Harrison & Lemon]

A Return on equity exceeds return on total assets.
B Return on equity is inverse of return on total assets.
C Return on total assets equals return on equity.
D Return on total assets exceeds return on equity.

1239 A company has an authorised share capital of 100 000 ordinary shares of $0.50. It has issued 70 000 shares. The directors recommended a dividend of 6%.

What will be the amount of the dividend? [Randall]

A $2 100 **B** $3 000 **C** $4 200 **D** $6 000

1240 A company has an authorised share capital of $100 000 ordinary shares of $0.50. It has issued 60% of the shares. The directors propose to pay a dividend of 8%. [Randall]

The total dividend will amount to

A $2 400. **B** $4 000. **C** $4 800. **D** $8 000.

1241 A company has an authorised share capital of $100 000 ordinary shares of 25 cents each. It has issued 80 000 of the shares. A dividend of 10% has been proposed. [Randall]

The dividend payable will be

A $2 000. **B** $2 500. **C** $8 000. **D** $10 000.

1242 On 31 March 2010, a company pays a final dividend of $7 000 in respect to its financial year ended 31 December 2006. On 1 July 2009 it pays an interim dividend of $4 000. The Balance Sheet (Statement of Financial Position) at 31 December 2010 includes an amount of $9 000 for dividends payable. [Randall]

Dividends debited in the Profit and Loss Account for the year ended 31 December 2010 amounted to

A $9 000. **B** $11 000. **C** $13 000. **D** $20 000.

1243 On 6 April 2004, a company paid $7 000 dividend in respect of its financial year ended 31 December 2003. On 1 October it paid an interim dividend of $5 000 in respect of year ending 31 December 2004. The Balance Sheet at 31 December 2004 included a current liability of $10 000 for dividend payable. [Randall]

How much has been debited for dividends in the Profit and Loss Account for year ended 31 December 2004?

A $12 000 **B** $15 000 **C** $17 000 **D** $22 000

1244 During the year to 31 December 2010, a corporation paid a final dividend for the year ended 31 December 2009 in the sum of $800 000. The corporation also paid an interim dividend on account of the year to 31 December 2010 amounting to $300 000. The directors propose paying a final dividend for the year of $1 million.

Entry in Profit and Loss Account for year ended 31 December 2010 for the dividends will be [Randall]

A $300 000. **B** $800 000. **C** $1 300 000. **D** $2 100 000.

1245 A company made the following payments: [J02Q15Z]

			$000
2001	June 1	Final dividend for the year ended 31 March 2001	40
	December 1	Interim dividend for the year ended 31 March 2002	15
2002	June 1	Final dividend for the year ended 31 March 2002	50

What are the entries for the dividends in the Profit and Loss Account for the year ended 31 March 2002 and the Balance Sheet at that date?

	Appropriation Account	**Balance Sheet**		**Appropriation Account**	**Balance Sheet**
A	$55 000	$50 000	**C**	$65 000	$50 000
B	$55 000	$65 000	**D**	$65 000	$65 000

1246 The following information is available foe Jilly Ltd regarding dividends paid and proposed:

		Paid $000	**Proposed $000**
For year to 31 December 2005:	Final preference dividend	8	
	Final ordinary dividend	25	
For year to 31 December 2006:	Interim preference dividend	8	
	Interim ordinary dividend	15	
	Proposed final preference dividend		8
	Proposed final ordinary dividend		30

The Balance Sheet (Statement of Financial Position) at 31 December 2006 will show [Randall]

A a current liability for dividends of $8 000. **C** a current liability for dividends of $61 000.

B a current liability for dividends of $38 000. **D** no current liability for dividends.

1247 The capital structure of a company is as follows: [N01Q18C]

	$1 Ordinary shares	**5% Preference shares of $0.50**
Number of shares authorised	100 000	60 000
Number of shares issued as fully paid	60 000	40 000

What will be the total dividend for the year if the directors declare an ordinary dividend of 7.5%?

A $5 500 **B** $6 500 **C** $9 000 **D** $10 500

1248 What is the total dividend if the directors declare a 7.5% ordinary dividend? [N01Q12C]

	$0.50 Ordinary shares	**5% Preference shares of $1**
Number of authorised shares	100 000	60 000
Number of shares issued as fully paid	60 000	40 000

A $4 250 **B** $6 500 **C** $6 750 **D** $10 500

1249 A company has the following issued share capital:

20 000 Ordinary shares of $1.00 each
10 000 5% Preference shares of $0.50 each

An ordinary dividend of $0.10 per share for the year is recommended.

What is the total amount of dividends payable for the year? [N03Q23Z]

A $2 250 **B** $2 500 **C** $7 000 **D** $20 000

1250 If a corporation has in issue 1 000 9% cumulative preference shares of $100 each and dividends have been passed for the three preceding years, what is the amount of preferred dividend that must be declared in the current year before a dividend on the ordinary shares is declared? [Fess & Warren]

A $9 000 **B** $27 000 **C** $36 000 **D** $45 000

1251 Trade Days Inc has 10 000 3½% cumulative preference stock of $10 each and 100 000 common stock of $5 each outstanding. Two years preference dividends are in arrears. Trade Days Inc declares a cash dividend large enough to pay preference dividend in arrears, the preference dividend for the current period and a $1.50 common dividend.

What is total amount of the dividend? [Horngren, Harrison & Lemon]

A $105 000 **B** $150 000 **C** $157 000 **D** $160 500

1252 A company has authorised capital of 500 000 $0.25 ordinary shares. It has issued 400 000 $0,25 ordinary shares, at a price of $0.60 per share. The market price of the shares is now $0.75 each. The directors' now wish to make a dividend payment which would give the shareholders a dividend yield of 5% on their investment.

How much cash would the company need to distribute as dividend? [N99Q30C]

A $5 000 **B** $6 250 **C** $12 000 **D** $15 000

1253 A listed company's ordinary share capital consists of 10 000 000 shares of 50 cents each, issued at a premium of 20 cents a share. The shares are currently trading at 90 cents each on the Zimbabwe Stock Exchange. At the end of 2003, the company declared a 12% ordinary dividend.

What was the total dividends paid to the ordinary shareholders? [N04Q17Z]

A $600 000 **B** $840 000 **C** $1 080 000 **D** $1 200 000

1254 The following information relates to Beni Limited on 31 December:

Dividend yield	5%
	$
Authorised ordinary share capital	125 000
Issued share capital	100 000
Nominal value of each share	0.25
Share price at issue	0.60
Market price on 31 December	0.75

What is the total dividend? [N07Q08Z]

A $3 750 **B** $4 687.50 **C** $12 000 **D** $15 000

1255 A company has 1 million shares of $1 each in issue and the following reserves:

	$000
Share premium	40
Revaluation reserve	20
General reserve	80
Profit and Loss Account	30

What is the maximum dividend per share? [N04Q20C]

A $0.03 **B** $0.11 **C** $0.13 **D** $0.17

1256 Issued share capital of XYZ Ltd is: 400 000 4% Preference shares of $1 each, fully paid
1 600 000 Ordinary shares of $0.50 each, fully paid

A company's net profit after interest and tax is $128 000. An appropriate dividend cover for ordinary shares is 2 times.

What will be the dividend per ordinary share? [J02E15C]

A $0.035 **B** $0.040 **C** $0.070 **D** $0.080

1257 A company has an authorised share capital of $1 million. 800 000 ordinary shares of $1 were issued at $1.20 per share. It pays $48 000 as dividend on the ordinary shares.

What was the rate of the dividend? [Randall]

A 4% **B** 4.8% **C** 5% **D** 6%

1258 A company wishes to pay out all available profits as dividends. Net profit is $26 600. There are 20 000 8% preference shares of $1 each and 50 000 ordinary shares of $1 each. $5 000 is to be transferred to the general reserve.

What ordinary dividends are to be paid, in percentage terms? [Wood & Allan]

A 10% **B** 20% **C** 40% **D** 60%.

1259 A company with an authorised share capital of $200 000 has issued 100 000 ordinary shares of $1. It has also issued $100 000 6% debentures. Operating profit is $20 000. A transfer of $10 000 is made to the general reserve.

What is the maximum dividend that can be paid on the ordinary shares? [Randall]

A 2% **B** 4% **C** 5% **D** 7%

1260 The information below relates to Jong Jong Ltd:

– Ordinary shares of $0.50 each, fully paid $150 000
– 10% Preference shares of $1 each, fully paid $60 000

On 31 October 2003 Jong Jong Ltd had a dividend yield of 1.25% and a market price per share of $4.

What was the dividend percentage declared on ordinary shares? [J04Q30Z]

A 10% **B** 20% **C** 32% **D** 40%

1261 During the year ended 31 May 2007, Damba Ltd made a profit of $300 000 before debenture interest. The full amount was paid in dividends and debenture interest.

The capital structure for the company was as follows:

	$000
Ordinary shares of $0.50 each	2 000
8% Preference shares of $2.00 each	1 000
5% Debentures of $10 each	500

What is the dividend percentage paid to ordinary shareholders? [J05Q15Z]

A 4.88% **B** 6.88% **C** 9.75% **D** 13.75%

1262 The following information relates to a trading company for the year ended 31 December 2004.

		$000	**$000**
Net profit before tax		800	
Provision for tax		(220)	
		580	
Profit and Loss Account brought forward		600	1 100
Provision for dividends:	Ordinary shares		(120)
	8% Preference shares		(160)
Retained profits			900

The dividend cover for the shareholders is [N06Q17Z]

A 2.07 times. **B** 3.5 times. **C** 4.83 times. **D** 6.67 times.

1263 An extract from Tongai's Profit and Loss Account was as follows:

	$000	**$000**	**$000**
Operating profit	1 000		
Debenture interest	250	750	
Less: Ordinary dividend paid and proposed		350	
Preference dividend paid and proposed		120	
Transfer to General Reserve		200	670
Retained profit			80

What is the ordinary dividend cover? [N07Q09Z]

A 1.23 times **B** 1.8 times **C** 2.1 times **D** 2.86 times

1264 Below is an extract from Greens Limited company's statements:

			$000
Profit on ordinary activities			265
Taxation			(50)
Profit after tax			215
Preference dividends			(15)
Ordinary dividends	–	Interim	(25)
	–	Proposed	(75)
Retained profit for the year			100

What is the dividend cover for the ordinary shares? [N03Q30Z]

A 1.1 times **B** 1.3 times **C** 2.0 times **D** 2.7 times

1265 A Profit and Loss Account discloses the following extract:

	$
Operating profit	1 000
Exceptional gain	200
	1 200
Interest payable	(350)
Profit before tax	850
Taxation	(250)
Profit after tax	600
Preference dividends	(50)
Ordinary dividends	(100)
Retained profits	450

What is the dividend cover for the ordinary shares? [N98Q23C]

A 3.5 times **B** 4.0 times **C** 5.5 times **D** 6.0 times

1266 An extract from the final accounts of a company shows: [N04Q12C]

		$	**$**
Operating profit			200
Interest payable			40
Profit on ordinary activities			160
Taxation			35
Profit after tax			125
Dividends:	Preference shares	25	
	Ordinary shares	50	
			75
Retained profit for the year			50

What are the interest cover and dividend cover?

	Interest cover	**Ordinary dividend cover**
A	4	2
B	4	2.5
C	5	2
D	5	2.5

1267 Tina Ltd has 20 million ordinary shares of $1.00 each in issue. It declared a $5 million ordinary dividend during the year. The market value of each ordinary share is $4.50.

The dividend yield is [N05Q17Z]

A 4,5%. **B** 5,56%. **C** 18%. **D** 25%.

1268 The following information is taken from accounts of Petal Ltd:

		$000
5 million ordinary shares of 50 cents each, fully paid		2 500
Share Premium Account		1 200
General Reserve		800
Retained Profits at the beginning of year		2 000
Retained Profits for the year		560
Dividends to ordinary shares:	Paid during the year	150
	Proposed at end of year	250
10% Debenture stock		6 000

Given stock market share value at the end of year is $1.40, what is the dividend yield to the purchaser of an ordinary share? [S03Q30Z]

A 1.14% **B** 2.90% **C** 4.00% **D** 5.70%

1269 Mpilo Limited has the following data:

Issued preference shares	nil
Issued ordinary shares	2 000 000
Nominal value per share	$2.00
Market value per share	$4.60
Net profit after taxation	$400 000
Retained earnings percentage of net profit after tax	50

The net dividend yield is [J07Q22Z]

A 1.09% **B** 2.17% **C** 4.35% **D** 5.00%

1270 On which amount are earnings per share calculated? [Randall]

A Profit after interest, tax and preference dividend
B Profit after interest, tax, preference dividend and transfer to general reserve
C Profit before interest, tax and preference dividend
D Profit before interest, tax, preference dividend and transfer to general reserve

1271 In computing earnings per share, dividends on preferred shares are [Horngren, Harrison & Lemon]

A added because they represent earnings to preference shareholders.
B ignored because they do not pertain to preference shareholders.
C reported separately on the Income Statement.
D subtracted because they represent earning to preference shareholders.

1272 Which item will increase a company's earnings per share? [N98Q29C], [N01Q28C]

A A correction of an under-valuation of closing stock.
B A surplus arising on the revaluation of assets.
C An increase of redeemable debentures.
D An issue of bonus shares.

1273 A public limited company's annual results are shown below:

		$000
Profit on ordinary activities after taxation		215
Preference dividends		(15)
Ordinary dividends:	Interim	(25)
	Proposed	(75)
Retained profit for the year		100

What are the earnings for inclusion in the 'earnings per share' calculation? [N98Q21C]

A $100 000 **B** $175 000 **C** $200 000 **C** $215 000

1274 Boston Office Supplies reported a net profit of $2 million. The company had 100 000 100% outstanding preferred stock of $5 each and 100 000 shares of common stock.

Earnings per share amounted to [Meigs & Ferrara]

A $15. **B** $20. **C** $25. **D** None of these.

1275 The following is an extract from a company's accounts at 31 December 2010:

	$000
Issued shares of $0.50	206
Share Premium Account	309
Profit and Loss Account at 1 January 2010	200
Net profit for the year after tax	1 030

What are the earnings per share (EPS)? [N04Q16C]

A $2.00 **B** $2.50 **C** $2.99 **D** $5.00

1276 A company with an after tax profit of $1 440 000 has the following capital structure:

	$000
Ordinary shares of $3 each	600
12% Redeemable preference shares of $3 each	120
10% Redeemable debenture stock (2020)	180

The company's earnings per share was [Prestige]

A $7,038. **B** $7,128. **C** $7,20. **D** $7,50.

1277 The following is an extract from the Profit and Loss Account of a company:

	$000
Operating profit	360
Debenture interest	(24)
Preference dividend	(16)
Ordinary dividend	(200)
Retained profit	120

The company's share capital is as follows:

Authorised: $1 000 000

Issued: 200 000 8% Preference shares of $1

800 000 Ordinary shares of $1

What are the company's earnings per share? [Randall]

A $0.32 **B** $0.40 **C** $0.42 **D** $0.45

1278 A company issues shares as shown below:

Ordinary shares of $0.50 (50 cents), fully paid $200 000

Preference shares of 8% fully paid $100 000

An extract from the Profit and Loss Account is shown:

		$000	$000
Profit before tax			94
Corporation tax			26
Profit after tax			68
Dividends paid and proposed:	Preference	8	
	Ordinary	30	38
Retained for year			30

What are the earnings per share? [N99Q27C]

A 7.5 cents **B** 15 cents **C** 17 cents **D** 21.5 cents

1279 A company has the following share capital structure.

Ordinary shares of $0.25 each, fully paid $200 000

8% Preference shares of $0.50 each, fully paid $100 000

An extract from its Profit and Loss Appropriation Account is shown below:

	$000	$000
Net profit for the year		68
Less: Preference dividend	8	
Ordinary dividend	30	38
Retained profits		30

What is the earnings per share? [J04Q31Z]

A 7.5 cents **B** 15 cents **C** 17 cents **D** 21.5 cents

1280 A company's issued share capital consists:

	$000
Ordinary shares of $0.25 fully paid	100
8% Preference shares of $1 each, fully paid	50

Extract from the current year's Profit and Loss Account is:

		$000	$000
Profit after tax		88	
Transfer to Asset Replacement Reserve		25	
			63
Dividends proposed:	Preference	4	
	Ordinary	20	24
			39

What are the earnings per share? [J02E12C]

A $0.097 5 **B** $0.147 5 **C** $0.21 **D** $0.22

1281 The issued and fully paid share capital of the company on 31 December 2002 was: [S03Q06Z]

	$000
300 000 7% Preference shares of $1 each	300
3 Million Ordinary shares of $1 each	3 000

If the profit for the year ended 31 December 2002 was $400 000, the earnings per share was

A 12 cents. **B** 12.40 cents. **C** 12.63 cents. **D** 13.33 cents.

1282 A company has in issue 100 000 ordinary shares of $1 each. The net profit for the year after tax and preference dividend amounts to $150 000. The market value of each share is $6.

What is the company's price earnings ratio? [N02Q18Z]

A 4 **B** 6 **C** 7.5 **D** 9

1283 The company's Balance Sheet shows an issued share capital of 500 000 ordinary shares of $1 each. It pays a dividend of 6% out of the profits after tax of $240 000. The company's turnover is $2 million. The market price per share is $2,40 on the Zimbabwe Stock Exchange (ZSE). What is the price earnings ratio? [J03Q23Z]

A 4 times **B** 5 times **C** 5.33 times **D** 5.71 times

1284 A company makes annual profits of $20 million before interest of $2 million and taxation of $2 million and ordinary dividends of $5 million. It has on issue 40 million shares of $0.20 each, currently valued at $10.00 each.

What is the price earnings ratio? [J07Q23Z]

A 20 **B** 25 **C** 26.67 **D** 36.26

1285 A company has an authorised share capital of 750 000 ordinary shares of $1 each. 500 000 shares have been issued and have a market value of $3.50 each.

Net profit after taxation for the year is $140 000. The directors are proposing dividend of $0.70 per share for the year.

What is the price/earnings ratio? [J02E14C]

A 12.5 **B** 18.75 **C** 25 **D** 37.5

1286 What is the company's price earnings ratio? [N04Q15C]

Dividend yield	4%
Dividend for the year	$10 000
Dividend cover	4 times

A 4 **B** 6.25 **C** 10 **D** 25

1287 A company's authorised share capital is 1 000 000 shares of $1 each. 400 000 have been issued and have a market value of $2 each. Year-end results show the following:

	$000
Profits before tax	50
Taxation	10
Profits after tax	40

What is the price/earnings ratio? [N98Q17C]

A 8 **B** 10 **C** 20 **D** 25

1288 A company has an authorised share capital of 750 000 ordinary shares of $1 of which it has issued five hundred thousand shares.

The following is an extract from the Profit and Loss Account:

	$000
Operating profit	400
Debenture interest	(60)
	340
Transfer to general reserve	(100)
Ordinary dividend	(200)
Retained profit	40

The current market price of the shares is $3,60.

What is the price earnings ratio? [Randall]

A 5.29 **B** 7.5 **C** 8 **D** 11.25

1289 A company has the following information:

Price earnings (P/E) ratio	14
Earnings per share (EPS)	$0.60
Dividend per share (DPS)	$0.40

What is the market value of an ordinary share? [N04Q13C]

A $2.80 **B** $5.60 **C** $8.40 **D** $14.00

1290 A company has the following information:

Price earnings ratio (PER)	19
Earnings per share (EPS)	$1.575
Dividend per share (DPS)	$0.875

[N07Q02Z]

What is the market price of an ordinary share?

A $6.13 **B** $12.25 **C** $19 **D** $29.93

1291 An ordinary share in the limited company has a nominal (par/ stated/ face) value of $0.25. Latest financial results show earnings per share of $0.05 with a price earnings ratio of 10.

What is the market value of an ordinary share? [J00Q26C]

A $0.25 **B** $0.50 **C** $1.25 **D** $2.50

1292 The following information relates to Makore Ltd:

–	Dividend yield	5%
–	Ordinary shares of $0.50 each	$10 000
–	Proposed and paid dividend	$1 500

What is the market value per share? [J05Q18Z]

A $0.08 **B** $0.15 **C** $1.50 **D** $3.00

1293 A company has P/E ratio that is 20% less than the average for this type of business, which is 15. Its earnings per share are $0.20.

What will the company's share price be? [N01Q23C]

A $0.60 **B** $2.40 **C** $3.00 **D** $3.60

1294 A company's profit after tax was $10.02 million. Its issued share capital comprises 500 000 $1 ordinary shares and 200 000 10% preference shares of $1 each.

If the price/earnings ratio is 12, what is the market value of each ordinary share? [N04Q26Z]

A $171.77 **B** $240.00 **C** $240.48 **D** $240.96

1295 Which of the following models represent earnings yield? [J03Q25Z]

A Declared rate of dividend × Dividend yield
B Dividend ÷ Number of ordinary shares
C Earnings per share ÷ Market price per share
D Market price per share ÷ Earnings per share

1296 The information below relates to Divas (Pvt) Ltd.

Share capital			**$000**
Ordinary shares of $0,50 each fully paid			600
100 000 10% Preference shares, fully paid			100
Extract from the Income Statement		**$000**	**$000**
Profit before tax			420
Taxation			190
			230
Dividends paid and proposed:	Preference	10	
	Ordinary	110	120
Retained Income			110

The market price per share is $0,45.

What is the earnings yield? [N03Q06Z]

A 32.85% **B** 37.45% **C** 39.42% **D** 40.74%

1297 Information extracted from the Balance Sheets of company **P** and company **Q** is as follows:

	Company **P**	*Company* **Q**
	$000	**$000**
Ordinary share capital	500	600
12% Debentures	400	200

[Randall]

Which of the following would experience the greatest degree of risk in times of declining profits?

A Debenture holders in Company **P** **C** Ordinary shares in Company **P**
B Debenture holders in Company **Q** **D** Ordinary shares in Company **Q**

1298 Balance Sheets of two companies, **X** and **Y** are:

	X	**Y**
	$000	**$000**
Ordinary shares	900	800
10% Loan stock	150	600
Profit and Loss Account	650	300

[J02E17C]

Which of the following providers of finance would experience the greatest risk in times of falling profits?

A Loan stock holders of company **X** **C** Ordinary shareholders of company **X**
B Loan stock holders of company **Y** **D** Ordinary shareholders of company **Y**

1299 The Balance Sheets of two companies, **P** and **Q**, have the following information:

	P	**Q**
	$000	**$000**
Ordinary shares	1 600	1 800
10% Debentures	1 200	300
Profit and Loss Account	600	1 300

[J07Q27Z]

Which of the following providers of finance would experience the greatest risk in times of falling profits?

A Debenture holders of company **P** **C** Ordinary shareholders of company **P**
B Debenture holders of company **Q** **D** Ordinary shareholders of company **Q**

1300 In times of rising profits, investors will benefit most from investing in [N05Q27Z]

A debentures in a low-geared company. **C** ordinary shares in a low-geared company.
B ordinary shares in a high-geared company. **D** preference shares in high-geared company.

1301 The Balance Sheet extract of Masawi Ltd on 31 October 2007 is given below:

Capital and reserves	**$000**
Ordinary share capital	200
12% Preference shares	180
Share premium	20
General reserve	40
20% Debentures	50

Which is debt to equity ratio of Masawi Ltd? [J03Q20Z]

A 11.36% **B** 19.23% **C** 46.94% **D** 88.46%

1302 Analysis of Mendoza Ltd's financial statements over five years reveals that sales are growing steadily, the debt ratio is higher than industry average and is increasing, interest coverage is decreasing, return on total assets is declining and earnings per share is decreasing.

Considered together, these ratios suggest that [Horngren, Harrison & Lemon]

A competition is taking sales away from Mendoza Ltd.
B Mendoza Ltd is in a declining industry.
C Mendoza Ltd should pursue collection of debtors more vigorously.
D the company's debt burden is hurting profitability.

1303 If a firm's debt to equity ratio is 3:5, then the gearing ratio is [Prestige]

A 37.5% **B** 40% **C** 60%. **D** 62.5%

1304 Ngoma Ltd has the following information:

	$000
Ordinary shares of $1 each	2 000
8% Preference shares of $1 each	1 000
General reserve	500
Profit and loss	600
5% Debentures of $1 each	500

The capital gearing ratio of the company is [J05Q14Z]

A 10,9%. **B** 21,7%. **C** 32,6%. **D** 36,6%.

1305 What will cause a company's gearing to increase? [J02E11C]

A Bonus issue of ordinary shares.
B Conversion of debentures into ordinary share capital.
C Issue of convertible debentures.
D Rights issue of ordinary shares.

1306 What will reduce the gearing of a company? [J02E18C], [N99Q26C]

A Amortisation of goodwill **C** Conversion of loan stock into shares
B An issue of bonus shares **D** Increase in bank overdraft

1307 The gearing of a company can be reduced by [N05Q7Z]

A buying back ordinary shares in issue. **C** issuing debentures.
B issuing new preference shares. **D** retaining profits.

1308 Which of the following will reduce a company's capital gearing? [J03Q18Z]

A Incurring a bank overdraft **C** Issuing preference share to the public
B Issuing debentures **D** Retaining profits

1309 Gearing of a company may be reduced by [J07Q10Z]

A a bonus issue of ordinary shares. **C** an issue of convertible loan stock
B a rights issue of ordinary shares. **D** an issue of debentures.

1310 A company will reduce its gearing if it [N06Q29Z]

A increases its bank overdraft facility. **C** issues new ordinary shares.
B issues debentures. **D** issues new preference shares.

1311 A company plans to reduce its capital gearing.

How can this be achieved? [N04Q19C]

A By issuing new preference shares **C** By obtaining a long-term loan
B By making a bonus issue of shares **D** By redeeming debentures

1312 A company may improve its gearing by [N04Q30Z]

A incurring a bank overdraft. **C** issuing preference shares.
B issuing debentures. **D** retaining profits.

1313 The capital gearing of a company can be reduced by [N07Q25Z]

A issuing debentures. **C** making a bonus issue of shares.
B issuing preference shares. **D** retaining profits.

1314 Which action will increase the gearing of a company? [N01Q26C]

A Issuing debentures
B Issuing new ordinary shares
C Redeeming preference shares
D Repaying a bank loan

1315 A company may increase its gearing by [S03Q18Z]

A issuing new ordinary shares.
B issuing new preference shares.
C redeeming debentures.
D retaining profits.

1316 If a firm issues convertible loan stock, what's the effect on gearing and return on capital employed? [N04Q14C]

	Gearing ratio	Return on capital employed
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

1317 Which of the following correctly shows the effect of a company increasing fixed assets through a loan? [N98Q37C]

	Return on capital employed	Asset use ratio	Gearing
A	decrease	decrease	decrease
B	decrease	decrease	increase
C	increase	decrease	increase
D	increase	increase	increase

1318 Which of the following correctly shows the effect of a company increasing its freehold property? [J02E16C]

	Gearing	Asset use ratio		Gearing	Asset use ratio
A	decrease	decrease	**C**	increase	decrease
B	decrease	increase	**D**	increase	increase

1319 A company revalues its buildings upwards. [J02E22C], [J99Q28C]

What is the impact of the following ratios?

	Gearing	Return on capital		Gearing	Return on capital
A	decrease	decrease	**C**	increase	decrease
B	decrease	increase	**D**	increase	increase

1320 Which effect will a bonus issue of shares have on a company's gearing and earning per share? [N01Q27C]

	Gearing ratio	Earnings per share		Gearing ratio	Earnings per share
A	decrease	increase	**C**	no effect	decrease
B	increase	decrease	**D**	no effect	increase

1321 A firm repays part of its debenture capital. [N02Q21Z]

The effects of this transaction on gearing and acid test ratios are:

	Gearing ratio	Acid test ratio		Gearing ratio	Acid test ratio
A	decreases	decreases	**C**	increases	decreases
B	decreases	increases	**D**	increases	increases

1322 A company which regularly pays a dividend converted $60 million 10% loan stock into ordinary shares.

Which of the following correctly describes the likely effect of the conversion on financial statements? [N04Q03C]

	Dividend	Interest	Gearing
A	decrease	increase	decrease
B	decrease	increase	increase
C	increase	decrease	decrease
D	increase	decrease	increase

Dividend **Interest** **Gearing**

1323 What is the effect of a bonus issue and a rights issue on gearing? [J05Q13Z]

	Bonus issue	Rights issue		Bonus issue	Rights issue
A	increases	increases	**C**	reduces	no effect
B	no effect	reduces	**D**	reduces	reduces

1324 A company has the following capital structure: [J07Q11Z]

	$000
600 000 Ordinary shares of $0.50 each	300
Profit and Loss Account	170
10% Debentures 2007 – 2008	120

$40 000 8% debenture stock (2011 – 2013) is issued, followed by a bonus issue on a 1 for 3 basis. A rights issue of one ordinary share for every two already held at $0.80 per share is made.

What is the effect of the transactions on reserves and gearing?

	Reserves	**Gearing**		**Reserves**	**Gearing**
A	decrease	decreases	**C**	increase	decreases
B	decrease	increases	**D**	increase	increases

1325 A company raises cash by issuing 8% debentures. [N99Q16C]

What is the effect on the company's profits and net current assets in the year of issue?

	Profits	**Net current assets**		**Profits**	**Net current assets**
A	decrease	decrease	**C**	increase	decrease
B	decrease	increase	**D**	increase	increase

1326 What is the purpose of information presented in notes to financial statements? [Spiceland, Sepe & Tomassini]

A To correct improper presentation in the financial statements.
B To present management's responses to auditor comments.
C To provide disclosure required by generally accepted accounting principles.
D To provide recognition of amounts not included in the totals of the financial statements.

1327 FRS 3, ***Reporting Financial Performance***, requires a statement of total recognised gains and losses to be reported.

Which item, arising during the year, will be included in this statement? [N98Q19C]

A Dividend payable **C** Premium on shares issued
B Goodwill written off to reserves **D** Prior year adjustment

1328 The following should be disclosed **except** [Horngren, Harrison & Lemon]

A accounting changes. **B** contingent liabilities. **C** probable losses. **D** strategy changes.

1329 Which of the following is **not** disclosed in a Statement of Shareholders Equity? [Meigs & Ferrara]

A A correction of an error in the amount of profit reported in prior period.
B Cash dividends declared during the period.
C Cumulative effect of a change in accounting principle upon the profit of prior year.
D Issuance or purchase of common stock.

1330 A company accidentally overlooked an accrual of income tax expense at 31 March 2007. Accountants for the company detected the error late in 2008 before the tax expense is paid.

The entry to record this prior period adjustment is [Horngren, Harrison & Lemon]

A Income Tax Expense
    Retained Earnings
B Income Tax Payable
    Retained Earnings
C Retained Earnings
    Income Tax Expense
D Retained Earnings
    Income Tax Payable

1331 Which item **must** be shown separately on the face of the Balance Sheet? [N04Q27Z]

A Intangible assets **B** Taxation **C** Trade debtors **D** Work in progress

1332 The accounts of limited companies must disclose changes in the methods of providing for depreciation of fixed assets.

Why is this important to users of corporate reports? [N04Q11C]

A It allows the market value of assets to be shown.
B It enables comparison with previous years accounts.
C It helps to access company's liquidity.
D It helps to access future dividends.

1333 What should be disclosed by way of note to the Balance Sheet regarding depreciation of fixed assets? [Randall]
A Date of acquisition
B Estimated net residual value
C Estimated proceeds of disposal
D Useful economic lives of the assets

1334 The Income Statement item that is likely to be most useful for predicting income from year to year is [Horngren, Harrison & Lemon]
A discontinued operations.
B extraordinary items.
C net profit.
D net profit from continuing operations.

1335 Which of the following is **not** reported on the Income Statement? [Horngren, Harrison & Lemon]
A Earnings per share
B Extraordinary gains and losses
C Income tax expense
D Issue price of shares

1336 What should be shown on the **face** of a company's published Profit and Loss Account? [N99Q19C]

	Administrative expenses	**Particulars of directors' emoluments**
A	not shown	not shown
B	not shown	shown
C	shown	not shown
D	shown	shown

1337 Which of the following would **not** normally be classified as administration expenses? [N04Q01Z]
A Audit fees
B Computer repairs and maintenance costs
C finance director's salary
D legal fees for the purchase of buildings

1338 Which of the following items should **not** be disclosed in a published Income Statement? [N03Q22Z]
A Auditors' fees
B Average number of employees in a department
C Depreciation charge for the year
D Hire of plant

1339 Which of the following is **not** required to be disclosed in published company accounts? [J02Q07Z]
A Basis of calculation of cost and net realisable value of stocks.
B Basis of calculation of provision for doubtful debts.
C Depreciation methods used.
D Treatment of goodwill.

1340 Which of the following is **not** required to be disclosed in the published company accounts? [N98Q18C]
A Auditors remuneration
B Depreciation policy
C Legal costs
D Salary of highest paid director

1341 Which of the following should **not** be included in the published accounts of a company? [N02Q27Z]
A Audit fees
B Depreciation charge
C Directors' remuneration
D Legal costs of recovering debt

1342 Published company accounts do **not** disclose [J07Q14Z]
A accounting policies.
B auditors' fees.
C directors' remuneration.
D rent paid for premises.

1343 Which accounting policy is **not** required to be disclosed in (published company) accounts (prepared under the Companies Act 24:03)?
A Basis of calculation provision for bad (doubtful) debts
B Basis of calculation of cost and net realisable value of stocks
C Depreciation method used
D Treatment of goodwill [J99Q21C], [J02E07C]

1344 Which item is **not** required by the Companies Act 24:03 to be disclosed in the company's accounts? [N00Q19C]
A Auditors' remuneration
B Depreciation
C Directors' remuneration
D Legal expenses

1345 What control function is performed by auditors? [Horngren, Harrison & Lemon]
A Assurance that all transactions are accounted for correctly.
B Communication of auditing results to regulatory agencies.
C Guarantee that a proper separation of duties exists within a business.
D Objective opinion of the effectiveness of the internal control system.

1346 What does SSAP 25, ***Segmental Reporting***, require companies to disclose in published accounts? [J98Q19C]
A Amounts of annual depreciation
B Earnings per share
C Stock valuation methods
D Turnover in different classes of business

1347 The Companies Act 24:03 requires the disclosure of certain items in the Profit and Loss Account. [N01Q19C]

Which of the following must be disclosed?
A Advertising expenditure
B Auditor's remuneration
C Bad debts written off
D Rent and rates payable

1348 SSAP 25, ***Segmental Reporting***, require companies to give separate figures for certain items for each segment.

For which of the following are separate figures **not** required? [Randall]
A Cost of sales
B Net assets employed
C Profit before taxation
D Turnover

1349 A company has three distinct business segments.

Which information does the company have to report for each of the activities? [N01Q20C]
A Capital and reserves
B Gross profit
C Interest charges
D Net assets

1350 Which of the following is **not** a disclosure requirement for employees? [J03Q17Z]
A Lowest fees paid to the director
B Other pension costs for staff
C Social security costs for staff
D Wages and salaries paid to staff

1351 The following are disclosed by way of note **except** [Author]
A cost of turnover.
B hire of plant and machinery.
C rent from land.
D schedule of fixed assets.

1352 Important events subsequent to Balance Sheet date should be disclosed because they
A describe changes in accounting methods.
B may affect the interpretation of the current-period financial statements.
C occur immediately after the current period.
D reveal losses that have a high probability of occurring in the future. [Horngren, Harrison & Lemon]

1353 Which of the following, occurring after the Balance Sheet date, is an adjusting event? [Randall]
A A capital reconstruction
B A debtor at the Balance Sheet date subsequently becoming bankrupt
C An issue of shares
D Loss of stock in a fire

1354 The following events occurred after the year end, but before the financial statements were approved by the directors.

Which of the following is an adjusting event? [J00Q22C]
A A major debtor becoming bankrupt
B Closure of factory
C Conversion of loan stock into shares
D Flood damage to stock not insured

1355 Which of the following items is an example of an adjusting event occurring after Balance Sheet date? [N03Q02Z]
A Bankruptcy of a major debtor
B Changes in rates of foreign exchange
C Loss of stock through fire
D Purchase of a new vehicle

1356 The accounts of a business were prepared on 30 September. A major debtor owing $400 000 went into liquidation on 10 October.

Under IAS 10, ***Accounting for post Balance Sheet events***, which of the following is correct? [N01Q22C]
A Adjusting event – decrease net profit by $400 000
B Adjusting event – note to the accounts
C Non-adjusting event – decrease net profit by $400 000
D Non-adjusting event – note to the accounts

1357 Events occurring after a Balance Sheet date are classified as either 'adjusting events' or 'non-adjusting events'. An adjusting event is one which requires a change in the final accounts.

Which of the following is an example of an adjusting event? [J99Q23C]

A Changes in rates of foreign exchange.
B The issue of a loan stock.
C The insolvency of a major debtor.
D The purchase of a new vehicle.

1358 Which of the following is an adjusting post Balance Sheet event? [S03Q14Z]

A A valuation of property which provides evidence of permanent diminution in value.
B Issue of shares and debentures.
C Loss of fixed assets as a result of fire.
D Mergers and acquisitions.

1359 Which event, occurring after the Balance Sheet date, should be adjusted in the Balance Sheet? [N04Q10C]

A A debtor in the Balance Sheet subsequently becoming bankrupt.
B A property valuation which provides evidence of a permanent diminution in value.
C Amounts received in respect insurance claims which were in course of negotiation at the Balance Sheet date.
D Re-negotiation of amounts owing by debtors.

1360 According to International Accounting Standard 10, ***Post Balance Sheet Events***, certain events are disclosed in the **notes** to the financial statements.

To which of the following does this rule apply? [N98Q20C]

A Destruction of factory by fire after the year-end, resulting in no production.
B Insolvency of a debtor, existing at Balance Sheet date.
C Sale of stock after year end at a material loss.
D Valuation of property, providing evidence of permanent diminution in value at year-end.

1361 Events occurring after Balance Sheet date are classified as either 'adjusting events' or 'non-adjusting events'. An adjusting event is one which requires a change in the financial accounts.

Which of the following is **not** an *adjusting event*?

A A valuation of property which provides evidence of a permanent diminution.
B Losses of fixed assets or stocks as a result of a catastrophe.
C Receipt of information regarding taxation rates.
D Renegotiation of amounts owed by debtors. [N05Q23Z]

1362 Which of the following is a Post-Balance Sheet non-adjusting event?

A Damage to stock being determined after the Balance Sheet date.
B Issue of shares after the Balance Sheet date.
C Price of a fixed asset that is to be sold being determined after the Balance Sheet date.
D Valuation of premises after the Balance Sheet date. [N06Q14Z]

1363 A company's year end is 30 June 2007 (April 2006).

On 27 July 2007 (May 2006) a major fire took place at the company's factory. On 8 August 2007 (June 2006) a major debtor at 30 June 2007 (2006) went into liquidation.

In accordance with IAS 10, ***Post Balance Sheet Events***, how should the two events be treated in the financial statements? [J98Q20C], [N01Q21C]

	Fire	*Liquidation*		*Fire*	*Liquidation*
A	accrued in accounts	accrued in accounts	**C**	disclosed in notes	accrued in accounts
B	accrued in accounts	disclosed in notes	**D**	disclosed in notes	disclosed in notes

1364 OK Masvingo's year end is 31 May 2007. On 1 June 2007, a major fire burnt down the supermarket. On 8 July 2007, a major debtor at 31 May 2007 went into liquidation.

In accordance with IAS 10, ***Accounting for Post Balance Sheet events***, how should the two events be treated in the financial statements? [J98Q20C]

	Liquidation	*Fire*		*Liquidation*	*Fire*
A	accrued in accounts	accrued in accounts	**C**	disclosed in notes	accrued in accounts
B	accrued in accounts	disclosed in notes	**D**	disclosed in notes	disclosed in notes

1365 Posso Ltd is being sued by Brian Mutare, a former managing director, who was dismissed in January 2004. Banda, the company lawyer, thinks Brian Mutare will win damages of about $15 million. [N04Q21Z]

In preparing financial statements for the year ended 31 December 2003, the company should deal with the case as

A a contingent liability which should be disclosed.
B a contingent loss which should be accrued as a loss.
C a non-adjusting post Balance Sheet event.
D an adjusting post Balance Sheet event.

1366 XYZ company is a defendant in a lawsuit that claims damages of $55 000. On the Balance Sheet date, it appears unlikely that the court will render a judgment against the company.

How should XYZ company report this event in its financial statements? [Horngren. Harrison & Lemon]

A Disclose the contingent liability in a note.
B Disclose the contingent loss in a note.
C Omit mention because no judgment has been rendered and possibility is remote.
D Report the loss in the Income Statement and the liability in the Balance Sheet.

1367 A loss contingency is recorded in the accounts when [Meigs & Ferrara]

A all uncertainty surrounding the loss situation is resolved.
B it is reasonably possible that a loss has been incurred and the amount of the loss can be estimated.
C it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.
D it is probable that a loss has been incurred.

1368 Loss contingencies relating to pending litigation are [Meigs & Ferrara]

A disclosed as a note to the financial statements.
B not disclosed or recorded until the litigation has been settled.
C shown as current liabilities in the Balance Sheet.
D shown as extraordinary items in the Income Statement.

1369 The non-payment of debenture interest at the close of the business at the agreed date has an effect of increasing the

A bank balance. **B** current liabilities. **C** debentures. **D** net profit. [J04Q19Z]

1370 A company issues a 5-year bond of $1 000 000. Interest for years 1 and 2 will be at the rate of 10% per annum, and for years 3, 4 and 5 will be 12% per annum. [N00Q29C]

What will be the charge for interest shown in its Profit and Loss Account for each year?

A $100 000 in each year
B $100 000 in years 1 and 2, and $120 000 in years 3, 4 and 5
C $112 000 in each year
D $120 000 in each year

1371 The directors of a corporation are responsible for [Meigs & Ferrara]

A declaring dividends.
B maintaining stockholder records.
C preparation of accounting records and financial statements.
D the day-to-day managing of the business.

1372 What must be disclosed in the report of the directors? [J02E08C]

A Accounting policies
B Directors' interests in shares of the company
C Overdraft facility
D Segmental analysis of turnover

1373 Which of the following must be disclosed in the Report of the Directors of a company? [N01Q18C]

A Accounting policies
B Amount recommended for dividend
C Directors' remuneration
D Stock valuation policy

1374 Which details are **not** included in a directors' report? [J00Q20C]

A Dividends
B Employee involvement
C Principal donations
D Stock valuations

1375 Which item does **not** need to be included in the directors report of a limited company? [N04Q08C]

A A director's emoluments
B Directors names
C Directors share-holdings
D Dividends recommended by directors

1376 A limited company's director's report does **not** require [J07Q25Z]
- **A** details of export sales.
- **B** future developments for the business.
- **C** the names of the directors.
- **D** the proposed dividends details.

1377 Liquidity ratios include [Doost RK]
- **A** acid test ratio, cash flow ratios, current ratio, debtors days and stock turnover.
- **B** earnings per share, earnings yield, dividend per share, dividend yield and price earnings ratio.
- **C** gross profit percentage, mark-up, net profit percentage and operating expenses percentage.
- **D** return on assets, return on capital employed and return on equity.

1378 The Income Statement and the Balance Sheet [Horngren, Harrison & Lemon]
- **A** are divided into operating, financing and investing activities.
- **B** fail to report why cash changed during the period.
- **C** report the cash effects of transactions.
- **D** report the sources and uses of cash during the period.

1379 A company proposes to purchase an expensive machine which will pay for itself in five years. General interests are low and the company wishes to avoid a change in control.

From which source of finance should it obtain the necessary funds? [Randall]
- **A** A rights issue
- **B** An issue of convertible loan stock
- **C** An issue of debentures
- **D** An issue of redeemable preference shares

1380 Which of the following changes indicates receipt of cash? [Meigs & Ferrara]
- **A** A credit change in accumulated depreciation.
- **B** A credit change in investments.
- **C** A debit change in trade creditors.
- **D** A debit change in trade debtors.

1381 In a Cash Flow Statement, which item is a cash inflow? [N07Q27Z]
- **A** A redemption of ordinary shares
- **B** An increase in stock
- **C** An increase in trade creditors
- **D** An increase in trade debtors

1382 Which is a source of cash? [J04Q28Z]
- **A** Bonus issue
- **B** Increase in debtors
- **C** Profit on disposal of motor vehicle
- **D** Rights issue

1383 A company can improve its bank balance by [Randall]
- **A** issuing bonus shares.
- **B** making rights issues.
- **C** redeeming its debentures.
- **D** transferring money from share premium.

1384 How can company increase its liquidity? [J01C21C]
- **A** By making a bonus issue
- **B** By making a rights issue
- **C** By transfers from Share Premium Account
- **D** By transfers from the General Reserve

1385 A company's liquidity can be improved by [N05Q08Z]
- **A** bonus issue of shares.
- **B** capitalisation of development costs.
- **C** not providing for depreciation.
- **D** rights issue of shares.

1386 How will a company's liquidity be improved? [N99Q28C]
- **A** By a bonus issue of shares
- **B** By a rights issue of shares
- **C** By reducing the provision for doubtful debts
- **D** By reducing the rate of depreciation on fixed assets

1387 How may the company's liquidity be improved? [J07Q21Z]
- **A** By a bonus issue of shares.
- **B** By a rights issue of shares.
- **C** By reducing the depreciation on fixed assets.
- **D** By reducing the provision for doubtful debts.

1388 A company can improve its liquidity by [S03Q12Z]
- **A** buying more stock on credit.
- **B** decreasing the creditor payment period.
- **C** extending the debtors' collection period.
- **D** increasing the creditor payment period with the agreement of creditors.

1389 Which of the following indicates a cash payment? [Meigs & Ferrara]
A Credit change in Debtors Control Account.
B Credit change in the Capital Account.
C Debit change in Cash Account.
D Debit change in Creditors Control Account.

1390 Which of the following represents a cash disbursement? [Author]
A Decrease in expense accruals
B Decrease in provision for bad debts
C Increase in provision for discount allowed
D Increase in prepaid revenue.

1391 In a Cash Flow Statement, which item is a cash outflow? [J00Q19C]
A A decrease in stock
B A decrease in trade debtors
C A decrease in trade creditors
D An issue of bonus shares

1392 Which of the following will result in a cash outflow? [J05Q21Z]
A Increase in provision for bad debts
B Goods taken by owner for personal use
C Receipt from bad debt recovered
D Sale of motor vehicle at a loss

1393 A Cash Flow Statement is designed to replace [Meigs & Ferrara]
A Balance Sheet.
B Cash Book and Cash Budget.
C Income Statement.
D other statement than these.

1394 A Cash Flow Statement shows changes in [N99Q20C]
A cash.
B funds flow.
C gearing.
D the net book value of investment.

1395 A Cash Flow Statement shows changes in [N03Q01Z]
A cash. **B** funds flow. **C** gearing. **D** working capital.

1396 According to International Accounting Standard 7, a Cash Flow Statement when used in conjunction with the rest of the financial statements, benefits users of accounting information by showing the [N06Q26Z]
A liquidity and solvency of the firm.
B number of shares authorised.
C profit and loss from ordinary activities.
D statement of changes in a company's equity.

1397 The primary purpose of a Cash Flow Statement is to provide relevant information about
A an enterprise's ability to generate future positive net cash flows.
B an enterprise's ability to meet cash operating needs.
C differences between net income and associated cash receipts and disbursements.
D the cash receipts and disbursements of an entity during a period. [Spiceland, Sepe & Tomassini]

1398 The Cash Flow Statement is used for decision making by [Horngren, Harrison & Lemon]
A giving the ratio relationship between selected items.
B indicating how net profit was earned.
C reporting where cash came from and how it was spent.
D horizontal analysis of the cash flows.

1399 Cash Flow Statements do **not** show [J07Q12Z]
A capital commitments.
B foreign currency deposits.
C liquid investments
D taxation

1400 A Cash Flow Statement is **not** intended to provide readers with information about [Meigs & Ferrara]
A non-cash investing and financing transactions.
B the ability of a business to continue paying dividends.
C the net cash flow from operating activities.
D the profitability of the business.

1401 How would a bonus issue affect a Cash Flow Statement? [N09Q09C]
A It would have no effect on the cash flow
B It would increase cash flow from financing activities
C It would increase cash flow from investing activities
D It would reduce cash flow from operations

1402 How does a bonus issue of shares affect the Cash Flow Statement? [Randall]
A It will increase cash flow from operating activities.
B It will increase financing.
C It will increase the management of liquid resources.
D It will not appear in the Cash Flow Statement.

1403 What is the effect of a bonus issue of shares on the cash flow of a company? [Randall]
A It has no effect on the cash flow.
B It increases the cash flow from operating activities.
C It increases the cash flow from investing activities.
D It reduces the cash flow from operations.

1404 How should revaluation of a fixed asset be treated in a Cash Flow Statement? [J02Q16Z]
A It should be included in the cash flow from financing activities.
B It should be included in the cash flow from investing activities.
C It should be included in the cash flow from operations.
D It should not be included in the Cash Flow Statement.

1405 When preparing Cash Flow Statements, which item does **not** result in a cash flow? [J03Q22Z]
A Increase in creditors
B Increase in debtors
C Increase in revaluation reserve
D Purchase of fixed asset

1406 All of the following are non-cash items **except** [N03Q10Z]
A depreciation.
B decrease in creditors.
C doubtful debts provision.
D profit on sale of fixed assets.

1407 Which of the following items appears on a Cash Flow Statement prepared by direct method? [Horngren, Harrison & Lemon]
A Cash payment to suppliers
B Decrease in debtors
C Depreciation
D Loss on sale of plant assets

1408 The '**indirect method**' does a better job than '**direct method**' at [Horngren, Harrison & Lemon]
A reporting the cash effects of financing activities.
B reporting the separate components of operating cash flows such as collections from customers and payments to suppliers and employees.
C reporting why the cash changed.
D showing the link between the net profit and cash flow from operations.

1409 Which of the captions should **not** appear in a Cash Flow Statement? [Meigs & Ferrara]
A Funds provided from operating activities.
B Net cash provided by financing activities.
C Net cash used by investing activities.
D Proceeds from the sale of plant assets.

1410 Non-cash investing and financing activities are [Horngren, Harrison & Lemon]
A not reported in the financial statements.
B reported in a separate schedule that accompanies the Cash Flow Statement.
C reported in the main body of the Cash Flow Statement.
D reported on the Income Statement.

1411 Which item in the Cash Flow Statement required by International Accounting Standard 7 (IAS 7) gives an indication of the company's long-term capital investment policy? [N04Q09C]
A Capital expenditure
B Increase in borrowings
C Level of dividends paid
D Total cash generated from operating activities

1412 A successful company's major source of cash should be [Horngren, Harrison & Lemon]
A financing activities. **B** investing activities. **C** operating activities. **D** trading activities.

1413 A successful, growing business is most likely to show negative cash flow from [Meigs & Ferrara]
A financing activities.
B investing activities.
C operating activities.
D transaction with customers.

1414 In a Cash Flow Statement, proceeds from issuing equity instruments should be classified as cash flow from [Spiceland, Sepe & Tomassini]
A financing activities.
B investing activities.
C lending activities.
D operating activities.

1415 MedVac Inc purchased land by issuance of convertible loan stock. No cash down payment was made.

In the company's Cash Flow Statement, this transaction should appear [Meigs & Ferrara]

A among cash flows from financing activities.
C in the supplementary schedule.
B among cash flows from investing activities.
D nowhere, as no cash was paid or received.

1416 In a Cash Flow Statement, payments to acquire debt instruments of other entities (other than the cash equivalents) should be classified as cash flows for [Spiceland, Sepe & Tomassini]

A financing activities. **B** investing activities. **C** lending activities. **D** operating activities.

1417 A company acquired an asset worth $5 000. In full settlement of the price, the company issued 5 000 ordinary shares of $1 as fully paid-up shares to the vendor.

Under which heading in the Cash Flow Statement will this transaction be shown? [Randall]

A Acquisitions
C Financing
B Capital expenditure
D Not shown under any heading

1418 The accounting records of Tiger Corp include a $200 000 debit to the Land Account. [Meigs & Ferrara]

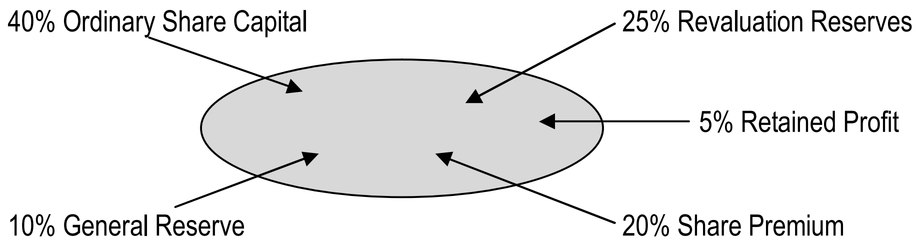
This transaction should appear in the Cash Flow Statement as a cash

A inflow from financing activities.
C outflow from financing activities.
B inflow from investing activities.
D outflow from investing activities.

1419 Dividends paid to shareholders are reported on Cash Flow Statement as [Horngren, Harrison & Lemon]

A a financing activity. **B** a trading activity. **C** an investing activity. **D** an operating activity.

1420 Total of capital and reserves of a company before dividend proposal is $1 100 000, illustrated below:



What is the maximum amount that can be distributed to shareholders as dividend? [N01Q27Z]

A $15 000 **B** $110 000 **C** $165 000 **D** $440 000

1421 A company wishes to prepare a Cash Flow Statement from the following information:

			$000
Proposed dividends owing for:	Year	1	75
		2	120
Dividends paid and proposed for:	Year	2	170

What is the amount of dividends to be included in Cash Flow Statement for Year 2? [Prestige]

A $25 000 **B** $75 000 **C** $125 000 **D** $215 000

1422 Ali holds 500 ordinary shares of $0.50 in Riski Ltd. He has paid in full the amount of $0.35 called up on each share. The company is unable to pay its creditors.

What is the maximum amount that Ali can now be required to pay on his shares? [Randall]

A $75 **B** $250 **C** $325 **D** $500

1423 A company purchased a motor vehicle for $25 000. Settlement was made by a payment of $22 000 and the part exchange of one of the company's own vehicles for $3 000. The vehicle given in part exchange had a written down value of $7 000, but a resale value of $2 000. [Randall]

Which amount should be shown in the Cash Flow Statement for the acquisition of the vehicle?

A $22 000 **B** $24 000 **C** $25 000 **D** $29 000

1424 Interest receivable opening balance is $18 000, closing balance is $14 000 and interest income earned during the period is $43 000. [Horngren, Harrison & Lemon]

How much cash interest was received?

A $39 000 **B** $43 000 **C** $45 000 **D** $47 000

1425 A company bought new equipment costing $200 000. It paid $150 000 in cash and received a part-exchange allowance of $50 000 on some old equipment, which had a book value of $40 000. It also sold another item of equipment, with a net book value of $20 000, for $15 000.

How should these transactions appear in a Cash Flow Statement? [N04Q01C]

	Purchase of tangible assets	**Sale of tangible assets**
A	$150 000	$15 000
B	$150 000	$65 000
C	$200 000	$60 000
D	$200 000	$65 000

1426 McGrath Ltd sold an investment at a gain of $22 000. The Investment Account reports opening balance of $104 000 and closing balance of $91 000. During the year, McGrath Ltd purchased new investments costing $31 000.

What were the proceeds from the sale of investments? [Horngren, Harrison & Lemon]

A $22 000 **B** $44 000 **C** $66 000 **D** $186 000

1427 Extracts from a company's Balance Sheets at 31 December 2006 and 2007 are:

	31 December 2006	**31 December 2007**
	$m	**$m**
Ordinary shares of $1 each	100	130
Share Premium Account	50	80

Notes:

i. On 1 July 2007, there was a bonus issue of 1 for 10.

ii. On 1 October 2007, there was a right issue.

iii. There were no other reserve balances. [J00Q15C]

How much cash was received from the issue of shares in the year ended 31 December 2007?

A $20 m **B** $30 m **C** $50 m **D** $60 m

1428 An example of cash flow from operating activities is [Fess & Warren]

A payment of cash for dividends.

B receipt of cash from credit customers.

C receipt of cash from debenture issues.

D receipt of cash from share issues.

1429 In a Cash Flow Statement, which item is an adjustment to operating profits to arrive at cash from operating activities?

A Changes in stock levels

B Interest payable

C Purchases of machinery

D Tax payable [J99Q22C], [J04Q15Z]

1430 Net profit is $17 000, depreciation is $9 000 and amortisation is $3 000. In addition, the sale of old plant generated a $4 000 gain. Current assets other than cash increased by $6 000 and the current liabilities increased by $8 000.

What was the amount of cash flow from operations? [Horngren, Harrison & Lemon]

A $23 000 **B** $27 000 **C** $31 000 **D** $35 000

1431 A company reported a profit of $15 000 for the year, after charging the following:

– Depreciation $2 500

– Loss on sale of assets $1 000

During the year, there was a decrease in working capital of $500.

What was the net cash flow generated from operations? [J98Q18C]

A $12 000 **B** $17 500 **C** $18 000 **D** $19 000

1432 The following information is extracted from the accounts of a company:

Year ended 30 June	**2003**	**2004**
	$000	**$000**
Operating profit	100	100
Loss on disposal of fixed assets	16	29
Closing stock	35	41
Debtors	47	49
Creditors	16	20

[Randall]

How much was the cash inflow from operating activities in the year ended 30 June 2004?

A $67 000 **B** $75 000 **C** $125 000 **D** $133 000

1433 A company's net profit in 2003 was $192 000. Depreciation for the year was $33 600. Other data were:

	At 31 December 2002	At 31 December 2003
	$	$
Stock	128 000	176 000
Debtors	68 000	50 400
Bank	26 400	169 600
Creditors	57 600	69 600

What was the net cash generated from operating activities? [N04Q25Z]

A $143 200 **B** $173 600 **C** $207 200 **D** $210 400

1434 The following information is made available by a limited company.

	At 31 December 2001	At 31 December 2002
	$000	$000
Stock	80	90
Debtors	80	60
Bank	30	40
Creditors	70	80

Operating profit before interest and depreciation was $100 000. The interest and depreciation charges for the year were $10 000 and $40 000 respectively.

What was the net cash inflow from operating activities in 2002? [N03Q20Z]

A $80 000 **B** $120 000 **C** $130 000 **D** $170 000

1435 Net profit reported in the Income Statement for a year is $55 000 and the depreciation of the plant assets is $22 000.

The balances of the current asset and current liability accounts at the start and end of the year are: [Fess & Warren]

	End	Start
	$	$
Trading stocks (inventories)	145 000	150 000
Trade debtors (accounts receivable)	100 000	90 000
Prepaid expenses	7 500	8 000
Cash at bank	65 000	70 000
Trade creditors (accounts payable)	51 000	58 000

The total amount reported for cash flows for operating activities, using the indirect method, is

A $33 000. **B** $55 000. **C** $65 500. **D** $77 000.

1436 The following is data available for a company:

	At 30 June 2009	At 30 June 2010
	$000	$000
Stock	160	220
Debtors	85	63
Bank	33	212
Creditors	72	87

Operating profit before interest and depreciation is $240 000. Depreciation charges for the year totalled to $42 000.

According to IAS 7, *Statements of Cash Flows*, what was the net cash flow from operating activities in the year ended 30 June 2010? [N98Q24C]

A $179 000 **B** 217 000 **C** $259 000 $263 000

1437 The following information is extracted from the books of Chikonye Ltd:

	$
Net profit after tax	60 000
Loss on sale of machinery	600
Decrease in provision for bad debts	120
Interest on loan	2 500
Increase in interest accrued due	500
Decrease in debtors	1 600

What was the cash flow from operations? [J05Q22Z]

A $62 580 **B** $64 580 **C** $64 700 **D** $65 080

1438 The following information is available at the end of the year:

	$
Net profit before interest and tax	20 000
Depreciation for the year	5 000
Debenture interest	1 000
Profit on sale of fixed assets	2 500
Increase in debtors	3 000
Increase in stock	1 500
Decrease in creditors	2 000

What is the net cash generated from operations? [N02Q17Z]

A $14 000 **B** $15 500 **C** $17 000 **D** $21 000

1439 The following information has been obtained from the accounts of One Ltd for the year ended 30 June:

	$000
Operation profit after tax	2 000
Depreciation charges	120
Profit on sale of vehicle	20
Receipts from sale of vehicle	100
Interest paid	200
Increase in stocks	300
Increase in debtors	70
Increase in creditors	100
Dividend paid	50

The net cash inflow from operating activities was [N05Q26Z]

A $1 830 000. **B** $1 870 000. **C** $2 030 000. **D** $2 180 000.

1440 The following items have been extracted from the Income and Expenditure Account of a club:

	$
Depreciation of equipment	1 000
Subscriptions paid in advance	25
Subscriptions owing at year end	100
Expenses paid in advance	70
Expenses accrued	30
Surplus of income and expenditure	400

What effect will the items above have on the cash inflow? [N04Q02C]

A $515 inflow **B** $885 inflow **C** $1 115 inflow **D** $1 285 inflow

1441 What is the explanation for a large cash inflow from operating activities and significant loss? [Author]

A Huge depreciation charge
C Receipt of a bank loan
B Payment of creditors
D Sale of machinery at a loss

1442 Dexter Corporation reported net profit in excess of its net cash flow from operating activities.

A possible explanation for this is [Meigs & Ferrara]

A an increase in creditors over the period.
C non-operating gains.
B depreciation expense.
D non-operating loans.

1443 Simba and Temba are surprised at the poor results shown by their Profit and Loss Account yet the Bank Account reflects a large favourable balance.

What might explain the difference? [J05Q24Z]

A Creditors shortened their credit balance
C Partnership had high amounts of drawings in kind
B Much of the sales were on credit
D Partnership received a bank loan during the year

1444 Despite realising good profits at the year-end, a company may experience liquidity problems.

A possible explanation for this could be [S03Q39Z]

A a huge debt written off at the end of the year.
B the cost of an advertising campaign paid during the year.
C the large amount of money spent on the purchase of fixed asset during the year.
D the revaluation of buildings under taken at the year-end.

1445 When preparing a Cash Flow Statement, which item must be classified as an investing activity? [Prestige]

A Cost of purchasing a patent
B Dividend paid
C Interest on a long-term bank loan
D New long-term loan taken to finance the purchase of a fixed asset

1446 An example of cash flow from investing activities is [Fess & Warren]

A payment of cash for dividends.
B payment of cash to acquire merchandise.
C receipt of cash from sale of investments.
D receipt of cash from share issues premium.

1447 How much is shown as cash inflow from the disposal of equipment acquired at $10 000 cost, with net book value of $3 000 and sold at a profit of $1 000? [Author]

A $2 000 **B** $4 000 **C** $6 000 **D** $8 000

1448 An example of a cash flow from a financing activity is [Fess & Warren]

A payment of cash for dividends.
B payment of cash to acquire plant assets.
C receipt of cash from customers.
D receipt of cash from sale of equipment.

1449 During the current year, the Investments Account of Trend Co was debited for $150 000 and credited for $200 000. The Income Statement includes a gain on sales of investments of $45 000.

Based upon this information, the investing activities section of the Trend Co's Cash Flow Statement should include a cash receipt of [Meigs & Ferrara]

A $155 000. **B** $195 000. **C** $245 000. **D** $305 000.

1450 Which of the following cash flows is **not** classified as a financing activity in a Cash Flow Statement?

A Issuance of capital stock.
B Payment of a cash dividend.
C Payment of interest.
D Short-term borrowings. [Meigs & Ferrara]

1451 In preparing the Cash Flow Statement, which of the following is a financing activity? [S03Q13Z]

A Interest paid on finance lease
B Issue of bonus shares
C Issue of debentures
D Purchase of fixed assets

1452 Under which captions are the following items recorded?

1 Dividend paid
2 Dividend received [Author]
3 Interest paid
4 Interest received

	1	2	3	4
A	Financing	Financing	Investing	Financing
B	Financing	Investing	Operating	Investing
C	Operating	Financing	Operating	Financing
D	Operating	Investing	Investing	Investing

1453 What is the purpose of cost accounting? [J02E20C], [N98Q34C]

A To aid decision making.
B To calculate the value of goodwill.
C To give a true and fair view of a company's financial situation.
D To value the contribution made by a firm's workforce.

1454 The purpose of cost accounting is to [J07Q40Z]

A aid decision making.
B calculate the value of fixed assets.
C give a true and fair view of the financial situation.
D value the contribution made by the firm's work-force.

1455 What is the purpose of management accounting? [J05Q39Z]

A To calculate cost of a product.
B To give a true and fair view of a company's financial situation.
C To provide relevant information for decision making.
D To value the contribution made the firm's labour force.

1456 Which of the following are true about cost and management accounting information? [Doost RK]

A Assists the interpretation of financial statements
B Needed by workers to efficiently do their jobs
C Required by clients to assess value of the products
D Useful for effective management of the firm

1457 Which of the following is **not** a characteristic of management accounting reports? [Fess & Warren]

A Conciseness
B Cost-benefit analysis
C Relevance
D Timeliness

1458 The following information is true for cost and management accounting **except** that [N06Q37Z]

A it is prepared mainly for internal use.
B it is prepared in order to make future decisions.
C it is prepared using acceptable International Accounting Standards.
D information is used in strategy formulation.

1459 Relevant information for decision analysis [Horngren, Harrison & Lemon]

A excludes direct materials and direct labour because they are fixed.
B is used in some but not all business decisions.
C remains constant regardless of the alternative course of action.
D varies with alternative courses of action.

1460 Which of the following is **not** considered a cost of manufacturing a product? [Fess & Warren]

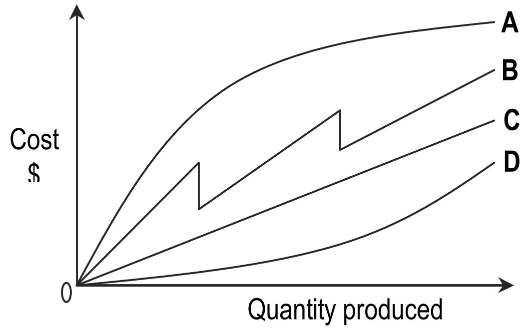
A Direct labour cost
B Direct material cost
C Factory overhead cost
D Salesmen salaries

1461 Certain workers are assigned with the task of unpacking production materials received from suppliers. These workers place the material in a storage area pending subsequent use in the production process.

The labour cost of such workers is normally classified as [L. G. Rayburn]

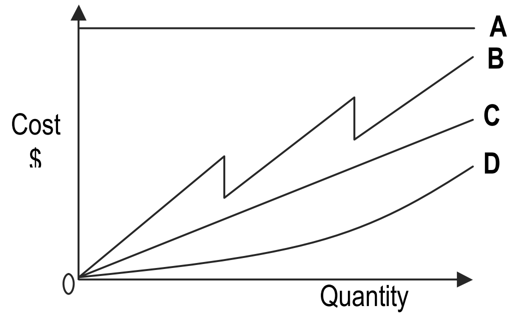
A direct labour. **B** direct materials. **C** indirect labour. **D** indirect materials

1462 Which line, **A**, **B**, **C** or **D**, in the graph below best represents the behaviour of total cost of an item affected by bulk purchase discounts?



[J02Q28Z]

1463 Which line in the graph best represents the behaviour of the purchase price of a stores item affected by bulk purchase discounts?



[J03Q35C], [J98Q34C]

1464 Marco Corporation, which manufactures plastic coated metal chips, provided that data below:

Materials used	**$000**
Metal wire	500
Lubrication oil for machinery	10
Plastic coating	380

[L. G. Rayburn]

Marco Corporation's direct materials amounted to

A $500 000. **B** $510 000. **C** $880 000. **D** $890 000.

1465 Direct labour should always be classified [N05Q32Z]

A according to its behaviour.
B as fixed costs.
C as semi-fixed costs.
D as variable costs.

1466 Direct labour and overhead when combined is called [Doost RK]

A allocated cost. **B** assigned cost. **C** conversion cost. **D** prime cost.

1467 Bluff Company, which manufactures wireless transistors, provided that data below:

Wages	**$000**
Machine operators	200
Maintenance workers	30
Factory foreman	90

[L. G. Rayburn]

Bluff Company's direct labour amounted to

A $200 000. **B** $230 000. **C** $290 000. **D** $320 000.

1468 Direct costs are costs [Upchurch]

A incurred as a direct result of a particular action.
B incurred which can be attributed to a particular accounting period.
C which can be identified with a single product.
D which can neither be identified with a cost centre or identified with a single cost unit.

1469 Direct costs are all [Doost RK]

A costs that are identifiable with a cost object.
B fixed costs that are identifiable with a cost unit.
C step-fixed and step-variable costs of production.
D variable costs that are identifiable with each unit of production.

1470 A direct cost is a cost which [Hussey], [Upchurch]

A can be economically identified with the item being costed.
B cannot be economically identified with the item being costed.
C is immediately controllable.
D is incurred as a direct consequence of a decision.

1471 Which of the following would be classified as an indirect labour? [Upchurch]

A A stores assistant in a factory store
B An audit clerk in a firm of auditors
C Assembly workers in a television manufacturing firm
D Plasterers in a construction company.

1472 Relevant costs are costs [Doost RK]

A of already purchased machinery and equipment.
B to be incurred at some future time and differ among competing alternatives.
C to be incurred at some future time for competing alternatives.
D which may have been incurred in the past for competing alternatives.

1473 In decision-making, costs which need to be considered are said to be *relevant costs*. [Hussey]

Which of following are characteristics associated with *relevant costs*?

1 Common costs
2 Differential costs
3 Future costs
4 Unavoidable costs

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

1474 In Activity Based Costing systems, costs are accumulated by activity using cost [Hussey]
A benefit analysis. **B** centres. **C** drivers. **D** pools.

1475 In Activity Based Costing (ABC) systems, costs are accumulated by activity using [Upchurch]
A cost centres. **B** cost drivers. **C** cost pools. **D** cost/benefit analysis.

1476 Which of the following is **not** a definition of a cost pool? [Doost RK]
A A group of costs by outputs produced such as bread in a bakery.
B A group of costs by responsibility such as a manager's area of responsibility.
C A group of costs by source such as departments.
D A group of costs by type such as labour costs.

1477 Which of the following does **not** define a cost object? [Doost RK]
A Any manager to which costs are assigned.
B Any product to which costs are assigned.
C Any service to which costs are assigned.
D Any organisational unit to which costs are assigned.

1478 Which of the following does **not** describe cost assignment? [Doost RK]
A Moving costs from cost objects to cost pools.
B Moving costs from cost pools to cost objects.
C Moving costs to cost pools.
D Moving costs to cost units.

1479 A cost centre is [Prestige]
A a location, which is responsible for controlling direct costs.
B a unit of production in relation to which costs are ascertained.
C any location or department which incurs costs.
D part of the overhead system by which costs are gathered together.

1480 A cost driver is [Hussey]
A a common cost that is shared over cost centres.
B an activity which generates costs.
C an item of production overhead.
D any cost relating to transport.

1481 A cost driver is [Prestige]
A a long tern variable cost.
B a unit of activity which causes costs.
C equivalent to a cost centre.
D the amount of overhead caused by an activity.

1482 The following are service departments **except** [Fess & Warren]
A factory office. **B** maintenance. **C** moulding. **D** power plant.

1483 Which item is a fixed cost? [J04Q25C]
A Factory rent
B Maintenance of machinery
C Postage and stationery
D Sales commission

1484 What would be regarded as a fixed cost in the running of a motor vehicle? [N01Q33C]
A Fuel costs
B Maintenance every 6 months
C Oil change every 6 000 kilometres
D Tyre replacement

1485 Fixed costs are conventionally deemed to be [Upchurch]
A constant in total when production volume changes.
B constant per unit of output.
C outside the control of management.
D those unaffected by inflation.

1486 Which of the following statements describes variable costs? [Fess & Warren]
A Costs that remain the same in total dollar amount as the level of activity changes.
B Costs that vary in total in direct proportion to changes in the level of activity.
C Costs that vary on a per unit basis as the level of activity changes.
D Costs that vary on a per unit basis, but remain the same in total as the level of activity changes.

1487 The following are variable costs **except** [Fess & Warren]
A direct labour cost.
B direct material cost.
C electricity to operate factory equipment.
D municipality rates and rentals.

1488 What is a variable production cost for a manufacturer? [N99Q37C]

A Bought-in raw materials
B Depreciation of equipment
C Factory business rates
D Storekeepers' wages

1489 If club expenses include a rent of $2 000 plus a charge of $40 per member and club members are 80,

A fixed costs are $2 000 and variable costs are $3 200.
B fixed costs are $3 200 and variable costs are $2 000.
C fixed costs are $5 200.
D variable costs are $5 200. [Doost RK]

1490 Mixed costs are those that include [Doost RK]

A fixed and step-fixed costs.
B fixed and variable costs.
C semi-variable and step fixed costs.
D semi-variable and variable costs.

1491 The graph of a mixed cost [Horngren, Harrison & Lemon]

A has steeper slope than the graph of fixed cost or a variable cost.
B is horizontal from the point marking the level of fixed costs.
C passes through the origin and slopes upwards.
D slopes upward from the point marking the level of fixed costs.

1492 Which cost concept applies the cost-plus approach to product pricing where fixed manufacturing costs, variable manufacturing costs, fixed selling and administrative expenses and desired profit are allowed for in determining the mark-up? [Fess & Warren]

A Product cost **B** Standard cost **C** Total cost **D** Variable cost

1493 What is the most appropriate costing methodology for a firm of painters and decorators specialising in domestic work? [Upchurch]

A Batch costing **B** Contract costing **C** Job costing **D** Process costing

1494 Budgeting is the process of [Doost RK]

A establishing a basis for performance evaluation and appraisal.
B communicating and authorising business activities.
C planning future business operations quantitatively that identifies the resources and commitments required to fulfil organisational goals.
D setting guidelines for operations and gauge for controlling operations.

1495 The budget is [Horngren, Harrison & Lemon]

A a general, not specific, statement of the business' goals.
B a major tool of financial rather than management accounting.
C a management tool for forecasting the future.
D not used by most successful businesses.

1496 Which of the following does **not** describe a budget? [Doost RK]

A It is a basis for resource allocation.
B It is a communication and authorisation device.
C It is a gauge for controlling operations by stakeholders.
D It is a profit or operating plan.

1497 Which of the following is false about a budget? [Doost RK]

A It covers prior budget periods
B It is a gauge for controlling operations
C It is a motivating device
D It provide guidelines for operations.

1498 What is **not** a purpose of a budget? [N04Q27C]

A To communicate strategies and objectives downwards to staff at all levels.
B To design an action plan to help achieve the next year's objectives.
C To develop a long-term strategy.
D To prepare an operational plan for the immediate future.

1499 Which of the following is **not** a benefit of a budgeting system? [Horngren, Harrison & Lemon]

A Aids performance evaluation.
B Automatically fires lazy employees.
C Co-ordinates activities.
D Provides direction to the business.

1500 For a budget to be most effective, it should be prepared [Horngren, Harrison & Lemon]
- **A** from the bottom-up, with participation from all employees at all levels.
- **B** from the top-down, with managers developing goals based on their own experience.
- **C** without reference to anticipated future trends and results.
- **D** without reference to results obtained in past period.

1501 A financial budget [Doost RK]
- **A** deals with uses of resources in operating activities and with acquisition of these resources.
- **B** identifies resources and uses of funds for budgeted operations and expected results for a period.
- **C** is a plan of operations for a business unit during a budgeted period.
- **D** is an organisation's proposed long-range plan for major projects.

1502 An operating budget [Doost RK]
- **A** deals with uses of resources in operating activities and with acquisition of these resources.
- **B** identifies resources and uses of funds for budgeted operations and expected results for a period.
- **C** is a plan of operations for a business unit during a budgeted period.
- **D** is an organisation's proposed long-range plan for major projects.

1503 Which budget is **not** a functional budget? [J00Q31C]
- **A** Cash **B** Production labour **C** Sales **D** Training

1504 The operating budget ends with the [Horngren, Harrison & Lemon]
- **A** budgeted Balance Sheet. **C** budgeted sales.
- **B** budgeted Income Statement. **D** Cash Budget.

1505 Zero-based budgeting requires [Doost RK]
- **A** budgets to be prepared ignoring inflation. **C** managers to prepare budgets from scratch.
- **B** focus to be placed on cost drivers. **D** reference to be made to previous budgets.

1506 The following are true about a continuous (rolling) budget **except** that it [Horngren, Harrison & Lemon]
- **A** adds a month and deletes the month just ended. **C** keeps managers thinking ahead.
- **B** brings about innovation. **D** maintains a steady planning horizon.

1507 A fixed budget is [Hussey], [Upchurch]
- **A** a budget for a single level of activity. **C** an overhead cost budget.
- **B** a budget which ignores inflation. **D** used only for fixed costs.

1508 A master budget [Doost RK]
- **A** deals with uses of resources in operating activities and with acquisition of these resources.
- **B** identifies sources and uses of funds for budgeted operations and expected results for the period.
- **C** is a plan of operations for a business unit during a budget period.
- **D** is an organisation's proposed long-range plan for major projects.

1509 What is a master budget? [J07Q31Z]
- **A** A budget based on limited factor. **C** A flexible budget.
- **B** A Cash Budget. **D** A set of budgeted final accounts.

1510 A master budget comprises the [Upchurch]
- **A** budgeted capital expenditure and budgeted cash flow.
- **B** budgeted cash flow, budgeted Profit and Loss Account and budgeted Balance Sheet.
- **C** budgeted Profit and Loss Account.
- **D** entire set of budgets prepared.

1511 The master budget starts with [Horngren, Harrison & Lemon]
- **A** capital. **B** cash. **C** sales. **D** stock.

1512 The master budget usually ends with the [Horngren, Harrison & Lemon]
- **A** budgeted Balance Sheet. **C** budgeted sales.
- **B** budgeted Income Statement. **D** Cash Budget.

1513 The most complex single part of the master budget is preparation of the [Horngren, Harrison & Lemon]
A budgeted Balance Sheet.
B budgeted Income Statement.
C budgeted sales.
D Cash Budget.

1514 Managers can use a computer along with a master budget to [Horngren, Harrison & Lemon]
A develop strategies for dealing with a variety of possible situations.
B eliminate all the uncertainty of the business environment.
C prepare the budget correctly for the first time.
D set near-perfect goals for the company.

1515 The system that builds into various budgets the effect of fluctuations in the level of activity is called [Fess & Warren]
A activity-based budgeting.
B continuous (rolling) budgeting.
C flexible budgeting.
D zero-base budgeting.

1516 Flexible budgets [L. G. Rayburn]
A accommodate changes in inflation rate.
B accommodate changes in level of activity.
C are static budgets revised for price changes
D are used to evaluate capacity utilisation.

1517 A flexible budget is a budget [Upchurch]
A comprising variable production costs only.
B which is prepared using a computer spreadsheet model.
C which is updated with actual costs and revenues as they occur during the budget period.
D which shows the costs and revenues at different levels of activity.

1518 A flexible budget shows [Horngren, Harrison & Lemon]
A a single target level of volume.
B expected results over a range of volume levels.
C price variances.
D volume variances.

1519 The flexible budget is a budget that adjusts [Doost RK]
A fixed and variable costs for changes in output achieved.
B revenues and all costs for changes in output achieved.
C revenues and fixed costs for changes in output achieved.
D revenues and variable costs for changes in output achieved.

1520 A flexible budget is appropriate for which budget(s)? [L. G. Rayburn]

	Administrative	Marketing
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

1521 What should a company prepare to forecast its state as a going concern at the end of next year? [N04Q26C]
A Cash Budget
B Cash Flow Statement
C Forecast Balance Sheet
D Forecast Profit and Loss Account

1522 In developing a comprehensive budget for a manufacturing company, which one of the following items should be done first? [L. G. Rayburn]
A Determination of the advertising budget.
B Determination of manufacturing capacity.
C Development of a sales plan.
D Development of the capital budget.

1523 What is a ***principal budget*** *factor*? [Hussey], [J04Q40]
A A factor which constrains a business from achieving set objectives.
B A factor which influences changes in the fixed costs.
C A factor which influences changes in the variable costs.
D A factor which prevents changes in selling prices.

1524 A principal budget factor is [Upchurch]
A a factor common to all budget centres.
B a factor controllable by the manager of the budget centre.
C a factor which limits the activities of an undertaking.
D the highest value item cost.

1525 A principal budget factor is
- **A** anything that acts as a constraint on the level of activity.
- **B** the amount by which the prices must be increased to take account of inflation.
- **C** the biggest item of expenditure in a budget.
- **D** the required profit. [Author]

1526 What should be identified as a priority in the budgeting process? [J00Q30C]
- **A** Budgeted cash flow
- **B** Budgeted net profit
- **C** Master budget outcome
- **D** Principal budget factor

1527 What should be identified as a priority in the budgeting process? [J05Q30Z]
- **A** Budgeted cash inflow
- **B** Budgeted net profit
- **C** Expected sales
- **D** Key budget factor

1528 If budgeting, which budget should always be prepared first? [N01Q29C]
- **A** Budget for limiting factor
- **B** Cash budget
- **C** Master budget
- **D** Sales budget

1529 A carpenter (builder) and his one employee are working at full capacity and turning away work. The carpenter (builder) does not wish to recruit another employee.

The bank overdraft is at its limit and the bank has asked to see budgets for the next 12 months.

Which budget should be prepared first? [J02E23C], [J98Q31C]
- **A** Cash
- **B** Labour
- **C** Materials
- **D** Sales

1530 Which of the following is normally the most appropriate sequence of events in preparation the indicated budgets?
- **A** Cash Budget, Budgeted Balance Sheet, Production Budget
- **B** Cash Budget, Production Budget, Budgeted Balance Sheet
- **C** Production Budget, Cash Budget, Budgeted Balance Sheet
- **D** Production Budget, Budgeted Balance Sheet, Cash Budget [J99Q33C]

1531 Which of the following schedules would be the last item to be prepared in a normal budget preparation process?
- **A** Cash budget
- **B** Cost of goods sold budget
- **C** Manufacturing overhead budget
- **D** Selling expense budget [L. G. Rayburn]

1532 The basis on which Sales Budget is prepared is the [Randall]
- **A** expected volume of sales.
- **B** previous year's sales revenue.
- **C** previous year's sales revenue and an addition for anticipated price increases.
- **D** sales necessary to produce forecast profit.

1533 Hill plans to launch a new product using a penetrative selling price of $1 000 per unit for the first month. This price will increase for the next three months by 10% before it reaches the prevailing market price. A quantity of 520 units is expected to be sold in the first month but will decrease by 40 units with each subsequent increase in price.

How much will be Hill's sales revenue for the first four months from the new product? [Author]
- **A** $2 080 000
- **B** $2 096 000
- **C** $2 112 800
- **D** $2 713 840

1534 When preparing a Production Budget, the quantity of units to be produced equals [Upchurch]
- **A** Sales quantify – Opening stock – Closing stock.
- **B** Sales quantify – Opening stock + Closing stock.
- **C** Sales quantify + Opening stock – Closing stock.
- **D** Sales quantify + Opening stock + Closing stock.

1535 The total units of sales for the coming year is 250 000. The estimated opening stock is 22 500 units and the desired closing stock is 30 000 units. [Fess & Warren]

The total production indicated in the production budget is
- **A** 242 500 units.
- **B** 257 500 units.
- **C** 280 000 units.
- **D** 302 500 units.

1536 A company has a policy of holding stock equal to next month's expected sales plus 10%.

Budgeted sales for the next three months are as follows:

Month	*Units*
April	200
May	180
June	240

What must be the company's production in May, in order to achieve its objectives? [N98Q32C]

A 178 **B** 222 **C** 246 **D** 264

1537 Forecast sales and production for a manufacturing company are as follows:

	Units	
	Sales	**Production**
January	500	600
February	560	700
March	570	400

The stock on hand on 31 March will be 370 units.

The stock in hand on 1 January will be [S03Q03Z]

A 300 units. **B** 370 units. **C** 400 units. **D** 540 units.

1538 HJB Limited, a manufacturer of cardboard boxes, provides the estimated data set out below for one of its products:

	July	*August*	*September*
Sales (units)	800	1 000	1 500

Company policy is that closing stock of this product in any month should be 20% of next month's sales.

What is HJB Limited's budgeted production for August? [Upchurch]

A 900 units **B** 1 000 units **C** 1 100 units **D** 1 200 units

1539 On 31 March 2008, Godo had 150 units in stock. She targets a stock of 240 units on 30 June 2008.

His budgeted sales are: April 3 960 units
May 5 040 units [Author]
June 4 770 units.

If Godo manufactures an even number (same quantity) of units each month, how many units will he produce in May?

A 4 460 units **B** 4 570 units **C** 4 620 units **D** 4 720 units

1540 A company budgets sales of 20 000 units for the next year. Budgeted inventories at the start of the year are 6 000 units and at the end of the year 12 000 units. 2 kg of materials are required for each unit.

What is the company's raw materials budget for the next year? [J99Q31C]

A 26 000 kg **B** 28 000 kg **C** 40 000 kg **D** 52 000 kg

1541 A company makes a product that requires 1.2 kg of material for each unit. The material is purchased in the month prior to production. The production quantity each month is the amount of expected sales in the following month plus 10% extra for stock.

Expected sales quantities are: May 12 000 units
June 14 000 units
July 10 000 units

What are the purchases of material in May? [N01Q31C]

A 11 000 kg **B** 13 200 kg **C** 15 400 kg **D** 18 480 kg

1542 A bedside table is made from 4 kg of raw material.

Production for 6 months is based on the following data:

Budgeted sales	5 000 tables
Budgeted decrease in stock of raw material	1 200 kg
Budgeted increase in stock levels	800 tables

How many kilograms of raw materials will be purchased for the 6 months? [Randall]

A 18 000 kg **B** 18 800 kg **C** 22 000 kg **D** 23 200 kg

1543 A unit of a product uses 3 kg raw material.

The year's Production Budget is:	Budgeted sales	12 000 units
	Decrease in raw material stock	2 000 kg
	Increase in finished goods stock	1 000 units

What are the budgeted purchases of raw material for the year? [N99Q31C], [J02E24C]

A 35 000 kg **B** 36 000 kg **C** 37 000 kg **D** 39 000 kg

1544 A unit of a product uses 3 kg raw material.

The year's Production Budget is shown:

Budgeted sales	12 000 units
Increase in raw materials stock	2 000 kg
Decrease in finished goods stock	1 000 units

What are the budgeted raw materials for the year? [N99Q31C]

A 35 000 kg **B** 36 000 kg **C** 37 000 kg **D** 39 000 kg

1545 Each unit of product Vita requires 1.5 kg of raw materials.

The production budget for August 2008 is as follows:

Opening stocks:	Raw materials	7 500 kg
	Finished units	2 000
Sales		30 000 units
Closing stocks:	Raw materials	7 000 kg
	Finished units	3 000

What are the budgeted purchases of raw materials of raw materials for August 2008? [J03Q32Z]

A 39 000 kg **B** 46 000 kg **C** 46 500 kg **D** 54 000 kg

1546 Choto Limited uses 6 kg of raw materials to manufacture a single product.

The following information was taken from records of Choto Limited:

		2003 Budget	**2002 Actual**
Sales		10 000 units	8 000 units
Closing stocks:	Raw materials	4 500 kg	500 kg
	Finished goods	1 000 units	3 000 units

What are the budgeted purchases of raw materials for 2003? [N04Q40Z]

A 44 000 kg **B** 52 000 kg **C** 60 000 kg **D** 68 000 kg

1547 Debtors at the year end are $40 000. It is planned to double turnover in the next year and to reduce the debtors' collection period from 45 days to 30 days.

What will be the debtors at the end of next year? [Randall]

A $26 667 **B** $53 334 **C** $60 000 **D** $80 000

1548 A company's debtors total $84 000 when the debtors days are 80. The company budgets for a 30% increase in turnover, and the debtors' days reduced to 60.

What will be the budgeted debtors at the end of the coming year? [J07Q36Z]

A $63 000 **B** $81 900 **C** $84 000 **D** $109 200

1549 A Cash Budget shows that a company will exceed its overdraft limit.

Which item of expenditure should the directors consider delaying? [J99Q3C]

A Debenture interest **B** Dividends **C** Rent and rates **D** Taxation

1550 The Cash Budget of Greenbranch Limited for the next 6 months shows a deficiency of $30 000 arising at the end of the period.

Which possible remedy will overcome the cash deficiency? [J02Q25C], [J98Q33C]

A A rights issue to existing ordinary shareholders, the issue's net proceeds will be $31 000.

B Cancelling a planned depreciation charge of $34 000.

C Delaying for one year a bonus issue to the existing ordinary shares.

D Inclusion of company's freehold property in accounts at its current valuation of $100 000 instead of $64 000.

1551 Madamombe Limited's Cash Budget for the next six months shows a cash deficiency of $60 000 arising at the end of the budget period.

The cash deficiency can be overcome by [J07Q33Z]

A cancelling an amortisation charge of $68 000.
B inclusion of the company's leasehold plant in the accounts at its current valuation of $200 000 instead of cost of $128 000.
C post-poning for one year a bonus issue to existing ordinary shareholders.
D rights issue to existing ordinary shareholders which will have net proceeds of $62 000.

1552 Actual and projected sales for Adams Company for March and April are as follows:

	Cash sales	**Credit sales**
	$000	**$000**
March (actual)	20	50
April (projected)	30	55

[L. G. Rayburn]

All credit sales are collected in the month following the month in which the sale is made. The 31 March cash balance is $23 000. Cash disbursements in April are projected to be $94 000.

To maintain a minimum cash balance of $15 000 on 30 April, the company will need to borrow

A $0. **B** $6 000. **C** $11 000. **D** $16 000.

1553 A company has compiled the following information for its Cash Budget:

	January	***February***
	$	**$**
Cash sales	15 000	20 000
Purchases	12 000	13 000
Overheads (including $1 000 depreciation per month)	3 000	3 000

Purchases are paid for in the next calendar month and overheads in the month incurred.

What is the net cash inflow for February? [J99Q32C]

A $3 000 **B** $4 000 **C** $5 000 **D** $6 000

1554 Revd Industry is developing a forecast for September 2008 cash receipts from credit sales. Credit sales for September 2008 are estimated to be $320 000. The trade debtors balance on 31 August 2008 is $300 000, one quarter of the balance represents July credit sales and remainder is from August credit sales. All debtors from months prior to July 2008 were collected or written off.

Revd Industry's history of trade debtors collections is as follows:

In the month of sale	20%
In the first month after sale	50%
In the second month after sale	25%
Written off as uncollectible at the end of second month after month of sale	5%

Revd Industry is forecasting September 2008 cash receipts from credit sales of [L. G. Rayburn]

A $176 500. **B** $195 250. **C** $253 769. **D** $267 125.

1555 The following details have been extracted from the debtor collection records of Dee Ltd:

Invoices paid in the month after sale	70%
Invoices paid in the second month after sale	20%
Invoices paid in the third month after sale	8%
Bad debts	2%

Invoices are issued on the last day of each month.

Customers paying in the month after sale are entitled to deduct 3% settlement discount.

Credit sales values for June to September 2008 are budgeted as follows:

Month	*June*	*July*	*August*	*September*
Amount ($)	52 000	60 000	90 000	67 500

The amount to be received in September 2008 from credit sales is [Upchurch]

A $74 610. **B** $75 960. **C** 77 270. **D** $77 850.

1556 Esplanade Ltd has the following historical pattern of credit sales:

70% collected in the month of sale
15% collected in the first month after sale
10% collected in the second month after sale [L. G. Rayburn]
4% collected in the third month after sale
1% uncollectible

The sales on open account have been budgeted for the last six months of this year as follows:

Month	July	August	September	October	November	December
Sales ($000)	180	210	240	270	300	255

The estimated cash collections during October from trade debtors would be

A $64 200. **B** $189 000. **C** $253 200. **D** $267 200.

1557 The following details have been extracted from the debtor collection records of Cee Ltd:

Invoices paid in the month after sale	60%
Invoices paid in the second month after sale	25%
Invoices paid in the third month after sale	12%
Bad debts	3%

Invoices are issued on the last day of each month.

Customers paying in the month after sale are entitled to deduct a 2% settlement discount.

Credit sales values for June to September 2007 are as follows:

June	*July*	*August*	*September*
$35 000	$40 000	$60 000	$45 000

The amount budgeted to be received from credit sales in September 2007 is [Hussey]

A $47 280. **B** $47 680. **C** $48 850. **D** $49 480.

1558 Debra Company developed the following sales projections for the calendar year 2008:

	$000
May	100
June	120
July	140
August	160
September	150
October	130

[L. G. Rayburn]

Normal cash collection experience has been that 50% of sales are collected during the month of sale and 45% the month following sale. The remaining 5% of sales is never collected.

Debra Company's budgeted cash collections for the third calendar quarter are

A $360 000. **B** $414 000. **C** $440 000. **D** $450 000.

1559 A company manufactures and sells product Zoom.

Budgeted sales for the period January to April 2007 are given below:

	$
January	100 000
February	125 000
March	112 500
April	150 000

All sales are on credit basis. 50% of the sales are collected in the month following sale and get a cash discount of 5%. 30% is received two months after sale and obtains cash discount of 2½%. Remainder is received net in the third month following sale.

How much is to be received from customers in the month of April? [N02Q40Z]

A $106 563 **B** $110 000 **C** $122 281 **D** $129 156

1560 Escapade Ltd has the following historical pattern of credit sales:

70% collected in the month of sale
15% collected in the first month after sale
10% collected in the second month after sale [L. G. Rayburn]
4% collected in the third month after sale
1% uncollectible

The sales on open account have been budgeted for the last six months of this year as follows:

	January	*February*	*March*	*April*	*May*	*June*
Sales ($000)	60	70	80	90	100	85

Estimated total cash collections during the second calendar quarter from sales made on open account during the second calendar quarter would be

A $265 400. **B** $272 250. **C** $275 000. **D** $663 300.

1561 A company expects to buy a new lorry for $25 000. It as agreed with the seller to part-exchange one of its existing lorries for the new lorry. The existing lorry has a book value (carrying amount) of $8 000 and the part-exchange will result in a loss of $2 800 on its disposal. The balance on the new lorry will be paid by cheque.

The entry to record the deal in the company's Cash Budget will be payment for new lorry [Randall]

A $14 200. **B** $17 000. **C** $19 800. **D** $25 000.

1562 A company plans to purchase a new machine costing $40 000. It will part-exchange one of its existing machines for the new one. The existing machine has a net book value of $4 000 and the part-exchange will result in a loss on disposal of the machine of $1 000. The company will pay the balance due on the new machine by cheque.

How will the transaction be recorded in the Cash Budget? [Randall]

A Payment for new machine $37 000
B Payment for new machine $40 000
C Payment for new machine $40 000; cash received for old machine $3 000
D Payment for new machine $40 000; cash received for old machine $4 000

1563 A company which allows its customers one month's credit, has budgeted sales revenue for 5 quarters to 31 December 2008 as follows: [Randal]

		$000
2007:	3 months to December	39
2008:	3 months to March	42
	3 months to June	45
	3 months to September	54
	3 months to December	48

The entries in the cash and master budgets for the year to 31 December 2008 will be

	Cash Budget	**Forecast Trading Account for the year to 31/12/2008**	**Forecast Balance Sheet as at 31 December 2008**
A	Sales $180 000	Sales $186 000	Trade debtors $16 000
B	Sales $186 000	Sales $189 000	Trade debtors $16 000
C	Sales $186 000	Sales $189 000	Trade debtors $32 000
D	Sales $189 000	Sales $189 000	Trade debtors $48 000

1564 The Sales Budget for four months from January to April is as follows:

	$000
January	80
February	100
March	110
April	130

The cost of the raw materials used in the goods is 40% of sales. The material is purchased one month before the goods are made, and manufacture takes place one month before sale. 50% of the material is paid for one month after purchase and the balance two months after purchase.

How much will be paid for materials is March? [Randall]

A $40 000 **B** $42 000 **C** $46 000 **D** $48 000

1565 A company purchases precisely the amount needed for each month's production and takes 3 months' credit from its suppliers (e.g. purchases in May are paid for in August). Each unit of the product require 1.3 kg of raw materials which currently cost $2.80 per kg.

Production figures for the first three months of 2008 are given below:

	Production units
January	10 000
February	12 000
March	11 000

How much cash is paid to suppliers in April 2008? [N98Q30C]

A $28 000 **B** $33 600 **C** $36 400 **D** $43 680

1566 In each month, a business purchases the amount of materials needed for that month's production. The materials used in production costs $6.50 per unit of production. Suppliers are paid 60% in the month of purchase and 40% two months after purchase.

Production figures for the first five months of the year are as follows:

	January	**February**	**March**	**April**	**May**
Units of production	260	250	300	320	350

How much cash is paid to suppliers in April? [N01Q31C]

A $1 807 **B** $1 898 **C** $1 924 **D** $2 080

1567 The sales revenue budget for 5 months to May is as follows:

	$
January	50 000
February	70 000
March	80 000
April	120 000
May	90 000

Cost of materials is 60% of sales. Materials are purchased one month before they are processed and finished goods are sold two months after production. 50% of raw materials are paid for in the month of purchase, the remainder are paid for in the following month.

Payments to suppliers in February will be [Randall]

A $27 000. **B** $54 000. **C** $60 000 **D** $63 000.

1568 In preparing its Cash Budgets for May 2008, Ben Company made the following projections:

	$000
Sales	3 000
Decrease in trade stocks	140
Decrease in trade creditors	240

[L. G. Rayburn]

If gross profit margin is 25%, the estimated cash disbursements (payments) in May for stocks were

A $1 870 000. **B** $2 100 000. **C** $2 110 000. **D** $2 350 000.

1569 In preparing its Cash Budgets for July 2008, Reed Limited made the following projections:

	$000
Sales	1 500
Increase in trade stocks	70
Increase in trade creditors	120

[L. G. Rayburn]

If gross profit margin is 25%, what were the estimated cash disbursements for stocks in July 2008?

A $935 000. **B** $1 075 000. **C** $1 175 000. **D** 1 315 000.

1570 Which of the following is most useful for budgeting overheads? [Horngren, Harrison & Lemon]

A Total overhead = Fixed overhead + Variable overhead per unit
B Total overhead = Fixed overhead + (Variable overhead per × Number of units)
C Total overhead = Sales – Net profit
D Total overhead = Standard + Variances

1571 A Valuation Department of a large firm of surveyors wishes to develop a method of predicting its costs in a period. The following past costs have been recorded at two activity levels:

	Number of valuations (V)	Total cost (TC)
Period 1	420	$82 200
Period 2	515	$90 275

The total cost model for a period could be calculated thus: [Upchurch]

A TC = $42 000 + 95V **C** TC = $46 500 + 85V
B TC = $46 500 - 85V **D** TC = $51 500 - 95V

1572 What is the variable cost per unit if total cost for 400 units is $35 200 and for 500 units is $38 500? [Author]

A $22 **B** $33 **C** $77 **D** $88

1573 The total budgeted expenditure for 17 000 units was $58 500, and $59 875 for 17 500 units.

Fixed costs are estimated to be [N04Q33Z]

A $11 750. **B** $24 000. **C** $57 125. **D** $58 845.

1574 A business that uses flexible budgets shows the following:

Units of output	**100 000**	**110 000**
Total fixed and variable costs	$400 000	$425 000

What are fixed costs? [N00Q30C]

A $150 000 **B** $250 000 **C** $275 000 **D** $300 000

1575 The following data was provided by a company which manufactures one product:

	Month 1	**Month 2**
	$	**$**
Sales	100 000	125 000
Total costs	50 000	57 500

What are the fixed costs per month? [N02Q39Z]

A $20 000 **B** $22 500 **C** $25 000 **D** $30 000

1576 When actual output is 18 000 units, total expenditure is $98 000 and budgeted variable costs per unit match actual variable costs per unit of $3. Actual fixed overhead exceeds budgeted level by $11 000.

What is the amount budgeted for fixed costs? [J03Q29Z]

A $11 000 **B** $33 000 **C** $44 000 **D** $65 000

1577 The following is taken from the production cost budget of W Limited:

Production (units)	**2 000**	**3 000**
Production cost	$17 760	$20 640

The budget cost allowance for an activity level of 4 000 units is [Upchurch]

A $11 520. **B** $23 520. **C** $27 520. **D** $35 520.

1578 The following extract is taken from production cost budget of S Ltd:

Production (units)	**2 000**	**3 000**
Production cost	$11 100	$12 900

The budget cost allowance for an activity level of 4 000 units is [Hussey]

A $7 200. **B** $14 700. **C** $17 200. **D** $22 500.

1579 The following extract is taken from the production cost budget of S Limited:

Production (units)	**4 000**	**6 000**
Production cost	$11 100	$12 900

The budget cost allowance for an activity level of 8 000 units is [Upchurch]

A $14 700. **B** $17 200. **C** $22 200. **D** $29 400.

1580 A company's budget for the production of Tongolites is shown below:

Budgeted output level	**500 units**	**1 000 units**
	$	**$**
Direct materials	10 500	21 000
Production overheads	30 000	40 000

What would be the budgeted production overheads figure for 900 units? [N03Q36Z]

A $38 000 **B** $40 000 **C** $48 000 **D** $54 000

1581 Budgets for the next period are shown below:

Costs of	**Output of 1 000 units**	**Output of 2 000 units**
	$	**$**
Direct labour	3 400	6 800
Direct materials	17 000	34 000
Production overhead	16 000	20 000

What would be the budgeted production cost of 1 600 units? [N00Q31C]

A $48 640 **B** $51 040 **C** $52 640 **D** $58 240

1582 Details of a production budget are:

Production	**10 000 units**	**15 000 units**
	$000	**$000**
Direct materials	50	75
Direct labour	30	45
Production overhead	15	20
Administration, selling and distribution	37	52

What will be the total projected cost for an output of 12 000 units? [N01Q35C]

A $153600 **B** $156 000 **C** $158 400 **D** $162 000

1583 Budget for a production period is shown below:

Cost element	**Output of 10 000 units**	**Output of 20 000 units**
	$	**$**
Direct labour	6 800	13 600
Direct material	34 000	68 000
Production overheads	32 000	40 000

What would be the budgeted production cost of 8 000 units? [N05Q38Z]

A $48 640 **B** $51 840 **C** $58 240 **D** $63 040

1584 A firm has produced the following budgets for two activity levels:

Expense	**Budget for 5 000 units**	**Budgets for 6 000 units**
	$	**$**
Wages	16 000	17 200
Materials	25 000	30 000
Depreciation	18 000	18 000

What is the budget for an activity level of 6 200 units? [N06Q36Z]

	A	**B**	**C**	**D**
	$	**$**	**$**	**$**
Wages	17 440	17 440	17 773	19 840
Materials	30 000	31 000	31 000	30 000
Depreciation	18 000	18 000	18 000	18 000

1585 The following budgets have been prepared:

Production volume	**100 000 units**	**105 000 units**
	$	**$**
Direct materials	180 000	189 000
Direct labour	215 000	225 750
Overheads	330 000	335 500

What would be the budgeted production costs of 110 000 units? [N01Q30C]

A $7.00 per unit **B** $7.05 per unit **C** $7.15 per unit **D** $7.25 per unit

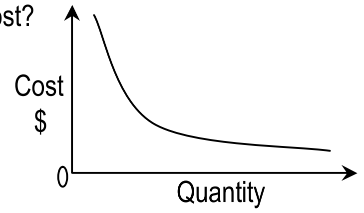
1586 The estimated unit costs for a company using absorption costing and operating at a production level of 12 000 units per month are as follows: [L. G. Rayburn]

Cost item	Estimated unit cost ($)
Direct material	32
Direct labour	20
Variable manufacturing overhead	15
Fixed manufacturing overhead	6
Variable selling costs	3
Fixed selling expenses	4

Estimated total costs that would be incurred during a month with a production level of 12 000 units and a sales level of 8 000 units are

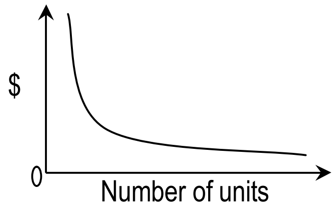
A $640 000. **B** $680 000. **C** $948 000. **D** $960 000.

1587 The adjacent graph shows the behaviour of which cost? [J03Q33Z]



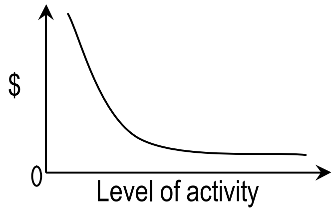
A Fixed costs per unit
B Total fixed costs
C Total variable costs
D Variable costs per unit

1588 What is shown by the graph? [N01Q36C]



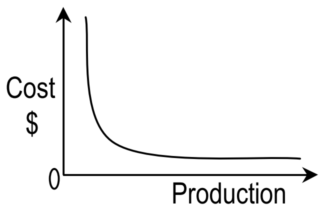
A Fixed costs per unit
B Standard cost per unit
C Total semi-variable costs
D Variable costs per unit

1589 What is shown by the graph? [J00Q36C]



A Fixed costs per unit
B Selling price per unit
C Total semi-variable costs
D Variable costs per unit

1590 What is represented by the graph? [Author]



A Fixed cost
B Semi-fixed
C Total cost per unit
D Variable cost per unit

1591 In a manufacturing company, normal production is 12 000 units per month.

	$
Variable cost per unit	18
Fixed cost per unit	20

In one month, when production was 10 000 units, what was the total cost per unit? [N02Q38Z]

A $36 **B** $38 **C** $40 **D** $42

1592 Costs involved in the production of 1 000 units are: [N01Q37C]

	$000
Direct materials	4
Direct labour	6
Variable overheads	2
Fixed overheads	8

If production increases by 25%, what will be the effect on the total cost per unit?

A Decrease of $1.60 per unit **C** Increase of $1.60 per unit
B Decrease of $5.00 per unit **D** Increase of $5.00 per unit

1593 The estimated unit costs for a company using absorption costing and operating at a production level of 12 000 units per month are as follows:

Cost item	**Estimated unit cost ($)**
Direct material	160
Direct labour	100
Variable manufacturing overhead	75
Fixed manufacturing overhead	30
Variable selling costs	15
Fixed selling expenses	20

[L. G. Rayburn]

The estimated total variable costs per unit are

A $190. **B** $260. **C** $335. **D** $350.

1594 The following data have been extracted from the budget working papers of BL Ltd: [Upchurch]

Production volume		**1 000**	**2 000**
		$/unit	**$/unit**
Direct materials		4.00	4.00
Direct labour		3.50	3.50
Production overhead:	Department 1	6.00	4.20
	Department 2	4.00	2.00

The total fixed cost and variable cost per unit is

	Total fixed cost	**Variable cost per unit**		**Total fixed cost**	**Variable cost per unit**
A	$3 600	$7.50	**C**	$7 600	$7.50
B	$3 600	$9.90	**D**	$7 600	$9.90

1595 The following information relates to product **K**:

Level of activity (units)	**1 000**	**2 000**
	$/unit	**$/unit**
Direct materials	12.00	12.00
Direct labour	9.00	9.00
Production overhead	10.50	7.50
Selling overhead	3.00	1.50
Total cost	34.50	30.00

[Prestige]

Which of the following is correct?

	Total fixed cost	**Variable cost per unit**		**Total fixed cost**	**Variable cost per unit**
A	$6 000	$21.00	**C**	$9 000	$21.00
B	$6 000	$25.50	**D**	$9 000	$25.50

1596 When a flexible budget is used, a decrease in production levels within a relevant range would [L. G. Rayburn]

A decrease total costs. **C** increase total fixed costs.
B decrease variable costs per unit. **D** increase variable costs per unit.

1597 If actual output is lower than budgeted output, which of the following costs would you expect to be lower than the original budget? [Hussey]

A Fixed cost per unit **B** Total fixed costs **C** Total variable costs **D** Variable cost per unit

1598 Which figures would **not** be incorporated into a budgeted Profit and Loss Account? [N04Q25C]

A Cash Budgets **B** Overhead Budget **C** Purchases Budget **D** Wages Budget

1599 The budget for a business is shown below:

	Fixed budget
Sales and production	20 000 units
Sales	$400 000
Variable costs	$280 000
Fixed costs	$50 000

Actual production and sales were 14 000 units.

Using a fixed budget, what would profit be? [N98Q31C]

A $28 000 **B** $34 000 **C** $49 000 **D** $84 000

1600 A new business has an opening bank balance of $10 000 and makes the following forecasts for the next 3 months:

	Per month $000
Credit sales	2
Cash sales	5
Expenses	1
Depreciation of fixed assets	1

[N01Q32C]

Debtors pay in the month following the sale. Expenses are paid one month in arrears.

What will be the forecast net profit for the three months and the closing bank balance?

	Forecast profit	Closing bank balance		Forecast profit	Closing bank balance
A	$15 000	$24 000	**C**	$18 000	$17 000
B	$15 000	$27 000	**D**	$18 000	$27 000

1601 Which of the following are true about cost allocation?

1 Assigning direct costs to cost objects
2 Assigning direct costs to cost pools
3 Assigning indirect costs to cost centres [Doost RK]
4 Assigning indirect costs to cost units

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

1602 Cost apportionment bases are [Doost RK]

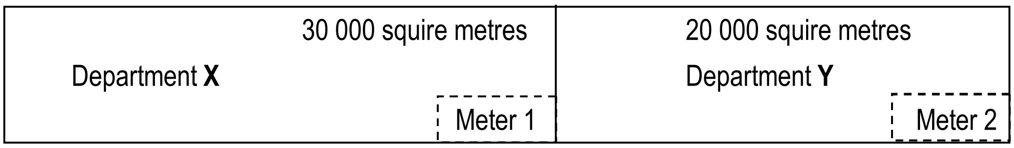
A always in terms of units and weights.
B cost drivers used to share costs.
C costs which must be allocated.
D costs which cannot be allocated.

1603 An automotive company has three departments. One department manufactures new replacement parts for automobiles, another rebuilds engines and the third does repair and overhaul work on line trucks. All three departments use the service of the central payroll department. [L. G. Rayburn]

The best method of allocating the cost of the payroll department to various operating departments is

A direct labour costs incurred by department.
B machine-hours used in the department.
C total labour hours incurred by department.
D value of production in the department.

1604 The diagram shows a company's factory, that is split into two departments, sizes of which are given:



Rent for the year is $100 000. Each department contains a mater to record the fuel for heating.

Heating bill for the year: Meter 1 $6 000
Meter 2 $24 000

Which amount for rent and heating should be attributed to department **X**? [N00Q37C]

A $56 000 **B** $62 000 **C** $66 000 **D** $72 000

1605 A method of dealing with overheads involves spreading common costs over cost centres on the basis of benefits received.

This method is known as overhead [Hussey]

A absorption. **B** allocation. **C** apportionment. **D** assignment.

1606 The method of spreading common overhead costs to departments on the basis of benefits received is known overhead [J03Q30Z]

A allocation. **B** allotment. **C** analysis. **D** apportionment.

1607 Stores overheads are usually apportioned to production departments on the basis of [Randall]

A areas occupied by production centres.
B number of employees in each production centre.
C number of values of requisitions raised by each production centre.
D quantities of finished goods produced by each cost centre.

1608 Rent expense is usually apportioned to cost centres on the basis of [Randall]

A areas of cost centres.
B number of employees per cost centre.
C revenue earned by each cost centre.
D space occupied by each cost centre.

1609 A manufacturing company has the following information for its service departments, **S1** and **S2** and its production departments, **P1** and **P2**. [L. G. Rayburn]

	S1	**S2**	**P1**	**P2**
Overhead cost	$4 000	$7 200	$8 000	$10 000
Service provided by **S1**	–	30%	30%	40%
Service provided by **S2**	25%	–	30%	45%

Using direct method of service department cost allocation, how much is to be allocated from **S2** to **P2**?

A $3 240 **B** $4 000 **C** $4 320 **D** $5 040

1610 Simultaneous equations are used in [Doost RK]

A direct allocation method.
B reciprocal allocation method.
C repeated allocation method.
D step allocation method.

1611 The cost accountant of CMP Ltd has already allocated and apportioned fixed overheads for the period although s/he has yet to reapportion the service centre costs.

Information for the period is as follows:

	Production Departments		**Service Departments**		**Total**
	1	**2**	**Stores**	**Maintenance**	
Apportioned	$8 750	$16 375	$3 150	$4 225	$32 000
Stores	60%	30%	–	10%	100%
Maintenance	75%	20%	5%	–	100%

What are the total overheads included in production department **1** if reciprocal (simultaneous equations or matrix) method is used to reapportion service centre costs? [Prestige]

A $13 809.00 **B** $14 085.50 **C** $14 199.00 **D** $14 226.50

1612 A manufacturing company has the following information for its service departments, **S1** and **S2** and its production departments, **P1** and **P2**. [L. G. Rayburn]

	S1	**S2**	**P1**	**P2**
Overhead cost	$4 000	$7 200	$8 000	$10 000
Service provided by **S1**	–	30%	30%	40%
Service provided by **S2**	25%	–	30%	45%

Using the reciprocal (matrix ≡ simultaneous equations) method of service department cost allocation, how much is the total overhead cost for **P1** for the period?

A $12 560 **B** $12 594 **C** $12 605 **D** $16 594

1613 Overhead apportionment is used to [Upchurch]

A charge cost units with an appropriate share of overheads.
B charge whole items of costs to cost centres.
C ensure budgeted overheads are not exceeded.
D spread common costs over cost centres.

1614 It is **not** necessary to calculate overhead absorption rates (OARs) when [Randall]

A all types of products are processed through all company departments.
B only one type of product is made.
C the amount which will actually be spent on overheads is not known.
D there is only one production department.

1615 What is the reason for overhead absorption in a manufacturing business? [J00Q33C]

A To control overhead expenditure
B To enable overheads to be apportioned to cost centres
C To establish costs per unit of product
D To establish the net realisable value of stock

1616 Overhead absorption rates (OARs) are used to determine the [Randall], [J07Q38Z]

A amount of overheads absorbed by each cost unit.
B apportionment of service department overheads to production departments.
C prime cost of a product.
D total cost of a product.

1617 The predetermined overhead rate is calculated by taking [Doost RK]

A actual factory overhead divided by the actual level of the chosen cost driver.
B actual factory overhead divided by the estimated activity level of the chosen cost driver.
C budgeted factory overhead divided by the actual level of the chosen cost driver.
D budgeted factory overhead divided by the estimated activity level of the chosen cost driver.

1618 Which of the following are methods of calculating a pre-determined overhead absorption rate? [J01C30C], [N01Q36C]

1 $\frac{\text{Actual overheads}}{\text{Actual machine hours}}$

2 $\frac{\text{Actual overheads}}{\text{Budgeted units of output}}$

3 $\frac{\text{Budgeted overheads}}{\text{Budgeted direct labour hours}}$

4 $\frac{\text{Budgeted overheads}}{\text{Budgeted machine hours}}$

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

1619 In developing a predetermined factory overhead application rate, which of the following should be used as the numerator and denominator? [L. G. Rayburn]

	Numerator	**Denominator**
A	Actual factory overhead	Actual machine hours
B	Actual machine hours	Actual factory overhead
C	Estimated factory overhead	Estimated machine hours
D	Estimated machine hours	Estimated factory overhead

1620 The overhead absorption rate based on units of output method is calculated as [N05Q37Z]

A Actual overheads ÷ Actual output
B Actual overheads ÷ Budgeted output
C Budgeted overheads ÷ Actual output
D Budgeted overheads ÷ Budgeted output

1621 Using a predetermined factory overhead results in

1 less accurate unit cost information;
2 more accurate unit cost information;
3 providing cost information on a timely basis.

Which of the following are true? [Doost RK]

A 1 and 2 **B** 1 and 3 **C** 2 and 3 **D** None of them

1622 Which overhead absorption rate is suitable for capital-intensive business? [N06Q35Z]

A Direct labour cost rate
B Direct materials cost rate
C Machine hour rate
D Prime cost rate

1623 On which basis should the Overhead Recovery Rate be calculated for a department which produces a single product using heavy machinery and expensive raw materials? [Author]

A Direct materials **B** Labour hours **C** Machine hours **D** Number of units

1624 A company manufactures a variety of products, each of which requires different materials and grades of labour. There is little use of machinery in the manufacture of each product.

On which basis should the Overhead Absorption Rate (OAR) be calculated? [J02Q25Z]

A Direct labour cost **B** Direct labour hours **C** Direct material cost **D** Machine hours

1625 A company has established the following information regarding fixed overheads for the coming month:

Budgeted details	
Fixed overheads	$540 000
Labour hours	3 000
Machine hours	10 000
Units of production	5 000

Actual fixed costs for the budgeted month were $480 000.

The company produces different products using highly automated manufacturing process and absorbs overheads on the most appropriate basis.

What is the predetermined overhead absorption rate? [Prestige]

A $48 **B** $54 **C** $108 **D** $180

1626 The following information is made available:

Budgeted labour hours	8 500
Budgeted overheads	$148 750
Actual labour hours	7 928
Actual overheads	$146 200

Based on the above data, what is the labour hour overhead absorption rate during the year? [J03Q31Z]

A $17.20 per labour hour **C** $18.44 per labour hour
B $17.50 per labour hour **D** $18.76 per labour hour

1627 Below are budgeted figures for Simba Manufacturing Limited for the month of April:

Total overheads for period	$7 000
Total direct labour hours for the period	700
Total direct wages	$1 500
Total direct materials	$3 000
Total machine hours	1 000

The company uses prime cost method of overhead recovery.

What is the overhead recovery rate? [S03Q33Z]

A 113% **B** 135% **C** 156% **D** 233%

1628 The following data relate to production department **X**:

	Budgeted data	**Actual data**
	$000	**$000**
Direct material cost	500	750
Direct labour cost	1 250	1 375
Production overhead	1 250	1 750
Direct labour hours	50	55

Calculate the production overhead absorption rate pre-determined for the period based on percentage of direct material cost. [Prestige]

A 166.67% **B** 233% **C** 250% **D** 350%

1629 Based on the data below, what is the machine-hour overhead absorption rate? [Upchurch]

Budgeted overheads	$493 200
Budgeted machine hours	10 960
Actual machine hours	10 493
Actual overheads	$514 157

A $45.00 **B** $46.91 **C** 47.00 **D** $49.00

1630 A company provides the following information

Actual direct labour hours worked	13 000
Actual overhead expenditure	$520 000
Budgeted direct labour hours	14 000
Budgeted overhead expenditure	$532 000

What is the overhead absorption rate based on direct labour hours? [Randall]

A $37.14 **B** $38.00 **C** $40.00 **D** $40.42

1631 Dean Company is preparing a flexible budget for 2009 and the following maximum capacity estimates for department M are available:

Direct labour hours	60 000
Variable factory overhead	$150 000
Fixed factory overhead	$240 000

[L. G. Rayburn]

Assuming that normal capacity is 80% of maximum capacity, what would be the total factory overhead rate, based on direct labour hours, in a flexible budget at normal capacity?

A $6.00 **B** $6.50 **C** $7.50 **D** $8.13

1632 A hospital ward budgets for the overheads totalling $11 500 000 for a financial year. It expects to treat 25 000 patients in the year; each patient stays an average of 10 days. The ward absorbs overheads on a patient/day basis. Its direct costs for the year are budgeted at $25 000 000.

What is its overhead absorption rate? [J00Q34C]

A $46 per patient day **C** $146 per patient day
B $100 per patient day **D** $460 per patient day

1633 The budgeted overheads for a company for a three months period are $315 000. Information for the 3 months is:

	Budget	**Actual**
Output (standard hours)	180 000	168 750
Standard hours per unit	2.25	2.25

What is the standard overhead cost per unit? [J02E26C]

A $1.75 **B** $1.87 **C** $3.94 **D** $4.21

1634 Production overhead expenditure for in period totalled $102 660 compared with a budget of $105 270. Direct labour hours are used to absorb production overheads. 8 700 direct labour hours were worked in the period and production overhead was over-absorbed by $1 740.

What was the overhead absorption rate per direct labour hour? [J04Q27C]

A $11.60 **B** $11.80 **C** $12.00 **D** $12.10

1635 Seke Limited makes two products, Dovi and Amasi.

Its budgeted output for August 2005 is as follows:

Product	**Units**	**Machine hours per unit**
Dovi	3 000	50
Amasi	1 000	60

Budgeted overheads for each month were $10 500 000.

What is the Overhead Absorption Rate per unit of each product? [N06Q32Z]

	Dovi	**Amasi**		**Dovi**	**Amasi**
A	$50	$60	**C**	$3 500	$10 500
B	$2 500	$3 000	**D**	$150 000	$60 000

1636 Daka Ltd makes two products, **X** and **Y**. Both products pass through the assembly department. In July it makes 800 units of product **X** and 1 200 units of product **Y**.

The assembly department expenditure for the month July was:

	$000
Direct materials	12
Direct labour	16
Indirect labour	18
Rent	36
Heat and light	12
Insurance on premises	6
Machinery depreciation	9

What are the overheads to be absorbed by each unit of product **X**? [Prestige]

A $40.50 **B** $54.00 **C** $54.50 **D** $72.67

1637 Which of the following may result in an under-absorption of fixed overhead? [J02Q26Z]

A Absorption based on actual expenditure and actual activity
B Expenditure below budget
C Level of activity above budget
D Level of activity below budget

1638 Which of the following may result in an over-absorption of overheads? [J01C28C], [N03Q33]

A Absorption based on actual expenditure and actual activity
B Activity below budget
C Expenditure below budget
D Expenditure in excess of budget

1639 Which of the following may result in an over-absorption of overheads? [N07Q32Z]

A Absorption based on actual expenditure and actual activity
B Actual activity above budget
C Actual activity below budget
D Actual expenditure above budget

1640 Which of the following results in amount of applied overhead being greater than the actual overhead?

1 Actual level of cost driver below the estimate
2 Actual level of cost driver exceeds the estimate
3 Actual overhead was less than expected
4 Actual overhead was more than expected [Doost RK]

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

1641 Which of the following could cause an under-absorption of overhead expenditure? [Randall]

1 Absorption rate calculated on actual production and actual number of units produced.
2 Overhead expenditure exceeding budget.
3 Units produced being less than the planned production.
4 Units produced exceeding the budgeted production.

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

1642 When using absorption costing, overheads absorbed for a period may be more than overheads actually incurred.

In accounts, the over-recover is [S03Q35Z]

A added to the value of closing stock.
B capitalised.
C credited to costing Profit and Loss Account.
D debited to the Trading Account.

1643 The following information is provided by a company:

Actual direct labour hours	12 400
Actual overhead expenditure	$198 400
Budgeted direct labour hours	11 000
Budgeted overhead expenditure	$170 500

Which of the following correctly describes the overhead absorbed? [Randall]

A $6 200 over-absorbed
B $6 200 under-absorbed
C $21 700 over-absorbed
D $21 700 under-absorbed

1644 The following information is available from the records of a manufacturing company that applies factory overheads based on direct labour hours:

Estimated overhead cost	$515 000
Estimated labour hours	200 000 hours
Actual overhead cost	$500 000
Actual labour hours	210 000 hours

[L. G. Rayburn]

Based on this information, overhead would be

A over-applied by $10 000.
B over-applied by $15 000.
C over-applied by $40 750.
D under-applied by $9 524.

1645 The production overheads of a small manufacturing company are recovered on a 'labour hour basis'.

The budgeted overheads for November were $18 000 and the planned productive hours were 450. The actual labour hours in November were 400 while expenditure was $13 750.

The production overhead was [J98Q32C]

A over-recovered by $2 000. **C** under-recovered by $2 000.
B over-recovered by $2 250. **D** under-recovered by $2 250.

1646 Woodman Company, which applies factory overhead on the basis of direct labour hours.

The company provides you with the following data for year 2010:

	Budget	Actual
Direct labour hours	600 000	550 000
Factory overhead costs	$720 000	$680 000

The factory overhead for Woodman Company in 2003 is [L. G. Rayburn]

A over-applied by $20 000. **C** under-applied by $20 000.
B over-applied by $40 000. **D** under-applied by $40 000.

1647 A factory incurred overheads totalling $261 000 and worked for 116 000 machine hours. The budgeted production figures were 122 000 machine hours and an overhead cost of $268 400.

What was the under-or-over absorption of overhead for the quarter? [N00Q39C]

A $5 800 over-absorbed **C** $7 400 over-absorbed
B $5 800 under-absorbed **D** $7 400 under-absorbed

1648 The following budgeted and actual data relates to a manufacturing firm.

	Budget	Actual
Direct labour hours	18 000	20 000
Factory overhead costs	$50 000	$60 000

The firm uses an absorption costing system and production overheads are absorbed on the direct labour hour basis.

Production overheads during the period were [N03Q35Z]

A over-absorbed by $4 444. **C** under-absorbed by $4 444.
B over-absorbed by $10 000. **D** under-absorbed by $10 000.

1649 Based on the data below, what is the amount of the overhead under/under-absorbed?

Actual machine hours	10 493
Actual overheads	$514 157
Budgeted overheads	$493 200
Budgeted machine hours	10 960

[Upchurch]

A $20 957 under-absorbed **C** $21 015 under-absorbed
B $21 015 over-absorbed **D** $41 972 under-absorbed

1650 The following information relates to a manufacturing firm:

	Budgeted	Actual
Overheads	$6 000	$6 312
Direct labour hours	800	792
Direct wages	$1 000	$1 705
Units produced	45	46

Overheads are absorbed on the bases of direct labour hours.

What is the overhead variance? [J05Q33Z]

A $312 over-absorption **C** $372 over-absorption
B $312 under-absorption **D** $372 under-absorption

1651 The following budgeted and actual data relates to a manufacturing company:

	Budgeted	**Actual**
Production overhead	$50 000	$60 000
Direct labour hours	8 000	11 200

The company uses absorption costing system. Production overheads are absorbed on the direct labour hour basis.

Production overheads during the period were [N03Q35Z]

A over-absorbed by $4 444. **C** under-absorbed by $4 444.
B over-absorbed by $10 000. **D** under-absorbed by $10 000.

1652 The following information is available from the records of Shingai Manufacturing Ltd, which absorbs overheads on the basis of direct labour hours.

Budgeted overhead cost	$500 000
Actual overhead cost	$515 000
Budgeted direct labour hours	200 000
Actual direct labour hours	210 000

Based on this information, overheads would be [N04Q32Z]

A over-absorbed by $10 000. **C** under-absorbed by $10 000.
B over-absorbed by $15 000. **D** under-absorbed by $15 000.

1653 A business has the following budgeted and actual resulted for a period:

Budgeted number of units	118 000
	$
Budgeted fixed overheads	354 000
Actual fixed overheads	360 000
Under-absorption of overheads	3 000

The fixed overheads are absorbed per unit.

What is the actual level of activity in units? [J04Q30C]

A 118 000 **B** 119 000 **C** 120 000 **D** 121 000

1654 Damba Ltd provided the following information for March 2004:

Budgeted overhead expenditure	$32 000
Budgeted output	8 000 units
Overhead absorption rate	$4 per unit
Actual output	7 940 units

Actual expenditure equalled the budgeted expenditure.

What is the under or over recovery of overheads for March 2004? [J04Q37Z]

A $240 under recovery **C** $242 under recovery
B $240 over recovery **D** Zero over and under recovery

1655 A firm of barristers charges $50 per client/hour for overhead; during the year just ended, the firm under-absorbed by $50 000 on an actual work volume of 11 000 client/hours.

What was the firm's actual overhead for the year? [Upchurch]

A $450 000 **B** $500 000 **C** $550 000 **D** $600 000

1656 Budgeted overheads for a period were $340 000. In the event, actual labour hours and overheads were 21 050 hours and $343 825 respectively.

If there was over-absorption of $14 025, how many labour hours were budgeted? [Upchurch]

A 20 000 **B** 20 225 **C** 20 816 **D** 21 050

1657 When valuing stock, which costs should be included? [J00Q32C]

A Administration and production
B Administration, distribution, marketing and production
C Distribution, marketing and production
D Production

1658 The absorption costing method includes in stocks [L. G. Rayburn]

	Fixed factory overhead	Variable factory overhead
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

1659 Under absorption costing, which costs are passed to stocks? [L. G. Rayburn]

		$000
Direct materials and direct labour		600
Variable factory overhead		80
Straight-line depreciation:	Production machinery	70
	Factory building	50

A $680 000 **B** $730 000 **C** $750 000 **D** $800 000

1660 A business provides the following data for the year:

Budgeted output	10 000 units
Actual output	8 000 units

	$000
Budgeted fixed production costs	1 200
Budgeted variable production costs	800
Budgeted fixed selling overhead	600

What is the absorption cost per unit used for stock taking? [J04Q29C]

A $200 **B** $250 **C** $260 **D** $325

1661 The data relates to Bee Vee Ltd which manufactures and sells a single product.

	April units
Opening stock	Nil
Sales	2 000
Production	4 000

	$
Selling price per unit	40
Variable production costs per unit	20
Fixed production overheads incurred	50 000
Predetermined overhead absorption rate per unit	12

Using absorption costing, what is the value of closing stock for the month of April? [N03Q34Z]

A $40 000 **B** $64 000 **C** $65 000 **D** $80 000

1662 Osaka Inc, which planned and actually manufactured 200 000 units of its single product in 2007, its first year of operations. Variable manufacturing costs were $30 per unit of product. The planned and actual fixed manufacturing costs were $600 000 and selling and administrative costs totalled $400 000. Osaka Inc sold 120 000 units at a price of $40 per unit.

Osaka Inc's operating profit using absorption (full ≡ total) costing is [L. G. Rayburn]

A $200 000. **B** $440 000. **C** $600 000. **D** $840 000.

1663 Karma provides you with the facts below:

Product sales	1 000 units @ $10 each
Variable manufacturing costs	$5.50 per unit
Fixed manufacturing overhead	$1 200
Variable selling and administrative costs	$0.50 per unit sold
Fixed selling and administrative costs	$1 000
Opening stock	Nil
Units produced	1 200

[L. G. Rayburn]

What is the absorption costing net profit?

A $1 800 **B** $1 967 **C** $2 000 **D** $2 167

1664 Anne Ltd manufactures a single product, with budgeted fixed costs of $187 200 per annum, charged at a constant rate each month and a budgeted annual production of 30 000 units.

If contribution per unit is $11, in a month when actual production is 2 500 units that exceeds targeted sales by 100 units, the profit reported under absorption costing is [Author]

A $10 150. **B** $11 450. **C** $12 534. **D** $13 600.

1665 The absorption (total) cost will exceed marginal (variable) cost net profit by the amount of fixed cost in the inventory (stock) change when [Doost RK]

A production > sales. **B** production < sales. **C** production >= sales. **D** production <= sales.

1666 Marginal costing gives a higher profit than absorption costing when [N05Q33Z]

A all production costs are fixed.
B all production costs are variable.
C production volume is greater than sales volume.
D sales volume is greater than production volume.

1667 Marginal costing gives a different profit to absorption costing when [N04Q38Z]

A all production costs are fixed.
B all production costs are variable.
C opening and closing stocks are different.
D there are no opening or closing stocks.

1668 When comparing profits reported under marginal costing and absorption costing during a period when the level of stocks increased [Hussey]

A absorption costing profits will be higher and closing stock valuations higher than those under marginal costing.
B absorption costing profits will be higher and closing stock valuations lower than those under marginal costing.
C marginal costing profits will be higher and closing stock valuations higher than those under absorption costing.
D marginal costing profits will be higher and closing stock valuations lower than those under absorption costing.

1669 When comparing profits reported using marginal costing with those reported using absorption costing in a period when closing stock was 1 400 units, opening stock was 2 000 units, and actual production was 11 200 units at a total cost of $4.50 per unit compared to a target cost of $5 per unit, which statement is correct? [Upchurch]

A Absorption costing reports profits $2 700 higher than marginal costing.
B Absorption costing reports profits $3 000 lower than marginal costing.
C Absorption costing reports profits $5 300 higher than marginal costing.
D There is insufficient data to calculate the difference between reported profits

1670 Exe Limited makes a single product whose total cost per unit is budgeted to be $45. This included fixed costs of $8 per unit based on a volume of 10 000 units per period. In a period, sales volume was 9 000 units, and production was 11 500 units. Actual profit for the same period, calculated using absorption costing, was $42 000.

If the profit statement was prepared using marginal costing, the profit for the year would be [Upchurch]

A $10 000. **B** $22 000. **C** $50 000. **D** $62 000.

1671 A company manufactures 50 000 units of product and sells 40 000 units. Total manufacturing cost per unit is $50 (variable manufacturing cost $10, fixed manufacturing cost $40). [L. G. Rayburn]

Assuming no opening stock, what is the effect on the net profit if absorption costing is used instead of marginal costing?

A Net profit is $200 000 higher
B Net profit is $400 000 higher
C Net profit is $400 000 lower
D Net profit is the same

1672 The group of manufacturing costs referred to as conversion cost includes [Fess & Warren]

A direct labour and factory overhead.
B direct materials and direct wages.
C direct materials and factory overhead.
D direct materials and indirect materials.

1673 Property taxes on a manufacturing plant are an element of [L. G. Rayburn]

	Conversion cost	Period cost
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

1674 Under marginal costing, the cost of factory rent is [N04Q31Z]

	Prime cost	Product cost
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

1675 The cost of rent for a manufacturing plant is [L. G. Rayburn]

	Prime cost	Product cost		Prime cost	Product cost
A	No	No	**C**	Yes	No
B	No	Yes	**D**	Yes	Yes

1676 The fixed cost of the semi-variable cost of electricity for a manufacturing plant is [L. G. Rayburn]

	Period cost	Product cost		Period cost	Product cost
A	No	No	**C**	Yes	No
B	No	Yes	**D**	Yes	Yes

1677 Which of the following items is a product cost under absorption costing but a period cost under marginal costing?
A Administration expenses
B Fixed production overheads
C Raw materials consumed
D Variable production overheads [N03Q29Z]

1678 Marginal costing treats fixed costs as [J05Q38Z]
A part of production cost.
B period costs.
C revenue less variable costs.
D the main factor in determining contribution.

1679 Which of the following is a period cost? [Horngren, Harrison & Lemon]
A Direct labour **B** Factory overhead **C** Materials stock **D** Selling expense

1680 Contribution per unit of production is the difference between its selling price and [Randall]
A cost of production. **B** marginal cost. **C** prime cost. **D** total cost.

1681 'Contribution' is an important feature of marginal costing.

How can the total contribution from a given level of activity be calculated? [N00Q34C]
A Total asset + Total fixed costs
B Total direct costs – Total profit
C Total fixed costs + Total profit
D Total sales – Total profit

1682 In marginal costing, how can total contribution from a given activity be calculated? [J01C29C], [N01Q34C]
A Total direct costs – Total profit
B Total fixed costs + Total profit
C Total sales – Total profit
D Total sales + Total profit

1683 Contribution might be expressed as [J05Q37Z]
A Net profit – Fixed costs.
B Net profit + Fixed costs.
C Variable costs – Fixed costs.
D Variable costs + Fixed costs.

1684 Contribution margin can be defined as selling price [Doost RK]
A less variable cost divided by selling price.
B less variable cost times selling price.
C per unit less total cost per unit.
D per unit less variable cost per unit.

1685 A transistor radio with a selling price of $4 million has the following costs:

	$000
Purchase price	1 900
Salesman's commission	500
Allocated storage overhead	700

The contribution of the transistor radio is [Author]
A $900 000. **B** $1 400 000. **C** $1 600 000. **D** $2 100.

1686 A video cassette has a selling price of $10.

	$
Direct materials	1.20
Direct labour	0.80
Factory overhead	1.40
Royalty payment	1.00
Administration overhead (fixed)	0.60

What is the contribution per video cassette? [J02Q24Z]
A $5 **B** $6 **C** $7 **D** $8

1687 The following information relates to unit production: [Prestige]

	$
Selling price	24
Direct materials	2
Direct labour	6
Fixed overhead allocation	10
Net profit	6

If the variable overheads are set to increase by 10%, what is the new contribution per unit?

A $4.20 **B** $5.20 **C** $15.20 **D** $15.40

1688 A company currently selling 10 000 units has the following data regarding one of its products:

	Per unit ($)
Selling price	10
Productive material	4
Direct labour	2
Variable overhead	1

[L. G. Rayburn]

If the productive materials cost increases by 15%, what will the new contribution total be?

A $20 000 **B** $24 000 **C** $30 000 **D** $40 000

1689 A company currently selling 10 000 units has the following data regarding one of its products:

	Per unit ($)
Sales revenue	30
Productive material	12
Direct labour	6
Variable overhead	3

[L. G. Rayburn]

If volume of sales was reduced by 10%, what would be the total contribution?

A $60 000 **B** $81 000 **C** $90 0000 **D** $99 000

1690 A Plc operates a marginal costing system. For the forthcoming years, variable costs are budgeted to be 60% of sales value and fixed costs are budgeted to be 10% of sales value.

If the Plc increases its selling price by 10% but its fixed costs, variable costs and sales volume remains unchanged, the effect on the contribution will be [Prestige]

A a decrease of 2%. **B** an increase of 5%. **C** an increase of 10%. **D** an increase of 25%.

1691 In contribution pricing approach, a price at which profit remains constant is equal to price that covers

A fixed costs. **C** prime costs. [L. G. Rayburn]

B fixed costs + variable costs + desired profit. **D** variable costs.

1692 Based on the following data, what is the operating leverage? [Fess & Warren]

	$000
Sales revenue	6 000
Variable costs	2 400
Contribution	3 600
Fixed overhead	1 600
Operating profit	2 000

A 0.8 **B** 1.2 **C** 1.8 **D** 4.0

1693 The C/S ratio shows the [Randall]

A contribution as a percentage of selling price.

B difference between break-even point and planned sales.

C profit from each dollar of sales.

D revenue at which a business breaks even.

1694 Contribution margin ratio can be defined as [Doost RK]

A $\frac{\text{Selling price} - \text{Total cost}}{\text{Selling price}}$ **C** $\frac{\text{Selling price} - \text{Variable cost}}{\text{Selling price}}$

B $\frac{\text{Selling price} - \text{Total cost}}{\text{Variable cost}}$ **D** $\frac{\text{Selling price} - \text{Variable cost}}{\text{Variable cost}}$

1695 If sales are $500 000, variable costs $200 000 and fixed costs $240 000, what is the contribution sales ratio?
A 40% **B** 48% **C** 52% **D** 60% [Fess & Warren]

1696 The following information applies to Belta Ltd:

Output (units)	Sales $000	Profit $000
750	1 500	200
1 000	2 000	500

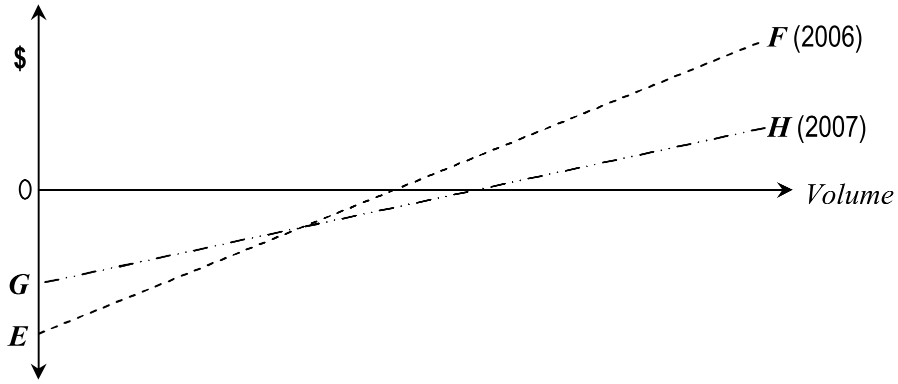
What is the contribution to sales ratio? [Prestige]
A 25% **B** 40% **C** 60% **D** 87%

1697 Data below relates to a small business:

	$	$
Sales		6 000
Variable costs	4 500	
Fixed costs	900	
Total cost		5 400
Profit		600

What is the contribution to sales ratio? [J00Q3C]
A 10% **B** 25% **C** 33.33% **D** 75%

1698 In the profit-volume chart below, ***EF*** and ***GH*** represents the profit-volume graphs of a single-product company for years 2006 and 2007 respectively. [L. G. Rayburn]



If 2006 and 2007 unit sales prices are identical, how did total fixed costs and unit variable costs of 2007 change compared to 2006?

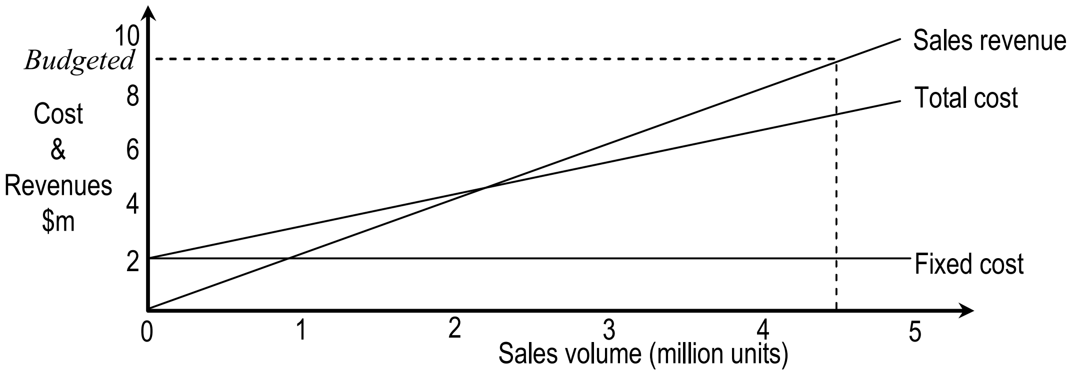
	2007 Total fixed costs	2007 Unit variable costs
A	decreased	decreased
B	decreased	increased
C	increased	decreased
D	increased	increased

1699 Break even analysis assumes that over the relevant range [L. G. Rayburn]
A total costs are unchanged.
B unit fixed costs are unchanged.
C unit variable costs are unchanged.
D variable costs are non-linear.

1700 The following are true about break-even analysis **except**
A efficiency and productivity remain unchanged.
B the behaviour of costs is linear over a wide range of activity.
C total fixed costs remain constant over the relevant range.
D variable cost per unit varies in direct proportion to volume. [J05Q36Z]

1701 At the break-even point sales [Author]
A equal fixed expenses.
B equal total expenses.
C equal variable expenses.
D exactly equal net profit

1702 An accountant prepared the following break-even chart:



The budgeted sales volume is 4.5 million units.

What profit can be anticipated at this level? [N99Q33C]

A $2.5 million **B** $4.5 million **C** $7 million **D** $9 million

1703 If the unit selling price is $32, the unit variable cost is $24 and fixed costs are $320 000, then the break-even point units is [Fess & Warren]

A 5 714 units. **B** 10 000 units. **C** 13 333 units. **D** 40 000 units.

1704 The planned sales of a product are 6 400 units at $100 per unit. The marginal cost per unit is $36.
Fixed costs are estimated to be $800 000.

What is the break-even point in units? [N06Q38Z]

A 8 000 **B** 12 500 **C** 22 222 **D** 56 000

1705 Bidwell Limited's budgeted data is as follows: [L. G. Rayburn]

		Fixed	Variable	
		$000	**$000**	**$000**
Sales (100 000 units)				1 000
Costs:	Raw materials		300	
	Direct labour		200	
	Overhead costs	100	150	
	Selling and administrative costs	110	50	
Total costs		210	700	910
Budgeted operating profit				90

The break even sales is

A 30 000 units. **B** 60 000 units. **C** 70 000 units. **D** 91 000 units.

1706 The following information pertains to Sisk Ltd:

			$000
Sales (25 000 units)			500
Direct materials and labour			150
Factory overhead:	Variable		20
	Fixed		35
Selling and general expenses:		Variable	5
		Fixed	30

[L. G. Rayburn]

Sisk Ltd's break-even point in units is

A 4 924. **B** 5 000. **C** 6 250. **D** 9 286.

1707 Data at full capacity of 5 000 units is:

	$
Fixed overhead costs	40
Marginal costs	60
Sales revenue	150.

The break-even point is [Author]

A 1 334 units. **B** 2 223 units. **C** 3 334 units. **D** 4 000 units.

1708 HG Limited has estimated fixed costs of $400 000 next year and requires to sell 5 000 units of its only product in order to earn a profit of $100 000. Actual sales for the year are anticipated to be 8 000 units.

What is the company's break even point in units? [Upchurch]

A 500 **B** 1 000 **C** 3 000 **D** $4 000

1709 Mambo Ltd has fixed costs of $120 000 per annum. The company manufactures a single product which it sells for $40 per unit. Its contribution sales ratio is 40%.

Mambo Ltd's break even point in units is [J03Q37Z]

A 1 200. **B** 1 800. **C** 3 000. **D** 7 500.

1710 The following is budgeted data for Rodwell Investments: [L. G. Rayburn]

		$000	**$000**
Sales (100 000 items)			1 000
Overheads:	Fixed	210	
	Variable	700	910
Budgeted net profit			90

If fixed costs increase by $31 500, with no other cost or revenue factors changing, break even sales is

A 34 500 units. **B** 70 000 units. **C** 80 500 units. **D** 94 500 units.

1711 The data shows the budget of a small manufacturing company:

Sales in units	6 000	12 000
	$	**$**
Direct materials	18 000	36 000
Direct labour	6 000	12 000
Production overheads	33 000	45 000
Administration overheads	27 000	27 000

The units are sold for $12 each.

What is the break even point in units? [J98Q30C]

A 4 500 **B** 6 750 **C** 8 000 **D** 9 000

1712 Break-even formula in dollars can be shown as [Doost RK]

A $\frac{\text{Fixed costs}}{\text{Selling price} - \text{Unit variable cost}}$

C $\frac{\text{Fixed costs} \times \text{Unit selling price}}{\text{Selling price} - \text{Unit variable cost}}$

B $\frac{\text{Fixed costs} \times \text{Unit contribution}}{\text{Selling price} - \text{Unit variable cost}}$

D $\frac{\text{Fixed costs} \times \text{Unit variable cost}}{\text{Selling price} - \text{Unit variable cost}}$

1713 Break-even point is found by dividing [Randall]

A fixed cost per unit by contribution per unit.
C total fixed costs by contribution per unit.
B total contributions by fixed cost per unit.
D total fixed costs by total contributions.

1714 A company intends to manufacture a tri-cycle and sell it for $120. The material cost per unit is $40 and the direct labour unit cost is $50. Fixed costs are $105 000 per month.

What is the break even point in sales revenue per month? [N02Q36Z]

A $157 000 **B** $180 000 **C** $300 000 **D** $420 000

1715 A company intends to manufacture dolls which it sells at $5 000 each. The direct material cost per unit is $1 500 and the direct labour cost per unit is $2 000. Fixed costs are $45 000 per annum.

What is the beak-even point in sales revenue per month? [N06Q27Z]

A $26 470 **B** $64 286 **C** $75 000 **D** $150 000

1716 A company plans to manufacture toys and to sell them at $10 each. Its fixed overheads are estimated at $10 000 per annum and the variable costs per toy $3. It has a capacity to produce 3 375 units before expansion increases the fixed costs by 20%.

What is the break-even point in sales value? [N98Q33C]

A $14 285 **B** $17 143 **C** $33 333 **D** $40 000

1717 What is the break even point for Mete Co given the following data?

	$000
Sales	400
Variable costs	80
Fixed costs	20

[L. G. Rayburn]

A $20 000 **B** $25 000 **C** $80 000 **D** $100 000

1718 A product is sold for $100 per unit. Fixed costs are $80 000 and variable costs are 60% of selling price.

What is the break-even sales revenue? [J01C27C], [N01Q31C]

A $80 000 **B** $128 000 **C** $200 000 **D** $280 000

1719 A company with fixed costs totalling $5 000 makes a profit of $800 on a turnover of $16 000.

What is the break-even point expressed in terms of sales value? [N03Q31Z]

A $10 200 **B** $11 000 **C** $12 207 **D** $13 793

1720 If variable expenses consume 70% of sales and fixed expenses total $420 000, the break-even point in dollars is

A $140 000. **C** $1 260 000.
B $600 000. **D** $1 400 000. [Horngren, Harrison & Lemon]

1721 The following information relates to a manufacturing firm:

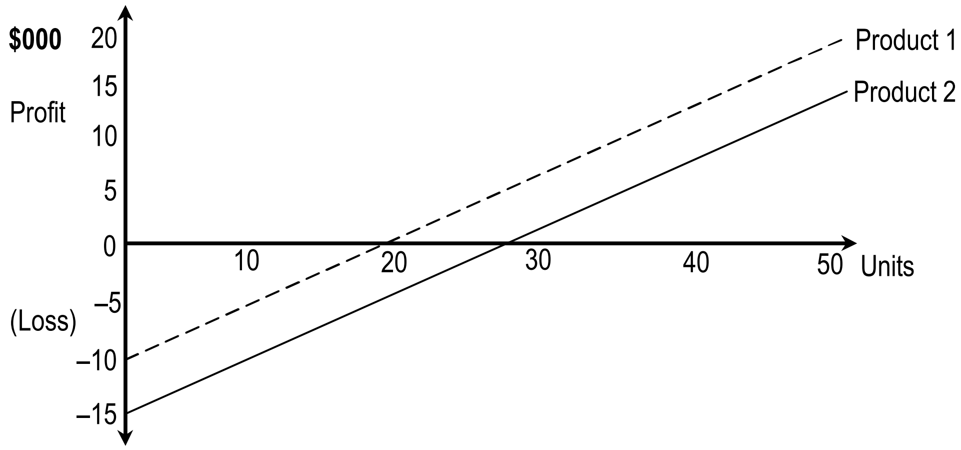
	$
Sales	120 000
Contribution	30 000
Contribution per unit	0.40
Fixed cost	15 000

What is the break-even point in value? [J05Q34Z]

A $37 500 **B** $60 000 **C** $75 000 **D** $90 000

1722 A profit/volume chart is shown below:

Two lines indicate the break even point for the sale of 50 units of each of the two products.



What are the total fixed costs allocated to the two products? [N01Q40C]

A $25 000 **B** $35 000 **C** $47 500 **D** $60 000

1723 The marginal cost of a product is the [Randall]

A cost of production. **C** prime cost.
B cost of production + selling costs. **D** total of the variable costs.

1724 The following information relates to product Q:

	$
Sales revenue at break even point	72 000
Unit sales price	24
Fixed costs	18 000

What is the marginal cost of each unit of product Q? [Randall]

A $4 **B** $6 **C** $10 **D** $18

1725 The information relates to a product:

	$
Break-even sales revenue	30 000
Unit selling price	20
Fixed costs	12 000

What are the variable costs per unit? [Prestige]

A $4 **B** $5 **C** $8 **D** $12

1726 The following information concerns a product:

Break-even point (units)		2 500
		$
Per unit:	Selling price	10.00
	Variable labour costs	3.50
	Raw material costs	2.50

What is the total fixed cost? [Prestige]

A $10 000 **B** $15 000 **C** $16 250 **D** $18 750

1727 Assuming all other factors remain unchanged, break-even point is lowered by increasing [N00Q36C]

A budgeted sales. **B** fixed costs. **C** marginal costs. **D** selling prices.

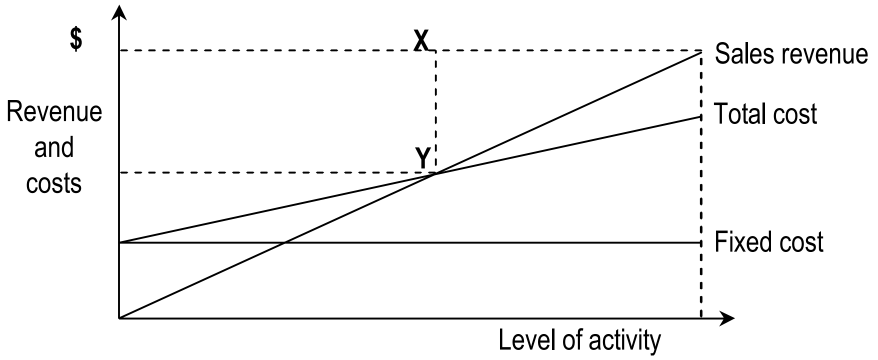
1728 How can the break-even point of a business lowered? [N04Q34Z]

A By decreasing unit selling prices. **C** By increasing budgeted sales.
B By decreasing unit variable costs. **D** By increasing fixed costs.

1729 What happens to the break-even point if both variable expenses and fixed expense increase?

A Break-even sales are unchanged because the two offset each other.
B Break-even sales decrease.
C Break-even sales increase. [Horngren, Harrison & Lemon]
D The effect on break-even cannot be determined from the information given.

1730 The diagram below is a break-even chart: [Author]



What is represented by **XY**?

A Break-even sales **C** Net profit
B Margin of safety sales **D** Total cost

1731 Information about a product is given below:

Per unit	$
Selling price	110
Direct materials	50
Direct labour	40

Fixed costs total $50 000 and the planned production is 2 000 units. [Randall]

Which action is necessary to break even?

	Decrease of direct labour by		*Decrease of direct materials by*
A	20%.	**C**	10%.
B	25%.	**D**	20%.

1732 Margin of safety measures sales less [Doost RK]
A break-even sales. **B** break-even units. **C** fixed costs. **D** variable costs.

1733 A Ltd makes a single product which it sells for $10 per unit. Fixed costs are $48 000 per month and the product has a contribution to sales ratio of 40%.

In a period when actual sales were $140 000, A Ltd's margin of safety, in units, was [Hussey]
A 2 000. **B** 6 000. **C** 8 000. **D** 12 000.

1734 Z Plc makes a single product which it sells for $16 per unit. Fixed costs are $76 800 per month and the product has a contribution to sales ratio of 60%.

In a period when actual sales were $224 000, Z Plc's margin of safety, in units, was [Upchurch]
A 2 000. **B** 6 000. **C** 8 000. **D** 12 000.

1735 Rashid Ltd produces a single product and sells it at $10 per unit. Break even volume is 12 000 units.

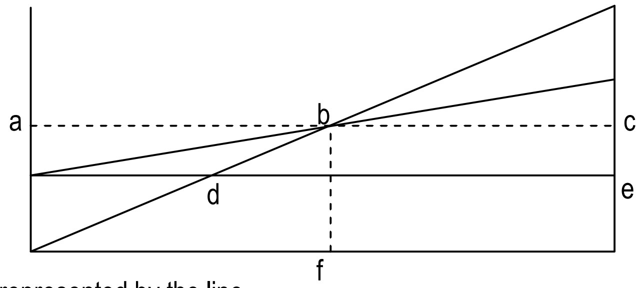
If actual sales for January 2007 were $140 000, Rashid Ltd's margin of safety was [J03Q38Z]
A 1 200 units. **B** 2 000 units. **D** 14 000 units. **D** 20 000 units.

1736 The following data is made available:

Selling price per unit	$4
Expected production level	7 000 units
Fixed overheads	$8 000
Variable costs per unit	$2

What is the margin of safety in units? [S03Q36Z]
A 2 000 **B** 3 000 **C** 4 000 **D** 5 000

1737 [Randall]



The margin of safety is represented by the line
A a – b. **B** b – c. **C** b – f. **D** d – e.

1738 Margin of safety ratio is [Doost RK]
A margin of safety ÷ planned costs. **C** planned sales ÷ margin of safety.
B margin of safety ÷ planned sales. **D** planned sales ÷ planned costs.

1739 William Thomas Corp's monthly sales have averaged $480 000 for the past year. The monthly break-even point is $400 000.

The margin of safety is [Horngren, Harrison & Lemon]
A $16\frac{2}{3}$%. **B** 20%. **C** 62½%. **D** 100%

1740 Total profits will be maximised when [L. G. Rayburn]
A marginal cost = average cost. **C** marginal revenue = zero.
B marginal cost = marginal revenue. **D** total revenue = total cost.

1741 A company is considering selling 10 000 units of a new product that has the following estimated data: [L. G. Rayburn]

	Per unit ($)
Revenue	20
Direct materials	3
Direct labour	4
Variable factory overhead	2
Sales commission	1
Allocated fixed cost	5

Adding the product will not increase total fixed costs, but will increase profits by
A $50 000. **B** $100 000. **C** $110 000. **D** $140 000.

1742 Sunni Inc, which planned and actually manufactured 200 000 units of its single product in 2007, its first year of operations. Variable manufacturing costs were $30 per unit of product. The planned and actual fixed manufacturing costs were $600 000 and selling and administrative costs totalled $400 000. Sunni Inc sold 120 000 units at a price of $40 per unit.

Sunni Inc's operating profit using marginal (direct ≡ variable) costing is [L. G. Rayburn]

A $200 000. **B** $440 000. **C** $600 000. **D** $840 000.

1743 Kimono provides you with the data below:

Product sales	1 000 units @ $10 each
Variable manufacturing costs	$5.50 per unit
Fixed manufacturing overhead	$1 200
Variable selling and administrative costs	$0.50 per unit sold
Fixed selling and administrative costs	$1 000
Opening stock	Nil
Units produced	1 200

[L. G. Rayburn]

What is the marginal (variable ≡ direct) costing net profit?

A $600 **B** $1 800 **C** $2 000 **D** $2 300

1744 A company has sales of $192 000, fixed costs of $40 000 and a contribution/sales ratio of $^1/_3$.

What are its profits? [J99Q34C]

A $24 000 **B** $50 667 **C** $64 000 **D** $88 000

1745 Chimbambo Ltd has sales of $500 000, fixed costs of $100 000 and a contribution to sales ratio of ½.

What is the profit? [N07Q33Z]

A $150 000 **B** $200 000 **C** $250 000 **D** $400 000

1746 A company makes 500 units and sells these units at $50 each. The direct materials cost $7 500, direct labour costs $2 500 and fixed overheads are $8 400.

How much profit will be made, if the company increases the number of units to 600? [N00Q33C]

A $7 920 **B** $9 600 **C** $10 100 **D** $11 600

1747 Bindo Ltd manufactures and sells a single product whose price and cost structure are shown below:

	$
Selling price per unit	20
Variable cost per unit	15

Budgeted fixed costs are $100 000 for a standard production of 40 000 units.

How much profit or loss can be generated if 50 000 units are produced and sold? [J04Q33Z]

A $125 000 loss **B** $125 000 profit **C** $150 000 loss **D** $150 000 profit

1748 Given below is a marginal costing Income Statement for Reynolds Company:

		$	$
Sales revenue			40 000
Variable costs:	Cost of goods sold	24 000	
	Selling overheads	4 000	
	General and administration	3 000	31 000
Contribution			9 000
Fixed expenses:	Selling overheads	2 000	
	General and administrative	1 000	3 000
Net profit from operations			6 000

What will profit from operations be if sales increase by 25%. [Horngren, Harrison & Lemon]

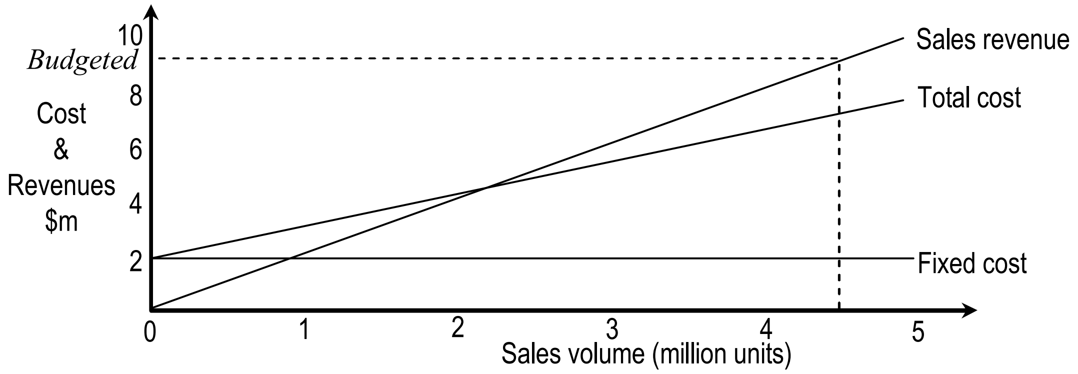
A $7 500 **B** $8 250 **C** $10 000 **D** $12 750

1749 Sigogo Ltd manufactures a single product with marginal cost of $3 and selling price of $5. Fixed costs are $25 000.

What level of sales will produce a profit of $15 000. [N04Q37Z]

A $20 000 **B** $40 000 **C** $100 000 **D** $120 000

1750 An accountant produced the following break-even chart:



The budgeted sales volume is 4.5 million units

What contribution can be anticipated at this level? [N99Q33C]

A $2.5 million **B** $4.5 million **C** $7 million **D** $9 million

1751 If the unit selling price is $16, the unit variable cost is $12 and the fixed costs are $160 000, how many units of sales will be required to realise an operating profit of $20 000? [Fess & Warren]

A 11 250 units. **B** 15 000 units **C** 20 000 units **D** 45 000 units

1752 A company manufactures a single product as follows:

Selling price	$20 per unit
Variable costs	$15 per unit

Its budgeted fixed costs are $20 000.

How many units must the company sell to make a profit of $50 000? [N99Q35C]

A 4 000 units **B** 10 000 units **C** 14 000 units **D** 16 000 units

1753 Unit data for Nokia Manufacturing Limited is:

Selling price	$20
Marginal cost	$15.

Budgeted fixed overheads are $200 000.

How many units must be sold to make a net profit of $50 000? [N99Q35C]

A 10 000 units **B** 30 000 units **C** 40 000 units **D** 50 000 units

1754 A company makes a product which has variable costs estimated at $8 per unit and which sells at $12 a unit. Fixed costs are estimated to be $260 000.

How many units must the company sell in order to generate $60 000 profit? [L. G. Rayburn]

A 26 667 **B** 50 000 **C** 65 000 **D** 80 000

1755 A firm has fixed costs of $200 000, unit contribution of $10 and a contribution to sales ratio of 25%.

How many units should be sold to produce a profit equal to 20% of total cost? [Author]

A 40 000 **B** 50 000 **C** 60 000 **D** 80 000

1756 The following information relates to a firm which manufactures and sells one product:

	$
Selling price per unit	50
Variable cost per unit	30
Fixed costs	80 000

How many units must be sold to make a profit of $100 000? [N02Q37Z]

A 8 500 units **B** 9 000 units **C** 10 000 units **D** 12 000 units

1757 A company makes a product which has variable costs estimated at $4 per unit and which sells at $6 a unit. Fixed costs are estimated to be $130 000. [L. G. Rayburn]

If actual sales were 30% below the level required to earn $50 000 profit, the actual profit/ (loss) was

A ($35 000). **B** ($4 000) **C** $4 000 **D** $35 000

1758 A company sells two products, **X** and **Y**.

	X	Y
Sales (units)	1 000	2 000
Per unit	**$**	**$**
Selling price	22	12
Contribution	12	4

What would increase the company's profit by $10 000? [J04Q28C]

A A 30% increase in the sales of **X**.
B A 50% increase in sales of both products.
C A reduction in variable costs of both products by $5.
D An increase in selling price of **X** by $1 and **Y** by $6.

1759 If the maximum loss is $100 000, maximum profit is $150 000 and the margin of safety is 900 units, then the maximum production capacity of this firm is [Author]

A 1 200 units. **B** 1 350 units. **C** 1 500 units. **D** 2 250 units.

1760 Cost-volume-profit (CVP) analysis is most directly useful to [Horngren, Harrison & Lemon]

A investors for deciding how much to pay for a company's shares.
B lenders for analysing a loan request.
C managers for predicting the outcome of their decisions.
D tax authorities for setting income tax rates.

1761 A company manufactures and sells sports shoes. The directors want to increase profitability and are considering buying in the shoes instead of manufacturing them.

The company should buy the shoes if the buying in price is [J05Q40Z]

A less than the marginal cost of production.
B less than the total cost of production.
C more than the marginal cost of production.
D more than the total cost of production.

1762 A company manufactures and sells widgets. Directors want to increase profitability and are considering buying-in the widgets instead of manufacturing them.

The company should buy the widgets from an outside supplier if the price is [N99Q34C]

A less than the marginal cost of production.
B more than the marginal cost of production but less than marginal cost of sales.
C more than the marginal cost of sales but less than the total cost.
D more than the total cost but less than the selling price.

1763 In deciding which products to eliminate, [Doost RK]

A net profit for such products must be reviewed.
B total contribution less relevant fixed costs must be reviewed.
C total contribution margin for such products must be reviewed.
D unit contribution margin for such products must be reviewed.

1764 To decide whether to delete a product, the manager should consider [Horngren, Harrison & Lemon]

A all costs that change.
B all costs that remain unchanged.
C only variable costs.
D only fixed costs.

1765 A company makes four products: P, Q, R and S, whose relevant unit costs are as follows:

	P	Q	R	S
	$	**$**	**$**	**$**
Variable production cost	17	13	15	12
Fixed production cost	8	9	6	10
Cost of production	25	22	21	22
Other costs: Variable	2	3	1	1
Fixed	4	2	3	2
Total cost	31	27	25	25

The prices at which the products can be obtained from other suppliers are: P $20; Q $15; R $14 and S $24.

The company can increase its profits if it ceases production of the following product and buys it from another supplier (out-sources). [Randall]

A Product P **B** Product Q **C** Product R **D** Product S

1766 Hochelaga's $0.47 per unit (incurred in manufacturing its stock) includes a $0.19 fixed cost. Another company offers to sell the product to Hochelaga for $0.35 per unit. The make-or-drop decision hinges on the comparison between Hochelaga's $0.47 manufacturing cost and the total cost if the products are purchased from the other company.

What is that total cost? [Horngren, Harrison & Lemon]

A $0.28 **B** $0.35 **C** $0.54 **D** $0.66

1767 Assuming fixed costs remain unchanged, to decide whether to make a sale at a special price, compare expected change in [Horngren, Harrison & Lemon]

A gross profit (sales minus cost of goods sold) with and without the sale.
B gross sales revenue with expected change in fixed costs.
C gross sales revenue with expected change in selling expenses.
D gross sales revenue with expected change in variable costs.

1768 A company makes four products which require the same material. The material is in limited supply and the company cannot obtain sufficient of it to meet its budgeted production of each product.

In order to maximise profit; the products should be ranked in terms of [Randall]

A contribution per unit of the product.
B contribution per unit of the scarce material.
C profit per unit.
D quantity of material required per unit of each product.

1769 A company makes four products which all require the same raw material. Material is in short supply and the company cannot obtain enough to meet its budgeted production.

In order to maximise profit, the products should be ranked in order of [J07Q37Z]

A contribution per kilogram of the scarce resource.
B contribution per unit of product.
C profit per kilogram of material.
D quantity of material required per unit of the product.

1770 Decision of which product to produce when we have limited manpower available is solved by producing the product(s) which have the [Doost RK]

A highest contribution margin.
B highest contribution per unit of constraining factor.
C highest selling prices.
D lowest marginal cost per unit.

1771 A company manufactures products **W**, **X**, **Y** and **Z** using a common material. [N04Q23C]

	Product W	**Product X**	**Product Y**	**Product Z**
Contribution per unit	$10	$12	$14	$16
Material units required	5 litres	4 litres	6 litres	7 litres

If there is only enough material to make three products, which product should be discontinued?

A Product W **B** Product X **C** Product Y **D** Product Z

1772 The following details relate to products made by K Ltd: [Hussey]

	L	**M**	**N**
Per unit	**$**	**$**	**$**
Selling price	60	85	88
Direct materials	15	20	30
Direct labour	10	15	10
Variable overhead	5	8	10
Fixed overhead	10	16	20
Profit	20	26	18

All three products use the same direct labour and materials but in different quantities.

In a period when material used on these products is in short supply, the most and least profitable use of material is:

	Most profitable	*Least profitable*
A	M	L
B	M	N
C	N	L
D	N	M

1773 K Limited manufactures three products, the selling price and cost per unit details are given below: [Upchurch]

	Product L	Product M	Product N
	$	$	$
Selling price	97.50	123.50	123.50
Direct materials	13.00	6.50	19.50
Direct labour	20.80	31.20	26.00
Variable overhead	10.40	15.60	13.00
Fixed overhead	31.20	46.80	39.00

In a period when direct materials are restricted in supply, the most and least profitable uses of direct materials are:

	Most profitable	*Least profitable*		*Most profitable*	*Least profitable*
A	L	N	**C**	M	N
B	M	L	**D**	N	M

1774 Z Ltd manufactures three products, the selling price and cost details of which are given below: [Hussey]

		Product X	Product Y	Product Z
		$	$	$
Selling price per unit		75	95	95
Costs per unit:	Direct materials ($5/kg)	10	5	15
	Direct labour ($4/hour)	16	24	20
	Variable overhead	8	12	10
	Fixed overhead	24	36	30

In a period when direct materials are restricted in supply, the most profitable and least profitable uses of direct materials are:

	Most profitable	*Least profitable*		*Most profitable*	*Least profitable*
A	X	Y	**C**	Y	X
B	X	Z	**D**	Y	Z

1775 A company makes three products, X, Y and Z, all of which require the use of the same material. [Randall]

Information about the products is as follows:

Per unit	*Product X*	*Product Y*	*Product Z*
	$	$	$
Selling price	260	200	240
Direct material	(96)	(80)	(90)
Direct labour	(50)	(40)	(50)
Variable overhead	(40)	(30)	(37)
Fixed overhead	(54)	(36)	(36)
Profit	20	14	27

The material is in short supply.

Which order of priority should the company give the products to maximise profits?

	Order of priority				**Order of priority**		
	1	2	3		1	2	3
A	X	Y	Z	**C**	Y	X	Z
B	X	Z	Y	**D**	Y	Z	X

1776 The data below relates to production of three products:

Product	**X**	**Y**	**Z**
Contribution per unit	$160	$175	$190
Labour hours per unit	1	1.25	0.75
Fixed overhead per unit	$125	$130	$160

The company is experiencing shortage of labour.

In which order of priority should the products be ranked to maximise profit? [J99Q36C]

	1	2	3		1	2	3
A	X	Y	Z	**C**	Z	X	Y
B	Y	X	Z	**D**	Z	Y	X

1777 Zed Ltd manufactures three products **X**, **Y** and **Z**. The labour hours are limited to 250.

Information about the three products is as follows:

Product	**X**	**Y**	**Z**
Labour hours per unit	3	2	7
Contribution per unit	$8	$8	$16
Maximum demand (units)	500	500	500

To maximise profits, which order of priority should the company adopt? [J04Q36Z]

A X ➲ Y ➲ Z
B X ➲ Z ➲ Y
C Y ➲ X ➲ Z
D Z ➲ X ➲ Y

1778 A company manufactures three products for which the following details (per unit) are available:

	Product X	**Product Y**	**Product Z**
Sales value	$12.00	$12.00	$22.50
Direct material cost	$ 5.00	$ 4.00	$ 8.00
Labour cost	$ 4.00	$ 6.00	$ 4.50
Labour hours	2	0.8	3

In labour hours are restricted in supply, what order of priority should the company adopt when planning its production? [J98Q35C]

	First	→	**Last**
A	Y	X	Z
B	Y	Z	X
C	Z	X	Y
D	Z	Y	X

1779 Z Plc manufactures three products which have the following selling prices and costs per unit:

		Z1	**Z2**	**Z3**
Unit data		**$**	**$**	**$**
Selling price		15.00	18.00	17.00
Direct materials		4.00	5.00	10.00
Direct labour		2.00	4.00	1.80
Overhead:	Variable	1.00	2.00	0.90
	Fixed	4.50	3.00	1.35
Profit		3.50	4.00	2.95

All three products use the same type of labour. [Hussey], [Upchurch]

In a period in which labour is in short supply, the rank order of production is:

	Z1	**Z2**	**Z3**
A	1st	2nd	3rd
B	1st	3rd	2nd
C	2nd	1st	3rd
D	2nd	3rd	1st

1780 A company manufactures three products, X, Y and Z and provides you data below:

Unit data	**X**	**Y**	**Z**
	$	**$**	**$**
Selling price	100.00	120.00	130.00
Direct materials cost	40.00	45.00	48.00
Direct labour charge	20.00	25.50	29.00
Variable overhead cost	15.00	18.00	20.00
Fixed overhead expense	18.00	18.00	27.00
Profit	7.00	13.50	6.00

All three products are made from the same material. [J02Q21C]

If the material is in short supply, which manufacturing pattern will maximise profit?

	Order of priority		
	1	2	3
A	Y	X	Z
B	Y	Z	X
C	Z	X	Y
D	Z	Y	X

1781 A company manufactures three products for which the following details per unit are available:

	Product X	**Product Y**	**Product Z**
Sales value	$24	$24	$45
Direct materials cost	$10	$8	$16
Direct labour cost	$8	$12	$9
Direct labour hours	4	1.5	6

[J07Q39Z]

If the labour hours are restricted in supply, which order of priority should the company adopt when planning its production?

	Order of priority		
	1	**2**	**3**
A	Y	X	Z
B	Y	Z	X
C	Z	X	Y
D	Z	Y	X

1782 If there are limited skilled personnel, which order of manufacturing maximises profit? [Author]

Product	**L**	**M**	**N**
Contribution	$25	$49	$64
Labour hours	0.2	0.3	0.4

A L ⇨ M ⇨ N
B M ⇨ L ⇨ N
C M ⇨ N ⇨ L
D N ⇨ L ⇨ M

1783 A company manufactures three products for which the following details, per unit, are provided: [N02Q32Z]

	J	**K**	**L**
Sales value	$17	$18	$25
Direct material quantity	3 kg	4 kg	5 kg
Direct material cost	$6	$8	$10
Direct labour cost	$3	$4	$5
Labour hours	1.5	2.0	2.5

If the material is in restricted supply, which order of priority should the company adopt in manufacturing these products to maximise profits?

	First to last		
A	J	K	L
B	J	L	K
C	K	J	L
D	L	K	J

1784 The following details relate to a company that manufactures three products: [N03Q33Z]

Product		**K**	**L**	**M**
		$	**$**	**$**
Selling price per unit		90	88	64
Unit costs:	Direct materials	40	48	32
	Direct labour	12	18	12
	Variable overhead	8	6	4

Material costs are $8 per kilogram for all products.

If the material is in limited supply, which order of priority should the company adopt when planning its production?

	First	→	*Last*
A	K	L	M
B	K	M	L
C	L	M	K
D	M	L	K

1785 A company produces three products: *Copier*, *Printer* and *Scanner*, and is reviewing the production and sales budgets for the next accounting period. Machine capacity is limited to 600 hours for the period.

The following information is available for the three products:

	Copier	*Printer*	*Scanner*
Contribution per unit	$6	$5	$3
Machine hours required per unit	3 hours	1 hour	½ hour
Estimated sales demand	300 units	300 units	300 units.

How many units of *Copier* should the company make in order to maximise profits? [N05Q34Z]

A 50 **B** 150 **C** 200 **D** 300

1786 Job order costing is appropriate system to account for manufacture of [Horngren, Harrison & Lemon]
A aircraft. **B** cardboard boxes. **C** matches. **D** zippers.

1787 For which of the following would job order cost system be appropriate? [Fess & Warren]
A Antique furniture repair shop
B Coal miner
C Crude oil refinery
D Rubber manufacturer

1788 State which of the following are characteristics of job costing. [Hussey]
1 Complete production possible within a single accounting period.
2 Customer driven production.
3 Homogeneous products.
A 1 and 2 **B** 1 and 3 **C** 2 and 3 **D** 3

1789 Which statement is false? [Doost RK]
A Costs are accumulated by departments in process costing.
B Job costing accumulates costs by jobs.
C Job costing is suitable for mass production of homogeneous products.
D Unit cost is computed by dividing total job costs by units produced in job costing.

1790 What purpose is **not** served by a job cost card (record/sheet)? [Horngren, Harrison & Lemon]
A Assists in the preparation of future quotations.
B Explains the root causes of the variances.
C It is management's basic internal document that helps control cost in the job cost system.
D Lists total materials, labour and overhead costs charged to a job.

1791 Why is direct labour often used as a basis for applying overhead cost to jobs? [Horngren, Harrison & Lemon]
A Overhead includes direct labour
B Overhead is very similar to direct labour
C Overhead occurs before direct labour is charged to a job
D Overhead occurs in direct relation to the occurrence of direct labour cost

1792 The factory overhead is charged to jobs based on
1 Actual overhead rate × Actual level of cost driver activity
2 Actual overhead rate × Budgeted level of cost driver
3 Predetermined overhead rate × Actual level of cost driver activity
4 Predetermined overhead rate × Budgeted level of cost driver activity

Which of the above are correct? [Doost RK]
A 1 and 2 **B** 1 and 3 **C** 2 and 3 **D** 3 and 4

1793 If a machine is for one job only, the rental [Randall]
A and depreciation of the machine will be charged to the job as direct expenses.
B and depreciation of the machine will be charged to the job as indirect expenses.
C will be charged to the job as a direct expense.
D will be charged to the job as an indirect expense.

1794 Retep Ltd hired a drilling machine for use in Job 160. The machine was not used for any other job.

Which of the following statements is true? [Randall]
A Rent and depreciation of the machine will be charged as a direct expense to Job 160.
B Rent and depreciation of the machine will be charged as an indirect expense to Job 160.
C Rent of the machine will be charged as a direct expense to Job 160.
D Rent of the machine will be charged as an indirect expense to Job 160.

1795 A firm makes special assemblies to customers orders and uses job costing.

The data for a period are:	*Job No. AA10*	*Job No. BB15*	*Job No. CC20*
	$	**$**	**$**
Opening work in progress	26 800	42 790	–
Material added in period	17 275	–	18 500
Labour for period	14 500	3 500	24 600

The budgeted overheads for the period were $126 000.

What overhead should be added to *Job No. CC20* for the period? [Hussey]

A $24 600 **B** $65 157 **C** $72 761 **D** $126 000

1796 What should be included in valuing work in progress? [N01Q35C]

A Direct materials + Direct labour + Direct expenses
B Prime cost + All overheads not absorbed by completed production
C Prime cost + Production overheads based on actual level of activity
D Prime cost + Production overheads based on normal level of activity

1797 A firm makes special assemblies to customers' orders and uses job costing.

The data for a period are:

	Job D007	*Job F111*	*Job H245*
	$	**$**	**$**
Opening WIP	26 800	42 790	–
Material added in period	17 275	–	18 500
Labour for period	14 500	3 500	24 600

The budgeted overheads for the period were $126 000. Job F111 was completed in the period.

What was the approximate value of closing work in progress at the end of the period? [Hussey]

A $58 575 **B** $101 675 **C** $147 965 **D** $217 323

1798 Blackwood uses job order cost system and applies factory overhead to production orders on the basis of direct labour cost. Overhead rates for 2005 are 200% for department X and 50% for department Y.

Job 123, started and completed during 2005, was charged with the following costs:

	Department X	**Department Y**
	$000	**$000**
Direct materials	25	5
Direct labour	?	30
Factory overhead	40	?

The total manufacturing costs associated with Job 123 should be [L. G. Rayburn]

A $135 000. **B** $180 000. **C** $195 000. **D** $240 000.

1799 A firm makes special assemblies to customers orders and uses job costing.

The data for a period are:

	Job X3	*Job Y2*	*Job Z1*
	$	**$**	**$**
Opening work in process	26 800	42 790	–
Material added in period	17 275	–	18 500
Labour for period	14 500	3 500	24 600

The budgeted overheads for the period were $126 000.

Job Y2 was completed and delivered during the period and the firm wishes to earn $33^1/_3$% profit on sales.

What is the selling price for *Job Y2*? [Hussey]

A $69 435 **B** $75 523 **C** $84 963 **D** $138 870

1800 A job costing system uses a predetermined factory overhead rate based on expected volume and the expected fixed cost. [L. G. Rayburn]

At the end of the year, under-applied overhead might be explained by which of the following situations?

	Actual volume	**Actual fixed costs**
A	Greater than expected	Greater than expected
B	Greater than expected	Less than expected
C	Less than expected	Greater than expected
D	Less than expected	Less than expected

1801 At the end of a period, after overhead has been applied to all jobs, Factory Overhead Account has a credit balance of $900.

This means that the overhead has been [Horngren, Harrison & Lemon]

A incorrectly applied. **B** misstated. **C** over-applied. **D** under-applied.

1802 A key difference between job order costing and process costing is that [Horngren, Harrison & Lemon]

A costs are assigned to direct materials in job costing and to indirect materials in process costing.
B factory overhead is used in process costing but not in job costing.
C job costing uses a single Work In Process Account and process costing uses separate Work In Process Account for each department.
D job order costing, but not process costing, uses conversion costs.

1803 Which of the following operations would involve a system of continuous costing? [Randall]

A Construction of houses **C** Hiring out boats in a fun park
B Generating electricity **D** Publishing newspapers

1804 For which of the following businesses would process costing be appropriate? [Fess & Warren]

A Automobile repair shop **C** Crude oil refinery
B Commercial building constructor **D** Custom furniture manufacturer

1805 From the industries listed below, choose the one most likely to use process costing in accounting for production costs. [L. G. Rayburn]

A Automobile repair shop **C** Newspaper publisher
B Electrical contractor **D** Road builder

1806 Which of the following industries would use process costing? [Randall]

A building construction **C** hotel
B chemical **D** road haulage

1807 For which of the following products is process costing most appropriate? [Horngren, Harrison & Lemon]

A Automobiles **B** Breakfast cereal **C** Furniture **D** Houses

1808 The decision of selling before or after further processing can be answered by determining [Doost RK]

A incremental costs and revenues of further processing.
B incremental costs of further processing.
C incremental revenue of further processing.
D total costs and revenues of further processing.

1809 The record to the transfer of goods from heating to drying process is [Horngren, Harrison & Lemon]

A Drying
    Heating
B Finished Goods - Drying
    Finished Goods - Heating
C Finished Goods - Heating
    Finished Goods - Drying
D Heating
    Drying

1810 The costs to account for in the second processing department (stage) include those associated with the

A opening work in progress and closing work in progress.
B opening work in progress and costs added during the period. [Horngren, Harrison & Lemon]
C opening work in progress and goods transferred during the period.
D opening work in progress, goods transferred in and costs added during the period.

1811 How are normal losses treated in process costing? [N07Q36Z]

A They are credited to Scrap Account **C** They should not be included in cost of sales
B They should be written off to Income Statement **D** They will be borne by good production

1812 How are abnormal losses treated in process costing? [N04Q24C]

A Added to the process cost
B Transferred from the one process to the following process
C Transferred from the Process Account to cost of sales
D Written off to the Profit and Loss Account

1813 Delphi uses a standard costing system in connection with the manufacture of one-size-fits-all article of clothing. Each unit of finished product contains **two** metres of direct material. However, a 20% direct material spoilage calculated on input quantities occurs during manufacturing process. The cost of direct materials is $3 per metre.

The standard direct material cost per unit of finished product is [L. G. Rayburn]

A $4.80 **B** $6.00 **C** $7.20 **D** $7.50

1814 A product (Product Chibhanzi) contains 1 kg of material. The material costs $8 per kg in the past and will cost $10 per kg in the future. To produce one unit a worker begins with 1.5 kg of material. Scrap is sold for $2 per kg.

What is the amount to be shown for materials on the standard cost card? [J00Q38C], [J05Q31Z]

A $11 **B** $13 **C** $14 **D** $15

1815 The following information is given about a process in which normal waste of 10% is incurred:

	$000
Direct material	57
Direct labour	88
Overhead	79
Sale of by-product	3

What is the prime cost of production? [Randall]

A $127 000 **B** $142 000 **C** $145 000 **D** $148 000

1816 If a product is manufactured using two processes (process 1 followed by process 2), what is the cost of the materials used in process 2? [N04Q22C]

A Cost of materials added in process 2
B Cost of materials used in process 1 and materials added in process 2
C Cost of materials, labour and overhead transferred from process 1
D Cost of materials, labour and overhead transferred from process 1 plus cost of materials added in process 2

1817 A material passes through two processes in the course of production.

At the beginning of the month, there was no opening stock of material in either process.

During the month, the cost of material input to **Process 1** was $1 600 and the labour cost was $4 000. Overheads absorbed on **Process 1** during the month totalled $2 400.

Work in progress at the end of the month was valued at $400.

The material input to **Process 2** from **Process 1** during the month was valued at [Randall]

A $1 200. **B** $1 600. **C** $7 600. **D** $8 000.

1818 A chemical processing company puts a product through a single process. In a period it put 600 kg of material into a process at cost of $2.50 per kg, and conversion costs were $348. Normal loss is 20% with no scrap value. The output was 470 kg. There was no opening and closing work-in-progress.

What is the price per kg of the normal output? [N04Q21C]

A $3.08 **B** $3.23 **C** 3.85 **D** $3.93

1819 A chemical process has a normal wastage of 10% of input. In a period, 2 500 kg of material were input and there was an abnormal loss of 75 kg.

What quantity was achieved? [Upchurch]

A 2 175 kg **B** 2 250 kg **C** 2 325 kg **D** 2 475 kg

1820 Normal loss is expected to be 10% of units introduced. These scrap is sold at $2 per unit.

Given costs of a process below, what is the cost per unit of output?

	$
Direct materials (1 000 units)	6 000
Direct labour	7 000
Production overhead	5 000

[S03Q34Z]

A $17.80 **B** $18.00 **C** $19.00 **D** $19.78

1821 Puleng Ltd manufactures Romanium which involves one process.

The process costs for June 2003 were:

	$
Direct materials (500 units)	2 500
Direct labour	3 150
Production overhead	3 875

Normal loss is 5% of input and scrapped units sell for $1 each.

What is the cost per unit for the output? [N03Q37Z]

A $19.00 **B** $19.05 **C** $20.00 **D** $20.27

1822 The concept of equivalent units is useful for [Horngren, Harrison & Lemon]

A dividing closing stock between finished goods and work in process.
B measuring cost of direct materials and conversion costs incurred in a processing department.
C measuring the unit costs of direct materials and conversion costs to compute the cost of goods transferred from one process to the next.
D separating the cost of a manufacturing *process* from the costs of a manufacturing *operation*.

1823 If there are 700 complete units and 400 units which are 25% incomplete, then the total equivalent units of production are [Author]

A 600 units. **B** 800 units. **C** 1 000 units. **D** 1 100 units.

1824 During August, the Assembly Department of Fisk Manufacturing Co completed and transferred 20 000 intercom units to the Finishing Department. On 31 August, the Assembly Department's stocks included 6 000 units 90% complete as to direct materials and 75% complete as to conversion costs.

August equivalent units of the Assembly Department total [Horngren, Harrison & Lemon]

	Materials	*Conversion costs*		*Materials*	*Conversion costs*
A	5 400	4 500	**C**	23 400	19 500
B	18 000	15 000	**D**	25 400	24 500

1825 A company produces shirts. There are 1 000 shirts that are partly finished.

The costs incurred on a complete shirt are:

	$
Direct material	320
Direct labour	80
Overheads	160
	560

For valuing work-in-progress, the following applies:

Direct materials	80% complete
Direct labour	75% complete
Overheads	25% complete

The work-in-progress value for 1 000 partly finished shirts is [N06Q31Z]

A $316 000. **B** $336 000. **C** $356 000. **D** $560 000.

1826 A department undertakes a one-off process manufacturing/ producing calculators. At the end of the month, the production is 1 000 units, of which 200 units are complete and 800 are 25% complete.

Production cost	**$000**
Direct costs	60
Indirect costs	30
Departmental overheads	10

Sales of waste realise $4 000.

What is the cost per unit? [J02Q30Z]

A $215 **B** $240 **C** $250 **D** $480

1827 An extract from the production cost report is as follows:

	Physical units	Total costs
Completed and transferred to finished goods	38 000	$202 000
Closing work in progress	7 000	$ 31 640

What is the unit cost of goods completed? [Horngren, Harrison & Lemon]

A $4.40 **B** $4.80 **C** $4.90 **D** $5.32

1828 In a given period, the production data and costs for a process were:

Cost element	$
Materials	248 000
Labour	16 750
Overhead	36 200

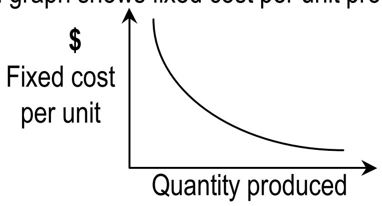
There were 2 100 complete units and 700 partly done units which were 80% complete as to materials, 60% complete as to labour and 50% complete with regards to overhead.

The cost per unit is [N05Q36Z]

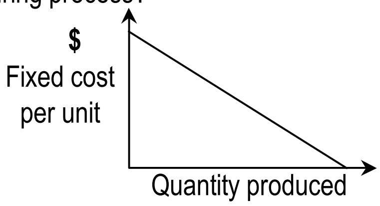
A $107.48. **B** $114.66. **C** $118.10. **D** $143.31.

1829 Which graph shows fixed cost per unit produced in a manufacturing process? [J02Q29C]

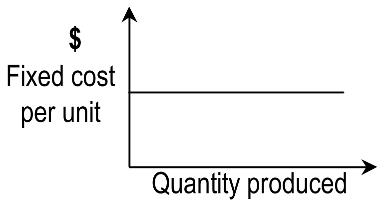
A



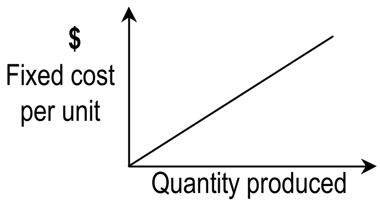
C



B



D



1830 Joint cost of manufacturing products **P** and **Q** is $160 000. Product **P** is sold for $240 000 and product **Q** for $80 000.

The costs for product **P** and **Q** are respectively [Horngren, Harrison & Lemon]

A $120 000 and $40 000. **C** $240 000 and $80 000.
B $160 000 and $80 000. **D** $360 000 and $120 000.

1831 The accounting value assigned to by-products is called [Horngren, Harrison & Lemon]

A net realisable value. **C** sales value.
B net value. **D** selling cost.

1832 In contrast to joint products, by-products [L. G. Rayburn]

A are separately identifiable prior to split-off point. **C** have relatively significant value.
B have relatively minor sales value. **D** require processing beyond the split-off point.

1833 A standard cost is the [Doost RK]

A cost a firm expects to incur for an operation. **C** same as the actual cost.
B flexible budget. **D** same as the budgeted cost.

1834 A standard cost is [N04Q35Z]

A a cost that will produce maximum profit. **C** always greater than actual cost.
B a target cost for the period ahead. **D** average cost of production in last period.

1835 A currently attainable standard is that standard that [Doost RK]

A demands perfect implementation and maximum efficiency in every aspect of the operation.
B is expected to be achieved within a 3 to 5-year period based on ideal targets.
C is the same as the actual cost.
D sets the performance criterion at the level that workers with proper training and experience can attain most of the time without extraordinary effort.

1836 Standard cost variances help managers identify the following **except** [Horngren, Harrison & Lemon]

A budgeting efficiency and accuracy. **C** training needs for employees.
B employees who control cost. **D** ways of reducing cost.

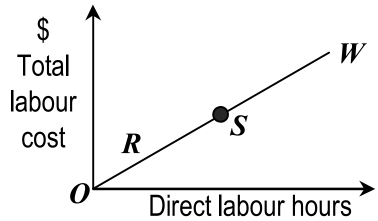
1837 Flexible budget variances are differences between [Horngren, Harrison & Lemon]

A actual results and flexible budget. **C** price variances and volume variances.
B actual results and static (master) budget. **D** static (master) budget and flexible budget.

1838 Cost variances for labour and materials are divided into [Horngren, Harrison & Lemon]

A controllable effects and master budget effects.
B efficiency effects and flexible budget effects.
C flexible budget effects and production volume effects.
D price effects and efficiency effects.

1839 On the diagram below, line ***OW*** represents the standard labour cost at any output volume expressed in direct labour hours. Point ***S*** indicated the actual output at standard cost and point ***R*** indicates the actual hours and actual cost required to produce ***S***.



Which of the following variances are favourable and unfavourable? [L. G. Rayburn]

	Rate variance	Efficiency variance		Rate variance	Efficiency variance
A	Favourable	Favourable	**C**	Unfavourable	Favourable
B	Favourable	Unfavourable	**D**	Unfavourable	Unfavourable

1840 A company, that employs a standard costing system, has identified that Product **X** requires three hours of direct labour per unit, at $4.80 per hour. Normal monthly output comprise 1 210 units of Product **X**.

Last month 1 100 units of Product **X** were manufactured in 3 200 direct labour hours costing $15 680.

What is the labour efficiency variance? [N98Q35C], [N01Q37C]

A Adverse variance of $320. **C** Favourable variance of $1 600.
B Favourable variance of $480. **D** Nil variance.

1841 A company manufactures a product which requires 2 hours of direct labour per unit. The normal output is 1 400 units and the standard labour rate is $6.50 per hour. In one month the company manufactured 1 300 units of the product in 2 500 direct labour hours costing $17 550.

What is the direct labour efficiency variance? [Randall]

A $650 favourable **B** $675 favourable **C** $1 300 favourable **D** $1 350 favourable

1842 Leribe (Pvt) Ltd uses a standard costing system. The following data is for April 2002:

	Standard cost per unit	**Actual cost**
	Based on output of 1 200 units	*1 000 units produced*
Direct labour	1.5 hours @ $3 per hour	1 550 hours @ $2.70 per hour

What is the labour efficiency variance? [N03Q38Z]

A $150 adverse **B** $150 favourable **C** $465 adverse **D** $465 favourable

1843 Axe Corporation established the following direct labour standards for a single unit:

Standard rate	$8 per hour
Direct labour	0.25 hours
Standard cost	$2 per unit

[L. G. Rayburn]

During February, total factory wages were $42 000, of which 90% were direct labour. 19 000 units were produced in 5 000 direct labour hours.

The direct labour efficiency (usage) variance is

A $1 800 (A). **B** $2 000 (A) **C** $2 000 (F) **D** $2 200 (F)

1844 Labour costs are detailed as follows:

	Budgeted	**Actual**
Hours	2 400	2 152
Rate/hour	$71.23	$70.45
Total labour cost	$170 952	$151 608.40

What is the labour efficiency variance? [J05Q32Z]

A $1 872.00 (F) **B** $17 471.60 (F) **C** $17 665.04 (F) **D** $19 343.60 (A)

1845 Palo Corporation manufactures one product with a standard direct labour cost of two hours at $6 per hour. During March, 500 units were produced using 1 050 hours at $6.10 per hour.

The unfavourable direct labour efficiency variance is [L. G. Rayburn]

A $100. **B** $105. **C** $300. **D** $305.

1846 A company uses a standard costing system. Standard labour cost per unit is 4 hours at $7.20 per hour. 2 500 units were produced. 9 700 hours were worked at a cost of $72 800. [J98Q38C]

	Rate variance	**Efficiency variance**		**Rate variance**	**Efficiency variance**
A	$800 (A)	$2 160 (F)	**C**	$2 960 (A)	$2 160 (F)
B	$800 (A)	$3 600 (F)	**D**	$2 960 (A)	$3 600 (F)

1847 The total budgeted direct labour costs of a company for the month was set at $75 000 when 5 000 units were planned to be produced.

The following cost standard card, stated in terms of direct labour hours (DLH), was used to develop budget for direct labour cost:

1.25 DLH @ $12.00/DLH = $15.00/unit produced

Actual operating results for the month were as follows:

Actual units produced	5 300
Actual direct labour hours worked	6 600
Actual direct labour costs	$77 200

[L. G. Rayburn]

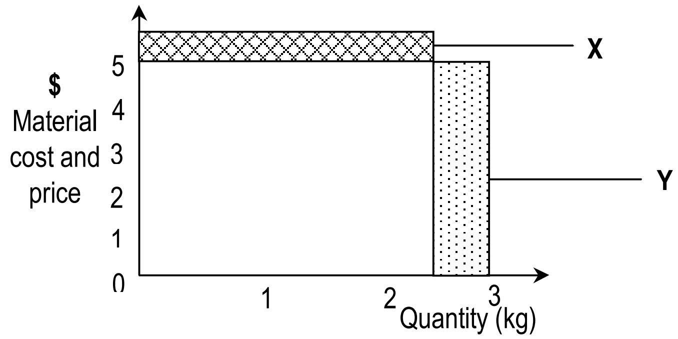
The direct labour efficiency variance for the month would be

A $300 favourable. **C** $2 200 unfavourable.
B $2 170 favourable. **D** $2 300 unfavourable.

1848 Unit material costs for a product are given below:

Standard		**Actual**	
Quantity (kg)	**Price**	**Quantity (kg)**	**Price**
3	$5.00	2.5	$5.50

The material costs and quantities shown above are illustrated on the graph below:



What does the areas **X** and **Y** represents? [J00Q37C], [N04Q28C]

	X	**Y**
A	Favourable price variance	Favourable usage variance
B	Favourable price variance	Unfavourable price variance
C	Unfavourable price variance	Favourable price variance
D	Unfavourable price variance	Unfavourable price variance

1849 The following details have been extracted from the standard cost card of X Plc.

PRODUCT X
Direct Labour: 4 hours @ $5.40 per hour

During October 2007, the budgeted output was 5 000 units of product X and the actual production was 4 650 units of product X. Actual hours worked were 19 100 and actual labour cost totalled to $98 350.

The labour variances reported were: [Hussey]

	Rate	Efficiency		Rate	Efficiency
A	$4 790 F	$2 700 A	**C**	$9 650 F	$2 700 A
B	$4 790 F	$4 860 F	**D**	$9 650 F	$4 680 F

1850 Simba Ltd uses the standard costing system. [J04Q38Z]

During the month of November 2003, the following information was provided.

	Standard cost per unit	**Actual cost**
	12 000 units budgeted output	*12 500 units produced*
Direct materials	6.1 metres @ $5.50 per metre	73 750 metres costing $427 750
Direct labour	2.75 hours @ $15 per hour	31 250 hours @ $16.20 per hour

What is the difference between the standard and actual direct labour costs of producing 12 500 units?

A $3 125 adverse
C $10 250 favourable
B $9 375 favourable
D $11 250 adverse

1851 Bow Corporation established the following direct labour standards for a single unit:

Standard rate	$8 per hour
Direct labour	0.25 hours
Standard cost	$2 per unit

[L. G. Rayburn]

During September, total factory wages were $42 000, of which 90% were direct labour. 19 000 units were produced in 5 000 direct labour hours.

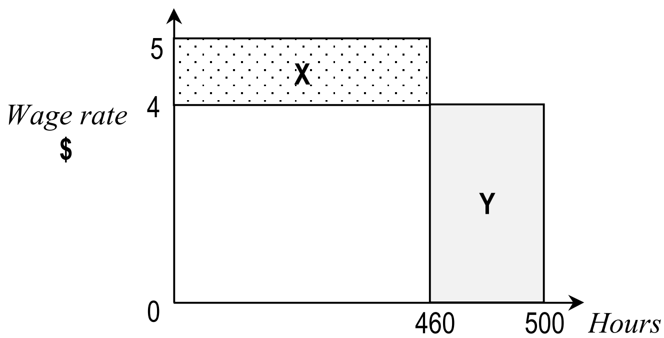
The direct labour rate (price) variance is

A $1 900 (A). **B** $2 000 (A) **C** $2 090 (F) **D** $2 200 (F)

1852 Information relating to labour for a period is as follows:

	Hours	*Rate/ hour*
Standard	500	$4
Actual	460	$5

The labour costs and hours a diagrammatically shown below:



What do the areas **X** and **Y** represent? [N07Q39Z]

	X	Y
A	Favourable labour rate variance	Favourable labour efficiency variance
B	Favourable labour rate variance	Unfavourable labour efficiency variance
C	Unfavourable labour rate variance	Favourable labour efficiency variance
D	Unfavourable labour rate variance	Unfavourable labour efficiency variance

1853 Turbo Company, which uses standard costing system, releases the following information pertaining to direct labour for product Tub for the month of October:

Actual rate paid	$8.40 per hour	
Standard rate	$8.00 per hour	
Standard hours allowed for actual production	2 000 hours	
Labour efficiency variance	$1 600 unfavourable	[Author]

What were the actual hours worked?

A 1 800 **B** 1 810 **C** 2 190 **D** 2 200

1854 A company has established that 25 units of product **X** should be manufactured in a standard hour, paid for at a standard rate of $6.00 per hour. In a period when 25 000 units of product **X** were manufactured, there was a favourable labour efficiency variance of $240. [N01Q28C]

What were the actual direct labour hours per hundred units of product **X** in the period? [J02Q28C]

A 3.04 **B** 3.84 **C** 4.00 **D** 4.16

1855 For the month of April, Thrill Systems records disclosed the following data relating to direct labour:

	$	
Actual costs	10 000	
Rate variance	1 000 favourable	
Efficiency variance	1 500 unfavourable	[L. G. Rayburn]
Standard cost	9 500	

For the month of April, actual direct labour hours amounted to 2 000.

In April, Thrill Systems' standard direct labour rate per hour was

A $4.50 **B** $4.75 **C** $5.00 **D** $5.50

1856 A firm which employs a standard costing system experienced an adverse labour efficiency variance.

Which factor could **not** explain this? [N02Q33Z]

A Morale among workers was low. **C** Unskilled labour was used.
B Raw materials of high quality were used. **D** Unsuitable equipment was used.

1857 A company uses a standard costing system and the data below relate to the month of June:

Budgeted material price	$8.00 per kg
Budgeted usage	1 100 kg
Actual usage	1 050 kg
Actual material price	$7.60 per kg

What is the material usage variance? [N05Q35Z]

A $380 adverse **B** $380 favourable **C** $400 adverse **D** $400 favourable

1858 Mandoza Ltd paid $3 per litre for 10 000 litres of direct materials purchased and used. Standard cost is $2.80 per litre and standard usage for actual production was 11 000 litres.

How much is the material usage efficiency variance? [Horngren, Harrison & Lemon]

A $8 000 (F) **B** $2 000 (A) **C** $2 800 (F) **D** $3 000 (F)

1859 A company estimates that 1 kg of materials used will produce 20 articles. Standard cost of processing material is $1 per kg. During a specified period, 200 kg of material were issued at a total cost of $90 and the actual production was 2 200 articles.

The material usage variance is [S03Q37Z]

A $90 adverse. **B** $90 favourable. **C** $110 adverse **D** $110 favourable.

1860 A company makes a single product which requires two types of raw material: ionium and zetonium.

The standard cost of materials to produce one unit of the product is shown:

Material	Kg	Standard cost
Ionium	30	$2/ kg
Zetonium	45	$3/ kg

100 units of the product have been made using 3 100 kg of ionium and 4 400 kg of zetonium.

What is the total material usage variance? [Randall]

A $100 adverse **B** $100 favourable **C** $500 adverse **D** $500 favourable

1861 The standard cost of materials to produce one unit of a product is as follows: [N01Q39C]

Raw material	Kg	Budgeted
X	50	$0.50/kg
Y	60	$0.60/kg

What is the total material usage variance when 50 units are made and 2 400 kg of **X** and 3 100 kg of **Y** are used?

A $10 adverse **B** $10 favourable **C** $50 favourable **D** $60 adverse

1862 Exe Ltd established the following direct materials standard cost card for one unit:

Standard quantity	8 kg
Standard price	$1.80 per kg
Standard cost	$14.40

[L. G. Rayburn]

During October, 160 000 kg of direct materials were purchased at a total cost of $304 000 and 19 000 units were manufactured using 142 500 kg.

The direct material usage (quantity) variance is

A $1 100 (A). **B** $14 400 (A). **C** $17 100 (A). **D** $17 100 (F).

1863 The standard material cost for product **X** is 5 kilograms at $5/kilogram. Last month 92 units of product **X** were produced. Material price variance was $200 favourable. [N99Q38C]

If the material usage variance was $100 adverse, how many kg of material were used in the month.

A 440 kg **B** 460 kg **C** 480 kg **D** 500 kg

1864 A company producing a single product employs the following direct material standard for each unit of output:

3 gallons of material @ $4.00/gallon = $12/ output unit

Data regarding the operations for the current month are as follows: [L. G. Rayburn]

Actual production	23 000 units
Actual purchases of direct materials	$297 000 (75 000 gallons)
Direct materials used in production	70 000 gallons
Planned production	26 000 units

What are the direct materials purchase price and quantity variances?

	Purchase price variance	Quantity variance
A	$2 800 favourable	$4 000 unfavourable
B	$3 000 favourable	$4 000 unfavourable
C	$3 000 favourable	$24 000 unfavourable
D	$3 120 favourable	$32 000 favourable

1865 Q Ltd uses an integrated standard costing system. In October, when 2 400 units of the finished product were made, the actual material cost details were:

Material purchased	5 000 units @ $4.50 each
Material used	4 850 units

The standard cost details are that 2 units of the material should be used for each unit of the complete product, and the standard price of each material unit is $4.70.

The entries made in the variance accounts would be: [Hussey]

	Material price variance Account		*Material usage variance account*	
A	Credit	$ 970	Debit	$235
B	Credit	$1 000	Debit	$225
C	Debit	$ 970	Debit	$235
D	Debit	$1 000	Debit	$225

1866 Standard material content of product **X** is 19 kg at $6 per kg. During September, 500 units of product **X** were manufactured using 10 000 kg of materials which had a cost value of $59 295.

What were the material price and usage variance? [N04Q36Z]

	Price	Usage		Price	Usage
A	$705 (A)	$3 000 (F)	**C**	$1 005 (A)	$300 (F)
B	$705 (F)	$3 000 (A)	**D**	$1 005 (F)	$300 (A)

1867 T Plc uses standard costing system, with its material stock account being maintained at standard costs.

The following details have been extracted from the standard cost card in respect of direct materials:

8 kg @ $0.80/kg = $4.60 per unit

Budgeted production for April 2005 was 850 units.

The following details relate to actual materials purchased and issued to production during April 2005 when actual production was 870 units:

- Materials purchased 8 200 kg costing $6 888
- Material used to production 7 150 kg

Which of the following correctly relates to the material price and usage variances to be reported? [Hussey]

	Price	Usage		Price	Usage
A	$286 (A)	$152 (A)	**C**	$328 (A)	$152 (A)
B	$286 (A)	$280 (A)	**D**	$328 (A)	$280 (A)

1868 Arrow Industries established the following direct materials standard cost card for one unit:

Standard quantity	8 grams
Standard price	$1.80/gram
Standard cost	$14.40

[L. G. Rayburn]

During May, 160 000 grams of direct materials were purchased at a total cost of $304 000 and 19 000 units were manufactured using 142 500 grams.

The direct material purchase price variance is

A $14 250 (A). **B** $14 250 (F). **C** $16 000 (A). **D** $16 000 (F).

1869 Details of material costs are listed below:

Budget	**Actual**
2 000 kg at $3.10 = $6 200	1 950 kg at $3.00 = $5 850

What is the material price variance? [N98Q36C]

A $155 adverse **B** $195 favourable **C** $200 adverse **D** $350 favourable

1870 The actual and standard direct material costs for production for a specified quantity of product are:

		$
Actual:	51 000 KGs @ $5.05 per kg	257 550
Standard:	50 000 KGs @ $5.00 per kg	250 000

[Fess & Warren]

The direct material price variance is

A $50 adverse. **B** $2 500 adverse. **C** $2 550 adverse. **D** $7 750 adverse.

1871 Details of direct material costs are as follows:

Budgeted	**Actual**
41 500 kg at $12 per kg	44 000 kg at $13.20 per kg

What is the direct material price variance? [Randall]

A $49 500 (A) **B** $49 500 (F) **C** $52 800 (A) **D** $52 800 (F)

1872 Krakow Co paid $3 per kilogram for 10 000 kilograms of direct materials purchased and used. Standard cost was $2.80 per kilogram and standard usage for actual production was 11 000 kilograms.

How much is the price variance? [Horngren, Harrison & Lemon]

A $800 (F) **B** $2 000 (A) **C** $2 800 (F) **D** $3 000 (F)

1873 Information on Rexene Company's direct material costs for May 2008 is as follows:

Actual cost of direct materials	$84 000
Actual quantity of direct materials purchased and used	30 000 litres
Standard quantity of direct materials allowed for May production	27 000 litres
Unfavourable direct materials variance	$3 000

[L. G. Rayburn]

For the month of May, what was Rexene Company's direct materials price variance?

A $2 800 (A) **B** $2 800 (F) **C** $6 000 (A) **D** $6 000 (F)

1874 During period 4, the following information applied to one of a firm's products:

Actual output	9 000 units
Budgeted output	10 000 units
Standard direct material cost per unit	$40
Actual direct material cost for period	$342 000

What was the flexible budget variance for direct materials in period 4? [Upchurch]

A $18 000 (A) **B** $18 000 (F) **C** $58 000 (A) **D** $58 000 (F)

1875 Details for a component Oxygum are shown below:

	Standard	**Actual**
Price/kg	$90	$95
Quantity of material (kg)	6 000	5 500

What is the total material variance? [N06Q39Z]

A $2 500 A **B** $17 500 F **C** $30 000 A **D** $30 000 F

1876 Budgeted cost of goods sold was $30 000 and actual cost is $33 000. [Horngren, Harrison & Lemon]

The variance is

A 10% (A). **B** 10% (F). **C** 110% (A). **D** 110% (F).

1877 A company's cost of production is made up of the costs of direct materials and the cost of direct labour.

The following variances have been calculated at the end three month's production:

	$
Direct materials usage	1 600 adverse
Direct materials price	1 300 favourable
Direct labour efficiency	820 favourable
Direct labour rate	900 adverse

The actual cost of production was $23 440.

What was the standard cost of production? [Randall]

A $23 020 **B** $23 040 **C** $23 060 **D** $23 820

1878 The following information relates to R Plc for October 2007:

- Bought 7 800 kg of material R at a total cost of $16 380
- Stocks of material R increased by 440 kg
- Stocks of material R are valued using standard purchase price
- Material price variance was $1 170 adverse

The standard price for material R is [Hussey]

A $1.95/kg. **B** $2.10/kg. **C** $2.23/kg. **D** $2.35/kg.

1879 The cost of sales for a business comprises direct materials and direct labour.

At the end of a trading period, the following variances are calculated:

Direct materials price variance	$1 600 adverse
Direct materials usage variance	$1 400 favourable
Direct labour rate variance	$1 300 favourable
Direct labour efficiency variance	$1 500 adverse

If the actual cost of sales was $24 440, what is the standard cost of sales? [J07Q35Z]

A $24 040 **B** $24 240 **C** $24 640 **D** $24 840

1880 Nkala Products, which uses a system of standard costing, gives you details relating to product Brick:

Standard price per kg	$12.50
Actual quantity of material used	430 kg
Direct materials price variance	$215 (A)

What is the actual price per kg? [N02Q31Z]

A $12.00 **B** $13.00 **C** $17.20 **D** $25.00

1881 A company reports a favourable material usage variance.

Which factor could be a reason for the variance? [J99Q38C]

A Actual wages paid were lower than budgeted.
B Improvements in production led to a reduction in wastage.
C Production difficulties caused an increase in wastage.
D The price of the raw materials used was lower than budgeted.

1882 What may cause adverse raw material usage variance? [N00Q38C]

A Higher production levels than the original budget.
B Less wastage due to improved quality control procedures.
C Purchase of poor quality material.
D Using less raw materials than budgeted.

1883 A company that uses a standard costing system experiences an unfavourable material usage variance.

Which reason could **not** explain this? [J98Q37C], [N01Q29C]

A An increase in the price of raw materials
B Low morale in the factory
C Recruitment of lower calibre of employee
D Use of lower grade of raw material

1884 Which of the following may **not** explain an unfavourable material usage variance? [N07Q35Z]

A An increase in the price of raw materials
B Low staff morale in the factory
C The use of a low calibre of employees
D The use of a low grade material

1885 A company that uses a standard costing system experiences an unfavourable material usage variance.

Which reason could **not** explain this? [J02E29C], [J98Q37C]

A An increase in price of the raw materials.
B Low staff morale in the factory.
C Recruitment of low calibre of employee.
D Use of lower grade material.

1886 A company has a favourable direct material price variance, an adverse direct material usage variance and an adverse direct labour efficiency variance.

What is the most likely reason for this relationship? [N01Q38C]

A Direct labour was of a higher quality than standard.
B Direct labour was of a lower quality than standard.
C The material was of a higher quality than standard.
D The material was of a lower quality than standard.

1887 Which of the following is **not** a possible controllable cause for a purchase price variance? [J03Q26Z]

A Excessive increase in transport costs.
B Failure to utilise good discount terms.
C Poor purchasing policy and lack of internal control.
D Uneconomical sizes of purchase orders.

1888 APF Ltd's standard absorption costing system reported the following fixed overhead variances:

	$000
Total variance	16 (A)
Volume variance	7 (F)

What was the company's fixed overhead expenditure variance? [Upchurch]

A $9 000 (A) **B** $9 000 (F) **C** $23 000 (A) **D** $23 000 (F)

1889 Selling price variance + Sales volume variance = [Doost RK]

A Sales contribution variance
B Sales quantity variance
C Total quality variance
D Total sales variance

1890 A company's monthly budgeted sales was $100 000, based on a selling price of $50 per unit and a cost of $25. In month three, 2 100 units were sold for $100 800.

What was the sales price variance for the month? [J98Q36C]

A $800 (A) **B** $800 (F) **C** $4 200 (A) **D** $4 200 (F)

1891 The budgeted sales for Pauline Trading are $24 000, with a budgeted selling price of $12 per unit. The actual sales are 2 600 units valued at $30 400.

What is the price variance? [N07Q34Z]

A $800 (A) **B** $800 (F) **C** $6 400 (A) **D** $6 400 (F)

1892 Budgeted sales of a business are $200 000 with a budgeted selling price of $50 per unit. Actual sales are 4 100 units valued at $196 800.

What is the price variance? [J99Q37C]

A $3 200 (A) **B** $3 200 (F) **C** $8 200 (A) **D** $8 200 (F)

1893 The budgeted sales of CC Ltd are $800 000 with a budgeted selling price of $200 per unit. Actual sales for a period are 4 500 units valued at $787 500.

What is the price variance? [J03Q34Z]

A $12 500 (A) **B** $12 500 (F) **C** $100 000 (A) **D** $112 500 (A)

1894 The following information is available about a product:

Standard selling price per unit	$17
Budgeted sales (units)	45 000
Actual sales (units)	48 000
Total sales revenue	$744 000

What is the sales price variance? [Randall]

A $51 000 (A) **B** $51 000 (F) **C** $72 000 (A) **D** $72 000 (F)

1895 Actual and budgeted information about the sales of a product for June follow:

	Actual	Budget
Units	8 000	10 000
Sales revenue	$92 000	$105 000

[L. G. Rayburn]

The sales price variance for June was

A $8 000 (F). **B** $8 500 (A). **C** 10 000 (F). **D** $10 500 (A).

1896 Fashion Discount, which sells a line of men's suites, released the following performance report:

	Actual	Budget
Suites sold	5 000	6 000
	$000	**$000**
Sales	235	300
Variable costs	145	180
Contribution	90	120
Fixed costs	84	80
Operating profit	6	40

The sales-price variance is [L. G. Rayburn]

A $5 000 (A). **B** $10 000 (A). **C** $15 000 (A) **D** $27 333 (A).

1897 Sales Budget for one product was based on 500 units at $10 per unit. The actual sales were 600 units for total sales revenue of $5 850.

What are the volume and price variances? [N04Q29C]

	Volume	Price		Volume	Price
A	$150 F	$850 F	**C**	$1 000 A	$150 F
B	$850 F	$150 F	**D**	$1 000 F	$150 A

1898 P Ltd has the following data relating to its budgeted sales for October 2007:

Budgeted sales	$100 000
Budgeted selling price per unit	$8.00
Budgeted contribution per unit	$4.00
Budgeted profit per unit	$2.50

During October 2007, actual sales were 11 000 units for a sales revenue of $99 000.

P Ltd uses an absorption costing system. [Hussey]

The sales variances reported for October 2007 were:

	Price	Volume		Price	Volume
A	$11 000 A	$3 750 A	**C**	$11 000 F	$12 000 A
B	$11 000 A	$3 750 F	**D**	$11 000 F	$12 000 F

1899 Folsom Fashions, which sells a line of women's dresses, released the following performance report:

	Actual	Budget
Dresses sold	5 000	6 000
	$000	**$000**
Sales	235	300
Variable costs	145	180
Contribution	90	120
Fixed costs	84	80
Operating profit	6	40

The sales-volume variance is [L. G. Rayburn]

A $15 000 (A). **B** $18 000 (A). **C** $50 000 (A). **D** $65 000 (A).

1900 What may cause an adverse sales volume variance? [J04Q39Z]

A A change in customer taste.
B A decrease in inflationary rate.
C An increase in customers' disposable income.
D An increase in the price of a substitute product.

1901 What may result in favourable sales variance and an adverse sales price variance? [N01Q38C]

A A seasonal sale where prices are cut and the quantity of products sold increases
B An advertising campaign that boosts sales while prices remain constant
C An advertising campaign that boosts sales while prices rise
D Introduction of new product that causes decrease in current product sales, but no effect on price

1902 [Number of units sold - Budgeted number of units] × Budgeted contribution margin = [Doost RK]

A Sales margin price variance
B Sales margin volume variance
C Total sales contribution variance
D Total sales variance

1903 A company's standard cost statement shows the following variances: (F = Favourable; A = Adverse)

		$
1	Sales total variance	1 300 (A)
2	Sales volume variance	1 500 (A)
3	Sales price variance	?
4	Material total variance	950 (A)
5	Material usage variance	670 (F)
6	Material price variance	?
7	Labour total variance	660 (F)
8	Labour efficiency variance	415 (F)
9	Labour rate variance	?

What is the effect *in total* of variances 3, 6 and 9 on the profit of the company? [Randall]

A $1 175 (A) **B** $1 175 (F) **C** $1 575 (A) **D** $1 665 (A)

1904 Variances taken from the profit statement of a company are:

		$
1	Sales total variance	800 F
2	Sales volume variance	1 200 F
3	Sales price variance	?
4	Material total variance	500 F
5	Material usage variance	300 A
6	Material price variance	?
7	Labour total variance	240 A
8	Labour efficiency variance	1 060 A
9	Labour rate variance	?

What is the effect **in total** of variances 3, 6, and 9 on the company's variance? [N01Q27], [J02E27C]

A $380 A **B** $420 F **C** $1 220 A **D** $1 220 F

1905 Chewning Corp's actual revenues are $90 000 and expenses are $50 000. Budgeted revenues were $86 000 and budgeted expenses were $51 000. [Horngren, Harrison & Lemon]

What is the relationship between actual net profit and budgeted net profit?

A Actual exceeds budgeted by $5 000
B Actual exceeds budgeted by $40 000
C Budgeted exceeds actual by $5 000
D Budgeted exceeds actual by $35 000

1906 If sales revenue is $3 000 above budget, cost of materials is $4 000 below budget, wages are $1 000 above budget and overheads are $2 000 above budget; the net profit will be [Randall]

A $2 000 less than the budget.
B $4 000 less than the budget.
C $4 000 more than the budget.
D the same the budget.

1907 If the cost of material is $5 000 below budget, wages $3 000 above budget, overheads $1 000 below budget and sales revenue is $4 000 above budget, the net profit will be [J03Q40Z]

A $7 000 less than the budgeted.
B $7 000 more than the budgeted.
C $13 000 less than budgeted.
D $13 000 more than budgeted.

1908 The process by which management allocates available investments funds among the competing capital investment proposals is called [Fess & Warren]

A capital expenditure budgeting.
B capital rationing.
C capital lease.
D credit rating.

1909 Capital budgeting is [Horngren, Harrison & Lemon]

A a depreciation method.
B a short-run decision.
C a way to make long-range investment decisions.
D an alternative way to the payback method.

1910 The amount of increase or decrease in the cost that is expected from a particular course of action as compared with an alternative is called [Fess & Warren]

A differential cost. **B** opportunity cost. **C** replacement cost. **D** sunk cost.

1911 The amount of income that would result from the best available alternative to a proposed use of cash or its equivalent is called [Fess & Warren]

A actual cost. **B** differential cost. **C** opportunity cost. **D** sunk cost.

1912 In deciding whether to undertake a project which cost should be ignored? [N99Q36C]

A Incremental **B** Opportunity cost **C** Replacement **D** Sunk cost

1913 Which of the following is **not** relevant to an investment decision? [N01Q40C]

A Cost of capital
B Risk
C Sunk cost
D Timing of future cash flows

1914 Sunk costs are [Horngren, Harrison & Lemon]

A equal to the residual value of a plant asset.
B irrelevant to most business decisions.
C relevant to most business decisions.
D the cost of the next best alternative.

1915 Victor Ltd is considering the disposal of equipment that was originally purchased for $200 000 and has $150 000 of accumulated depreciation to date. The same equipment would cost $310 000 to replace.

What is the sunk cost? [Fess & Warren]

A $50 000 **B** $260 000 **C** $310 000 **D** $360 000

1916 At 31 December 2007, Zar had a machine with an original cost of $84 000, accumulated depreciation of $60 000 and an estimated nil scrap value. On 31 December 2007, Zar was considering the purchase of a new machine having 5-year life, costing $120 000 and having an estimated salvage value of $20 000 at the end of 5 years.

In its decision concerning the possible purchase of the new machine, how much should Zar consider as sunk cost at 31 December 2007? [L. G. Rayburn]

A $4 000 **B** $24 000 **C** $100 000 **D** $120 000

1917 City Toys Limited intends to introduce a new product, Video Monopoly, into its product range.

To manufacture this product, the company will need the following:

- A new machine costing $900 000
- Additional working capital of $100 000
- Two existing idle machines worth $600 000 at cost

Which amount will be considered for capital expenditure appraisal? [N06Q34Z]

A $600 000 **B** $900 000 **C** $1 000 000 **D** $1 600 000

1918 Which investment appraisal technique takes depreciation into account? [N03Q32Z]

A Accounting Rate of Return (ARR)
C Internal Rate of Return (IRR)
B Discounted Cash Flow (DCF)
D Pay back period

1919 As used in the analysis of proposed capital investments, the expected period of time that will elapse the date of capital investment and the complete recovery of the amount of cash invested is called the [Fess & Warren]

A average rate of return period.
C internal rate of return period.
B cash payback period.
D net present value period.

1920 Which of the following capital expenditure appraisal methods uses accrual profits to access the relative viability of capital projects? [N02Q34Z]

A Accounting Rate of Return
C Discounted Payback Period
B Discounted Cash Flow
D Internal Rate of Return

1921 Which method of investment appraisal is based on profits? [J07Q33Z], [N07Q31Z]

A Accounting rate of return
C Net present value
B Internal rate of return
D Pay back

1922 Risk can be controlled in capital budgeting situations by assuming a [L. G. Rayburn]

A high accounting rate of return.
C large net present value.
B high net profit.
D short payback period.

1923 A company is considering a capital budgeting decision involving a risky foreign investment.

Risk can be minimised by selecting the investment alternative with the [L. G. Rayburn]

A highest internal rate of return (IRR).
C highest net present value index.
B highest net present value (NPV).
D shortest payback period.

1924 The time value of money is important part of [Horngren, Harrison & Lemon]

A accounting rate of return analysis.
C net present value analysis.
B modified internal rate of return analysis.
D pack back period analysis.

1925 Which method of analysing capital investment proposals determines the total present value of the cash flows expected from the investment and compares this amount with the amount to be invested? [Fess & Warren]

A Average rate of return
C Internal rate of return
B Discounted payback
D Net present value

1926 The present value concept is based on the premise that [Meigs & Ferrara]

A a cash flow that will not occur until a future date is equivalent to a smaller amount of money receivable or payable today.

B money invested today is expected to become equivalent to a smaller amount at a future date.

C the present value of a future cash flow is greater or smaller than the future amount, depending upon the discount rate.

D the present value of a future cash flow is greater that the actual amount of the future cash flow, because money on hand today is more valuable than money due at a future date.

1927 Why are cash flows discounted for investment appraisal? [Randall]

A $1 now is more useful than $1 receivable in the future.

B It is prudent to state future cash flows at a realistic value.

C Money loses its value because of inflation.

D The risk of not receiving the money increases with time.

1928 Which of the following factors does **not** affect computation of the present value of future cash flows?

A Discount rate.

B Dollar amount of the future cash flow.

C Period of time until future cash flow occur.

D Whether future cash flow will be a cash payment a cash receipt. [Meigs & Ferrara]

1929 The discount rate (hurdle rate of return) must be determined in advance for [L. G. Rayburn]

A internal rate of return method. **C** payback period method.

B net present value method. **D** time adjusted rate of return method.

1930 Which method of investment appraisal may be based on either the actual cash flows or the discounted cash flows?

A Accounting rate of return **C** Net present value

B Internal rate of return **D** Payback [Randall]

1931 Which of the following capital budgeting techniques considers cash flow over the entire life of project? [L. G. Rayburn]

	IRR	Payback		IRR	Payback
A	No	No	**C**	Yes	No
B	No	Yes	**D**	Yes	Yes

1932 Methods of evaluating capital investment proposals that ignore present value include: [Author]

1 Average Rate of Return

2 Cash Payback

3 Discounted Payback

4 Net Present value

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

1933 Which of the following capital budgeting techniques implicitly assumes that cash flows are reinvested at the company's required rate of return? [L. G. Rayburn]

	IRR	NPV		IRR	NPV
A	No	No	**C**	Yes	No
B	No	Yes	**D**	Yes	Yes

1934 The accounting rate of return [L. G. Rayburn]

A focuses on profits as opposed to cash flows.

B is synonymous with internal rate of return.

C recognises time value of money.

D should be used with mutually exclusive projects.

1935 Among Accounting Rate of Return (ARR) method advantages are that it [Doost RK]

A considers time value of money and it is easy for comparing projects.

B considers time value of money, uses realistic discount rates and is additive for combined projects.

C is consistent with other financial measures and data is readily available.

D is simple to use and understand, measures liquidity and allows for risk tolerance.

1936 The Book (Accounting) Rate of Return method weaknesses include the fact that it [Doost RK]

A assumes a reinvestment rate of return which may be unrealistic and is difficult to compute manually.
B ignores timing and time value of money and ignores cash flows beyond recovery of investment.
C ignores timing and time value of money and uses accounting numbers rather than cash flows.
D is not meaningful for comparing projects requiring different amounts of investment.

1937 The capital budgeting technique known as accounting rate of return uses [L. G. Rayburn]

	Depreciation expense	**Time value of money**
A	No	No
B	No	Yes
C	Yes	No
D	Yes	Yes

1938 A machine costs $45 000. It is expected to annually generate $7 500 net cash inflows and earn profit of $6 000. Expected residual value is $5 000 at the end of 5 years. [Horngren, Harrison & Lemon]

The accounting rate of return of the machine is

A 15%. **B** 24%. **C** 26.7%. **D** 37½%.

1939 Management is considering a $100 000 investment in a project with a 5-year life and no residual value.

If the total profit from the project is $60 000 and there is recognition given to the effect of straight-line depreciation on the investment, the average rate of return is [Fess & Warren]

A 12%. **B** 24%. **C** 60%. **D** 75%.

1940 A project involves the purchase of a machine for $220 000. Cash inflows will be $48 000 for each of the next 5 years.

The machine would have a scrap value of $20 000 in the five years when the project terminates. Depreciation is on a straight-line basis.

What is the Accounting Rate of Return based on average capital invested? [N05Q40Z]

A 3.64% **B** 4% **C** 6.67% **D** 21.8%

1941 A capital investment proposal has the following characteristics:

			$000
Initial cost			400
Profit per annum (after depreciation):	Year	1	50
		2	100
		3	100
		4	150
Annual depreciation charge			100
Scrap value (at end of useful life 4 years)			Nil

What is the proposal's accounting rate of return? [Upchurch]

A 12.5% **B** 25.0% **C** 50.0% **D** 100%

1942 Kitchenware Limited manufactures and markets a new product called Hari.

The manufacturer of this product will require new machinery at a cost of $500 000, tools and equipment at $350 000, and an additional working capital of $150 000.

The business expects the following annually:

	$000
Sales	900
Production cost of finished goods	450
Selling and distribution cost	150

Depreciation is provided as follows:

– Machinery 10% on cost
– Tools and equipment 20% on cost

No further expenses are expected during the year and all output produced will be sold.

The Accounting Rate of Return (ARR) is [N06Q40Z]

A 18%. **B** 31%. **C** 36%. **D** 42%.

1943 Information relating to proposed investment in a project is given:

–	Estimated life of project	5 year
		$000
–	Cost of machine	270
–	Estimated proceeds of disposal of machine after 5 years	30
–	Additional working capital requirement throughout the project	45
–	Net additional annual cash inflow	90

What is the Accounting Rate of Return on the project? [Author]

A 13.6% **B** 21.5% **C** 25% **D** 27.3%

1944 Among payback period method advantages are that it [Doost RK]

A considers time value of money and is easy for comparing projects.
B considers time value of money, uses realistic discount rates and is additive for combined costs.
C is consistent with other financial measures and data is readily available.
D is simple to use and understand, measures liquidity and allows for risk tolerance.

1945 Which of the following is **not** an advantage of pay-back period? [J04Q35Z]

A Calculation of net cash flow is objective.
B It indicates which project is at risk for the least time before the initial outlay has been recouped.
C It takes into account the time value of money.
D Short pay-back period benefits a firm's liquidity.

1946 Payback period weaknesses include the fact that it [Doost RK]

A assumes a reinvestment rate of return which may be unrealistic and is difficult to compute manually.
B ignores timing and time value of money and ignores cash flows beyond recovery of investment.
C ignores timing and time value of money and uses accounting numbers rather than cash flows.
D is not meaningful for comparing projects requiring different amounts of investment.

1947 A machine costs $45 000. It is expected to earn an operating profit of $6 000 and to generate $7 500 net cash inflow annually. Expected residual value if $5 000 at the end of 5 years.

What is the asset's payback period? [Horngren, Harrison & Lemon]

A 5 years **B** 6 years **C** 7½ years **D** 9 years

1948 Fitz Gerald is planning to acquire a $250 000 machine that will provide increased efficiencies, thereby reducing annual operating costs by $80 000. The machine will be depreciated by a straight-line method over five-year life with no salvage value at the end of 5 years.

The payback period is [L. G. Rayburn]

A 1.6 years. **B** 1.875 years **C** 3.125 years. **D** 3.4 years.

1949 Nelson Complex Systems is planning to purchase a new machine for $500 000. The new machine is expected to produce cash flow from operations of $135 000 a year in each of the next 5 years. The depreciation of $100 000 a year will be charged to profit for each of the next 5 years.

The payback period would be approximately [L. G. Rayburn]

A 2.1 years. **B** 2.9 years. **C** 3.7 years. **D** 4.3 years.

1950 A company considers buying a new machine costing $60 000. The machine will have a life of 4 years. It will then have a scrap value of $10 000. The company has a straight-line depreciation policy.

Forecast net receipts arising from the purchase of the machine are as follows:

Year	**$**
1	20 000
2	20 000
3	20 000
4	45 000

How long will it take the company to 'payback' its investment? [N98Q38C]

A 1 year 197 days **B** 1 year 309 days **C** 2 years 182 days **D** 3 years

1951 A company invests in a project which cost $210 000. The project will yield annual profits of $80 000 for the next 3 years after providing for annual depreciation of $10 000.

What is the pay-back period, assuming profits and depreciation arise at the year-end? [N99Q40C]

A 2.33 years **B** 2.5 years **C** 2.62 years **D** 3 years

1952 A company invests in a project which costs $300 000. The project will yield annual profits of $90 000 for the next 4 years after providing annual depreciation of $15 000.

What is the payback period? [N07Q40Z]

A 2 years **B** 2.86 years **C** 3.33 years **D** 4 years

1953 Apex is planning to buy production machinery costing $500 000. This machinery's expected useful life is 5 years, with no residual value.

Estimated annual cash inflows are:

Year	**1**	**2**	**3**	**4**	**5**
Inflows ($)	300 000	150 000	100 000	100 000	100 000

The expected payback period is [L. G. Rayburn]

A 2.5 years. **B** 2.75 years. **C** 3 years. **D** 5 years.

1954 A capital investment proposal has the following characteristics:

			$000
Initial cost			800
Profit per annum (after depreciation):	Year	1	100
		2	200
		3	200
		4	300
Annual depreciation charge			200

What is the proposal's payback period? [Upchurch]

A 2.00 years **B** 2.25 years **C** 3.67 years **D** 4.00 years

1955 A new machine costs $50 000.

Forecast revenue and expenses for the next four years are given below:

Year	**1**	**2**	**3**	**4**
	$	**$**	**$**	**$**
Revenue	25 000	28 000	30 000	40 000
Machine running costs	4 800	5 400	6 000	7 500
Depreciation of machine	5 000	5 000	5 000	5 000
Interest on loan to buy the machine	3 300	3 000	2 800	2 400
Net profit on machine	11 900	14 600	16 200	25 100

How long is the payback period? [N00Q40C]

A 1 year 11 months **B** 2 years 8 months **C** 2 years 10 months **D** 3 years 4 months

1956 When calculation of the net present value of a proposed capital expenditure is done, which rate is used to discount annual income and expenditure? [Prestige]

A Cost to company of providing initial outlay
B Current rate of inflation
C Rate of interest payable on bank overdraft
D Rate which gives highest net present value

1957 The net present value method of investment appraisal requires [Prestige]

A a distinction being made between capital and revenue expenditure and income.
B a knowledge of the amounts and timings of the expected net proceeds of proposed investments.
C the calculation of the payback periods of proposed projects.
D the realistic depreciation of the capital expenditure involved.

1958 Among Net Present Value (NPV) method advantages are that it [Doost RK]

A considers time value of money and it is easy for comparing projects.
B considers time value of money, uses realistic discount rates and is additive for combined projects.
C is consistent with other financial measures and data is readily available.
D is simple to use and understand, measures liquidity and allows for risk tolerance.

1959 Net Present Value method weaknesses include the fact that it [Doost RK]

A assumes a reinvestment rate of return which may be unrealistic and is difficult to compute manually.
B ignores timing and time value of money and ignores cash flows beyond recovery of investment.
C ignores timing and time value of money and uses accounting numbers rather than cash flows.
D is not meaningful for comparing projects requiring different amounts of investment.

1960 When assessing viability of investment projects using net present value, the projects with [Author]

A largest outlay are rejected. **C** negative NPV are rejected.
B negative NPV are accepted. **D** smallest outlay are accepted.

1961 A company may invest only $1 million in the current period.

Details for five projects are below:

Project	Capital requirement (current period) $000	NPV $000
1	1 200	5 000
2	1 000	2 500
3	600	1 600
4	400	1 200
5	400	1 000

Which project(s) should the company undertake to maximise its shareholders' wealth? [J98Q40C]

A 1 **B** 2 **C** 3 and 4 **D** 3 and 5

1962 A company has $4 million to invest.

Its investment opportunities are as follows:

	Amount of investment for a period of 5 years	NPV $000
1	$1 million	50
2	$1.5 million	280
3	$2.5 million	350
4	$3 million	600

In which opportunities should the company invest? [Randall]

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

1963 A company has $5 million to invest and has identified the following five projects:

Project number	Capital required	NPV of project
1	$5 million	$1.4 million
2	$4 million	$1.2 million
3	$3 million	$1.0 million
4	$2 million	$0.8 million
5	$1 million	$0.5 million

Which projects should it select? [N04Q30C]

A 1 only **B** 2 and 5 **C** 3 and 4 **D** 3 and 5

1964 A company may invest only $10 million but has got five possible projects.

Project	Capital required (current period) *$ million*	NPV of project *$ million*
1	11	4
2	10	2
3	6	1.5
4	4	1.3
5	4	1

Which project(s) should it select? [N07Q38Z]

A 1 only **B** 2 only **C** 3 and 4 **D** 3 and 5

1965 Details of a project lasting five years when the cost of capital is 10% per annum are given below:

	Net present value at 10%
	$
Initial outlay	(100 000)
Receipts	208 450
Variable costs	(37 900)
Fixed assets	(56 850)
	13 700

Which item will make the project unacceptable if it is 10% worse than budget? [J00Q40C]

A Fixed assets **B** Initial outlay **C** Receipts **D** Variable costs

1966 A company is considering an investment of $50 000 which will yield the following annual net cash flows over the three-year life span:

Year	**Cash flow**	**Present value at 10%**
1	$20 000	$18 180
2	$30 000	$24 780
3	$35 000	$26 285

The cost of capital is 10%.

What is the NPV of the project? [N98Q39C]

A $15 165 **B** $19 245 **C** $21 560 **D** $35 000

1967 A company is considering an investment of $80 000 payable in two equal instalments, one now and the second in twelve months time.

The investment will yield the following annual net cash inflows (excluding the investing out cost) over a three-year life. The company's cost of capital is 10%.

Year	**Cash flow**	**Present value at 10%**
1	$40 000	$36 360
2	$60 000	$49 560
3	$70 000	$52 570

What is the net present value (NPV) of the investment? [N05Q39Z]

A $31 510 **B** $58 490 **C** $62 130 **D** $90 000

1968 A project involved the purchase of a machine for $1 000. The cash flows are $500 per annum for each of the next three years.

Discount factors at 10% are: Year	1	0.909
	2	0.826
	3	0.751

What is the net present value of the project's cash flow? [N99Q39C]

A +$243 **B** +$500 **C** +$1 000 **D** Nil

1969 You invest $100 000 into a project and expect to receive $20 000 cash annually for the next 10 years.

What is the net value of this investment at a discount rate of 25%? [Author]

A –$71 410 **B** –$28 590 **C** +$28 590 **D** +$71 410

1970 Cash flows for Project **X** are shown below:

Year	**Cash flows**	**Discount factor at 15%**
0	($40 000)	1.000
1	$20 000	0.870
2	$20 000	0.756
3	$20 000	0.658

What is the net present value, using a 15% discount factor? [J99Q39C]

A ($5 680) **B** $568 **C** $5 680 **D** $45 680

1971 Pixel Manufacturing is planning to buy a production plant costing $100 000. The plant's expected useful life is 5 years with no residual value. The required rate of return is 20%.

The following data was calculated pertaining to the purchase and operation of this plant:

Year	Estimated Annual Cash Inflow $000	Present value o f$1 at 20%
1	60	0.91
2	30	0.76
3	20	0.63
4	20	0.53
5	20	0.44
	150	3.27

[L. G. Rayburn]

The net present value is

A $9 400. **B** $54 128. **C** $80 000. **D** $109 400

1972 S & P provides the following information on project **M** whose initial capital outlay is $25 000 and cost of capital is 15%:

Year	Expected net cash flows	Present value at 15%
1	$ 7 000	0.870
2	$ 5 000	0.756
3	$ 9 500	0.658
4	$12 000	0.572

What is the net present value of the project? [J03Q39Z]

A ($2 015) **B** ($80) **C** $175 **D** $2 000

1973 A company has the opportunity to invest in a project with an initial capital outlay of $100 000, a life of 3 years and annual cash inflows shown:

Year	$
1	80 000
2	40 000
3	20 000

The opportunity cost of capital is 10% and the relevant discount factors for the three years are:

Year	1	2	3
Discount factor	0.909	0.826	0.751

The net present value of the project is [N02Q35Z]

A $20 780. **B** $29 880. **C** $62 760. **D** $120 780.

1974 A company plans to buy a new machine at a cost of $25 000. The machine will lead to savings in the operating costs of $8 000 in the first year of use, $10 000 in its second year and $5 000 in its third year. The machine will then be sold at the end of three years for the sum of $6 000.

Discount factors at 8% are:

Year	*1*	*2*	*3*
Factor	0.926	0.857	0.794

What is the net present value of this investment? [N98Q39C]

A ($9 816) **B** ($288) **C** $288 **D** $4 000

1975 Given below are details of a capital expenditure project which Binga has under consideration.

The project has an initial cost of $5 000. Estimated scrap value of the assets at the end of three years is $500.The company's cost of capital is 12%.

Year	1	2	3
Expected profits	1 600	1 500	800
Relevant discount factors	0.893	0.797	0.712

Profits have been calculated after calculating straight-line depreciation.

What is the net present value of the project? [J05Q35Z]

A ($1 806.10) **B** ($1 450.10) **C** $1 796.90 **D** $2 152.90

1976 The cost price of the lathe machine is $100 million. Half of this amount is paid now and the remainder over 12 months instalments.

If the cost of capital is 20% per annum, what is the net present value of the outlay? [Author]

A $83 000 **B** $89 957 **C** $91 667 **D** $94 980

1977 The present value of $121 due in 2 years, discounted at an annual rate of 10% is [Meigs & Ferrara]

A $91,90. **B** $96,80. **C** $100. **D** $110.

1978 A firm buys material on a long-term contract stipulating a price increase per annum of 6% compound.

If the current price is $100 per kg, the price in 5 years, to the nearest cent, will be [Upchurch]

A $106,00. **B** $130,00. **C** $133,82. **D** $136,10.

1979 You will receive $20 000 at the end of this year. This amount increases by 10% for the next two years and by 5% thereafter. The cost of capital is 15%.

What is the net present value of the first 5 receipts? [Author]

A $67 043 **B** $76 135 **C** $77 732 **D** $100 547

1980 Garwood Corp purchased a machine which will be depreciated on straight-line basis over an estimated useful life of 7 years and no terminal value. The machine is expected to generate cash flow of $80 000 from operations in each of the 7 years. Garwood Corp's expected rate of return is 12%.

Information on present value factors is as follows: [L. G. Rayburn]

Present value of $1 at 12% for 7 years	0.0452
Present value of ordinary annuity of $1 at 12% for 7 years	4.564

Assuming a positive net present value of $12 720, what was the cost of the machine?

A $240 400 **B** $253 120 **C** $352 400 **D** $377 840

1981 The payback analysis and net present value (NPV) analysis indicate that a particular investment should be rejected but the accounting rate of return (ARR) is favourable.

What is the wisest investment decision? (Give your reason.) [Horngren, Harrison & Lemon]

A Accept because of favourable accounting rate of return.
B Cannot decide because of differences amongst the methods.
C Reject because of net present value analysis.
D Reject because of payback analysis.

1982 The internal rate of return of an investment [L. G. Rayburn]

A disregards discounted cash flows.
B frequently results in positive in positive net present values on attractive projects.
C generally coincides with the company's hurdle rate (cost of capital).
D may produce different rankings than net present value method on mutually exclusive projects.

1983 Among Internal Rate of Return (IRR) method advantages are that it [Doost RK]

A considers time value of money and it is easy for comparing projects.
B considers time value of money, uses realistic discount rates and is additive for combined projects.
C is consistent with other financial measures and data is readily available.
D is simple to use and understand, measures liquidity and allows for risk tolerance.

1984 Internal Rate of Return weaknesses include the fact that it [Doost RK]

A assumes a reinvestment rate of return which may be unrealistic and is difficult to compute manually.
B ignores timing and time value of money and ignores cash flows beyond recovery of investment.
C ignores timing and time value of money and uses accounting numbers rather than cash flows.
D is not meaningful for comparing projects requiring different amounts of investment.

1985 The IRR is always closer to the discount factor giving a [Author]

A larger NPV ignoring the sign. **C** positive NPV.
B negative NPV. **D** smaller NPV ignoring the sign.

1986 The net present values of a capital project are as follows:

Discount rate	*NPV*
10%	$6 000
16%	($3 000)

What is the internal rate of return for this project? [N01Q30], [J02E30C]

A 10% **B** 12% **C** 14% **D** 16%

1987 The net present values of a project have been calculated as follows:

	$
At 10%	30 000
At 20%	(8 000)

[Randall]

What is the internal rate of return on the project?

A 10% **B** 12.1% **C** 17.9% **D** 20%

1988 The following data relates to a proposed capital project for Luwazi Ltd. [N07Q37Z]

Discount rate	*Net present value*
9%	+$16 140
13%	–$4 920

What is the maximum interest rate that Luwazi Ltd should pay if it need to borrow money to finance the project?

A 5.93% **B** 11% **C** 12.07% **D** 16.07%

1989 A firm is considering an investment project. The present value of the project discounted at 18% is $195 and at 20% is –$395.

The internal rate of return of the project is [Author]

A 18.66%. **B** 18.99%. **C** 19.95%. **D** 20.66%.

1990 A project is forecast to cost $600 000 with varying annual cash inflows.

The present values have been calculated at two discount rates as shown:

Discount rate	**Net present value**
9%	+$16 152
13%	–$4 931

Estimate the approximate Internal Rate of Return (IRR). [J99Q40C]

A 9% **B** 10% **C** 12% **C** $13%

1991 A project involves an initial outlay of $100 000. [N03Q40Z]

The net present value has been calculated at two discount rates as shown below:

Discount rate	**Net Present Value**
10%	$6 120
14%	($3 904)

Estimate the maximum interest rate that the company should pay if it needs to borrow money to finance the project.

A 9.8% **B** 10% **C** 12.44% **D** 14%

1992 Pumula Ltd would want to invest in a project. The following information is made available:

Cost of capital	**Net present value**
10%	+$2 341
15%	–$ 846

What is the Internal Rate of Return? [J04Q34Z]

A 6.4% **B** 11.3% **C** 13.6% **D** 16.3%

1993 A project has the following net present values: [J07Q34Z]

Discount factor	**Net Present Value (NPV)**
30%	$104 000
50%	–$32 000

What is the approximate Internal Rate of Return for the project?

A 35% **B** 36% **C** 40% **D** 45%

1994 A project has an Internal Rate of Return (IRR) of 12% and the firm's cost of capital is 14%.

At that cost of capital, the Net Present Value (NPV) will be [N03Q39Z]

A equal to the Internal Rate of Return. **C** positive.
B negative. **D** zero.

1995 A project has an IRR of 18% and the firm's cost of capital is 10%. [N04Q39Z]

Using a discount rate of 18%, the NPV would be

A equal to the IRR. **B** negative. **C** positive. **D** zero.

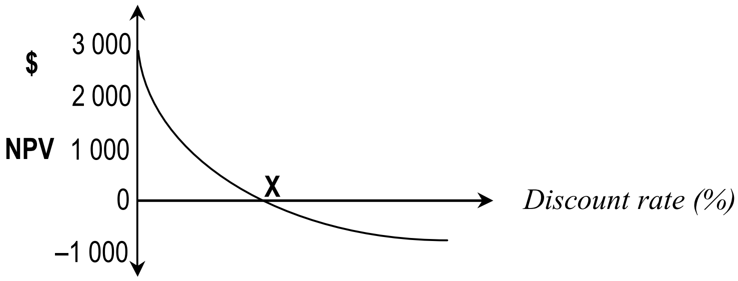
1996 The cost of capital is 15% and the internal rate of return is 20%.

Which of the following statements are true?

1 NPV at 15% is negative
2 NPV at 15% is positive
3 NPV at 20% is negative
4 NPV at 20% is positive [Author]

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

1997 The graph relates to a project being considered by a company as a possible investment opportunity.



What does point **X** represent? [J00Q39C]

A Accounting rate of return **C** Internal rate of return
B Break-even point **D** Payback period

1998 At the cost of capital (hurdle rate) of 15%, a prospective investment has a positive net present value.

Based on this information, it can be concluded that the [L. G. Rayburn]

A accounting rate of return for the project is greater than 15%.
B internal rate of return of the project is less than 15%.
C internal rate of return of the project is greater than 15%.
D payback period is shorter than the life of the asset.

1999 With regard to Net Present Value (NPV) and Internal Rate of Return (IRR) methods, [Doost RK]

A IRR favours projects with large outlay and amount of outlay has no effect on calculated IRR.
B IRR favours projects with large outlay and amount of outlay has no effect on calculated NPV.
C NPV favours projects with large outlay and amount of outlay has no effect on calculated IRR.
D NPV favours projects with large outlay and amount of outlay has no effect on calculated NPV.

2000 With regard to the NPV and the IRR methods, [Doost RK]

A both methods assume that all cash flows earn the same project's rate of return.
B both methods assume that cash flows earn a return equal to the cost of capital.
C the NPV assumes that cash flows earn a return equal to the cost of capital and the IRR assumes a rate of return equal to that of project.
D the NPV assumes a rate of return equal to that of project and the IRR assumes that all cash inflows earn a return equal to the cost of capital.

2001 **a)** Define *prudence.* [2]

b) Discuss how the prudence concept might be relevant when considering:

i) Goodwill; [3]
ii) Valuation of stock in trade. [3]

[N01Q4Cambridge]

2002 **a)** State **three** types of errors which affect Trial Balance agreement and give **one** example in each case. [6]

b) Mangena Ltd took out a Trial Balance on 31 March 2001 which failed to agree, the total credits exceeding the debits by $990. A Suspense Account was opened for this difference.

Subsequent investigations uncovered the following errors:

i. Discount allowed of $430 had been entered in the Discount Received Account.
ii. A creditor for $350 had been omitted from the schedule of creditors, the total of which had been included in the Trial Balance as trade creditors.
iii. A bill for insurance amounting to $670 was discovered in a filing tray.
iv. A prepayment of $240 for rates had been brought on the wrong side of the Rates Account.
v. Purchase of furniture for $10 000 was entered in the Purchases Account. Depreciation on furniture is calculated at 10% on the year end balance.

i) Draft the Journal entries required to correct the above errors. The narratives are **not** required. [7]
ii) Write up the Suspense Account. [5]
iii) State **two** alternatives of accounting for an unexplained balance on the Suspense Account if the final accounts are to be prepared. [2]

[N04Q1Zimsec]

2003 Fixed assets are subject to depreciation in the accounts of a company, with certain exceptions.

a) Explain the function of depreciation. [2]
b) Explain why *land* is less likely to have depreciation provided for it than other fixed assets [2]
c) Discuss difference between depreciation and funds set aside for replacement of fixed assets. [3]
d) **i)** Name **three** methods of depreciation. [3]
ii) Discuss the suggestion that it should be possible for a business to change method of depreciation used every year, depending on circumstances. [3]

[J00Q3Cambridge]

2004 **a)** Define the term depreciation. [2]
b) List **four** main causes of depreciation of fixed assets. [4]
c) What **four** factors should be taken into account when deciding on the amount of depreciation to be charged on a fixed asset per annum? [4]
d) Chitsinde Ltd maintains a fleet of taxis.

The following is an extract from the company's fixed asset register:

Taxi number	Date purchased	Cost ($)
CL 101	1 January 1998	25 600
CL 102	1 April 1999	32 000
CL 103	1 February 2000	38 400
CL 104	1 October 2000	44 800

The financial year end of the business is 31 December. It is the company policy to depreciate the vehicles at the rate of 25% per annum on the reducing balance basis. Full year's depreciation is provided for in year of acquisition but no depreciation is charged in year of disposal.

On 1 July 2002, taxi number CL 105 was purchased at a cost of $48 000 from Karombe Motors, who accepted taxi number CL 101 in part exchange for $8 500. Balance of the purchase price was financed by a loan from Benza Finance.

i) Draw up the Taxis Account for the year ended 31 December 2002. [4]
ii) Show Taxis Provision for Depreciation Account for the year ended 31 December 2002. [4]
iii) Draw up the Taxis Disposal Account. [4]

e) Explain any **three** significant difficulties likely to be faced when comparing financial results of businesses engaged in the same activity. [6]

[N03Q1Zimsec]

2005 The Bass Rock Minibus company was formed on 1 November 2000.

Depreciation is provided at 40% reducing (diminishing) balance. A full year's depreciation is provided for in the financial year in which the minibus is purchased. No depreciation applies in the final year in which the minibus is disposed of.

The following details apply to minibuses purchased and sold during the five years to 31 October 2005:

Purchase date	Registration No.	Cost	Disposal date	Cash received
2000		$		$
1 November	M323 ABC	18 000	31 March 2005	3 000
1 November	M324 ABC	18 000	30 April 2005	2 100
2001				
1 May	M555 ADR	19 000	30 April 2005	2 800
2002				
1 November	P186 TTS	21 000		
2003				
1 May	P388 VTS	21 500	16 February 2005	*See below*
2005				
1 May	R234 UTS	22 500		
1 May	R235 UTS	22 500		

On 16 February 2005, minibus P388 VTS was involved in an accident and was written off, that is, the insurance company decided that it was not worth repairing. They have decided to pay 95% of the Bass Rock Company's book value of the minibus as at 31 October 2004, and Bass Rock Company have agreed to accepted this.

a) Explain **three** difference between a *provision* and a *reserve*. [6]

b) Show the Minibus at Cost Account for the year ended 31 October 2005. [8]

c) Draw up the Minibus Provision for Depreciation Account for year ended 31 October 2005. [10]

d) Draw up the Minibus Disposal Account. Payment for minibus P388 VTS as agreed was received from the insurance company on 18 October 2005. [16]

[N99Q4Cambridge]

2006 The following information was extracted from books of William Noel for the year ended 30 April 2007:

	$
Purchases Ledger balance at 1 May 2006	43 120
Credit purchases for the year	824 140
Credit purchases returns	12 400
Cheques paid to creditors	745 980
Cash purchases	8 940
Discount received on credit purchases	31 400
Credit balances transferred to Sales Ledger accounts	5 210

a) Outline **three** reasons for keeping control accounts. [6]

b) Draw up the Purchases Ledger Control Account for the year ended 30 April 2007. [6]

c) The total of the balances in William Noel's Purchases Ledger amounts to $67 660, which does not agree with the closing balance in the control account.

The following errors were then discovered:

i. Discount received had been overstated by $1 000.

ii. A credit purchases invoice for $2 040 had been completely omitted from the books.

iii. A Purchases Ledger account had been understated by $100.

iv. A credit balance of $850 in the Purchases Ledger had been set off against a contra entry in the Sales Ledger, but no entry had been made in the control accounts.

v. A payment of $1 450 was debited to the creditor's account but was omitted from the Bank Account.

vi. A credit balance of $3 210 had been omitted from the list of creditors.

i) Extract the necessary information from the above list and draw up an amended Purchases Ledger Control Account for the year ended 30 April 2007. [4]

ii) Beginning with the given total of $67 660, draw up a table showing changes to be made in the Purchases Ledger to reconcile it with the new control account balance. [3]

[N01Q1Cambridge]

2007 **a)** State any **three** reasons of keeping control accounts. [3]

b) Name **two** books of prime entry used in posting figures to the Purchases Ledger Control Account. [2]

c) The following balances were extracted from the books of Isheunesu Trading for the year ended 31 October 2003:

				$
November 1	Sales Ledger balances brought forward:	Debit		44 000
		Credit		1 800
	Purchases Ledger balances brought forward:		Debit	800
			Credit	12 400
October 31	Average monthly totals:			
	Cash purchases			60 000
	Cash sales			124 000
	Sales Day Book			53 000
	Payment to creditors			80 000
	Sales Returns Book			6 400
	Cash receipts from debtors			45 200
	Cash payments to suppliers			77 000
	Discounts – Debit			6 200
	– Credit			1 400
	Dishonoured cheques			6 600
	Interest charged by business on overdue debts			2 000
Total bad debts written off amount to				28 800
Sales Ledger balances offset against Purchases Ledger balances				4 400
Credit balances on Purchases Ledger accounts at 31 October 2003				10 000
Debit balances on Sales Ledger accounts at 31 October 2003				56 600

Use the above information to prepare the Sales Ledger Control Account for the year ended 31 October 2003. [6]

d) Explain the meaning of each of the following phrases as used in accounting:

i) Accounting policy; [2]
ii) Ordinary activities; [2]
iii) Extraordinary items; [2]
iv) Fundamental errors. [2]

e) State any **two** circumstances under which an enterprise can change an accounting policy. [4]

[J04Q1Zimsec]

2008 a) State **three** advantages of preparing control accounts. [3]

b) State any **two** reasons why a Sales Ledger Control Account may have **both** a debit **and** a credit closing balance. [2]

c) State the books of prime entry for the following items found in a Creditors Control Account:

i) Cash refunds; [1]
ii) Interest on overdue accounts; [1]
iii) Payments to suppliers; [1]
iv) Purchases; [1]
v) Purchases discounts; [1]
vi) Purchases returns; [1]
vii) Set off. [1]

d) Prepare Lee Ping's Sales Ledger Control Account for the month of October from the following information:

	$
Total Debtors Ledger balances at 1 October 2007	18 423
Total Creditors Ledger balances at 1 October 2007	16 667
Cheques received from debtors	141 876
Cheques paid to creditors	92 118
Sales	185 265
Purchases	107 223
Bad debts	2 054
Discount allowed	5 812
Discount received	3 444

	$	
Sales returns	2 535	
Purchases returns	1 990	
Debtor's cheque dishonoured	350	
Debit balance transferred from Debtors Ledger to Creditors Ledger	1 046	[8]

e) The balance on the Sales Ledger Control Account at 31 December was $61 480. This does not agree with the total of the list of Debtors Ledger balances on that date of $61 988.

On checking the accounts, you discover the following:

i. A balance of $198 was omitted from the list of Debtors Ledger balances at 31 December.

ii. A debtor's account has been overcast by $435.

iii. A sales invoice for $2 520 has been completely omitted from the books.

iv. Sales figure for the month should have been listed as $230 256 **not** $230 265.

v. A debtor who owed the business $280 has been declared bankrupt. This was correctly entered in the control account, but no entry has been made to cancel the debit in the debtor's personal account.

i) Make entries in the Sales Ledger Control Account to correct it. [5]

ii) Prepare a statement amending the total of the Debtors Ledger balances. [7]

[N98Q4Cambridge]

2009 On 1 November 1999, Lin Yew's Provision for Doubtful Debts Account had a balance of $3 500. This was made up of a general provision of $2 000, which was 2% of **all** his debtors, and a further expected loss of $1 500, the total amount owed by one of his customers, Lau Chuen, who had been declared bankrupt.

On 30 November 1999, Lin Yew received payment from Lau Chuen of $0.30 in the $ in final settlement of the debt. The remainder of the debt was written off.

On 31 January 2000 another debtor, Lee Fang, who owed Lin Yew $500, paid only $0.60 in the $ and the remainder of his debt written off.

On 30 April 2000 Lin Yew wrote off a further a further sum of $700 made up of various small debtors.

On the same date Mohammed Khan, whose debt of $1 200 had been written off completely in 1997 when he left the country unexpectedly, returned and paid his debt in full.

On 31 October 2000 Lin Yew adjusted his Provision for Doubtful Debts Account to 3% of all debtors: his total debtors outstanding at that date amounted to $110 000.

a) **i)** Distinguish between the accounting treatment of a bad debt and a doubtful debt. [2]

ii) Explain why trader might decide to set up a *provision for doubtful debts*. [2]

iii) Describe **two** factors that a business should be consider when determining the amount to be provided for in a Provision for Doubtful Debts Account. [2]

b) For the year ended 31 October 2000, prepare the following in Lin Yew's Ledgers:

i) Provision for Doubtful Debts Account; [2]

ii) Bad Debts Account; [4]

iii) Bad Debts Recovered Account [4]

c) State the effect on Lin Yew's net profit of the change in the Provision for Bad Debts Account. [1]

[N00Q1Cambridge]

2010 Tinashe operates a small furniture shop and does not keep complete records.

He provides you with the following figures:

Balances at	**31-12-2005**	**31-12-2006**
	$	$
Creditors	18 000	21 000
Debtors	19 950	20 400
Stocks	32 250	27 750

During the year ended 31 December 2006, the following transactions took place:

	$
Cash paid to suppliers of stock	67 500
Takings banked	87 000

	$
Discounts received	1 500
Discounts allowed	1 800
Sales returns	4 500
Purchases returns	3 000
Bad debts written off	4 125
Set-off	1 650
Customer's cheque dishonoured	4 875

Additional information:

i. The stock figure at 31 December 2006 includes stock which cost $4 850 for which no invoice has been received.

ii. Goods sent to Jones on a sale or return basis were invoiced to him at $2 250. The mark-up on these goods was 25%.

iii. Takings of $600 during the year ended 31 December 2006 were banked on 5 January 2007.

iv. Tinashe took goods costing $2 100 for personal use during the year.

a) For the year ended 31 December 2006, calculate
- **i)** gross purchases; [6]
- **ii)** sales; [7]
- **iii)** cost of sales; [5]
- **iv)** creditors' payment period; [2]
- **v)** debtors' collection period. [2]

b) '*The shorter the debtors' collection period, the better it is for Tinashe.*' Give **three** reasons to agree or disagree with the statement. [3]

c) Explain the accounting treatment for:
- **i)** goods taken by the owner for private consumption; [2]
- **ii)** stolen or damaged goods. [2]

[N05Q2Zimsec]

2011 **a)** What is a Statement of Affairs? [1]

b) State the equivalent of a Receipts and Payments Account in a profit making concern. [1]

c) What is the accounting treatment of each of the following in the year end financial statements?
- **i)** Donations received for special or specific purposes [1]
- **ii)** Life membership subscriptions [1]
- **iii)** Subscriptions is arrears [1]
- **iv)** Subscriptions paid in advance [1]

d) The following information is a summary of the receipts and payments of Highway Charity Club for the year ended 31 December 2002:

		$		$
Bank balance (1 January 2002)		6 000	Purchase of drinks	13 500
Sale of drinks		30 000	Wages (Kiosk attendant)	900
Donations received		7 500	Typists expenses	600
Members' subscriptions:	2001	1 200	Donations to charities	6 750
	2002	2 400	Stationery	300
	2003	600	Fuel cost	2 550
			Electricity for the kiosk	2 500
			Grounds man's wages	1 200
			Balance carried down	19 400
		47 700		47 700

Additional information:

i. The subscriptions in arrears at 31 December 2001 and 31 December 2002 were $750 and $1 050 respectively.

ii. Stocks of drinks were $1 650 on 1 January 2002 and $1 200 on 31 December 2002.

iii. On 31 December 2001, motor vehicles were valued at $75 000 and are to be depreciated at 5% per annum.

i) Prepare the Highway Charity Club's Refreshments' Trading and Profit and Loss Account for the year ended 31 December 2002. [3]
ii) Draw up the Subscriptions Account. [5]
iii) Draft the Income and Expenditure Account for the year ended 31 December 2002. [5]
iv) Prepare the club's Balance Sheet as at 31 December 2002. [7]

[N03Q2Zimsec]

2012 The Hardunby Sports and Social Club had the following assets and liabilities as at 31 May 2006:

	$
10% Debenture investments	4 500
Bank (favourable)	2 500
Bar stock	7 200
Bar supplies	6 400
Buildings at cost	40 000
Lawn mower	100
Pool tables	3 000
Subscriptions due	500
Subscriptions in advance	400

The following are the receipts and payments for the year ended 31 May 2007:

Receipts	**$**	**Payments**	**$**
Annual dance	3 000	Bar stock	26 500
Bar sales	58 700	Bar wages	17 000
Competition entries	1 400	Competition prizes	950
Donation	6 000	Dance expenses	2 500
Subscriptions	24 000	Deposit Account	6 000
Takings from pool tables	650	Grounds man's wages	15 000
		Lawn mower	500
		Maintenance	2 200

The following balances occur at 31 May 2007:

	$
Bar stock	5 400
Bar stock unpaid	3 200
Subscriptions in advance	650
Subscriptions in arrears	700
Wages due to grounds man	1 500

Pool tables were depreciated at 25% at 31 May 2007 on the book value at 31 May 2006.

A trade-in of $200 was allowed when the new lawn mower was purchased. This transaction took place on 1 June 2006 and a full year's depreciation at 25% was charged to the new mower in final accounts in May 2007. No depreciation was charged to the old mower.

Donation of $6 000, which was received at the end of May 1997 was placed in a bank Deposit Account. The interest is to be used in the future to pay for an annual prize called the 'Hardunby People's Prize'.

a) State the main difference between the *surplus* in an Income and Expenditure Account and the *profit* in the Profit and Loss Account. [1]
b) In a trading organisation, what are the equivalents of:
i) Receipts and Payments Account; [1]
ii) Accumulated Fund [1]
c) Prepare the Hardunby Sports and Social Club Bar Income Statement for the year ended 31 May 2007. [8]
d) Prepare the Income and Expenditure Account for year ended 31 May 2007. [15]
e) Draft for Hardunby Sports and Social Club the Balance Sheet as at 31 May 2007. [8]

[J99Q1Cambridge]

2013 Havers and Cavers' office was destroyed by fire, and with it, most their records. Fortunately their warehouse stockroom kept a copy of all records relating to movements of stock as well opening and closing stock figures.

These figures were as follows:

	$
Stock at 1 May 2008	3 600
Purchases for the month of May	33 000
Stock at 31 May 2008	2 400

The goods are not all sold at the same mark-up.

On sales to the public, which account for half of the units sold, the purchase price is 60% of the selling price. On sales to retailers, which account for one-third of all units sold, the purchase price is 75% of the selling price. On sales to staff, which account for the remainder of sales, the purchase price is 80% of the selling price.

Calculate the total sales for the month of May 2008, at **selling** price. [11]

[J98Q4Cambridge]

2014 Ivanhoe does not use the double entry system of bookkeeping. On 31 May 2006, the balance of his stock-in-hand was $6 000.

Sales in June totalled $80 000; in July they increased by 50% on the June figure. This was a result of having a *sale* in July.

Ivanhoe usually has 25% mark-up on cost, but during the *sale* he reduced this for some items so that:

– $17 600 of the sales had a mark-up on cost of 10%;
– 40% of the sales earned a gross profit ratio of 20%
– the remainder was sold at normal mark-up.

Closing stocks were:	June	$6 600
	July	$9 800

a) State **five** reasons why making a profit does **not** mean having more cash. [5]
b) Calculate the gross profit for **each** month, that is June and July respectively. [6]
c) Calculate the purchases figure for **each** month, that is June and July respectively. [5]

[N99Q5Cambridge]

2015 Eagon Beacon's summarised Profit Statement for the year ended 30 April 2008 was as follows:

	$000
Sales	200
Less Cost of sales	120
Gross profit	80
Less Expenses	36
Net profit	46

Closing stock was $20 000 on 30 April 2008.

Eagon estimates that the following figures and ratios will apply for the year ending 30 April 2009.

i. Sales for the year will be $220 000.
ii. Gross profit percentage will remain the same as in the year ended 30 April 2008.
iii. Purchases will be 70% of sales.
iv. The ratio of expenses to sales will become 15%.

a) Draw up the estimated Trading and Profit and Loss Account for the year ending 30 April 2009, showing the make-up of the cost of sales. [7]
b) Calculate the return on capital invested of $400 000 for year
 i) ended 30 April 2008. [1]
 ii) ending 30 April 2009. [1]
c) Calculate the following for the year ending 30 April 2009:
 i) The expected stock turnover rate (to 2 decimal places), [3]
 ii) The increase or decrease in net profit percentage. [3]
d) State **three** possible reasons for the reduction in gross profit percentage of a retailer. [3]
e) **i)** Profitability ratios are one type of ratio.
 Name **two** other types of ratios that a business might use. [2]

ii) State **two** organisations or groups of people, other than the proprietors of the business, who might use these ratios. [2]

[J00Q1Cambridge]

2016 Ferdi Nand relies on you, his assistant cost accountant, to forecast his accounts for the year ending 31 December 2008 from the following:

Sales	$480 000
Gross profit percentage	25%
Net profit percentage	15%
Stock at 1 January 2008	$80 000
Closing stock as percentage of opening stock	80%
Debtors	$90 000
Total assets	$400 000
Working capital	$50 000
Ratio of sales: fixed assets at net book value	2:1
Aggregate depreciation on fixed assets	40% of cost

Current assets comprise stock, trade debtors and bank.
The only current liability is trade creditors.
Ferdi Nand takes drawings to the value of 5% of his sales.

Showing as much information as possible, prepare Ferdi Nand's Forecast Trading and Profit and Loss Accounts for the year ending 31 December 2008 and his forecast Balance Sheet at that date. [20]

[N98Q2Cambridge]

2017 **a)** A shopkeeper employees a number of assistants, for the year ended 30 April 2006 her gross profit ratio was 40% and her gross profit was $80 000. For the year ended 30 April 2007, her gross profit ratio was 35% even though her gross profit had increased to $90 000.

State **five** possible reasons for the apparent decrease in her gross profit ratio. [5]

b) Sola Virtus plans to go into business on 1 September 2008 and has $60 000 to invest.

She intends to use the money to buy the following:

Premises	$44 000
Furniture	$ 5 000

The remainder will be deposited in the business Bank Account.

Sola Virtus' projected figures for the first year of the first year are:

Sales	$140 000 of which 20% will be on credit
Gross profit ratio	40%
Net profit ratio	20%
Sales commission	4% of total sales
Depreciation on furniture	45% reducing balance
Discount allowed	1½% of total sales
Discount received	2¾% of total purchases
Bad debts	2½% of credit sales
Wages	$13 500
Sundry expenses	$6 600
Drawings	$5 000 plus 5% of total sales.

Project balances at 31 August 2009 are:

	$
Stock	16 000
Debtors	6 000
Creditors	5 000

No accruals or prepayments are expected at that date, and balance at bank is not yet estimated.

i) Use the above information to calculate the following for the year ending 31 August 2008:

A) Purchases, all of which will be on credit; [2]
B) Total payments to creditors; [3]
C) Total receipts from debtors; [4]

ii) Draw up a projected Trading and Profit ad Loss Account for the year ending 31 August 2009. [7]
iii) Draft the projected Balance Sheet as at 31 August 2009. [4]

[J01Q3Cambridge]

2018 a) Explain *Single Entry Accounting*. [1]

b) After a fire destroyed some of the original records of Mhlanga Ltd, the following information relating to the year ended 31 March 2004 was available:

Sales	$750 000
Stock (31 March 2004)	$53 600
Fixed assets	$100 000
Debtors	$42 000
Mark-up	25%
Operating costs/ Sales	15%
Net profit/ Sales	5%
Stock turnover rate	15
Acid test ratio	1.5:1
Closing bank balance	$54 000

The company is financed mainly by ordinary shares of $1 each.

During the year, the company issued 7% convertible loan stock for $14 000 cash. The 7% convertible loan is repayable on 31 December 2009.

i) What is *convertible loan stock*? [2]
ii) Draw up Mhlanga Ltd's Trading and Profit and Loss Account for the year ended 31 March 2004. [8]
iii) Draw up the Balance Sheet as at 31 March 2004. [10]

c) Explain the matching concept. [2]
d) How has the matching concept been applied in the above financial statements (i.e. **b)** part **ii)** and **iii)**)? [2]
e) State **three** advantages of double entry over single entry accounting. [3]

[J04Q4Zimsec]

2019 Jesame does not use the double entry book-keeping.

Her Balance Sheet on 1 May 2006 was as follows:

Balance Sheet as at 1 May 2006	**$**	**$**	**$**
Fixed Assets	Cost	Depreciation	Net Book Value
Machinery	70 000	20 000	50 000
Current Assets			
Stock	3 520		
Debtors	1 760		
Rent prepaid	215		
Bank/Cash	6 000	11 945	
Current Liabilities			
Creditors	10 095		
Advertising accrued	880	10 975	520
			50 520
Financed by			
Capital			50 520

Jesame's bank statement for the year ended 30 April 2007 showed the following transactions:

	$
Cheques from debtors	110 000
Cash sales banked	18 150
Paid to suppliers	82 400
Rent	2 640
General expenses	8 230
Advertising	3 520
Drawings	8 000
Bank charges for the year	640

Jesame had used money from cash sales to pay the wages for the period amounting to $5 280.

Rent, payable 1 month in advance, was for 12 months ending 31 May 2007. There was a rent increase of $10 per month with effect from 1 December 2006.

Advertising is paid every 3 months. The cost of advertising does not change.

The following items did not appear on Jesame's bank statement at 30 April 2007:
- A cheque for $1 500 paid to a supplier on 30 April 2007;
- Cash sales of $350 paid in on 30 April 2007;
- Cheques from debtors to the value of $720 paid in on 30 April 2007.

From the above information, some closing balances may be calculated and others are as follows:

	$
Stock	3 800
Debtors	5 500
Creditors	6 400
Advertising accrued	880
Machinery at net book value	45 000

During year ended 30 April 2007 machinery costing $5 000 was purchased. No disposal of machinery took place during the year.

a) Calculate Jesame's total sales and purchases for the year ended 30 April 2007. [10]
b) Draw up Jesame's Trading and Profit and Loss Account for the year ended 30 April 2007. [11]
c) Draft Jesame's Balance Sheet as at 30 April 2007 [12]

[J00Q5Cambridge]

2020 Dzungu does not keep a full set of accounting records. He never bothers to record personal drawings although he keeps details of all expenses. The following applies to 2007.

i. Opening and closing balances were:

	1 January $	31 December $
Machinery	36 000	?
Stocks	81 000	109 800
Debtors	14 220	18 900
Creditors	45 540	55 260
Accrued rates	16 200	14 760
Prepaid rent	2 880	3 870
Cash	5 940	8 370

ii. Dzungu invested additional capital amounting to $252 000 in the business.

iii. A new machine was purchased to replace the old machine which was traded in at $21 600. A cash payment of $167 400 was made to complete the transaction. The new machine will be depreciated by 15% on cost.

iv. Other cash payments were:

	$
Creditors	939 240
Rent and rates	90 000
Wages	95 940
Sundry expenses	39 870

v. A margin of 25% was maintained throughout the year.

vi. Discounts allowed were $19 480, returns inwards $24 000 and returns outwards $30 000.

vii. A set-off was effected between an amount of $25 000 owed by Kushingaira and an amount of $21 840 owed to Kushingaira.

a) Prepare Dzungu's Trading and Profit and Loss Account for 2007. [13]
b) Using the information given in the question explain the meaning of the accruals concept. [4]
c) Show Dzungu's Balance Sheet as at 31 December 2007. [11]
d) Prepare the Cash Account for 2007, showing amounts of drawings and receipts from debtors. [7]

[J07Q1Zimsec]

2021 Using your knowledge of International Accounting Standards, distinguish between:

a) a contingent asset and a contingent liability; (IAS 37, *Provisions, Contingent assets and contingent liabilities*) [4]

b) an adjusting event and a non-adjusting event. (IAS 10, *Post Balance Sheet Events*) [4]

[Author]

2022 Because of illness, Achmed's annual stock taking, which should have taken place at 31 March 2007, was not completed until 7 April 2007, and was undertaken by inexperienced members of staff. Achmed felt that the figure of $92 050 was too low and ordered an investigation.

It was discovered that the following had occurred during the week ended 7 April 2007 and had not been accounted for in the closing stock calculation:

i. Goods with a selling price of $1 040 had been sent to an customer on approval.

ii. Goods costing $9 400 were received and invoiced.

iii. Sales of $18 760 had been made and invoiced to customers.
These sales include:
– an overcharge of $160;
– sales of $6 000 on special offer at a margin of 10%;
– damaged goods which had cost $2 500 and were sold for $2 800.

Achmed's standard rate of gross profit is 25% of sales.

a) Calculate the correct value of closing stock at 31 March 2007. [13]

b) Using your knowledge of IAS 2, *Inventories*, define the following terms:

i) Cost; [3]

ii) Net realisable value; [3]

iii) Cost of purchase; [3]

iv) Cost of conversion. [3]

[J01Q1Cambridge]

2023 Kuda, a retailer whose financial year ends 30 June, fell sick on 23 June 2007 and could not do stock-taking until 15 July 2007. His stock at that date valued at cost was $25 600. Normal mark-up is 25%.

The following transactions took place during the period from 1 July to 15 July 2007:

i. Purchases received and invoiced totalled $12 500.

ii. Purchases returns amounted to 3 900.

iii. Total sales amounted to $15 750 and comprised the following:
– Damaged goods costing $4 600 were sold for $5 200;
– To encourage the clearance to slow moving seasonal goods, 40% of total sales were sold at a mark-up of 20%.

iv. Goods sold at a normal selling price of $3 500 were returned.

v. Kuda took goods costing $5 200 for personal use.

vi. Included at cost in the cost of goods on 15 July are damaged goods costing $6 800. These goods can be sold at $5 600.

a) Draw up a statement to show the stock valuation at 30 June 2007. [14]

b) State **two** reasons why it is important to value closing stock correctly. [4]

c) Explain why stock is valued at lower of cost and net realisable value. [4]

[N06Q2Zimsec]

2024 Mustapha Deoff is in business as a retailer, and his financial year ends on 31 October. He was ill on 31 October this year, and was not fit to carry out his end-of-year stock-taking until 9 November.

On 9 November his stock at cost was valued at $24 500. Mustapha's mark up is 25% on cost.

The following transactions took place during the period 1 to 9 November:

		$
i.	Sales, invoiced to customers for	8 340
ii.	Purchase of goods for resale	7 950
iii.	Goods returned to suppliers	80
iv.	Goods returned by customers, originally sold for	110
v.	Goods taken for own use, at cost	200

After stock-taking Mustapha discovered the following:

vi. Included in the valuation were goods awaiting collection by a customer. These had been sold during October for $500.

vii. Included in the valuation were goods Mustapha had acquired for $240 on sale or return basis. He had not yet decided whether to keep them in stock or to return them.

viii. Included in the valuation at cost was stock which had cost $650 but had been damaged during September and was to be sold for $400.

Draw up a financial statement to show the correct stock valuation at 31 October 2000. [11]

[N00Q3Cambridge]

2025 **a)** State any **two** differences between direct costs and factory overheads giving an example of each. [3]

b) Identify **three** possible reasons why a manufacturing division may end up with a manufacturing loss. [3]

c) The following information was extracted from the books of Siyatotoba Ltd, a candle manufacturer, for the year ended 31 December 2003.

		$000
Purchase of raw materials		150
Fuel and light		14
Salaries administration		11
Carriage inwards		6
Rent and rates		16
Sales		492
Returns inwards		4
General administration expenses		15
Repairs to plant and machinery		3
Stocks at 1 January 2003:	Raw materials	10
	Work-in-progress	8
	Finished goods	7
Sundry creditors		31
Capital		450
Salesmen's salaries		9
Freehold premises		400
Plant and machinery		257
Debtors		20
Cash		13
Wages		30

Additional information:

			$
i.	Stocks at 31 December 2003:	Raw materials	20 000
		Work-in-progress	12 000
		Finished goods	18 000
ii.	Fuel and light in arrears		6 000
	Rent and rates prepaid		2 000
	Market value of finished goods		300 000

iii. Plant and machinery is depreciated at rate of 10% per annum using straight-line method.

iv. Manufacturing consumes 60% of fuel and light.

v. Rent and rates for trading operations amount to 30%.

vi. Of the total wages, productive wages are $16 000.

i) Draft a Manufacturing Account for Siyatotoba Ltd for year ended 31 December 2003. [9]

ii) Prepare the Trading, Profit and Loss Account for the year ended 31 December 2003. [9]

iii) Show a Balance Sheet as at 31 December 2003. [8]

[J04Q2Zimsec]

2026 Laurel and Hardy share profits and losses in the ratio 3:2 respectively. Their partnership agreement provides for:

– a salary of $23 000 per annum to Hardy.

– interest on capital of 8% per annum.

– interest on loan at 5% per annum.

Their Trial Balance as at 30 June 2007 was as follows:

		$	$
Capital Account:	Laurel		200 000
	Hardy		280 000
Current Account:	Laurel		61 680
	Hardy		48 000
Loan from Laurel			120 000
Debtors and creditors		181 200	149 280
Provision for unrealised profit			11 760
Stock:	Direct materials	86 160	
	Work in progress	30 240	
	Finished goods	117 600	
Purchases		744 960	
Sales			3 052 800
Drawings:	Laurel	23 400	
	Hardy	27 400	
Direct labour		584 640	
Indirect labour		250 800	
Carriage inwards		29 280	
Carriage outwards		18 720	
Administrative expenses		291 600	
Selling expenses		201 600	
Indirect materials		51 120	
Factory maintenance		34 080	
Premises		770 000	
Plant and machinery (cost $500 000)		408 000	
Bank		72 720	
		3 923 520	3 923 520

Additional information:

i. Stocks ate 30 June 2007 were:

	$
Direct materials	70 800
Work in progress	37 680
Finished goods	108 000

ii. Administrative expenses of $12 720 were prepaid while direct labour of $11 040 and indirect labour of $8 160 were outstanding on 30 June 2007.

iii. Plant and machinery is to be depreciated at 25% of the book value.

iv. Finished goods are transferred to the factory at cost plus 10%.

v. A provision for doubtful debts of 11% is to be created.

vi. Interest on drawings is to be charged as $670 for Laurel and $1 020 for Hardy.

a) Prepare the Manufacturing and Trading and Profit and Loss and Appropriation Account for the year ended 30 June 2007. [19]

b) Draft the Balance Sheet as at 30 June 2007. [9]

c) **i)** Explain the accounting treatment of interest on partners' loans to partnership. [2]

ii) State how the prudence concept was applied in preparing financial statements. [2]

iii) State any **two** differences between the financial statements of a manufacturer and those of a merchandiser. [2]

[J07Q2Zimsec]

2027 The following balances have been extracted from Tatenda Ltd's books at 30 June 2007:

		$000
Fixed assets at cost:	Premises	120
	Plant and machinery	75
	Motor vehicles	56

			$000
Accumulated depreciation:	Premises		64
	Plant and machinery		26
	Motor vehicles		20
Stock:	Raw materials		44
	Finished goods		36
Debtors			26
Bank			14
Creditors			12
10% Loan stock			20
Ordinary shares of $0.50 each, fully paid			100
Share premium			40
Retained earnings			45
Sales			800
Purchases of raw materials			192
Direct labour			208
Manufacturing overheads:		Variable	118
		Fixed	78
Administrative expenses (including loan stock interest)			92
Selling and distribution expenses			68

Additional information:

i. Stocks at 30 June 2007 were:

	$
Raw materials	20 000
Finished goods	48 000

ii. Depreciation is charged on cost at annual rates:

Premises	5%
Plant and machinery	10%
Motor vehicles	25%

Depreciation is apportioned as follows:

Premises	–	¼ manufacturing
	–	¾ administrative
Motor vehicles	–	½ manufacturing
	–	½ administrative

iii. As from 1 July 2006, goods manufactured have been transferred to the Trading Account at a mark-up of 20%. Previously transfers to the Trading Account were at cost.

iv. Premises were revalued to $120 000 on 30 June 2007.

v. A provision for bad debts of 5% to be created on 30 June 2007.

vi. Directors recommended a final dividend on ordinary shares of $0.10 and to make a transfer to the general reserve of $15 000.

a) Draw up a

i) Manufacturing Account for the year ended 30 June 2007; [6]

ii) Trading, Profit and Loss and Appropriation Account for year ended 30 June 2007 [8]

iii) Balance Sheet as at 30 June 2007. [8]

b) State **three** reasons for providing for unrealised profits in books of a manufacturing business . [3]

[N05Q1Zimsec]

2028 a) State **five** points covered by a partnership agreement. [5]

b) A partnership consists of three general partners. The working capital is low because of recent expansion, and the partners need new capital equipment - estimated cost $150 000.

List **four** methods of financing the above expenditure and state the advantages (in addition to cash injection) and disadvantages, if any, of each method. [12]

[J98Q5Cambridge]

2029 Dian and Amos are in partnership. Capital invested in the business is Dian $40 000 and Amos $60 000. Their profit-sharing ratio is the same as their capital ratio. The interest on capital is allowed at 5% per annum, interest on drawings is 4% per annum, calculated six-monthly on each partner's total drawings for the six-month period. Dian is paid a salary of $10 000 per annum, as bookkeeper. Profit for the year ended 31 October 2007 was $56 000.

Total drawings for the first six months of the year were:	**$**
Dian	4 000
Amos	3 000

Total drawings for the last six months of the year were:	**$**
Dian	3 500
Amos	3 500

a) State **three** financial rules which apply to a partnership, if no partnership agreement has been drawn up. [3]

b) Prepare the partnership Appropriation Account for the year ended 31 October 2007. [10]

c) Mahmoud, who has worked for the firm for some years, accepted the offer of becoming a partner on 1 November 2007.

The following revaluations took place prior to his admission:

– Buildings were increased from $30 000 to $41 000.

– Fittings were decreased from $12 000 to $10 000.

– Stock was increased from $9 000 to $10 000.

Prepare the Revaluation Account. [7]

[N98Q3Cambridge]

2030 Annie and Fanny each traded as sole traders until 1 May 1999, when they set up a partnership.

The value of the businesses brought into the new partnership was as follows:

– Annie $120 000 of which $40 000 was goodwill;

– Fanny $30 000 of which $20 000 was goodwill.

A partnership agreement was drawn up and included the following:

i. Annual salary to Fanny of $10 000;

ii. Interest to be awarded to partners' Capital Accounts at 10% per annum on the Capital Account balances at 30 April 2000.

iii. Interest to be charged on partners drawings at 5% on the end of year balances.

iv. Residue of profits and losses to be split in the ratio of: Annie ¾, Fanny ¼.

v. Goodwill not to be retained in the partnership accounts and is to be written off immediately.

vi. Both Capital Account and Current Account to be opened for each partner.

The net profit for the year ended 30 April 2000 was $85 000.

During the year ended 30 April 2000 drawings were as follows:	**$**
Annie	10 500,
Fanny	9 000.

In addition, goods costing $500 had been withdrawn from the business by Fanny, for her own use, and no account had been taken of this in the accounts.

a) Draw up the partners' Capital Accounts for the same period, in columnar form. [3]

b) Draw up the Profit and Loss Appropriation Account for the year ended 30 April 2000. [8]

c) Calculate in columnar form, the closing balances of the partners' Current Accounts. [5]

d) State **two** advantages to the partners of keeping Current Accounts in addition to Capital Accounts. [2]

[J00Q2Cambridge]

2031 Rudo, Chipo and Tsitsi were in partnership sharing profits and losses in the ratio 2:2:1 respectively.

The following balances, among others, were extracted from their books on 31 December 2002:

	Capital Account	**Current Account**
	$000	**$**
Rudo	40	2 400 Cr.
Chipo	30	600 Dr.
Tsitsi	20	1 800 Cr.

On 1 January 2003 Chipo retired from the partnership and Ngoni was admitted as a partner. Goodwill was valued at $30 000.

The following were the agreed valuations of some of their assets on the retirement of Chipo:

	Book value $000	Agreed value $000
Freehold premises	100	118
Stock	12	10
Plant and equipment	140	141

Provision for bad and doubtful debts of 5% of debtors, who stood at $40 000 on that day, was created.
Chipo was paid the whole amount due to her on her retirement.

Additional information:

i. Ngoni was to contribute $28 000 in capital, including her share of goodwill.
ii. Profits and losses are to be shared equally.
iii. Interest is to be allowed on fixed Capital Account balances at 10% per annum.
iv. Interest is to be charges on drawings at 5% per annum. The drawings for the year were: Rudo $16 000, Tsitsi $12 000 and Ngoni $8 000.
v. Rudo is to be credited with a salary of $3 000 per annum.
vi. The net profit for the new partnership for the year ended 31 December 2003 was $72 700.

a) State **five** provisions that are normally found in a Partnership Agreement. [5]

b) Prepare the:

i) Partners' Capital Accounts in **columnar form**, on 1 January 2003, bringing down the new balances where appropriate. [8]

ii) Profit and Loss Appropriation Account of the new partnership for the year ended 31 December 2003 [4]

iii) Partners' Current Accounts, in **columnar form**, for the same year. [6]

[N04Q3Zimsec]

2032 Wilson, Keppel and Betty were in partnership and shared profits and losses equally. Current Accounts are not operated.

On 30 April 2005 their Capital Accounts showed the following balances:

Wilson	$40 000
Keppel	$30 000
Betty	$15 000

Keppel retired from the partnership on 1 May 2005 and at that time goodwill was valued at $24 000.

Fixed assets were revalued as follows:

– Premises increased in value by $10 000;
– Fixtures increased in value by $4 000;
– Vehicles decreased in value by $2 000.

It was also agreed that neither a Goodwill Account nor a Revaluation Account would be shown in the partnership books. Keppel received cash for his of the partnership, and Wilson and Betty continued to run the partnership still sharing the profits equally.

Drawings during the year ended 30 April 2006 were: Wilson $46 000 and Betty $45 000 while net profit for the year was $120 000.

a) Draw up the partners' Capital Accounts for the year ended 30 April 2006, in columnar form. [11]

b) Imogen joined the partnership on 1 November 2006, bringing in capital of $12 000 and $8 000 as her share of goodwill. No Goodwill Account was opened. Profit was now shared on the following basis: Wilson $^3/_7$, Betty $^3/_7$ and Imogen $^1/_7$.

During the year ended 30 April 2007, partners' drawings were: Wilson $52 000, Betty $48 000 and Imogen $20 000. Profits for the year amounted to $140 000 and accumulated at a regular rate throughout the year.

The partnership was sold on 1 May 2007 for $128 000. The partnership was dissolved and all of the partners took the money due to them.

Draw the partners' Capital Accounts for the period 1 May 2006 to 1 May 2007, in columnar form. [14]

[J01Q2Cambridge]

2033 Two sole traders, Tatenda and Shingai, agreed to amalgamate their businesses to form a partnership called Tashinga Suppliers with effect from 1 November 2007.

Their separate Balance Sheet as at 31 October 2007 disclosed the following:

	Tatenda		Shingai	
Fixed assets at net book value	$	$	$	$
Shop premises		24 000		31 000
Equipment		7 800		10 200
Fixtures and fittings		3 600		5 100
		35 400		46 300
Current assets				
Stock	4 400		5 000	
Debtors	300		600	
Bank and cash	700		2 000	
	5 400		7 600	
Current liabilities				
Creditors	(2 900)		(3 500)	
Bank overdraft	–		(3 200)	
		(2 900)		(6 700)
		37 900		47 200
Financed by:				
Capital		31 400		47 200
Loan from Chenai		6 500		–
		37 900		47 200

Assets of the businesses were revalued as follows:

	Tatenda	Shingai
	$	$
Premises	42 000	52 000
Equipment		9 800
Fixtures and fittings	7 600	
Stock	4 100	4 600
Debtors	200	400

All other assets were taken over by Tashinga Suppliers at book values.

Goodwill was valued at: Tatenda $25 000 and Shingai $20 000. No Goodwill Account is to be kept.

Tatenda agreed to pay up the creditors $1 000 out of his private resources. The partnership assumed responsibility for the loan from Chenai and the remainder of the creditors.

Shingai settled the bank overdraft privately.

It was agreed that profits will be shared between Tatenda and Shingai in the ratio 2:1.

a) State any **four** characteristics of a partnership that distinguishes it from a limited company. [4]

b) Prepare the partners' Capital Accounts of Tatenda and Shingai, in ***columnar form***, immediately after the amalgamation has taken place. [14]

c) Prepare the Balance Sheet (Statement of Financial Position) of Tashinga Suppliers immediately after the amalgamation has taken place. [10]

[N06Q3Zimsec]

2034 Box, Cox and Gilbert were in a partnership sharing profits and losses in the ratio 3:2:1 respectively.

On 31 October 2007, the partnership Balance Sheet was as follows:

Fixed Assets	$	$
Land and buildings at cost		250 000
Plant and machinery at net book value		35 000
Motor vehicles at net book value		40 000
		325 000

	$	$
Current Assets		
Stock	70 000	
Debtors	84 000	
Bank and cash	43 500	
	197 500	
Creditors: *Amounts falling due within one year*		
Trade creditors	51 300	146 200
		471 200
Creditors: *Amounts falling due after one year*		
Loan from Gilbert		10 000
		461 200
Capital Accounts		
Box	204 500	
Cox	119 600	
Gilbert	137 100	461 200

Gilbert had decided to retire from the partnership from 1 November 2007, and it had been agreed that assets would be revalued. Goodwill will not be shown in the Balance Sheet of the business.

After revaluation, the revalued balances were as follows:

	$
Land and buildings	290 000
Plant and machinery	32 000
Motor vehicles	36 000
Stock	67 990
Debtors	81 000
Goodwill	36 000

A bad debts provision of 3% of the new debtors was set up.

Gilbert's loan was repaid, plus $20 000 from Capital Account, the remainder was transferred to a new Loan Account.

a) State **four** disadvantages a partnership has compared to a limited company. [4]

b) Draw up the following accounts as at 1 November 2007, after Gilbert's retirement:

i) Partnership Revaluation Account; [10]

ii) Capital Accounts of all three partners, in **columnar format**. [4]

c) Show the Balance Sheet of Box and Cox after departure of Gilbert. [8]

[J99Q2Cambridge]

2035 Chan, Tan and Eric were in partnership sharing profits and losses in the ratio Chan $^2/_3$, Tan ¼ and Eric $^1/_{12}$.

Their summarised Balance Sheet as at 31 October 2000 was as follows:

	$	$	$
Fixed assets (at book value)			
Premises		120 000	
Machinery		60 000	
Motor vehicle		9 000	189 000
Current assets			
Stock		14 200	
Debtors	18 000		
Less: Provision for doubtful debts	360	17 640	
Bank		16 160	
		48 000	
Less: **Current Liabilities**			
Creditors		12 000	36 000
			225 000
Less: **Long-term liability**			
Loan from Chan			9 000
			216 000

Capital Accounts

Chan	144 000	
Tan	54 000	
Eric	18 000	216 000

The partnership did not maintain partner's Current Accounts.

Chan left the partnership on 31 October 2000 to start his own business.

Tan and Eric continued the partnership, sharing profits in the ratio Tan ¾ and Eric ¼.

The following adjustments were made:

i. Premises were revalued at $150 000.
ii. Machinery was revalued at $50 000.
iii. Chan took over machinery which had been revalued at $20 000.
iv. Provision for doubtful debts was reduced to $260.
v. Stock was reduced in value by $1 200.

The value of goodwill was agreed at $48 000, but was not to remain in the partnership accounts.

Chan agreed not to take the cash due to him, but let it as a loan to the new partnership, with a suitable rate of interest to be agreed.

a) Draw up the Revaluation Account to show the above adjustments. [11]
b) Draw up three partner's Capital Accounts, in **columnar form**, after the adjustments have taken place. [10]
c) Show the Balance Sheet immediately after departure of Chan. [8]
d) **i)** Explain the meaning of *goodwill*. [2]
ii) Identify **one** advantage of writing off goodwill immediately it arises. [1]

[N00Q4Cambridge]

2036 Pomme and Citron were in partnership sharing profits and losses in the ratio of their Capital Accounts.

Their Balance Sheet as at 31 March 2007 was as follows:

		$	$	$
Non-Current Assets:	Premises	35 000		
	Machinery	28 000	63 000	
Current Assets:	Stock	16 000		
	Debtors	3 500		
	Bank	1 000	20 500	
Current Liabilities:	Creditors		2 500	18 000
				81 000
Capital Accounts:	Pomme		40 000	
	Citron		20 000	60 000
Current Accounts:	Pomme		15 000	
	Citron		6 000	21 000
				81 000

On 31 March 2007, assets of the partnership were taken over by Navet Rutabaga Ltd, at the following valuations:

	$
Premises	40 000
Machinery	25 000
Stock	14 000

Debtors were accepted at Balance Sheet value. All assets, except bank were taken over; and Pomme and Citron agreed to be responsible of paying the creditors.

The purchase consideration was as follows:

60 000 Ordinary shares of $1 each at a premium of 20%;
6% Debentures, repayable in 2030, to the value of $10 000;
Cash $6 000.

Shares are to be divided between the partners in their profit sharing ratio but 6% debentures equally.

Immediately prior to the take-over, Navet Rutabaga Ltd's Balance Sheet was as follows:

		$	$	$
Non-Current Assets:	Premises		180 000	
	Machinery		80 000	
	Motor vehicles		25 000	285 000
Current Assets:	Stock	30 000		
	Debtors	9 500		
	Bank	8 000	47 500	
Current Liabilities:	Creditors		8 000	39 500
				324 500
300 000 Ordinary shares of $1 each			300 000	
Profit and loss			24 500	324 500

a) Prepare in the book of Pomme and Citron the
- **i)** Realisation Account; [4]
- **ii)** Capital Accounts; [6]
- **iii)** Bank Account; [3]
- **iv)** Navet Rutabaga Ltd Account. [3]

b) In the books of Rutabaga Ltd, draw up the
- **i)** Business Purchase Account; [4]
- **ii)** Balance Sheet immediately after the take-over of the Pomme and Citron partnership. [22]

[N01Q5Cambridge]

2037 Anne, Betsy and Clara were in partnership sharing profits and losses in the ratio 5:3:2 respectively.

They decide to dissolve the partnership when their Balance Sheet was as follows:

Balance Sheet as at 1 April 2002

		$	$
Fixed assets			
Property			37 950
Vehicles			3 565
Furniture			920
			42 435
Current assets			
Stock		15 640	
Debtors		18 285	
		33 925	
Less: Current liabilities			
Creditors		5 290	28 635
			71 070
Less: Long-term liabilities:	Mortgage loan		17 250
			53 820
Capital Accounts:	Anne	26 220	
	Betsy	16 330	
	Clara	11 270	53 820

Additional information:

i. Clara took over the property at $40 480 and assumed responsibility for the mortgage loan.

ii. Anne took over part of the stock at $5 520, all the debtors at $10 580 and goodwill at $4 140.

iii. Betsy took over one vehicle at $1 150.

iv. Other assets were sold for the following amounts:

	$
Vehicles	1 661
Furniture	646
Stock	9 383

v. Creditors were paid $4 900 in full settlement.

vi. Anne was allowed $575 for her services in connection with the dissolution. Other dissolution expenses were $925.

Prepare the:

a) Realisation Account; [11]

b) Partners' Capital Accounts in columnar form; [8]

c) Bank Account [5]

[N03Q4Zimsec]

2038 a) Give the formula for calculating:

i) Ordinary dividend yield as a percentage; [2]

ii) Earnings per ordinary share; [4]

iii) Price earnings ratio . [2]

b) The owners of Merselo & Sons wish to become a public limited company and intend to raise capital by the issue of $2 000 000 in shares and, perhaps, debentures.

They have discussed two possible options for doing so:

	Option 1	*Option 2*
	$	**$**
Ordinary shares of $1 each	800 000	1 200 000
10% Preference shares of $1 each	400 000	800 000
6% Debentures	800 000	–
Total	2 000 000	2 000 000

The market yield on similar shares is 12. Maximum possible dividend will be paid to ordinary shareholders.

The formula for calculating the price is: $\dfrac{\text{Par value} \times \text{Percentage dividend}}{\text{Expected market yield}}$

The accountant prepared some information about the two possible options, at annual profit levels of $150 000 and $200 000 (before debenture interest is paid)

He has designed the table to show this information and has filled in the first set of figures.

Complete the table for the other three sets of figures.

Profit	**$150 000**	**$200 000**	
Option 1			
Interest on 6% debentures	$48 000	....	[1]
Dividend on 10% preference shares	$40 000	....	[1]
Dividend on $1 ordinary shares	$62 000	....	[1]
Ordinary share dividend percentage	7.75	....	[1]
Price per ordinary share	$0.65	....	[1]
Option 2			
Dividend on 10% preference shares	....	....	[2]
Dividend on $1 ordinary shares	....	....	[2]
Ordinary share dividend percentage	....	....	[2]
Price per ordinary share	....	....	[2]

[J98Q3Cambridge]

2039 The following are stock exchange ratios for two separate companies, Gadji Plc and Manushi Plc:

	Gadji Plc	**Manushi Plc**
Dividend yield	6.2%	3.9%
Interest cover	4 times	15 times
Ordinary dividend cover	1.7 times	3.2 times
Earnings per share	$0.65	$0.93
Price earnings ratio	14	8

a) Explain the meaning of each of the following terms:

i) Dividend yield;

ii) Interest cover;

iii) Ordinary dividend cover;

iv) Earnings per share;

v) Price earnings ratio. [10]

b) Use each of the above ratios to compare the financial performance of Gadji Plc with that of Manushi Plc. [12]

[N01Q2Cambridge]

2040 Kuh Lin Hills Plc is a company which was financed by the issue of the following shares and debentures:

	\$000
2 000 000 Ordinary shares of \$1 each	2 000
1 000 000 8% Preference shares of \$1 each	1 000
500 000 5% Debentures of \$1 each	500

a) During the year ended 31 May 2007, the total distributable profits before payment of debenture interest was \$300 000. The \$300 000 was paid out in debenture interest and share dividends.

Calculate the percentage dividend paid to ordinary shareholders. Ignore taxation. [4]

b) Another business, Ben Evviss, which is similar to Kuh Lin Hills, is financed as follows:

	\$000
1 000 000 Ordinary shares of \$1 each	1 000
2 000 000 8% Preference shares of \$1 each	2 000
500 000 5% Debentures of \$1 each	500

i) Explain what is meant by *capital gearing*. [2]

ii) Which of the two companies has the higher capital gearing? [1]

c) If Ben Evviss made up the same profits as Kuh Lin Hills during the year ended 31 May 2007, what percentage dividend would be paid to ordinary shareholders? [3]

d) State and explain whether it is better to be an ordinary shareholder or a preference shareholder in times of falling profits. Assume all profits are distributable. [2]

e) State **two** differences between ordinary shares and debentures. [2]

[N99Q1Cambridge]

2041 The Worrifree Business Plc's Trial Balance at the end of October 2007 was as follows:

Trial Balance as at 31 October 2007	**Dr \$000**	**Cr \$000**
400 000 Ordinary shares of \$1 each, fully paid		400
200 000 10% Preference shares of \$1 each, fully paid		200
5% Debentures (2015 - 2017)		120
Loan from Caerless Loan Ltd		25
Unappropriated profit at 31 October 2006		20
Sales		970
Stock at 1 November 2006	80	
Purchases	240	
Wages	230	
Rent	65	
Bad debts written off	8	
Provision for bad debts		2
General expenses	36	
Advertising	68	
Debenture interest	3	
Interim dividend paid on ordinary shares	24	
Fixed assets at cost	900	
Provision for depreciation on fixed assets		100
Debtors and creditors	200	83
Bank	66	
	1 920	1 920

Make use of the information below:

i. Interest on the loan from Caerless Loans Ltd was payable at 8% per annum.

ii. Stock at 31 October 2007 was valued at \$50 000.

iii. Depreciation to be provided for all fixed assets at 20% diminishing balance.

iv. Prepaid advertising amounted to $4 000.
v. Wages due and unpaid totalled $8 000.
vi. Provision for bad debts to be increased to $6 000.
vii. The following proposals were agreed by the directors:
- Preference dividend for the year to be paid;
- A final dividend of $24 000 to be paid to ordinary shares;
- $10 000 to be transferred to the general reserve.

a) Draw up Worrifree Business Plc's Trading and Profit and Loss and Appropriation Account for the year ended 31 October 2007. [12]

b) Draw up Worrifree Business Plc's Balance Sheet as at 31 October 2007. [8]

c) Below are given some of the average accounting ratios for Worrifree's type of business.

i) Enter Worrifree's equivalent ratios in the spaces provided.

	Average ratio	Worrifree Business Plc's ratio	
Gross profit ratio	75%	....	
Net profit ratio	25%	....	
Current ratio	1.5:1	....	
Quick ratio	1:1	....	
Stockturn in days	6 days	....	
Debtors turnover in days	27 days	....	
Return on Capital Employed	36%	....	
Asset use ratio	2.0	....	
Net profit/shareholders funds	25%	....	
Sales/fixed assets	3 times	....	[10]

ii) Use all the ratios in **i)** to comment on Worrifree Business Plc's performance. [10]

[N99Q2Cambridge]

2042 Survival Ltd, a dealer in leather products, had the following year-end balances:

	Year ended 31 December		
	2002	**2003**	**2004**
	$000	**$000**	**$000**
Equipment (NBV)	250	400	415
Stock	100	160	210
Debtors	31	62	70
Bank	(16)	(24)	85
Ordinary share capital	56	90	178
16% Debentures	100	50	–
Creditors	60	54	15
Sales	600	1 045	771
Cost of sales	380	600	440
Administrative costs	26	80	70
Distribution costs	28	70	50
Proposed dividends	16	10	7
Finance costs	16	8	–
Depreciation	10	16	18

Retained earnings on 1 January 2002 were $9 000.

a) Prepare in columnar format, the Trading and Profit and Loss and Appropriation Accounts for **each** of the above years. [7]

b) Prepare, in columnar format, Balance Sheets as at 31 December 2002, 2003 and 004. [10]

c) Identify **and** comment on **four** trends shown in the company's results for the three years. [8]

d) Give any **two** groups of people, besides the proprietors, who might be interested in these results **and** state why. [4]

[N07Q2Zimsec]

2043 The Balance Sheet of the Badlirun Company Plc as at 30 September 1999 was as follows:

	$000	$000
Fixed assets		600
Current assets	185	
Less: Current liabilities	96	89
		689
Financed by		
Issued and paid up share capital		
– Ordinary shares of $1 each		350
– 7% Redeemable preference shares of $1 each		180
Reserves: – Share premium	75	
– Profit and loss	84	159
		689

Since that date the following transactions have taken place:

i. On 9 November 1999 a bonus issue was made of one for five of fully-paid ordinary shares, utilising the share premium. These do not rank for dividends during the current financial year.

ii. The redeemable preference shares, which had been issued at par, were redeemed on 24 January 2000 at a premium of $0.50 per share. This was financed by the issue of 6% redeemable preference shares of $1 each at $1.20 per share. These rank for dividend from 1 October 2000.

iii. On 5 March 2000 a rights issue was made of one for four ordinary shares of $1 each in the issue at that date at $1.20 per share. The rights issue was fully taken up. These do not rank for dividend during the current financial year.

iv. On 14 September 2000 fixed assets costing $15 000 were purchased on credit.

v. On 23 October 2000 the company paid a dividend on ordinary share capital of $0.08 per share for the year ended 30 September 2000.

a) Explain what you understand by:

i) rights issue [2]

ii) bonus issue [2]

b) Draw up the Balance Sheet of the Badlirun Company as at 30 September 2000. Assume no other transactions took place. [22]

[N00Q2Cambridge]

2044 **a)** State **three** differences between a bonus issue and a rights issue. [6]

b) Muntu Ltd's Balance Sheet on 31 December 2003 is as follows:

	$000	$000
Ordinary shares of $1 each	620	
4% Preference shares of $1 each	246	
Share premium	60	
General reserve	190	
Retained earnings	344	1 460
6% Debentures		240
		1 700
Represented by:		
Premises	750	
Equipment	345	
Vehicles	205	1 300
Stock	250	
Debtors	146	
Bank	100	496
Creditors		(96)
		1 700

The following transactions took place up to 31 March 2004:

i. January 2; 25% of redeemable preference shares were redeemed out of profits,

ii. January 10; 10% of the stock is to be written off as obsolete,

iii. January 14; a rights issue of one share for every five held was made at $1.30 per share,

iv. February 28; a bonus issue of one share for every ten held was made out of general reserve;

v. March 30; premises were revalued to $900 000 and additional equipment costing $65 000 was bought on credit.

Draw the Balance Sheet on 31 March 2004 after taking into account the above transactions. [15]

[N07Q01Zimsec]

2045 **a)** Distinguish between the straight-line (fixed instalment) and the reducing (diminishing) balance methods of calculating depreciation of fixed assets. [6]

b) The following is the draft Balance Sheet of Chidembo Ltd as at 30 September 2002:

Fixed assets	Cost	Dep	N.B.V.
	$000	**$000**	**$000**
Freehold land and buildings	200	10	190
Plant and equipment	300	120	180
Motor vehicles	180	90	90
	680	220	460
Current assets			
Stock	320		
Trade debtors	230		
Prepayments	10		
Cash at bank	160	720	
Less: Current liabilities			
Trade creditors	190		
Accruals	30	220	
Net current assets			500
			960
Financed by			
Ordinary shares of $1 each			450
Reserves			
Share Premium Account		100	
Capital Redemption Reserve		300	
Profit and Loss Account		110	510
			960

After the above draft Balance Sheet had been completed, the following discoveries were made:

i. The revaluation of freehold land and buildings at $250 000 on 28 September 2002 had not been recorded.

ii. Plant and equipment had been depreciated at 10% on the reducing balance basis when the straight-line method should have been used.

iii. Goods with a selling price of $15 000 had been sent on a sale or return basis to P. Shoko. These were recorded as a sale in the accounts. P. Shoko had not indicated the intention to keep the goods. **Note:** The mark-up on cost is 25%.

iv. A bonus issue of **one** ordinary share for every **three** ordinary shares currently held had not been recorded. After the bonus issue, the company should maintain maximum flexibility in the use of their resources.

v. No entries had been made to record a dividend of 10% declared on the revised shareholding at the end of the year. There has been no interim dividend.

Prepare the Balance Sheet of Chidembo Ltd as at 30 September 2002 after the above matters have been taken into account. [20]

c) Distinguish between capital reserves and revenue reserves. [6]

[N04Q2Zimsec]

2046 **a)** List any **four** uses of the Share Premium Account. [4]

b) State whether **capital reserve** or **revenue reserve**:

i) Asset Replacement Reserve [1]

ii) Merger Reserve [1]

iii) Revaluation Account [1]

[Author]

2047 a) State **three** differences between ordinary shares and preference shares. [3]

b) Define share premium and state **three** uses of the share premium account. [4]

c) **i)** What are *convertible debentures*? [1]

ii) State **two** advantages of convertible debentures. [2]

d) The following is a Balance Sheet of Medusa Limited as at 31 December 2007.

	$	$
Fixed assets		
Property		350 000
Equipment		385 000
		735 000
Current assets		
Stock	108 500	
Debtors	171 500	
Bank	210 000	
	490 000	
Less: Current liabilities		
Creditors	87 500	
Net current assets		402 500
		1 137 500
Share capital and reserves		
350 000 8% Redeemable preference shares of $1 each		350 000
525 000 Ordinary shares of $1 each		525 000
Share premium		52 500
Profit and Loss Account		210 000
		1 137 500

Additional information:

i. The preference shares were redeemed on 1 January 2008 at $1.05 per share.
The redemption was financed as follows:
– $175 000 from internal cash resources.
– Issue of just enough ordinary shares of $1 each at $0.25 premium per share.
The preference shares were originally issued at $1.04 per share.

ii. On 1 January 2008, a computer was purchased for $650 000. The cash required was raised through an issue of 700 000 10% convertible debentures of $1 each at par.

i) Prepare the Balance Sheet of Medusa Limited after completing transactions on 1 January 2008. [12]

ii) Explain why a Capital Redemption Reserve is created. [3]

[J07Q3Zimsec]

2048 The following is the Balance Sheet of Matambo Ltd as at 31 October 2007.

			$000	$000
Fixed assets:	Goodwill		40	
	Tangible fixed assets		200	
				240
Current assets:	Stock		55	
	Debtors		68	
	Bank		37	
			160	
Less: Current liabilities:		Creditors	40	120
				360
Less: Long-term liabilities:		12% Debentures		100
				260
Capital and reserves:	Ordinary shares of $1 each		240	
		12% Preference shares of $1 each	100	
		Profit and Loss Account	(80)	260

Matambo Ltd experienced trading difficulties during the past few years which led to an accumulated debit balance in the Profit and Loss Account of $80 000. No dividends were paid during these years.

The directors are confident that the company's fortunes are improving and will be able to pay dividends in the near future.

The following scheme of capital reduction was sanctioned by the court and agreed by shareholders:

i. 240 000 Ordinary shares are to be reduced to 240 000 shares of $0.50 each, fully paid.
ii. 100 000 Preference shares are to be reduced to 100 000 preference shares of $0.50 each, fully paid.
iii. The debit balance on the Profit and Loss Account is to be written off.
iv. Goodwill is to be eliminated.
v. Stock was valued at $45 000.
vi. Debtors amounting to $10 000 are to be written off.
vii. Tangible fixed assets were over-valued by $30 000.

a) Prepare Journal entries to record the above adjustments. [7]
b) Prepare the Balance Sheet after the completion of the scheme of capital reduction. [8]
c) Explain the following:
i) a provision; [2]
ii) a liability. [2]
d) **i)** Why is a reserve for the replacement of fixed assets dealt with in financial statements in a different manner from a provision for depreciation? [4]
ii) Explain whether such a reserve may be used for dividend distribution. [2]

[N06Q1Zimsec]

2049 Curio City Plc's Balance Sheets for two consecutive years were as follows:

Year ended	**31 May 2006**			**31 May 2007**		
Fixed Assets	Cost	Dep	NBV	Cost	Dep	NBV
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Buildings (at valuation)	250	–	250	280	–	280
Plant and machinery	160	40	120	180	85	95
Fixtures and fittings	60	15	45	60	30	30
Motor vehicles	40	10	30	50	14	36
	510	65	445	570	129	441
Current Assets						
Stock		90			110	
Net debtors		120			140	
Bank		20			–	
		230			250	
Less: Current Liabilities						
Trade creditors	60			72		
Value Added Tax (VAT)	30			20		
Ordinary dividends proposed	10			12		
Bank	–	100	130	10	114	136
			575			577
Less: Non–Current Liabilities						
5% Debentures		50			70	
Bank loan		10	60		–	70
			515			507
Authorised and Issued Share Capital						
Ordinary shares of $1 each, fully paid			390			400
10% Preference shares of $1 each, fully paid			60			30
			450			430
Reserves: Share premium			10			12
Revaluation			–			30
General reserve			20			25
Profit and loss			35			10
			515			507

The increase in debenture took place on 1 June 2007.

Profit and Loss Appropriation Account for the year ended 31 May 2007 was as follows:

	$000	$000
Net profit		11
Ordinary share dividend paid	16	
Ordinary share dividend proposed	12	
Preference share dividend paid	3	
Transfer to the general reserve	5	(36)
Unappropriated balance for the year		(25)
Balance brought forward from last year		35
Unappropriated balance carried forward		10

Additional notes:

i. Preference shares of $30 000 were redeemed on 1 June 2007.
ii. Interest on the $70 000 debentures was paid in full.
iii. A motor vehicle which originally cost $8 000 was sold for $3 000, that is $1 000 below net book value. It was replaced by a new motor vehicle.
iv. Additional plant and equipment was purchased. There no disposal of plant and machinery or the fixtures and fittings.
v. A bad debt provision of $5 000 was created.

a) State **two** advantages of preparing a Cash Flow Statement. [2]

b) IAS 7 requires the preparation of an annual Cash Flow Statement. Prepare a Cash Flow Statement for year ended 31 May 2007. [23]

[J99Q3Cambridge]

2050 The following information was obtained from the books of B. O. Ring Ltd:

Balance Sheet as at 31 December 2005

Fixed assets	Cost	Depreciation	Net book value
	$000	$000	$000
Premises	1 500	550	950
Plant and machinery	800	265	535
Motor vehicles	600	140	460
	2 900	955	1 945
Current assets			
Stock		255	
Debtors		345	
Prepayments		17	
Bank		280	
		897	
Less: Current liabilities			
Creditors	350		
Loan interest	15		
Taxation	150		
Proposed ordinary dividends	90	605	292
			2 237
Less: Long-term liabilities:			
10% Debentures			300
			1 937
Share capital and reserves:			
Ordinary shares of $1 each			600
8% Preference shares of $1 each			300
Share premium			200
General reserve			150
Profit and loss			687
			1 937

Statement of Cash Flow for the year ended 31 December 2006

Cash flows from operating activities	**\$000**	**\$000**
Net profit before taxation		314
Non-cash items adjustments		
Depreciation: Premises	150	
Plant and machinery	160	
Motor vehicles	70	
Profit on sale of motor vehicle	(5)	375
Net cash inflow before working capital adjustments		689
Working capital adjustments		
Increase in stock	(35)	
Decrease in debtors	5	
Increase in prepayments	(3)	
Decrease in creditors	(50)	(83)
Cash generated from operations		606
Interest paid		(35)
Taxation paid		(150)
Net cash inflow from operating activities		421
Cash flows from investing activities		
Purchase of plant and machinery	(200)	
Purchase of motor vehicles	(120)	
Sale of motor van	15	
Net cash used in investing activities		(305)
Cash flows from financing activities		
Dividends paid	(106)	
Proceeds from issue of ordinary shares	300	
Redemption of 8% preference shares	(100)	
Redemption of 10% debentures	(100)	
Net cash to financing activities		(6)
Net increase in cash and cash equivalents		110

Additional information:

i. The preference shares and the debentures were redeemed on 1 January 2006 at par. No new shares were issued to finance the redemption.

ii. A bonus issue of 1-for-6 ordinary shares was made on 31 March 2006 utilising share premium.

iii. Premises were revalued to \$1 200 000 on 31 December 2006.

iv. The accumulated depreciation o the motor vehicle disposed was \$10 000.

v. On 1 June 2006, 200 000 ordinary shares were issued at \$1.50 each.

vi. The directors proposed to pay dividends of \$0.15 per ordinary share and to transfer \$65 000 to general reserve on 31 December 2006.

vii. Tax for the year ended 31 December 2006 was \$200 000.

a) State the purpose of a Cash Flow Statement. [2]

b) Prepare a Balance Sheet as at 31 December 2006. [19]

c) Explain the accounting treatment of profits and losses on disposal of fixed assets in the statement to reconcile operating profit to operating cash flow. [4]

[N05Q3Zimsec]

2051 Mushonga Limited manufactures one standard product and, in common with other companies in the industry, is suffering from current depression in the market. Currently it is producing 63 000 units which represents 70% of capacity. The sales director believes that a realistic forecast for next budget period would be 50% of capacity.

The following are anticipated costs at various levels of activity levels:

Level of capacity	**60%**	**70%**	**80%**
	\$000	**\$000**	**\$000**
Direct materials	378	441	504
Direct wages	162	189	216

Level of capacity	60%	70%	80%
	$000	$000	$000
Production overhead	376	412	448
Administration overhead	315	315	315
Selling and distribution overheads	423	441	459
Total cost	1 654	1 798	1 942

Profit is 20% of selling price.

a) Give a brief explanation of a flexible budget. [3]
b) Show by means of calculations which of the above are variable, fixed or semi-variable. [7]
c) Split each semi-variable cost into its fixed and variable components. [4]
d) Prepare a budget based on 50% level of activity, showing clearly the contribution expected. [11]

[N06Q4Zimsec]

2052 **a)** **i)** State and explain **two** reasons why a business should prepare a Cash Budget. [4]
ii) State **four** actions that may be taken to prevent future cash shortages shown in the Cash Budget. [4]
b) The Nightmare Company estimated profit for July, August and September is as follows:

	$
July	1 200
August	1 400
September	1 600

The Cash Budget for the same period is as follows:

	July	August	September
	$	$	$
Receipts from debtors	8 479	7 631	6 868
Cash sales	7 321	8 785	10 542
Total receipts	15 800	16 416	17 410
Payments to creditors	8 690	9 559	10 515
Wages	1 100	1 155	1 213
Rent	1 500	1 500	1 500
Overheads	1 300	1 355	1 420
Payments for fixed assets	1 500	1 500	1 500
Loan repayment	3 000	3 000	3 000
Total payments	17 090	18 069	19 148
Net receipts/(payments)	(1 290)	(1 653)	(1 738)
Opening balance/(overdraft)	12 000	10 710	9 057
Closing balance/(overdraft)	10 710	9 057	7 319

i) Although the company's net profit is increasing each month, its net receipts are negative and are becoming worse each month.
State what, in your opinion, is the single main cause of this situation? [1]
ii) State **two** more items of information you would need to know in order to be able to advise the company on what action to take. [2]

[J98Q1Cambridge]

2053 Roland Putter runs a catering business.

During the months of January to April 2000 the following were his actual purchases and sales figures:

	January	February	March	April
	$	$	$	$
Purchases	199 000	190 400	201 000	213 000
Sales	282 000	262 300	294 000	273 000

Budgeted purchases figures for the coming May, June and July were $204 000, $198 000 and $192 000 respectively.

All budgeted sales figures are based on a 25% mark-up on the purchases made two months earlier.

80% of the purchases are paid for during the month of delivery and attract a discount of 2½%. The remaining 20% of purchases are paid for in the month following delivery and attract no discount.

60% of the sales are paid for in the month of sale and the buyers gain a discount of 5%.
20% of the sales are paid for in the month following the month of sale and gain a discount of 2½%.
15% of the sales are paid for two months following the month of sale and attract no discount.
The remainder of the sales are expected to become bad debts.

Wages are budgeted for as 4% of total sales each month, payable during that month.

Roland draws on average $1 000 per month for personal use.

There are overheads which include depreciation fixed at $2 000 per month, but do not include wages. They also include a budgeted amount equal to 40% of wages that month. Overheads are payable during the month in which they are incurred.

In March 2000, Roland purchased a coffee machine costing $2 000, to be paid for in four equal monthly instalments beginning in March 2000.

At the end of April 2000 Roland had an overdraft of $27 000.

a) Discuss the advantages to Roland of preparing a Cash Budget. [3]
b) Draw up a Cash Budget for each of the three months commencing with May 2000. All figures should be to the nearest $. [22]

[J00Q4Cambridge]

2054 Tartan & Company uses a standard costing system.

During the month of May 2008, the following figures apply:

	Standard cost per unit based on 12 000 units budgeted output	**Actual cost of 12 500 units produced**
Direct material	6.1 metres @ $5.50 per metre	73 750 metres for $427 750
Direct labour	2.75 hours @ $15 per hour	31 250 hours @ $16.20/hour

a) Calculate the cost of materials actually used to produce one unit. [1]
b) Calculate the actual direct labour cost of producing 12 500 units. [1]
c) Calculate the standard cost of the standard quantity of materials required for 12 500 units produced. [1]
d) Calculate the standard cost of the standard labour hours needed to produce 12 500 units. [1]
e) Calculate the difference between actual and standard direct material costs of producing 12 500 units **and** state whether the variance is **favourable** or **unfavourable**. [2]
f) Calculate the difference between the standard and actual direct labour costs of producing 12 500 units **and** state whether the variance is **favourable** or **unfavourable**. [2]
g) State **two** possible reasons for your answers to **e)** and **f)**. [4]
h) Calculate the standard total cost of producing 12 500 units, assuming that materials and labour are the only cost of production. [2]
i) Calculate the difference between standard total cost and actual total cost of producing 12 500 units. [2]
j) Explain why the cost accountant needs more information than is given by the answers to **h)**. [1]

[J98Q6Cambridge]

2055 Butane Ltd provides you with the following budgeted unit data for product Ester:

		$
Selling price		160
Raw materials:	Methane ($10/ litre)	30
	Propane ($20/ kg)	50
Direct labour ($80/ hour)		40

Butane Ltd planned to sell 8 000 units but actual sales were 9 000 units as shown below:

Income Statement for the month ended 30 April 2008

Sales (9 000 units)			1 350 000
Raw materials:	Methane (29 700 litres)	267 300	
	Propane ($22/ kg)	455 400	
Direct wages (4 500 hours)		378 000	1 100 700
Profit			249 300

a) Prepare for month to 30 April 2008 the:
- **i)** Master budget Income Statement; [5]
- **ii)** Flexed budget Income Statement. [5]

b) Determine the:
- **i)** Sales price variance; [2]
- **ii)** Sales volume variance; [2]
- **iii)** Materials quantity variance; [2]
- **iv)** Materials price variance; [2]
- **v)** Labour rate variance; [2]
- **vi)** Labour efficiency variance. [2]

[Author]

2056 The annual budget for the year ended 30 September 2007 for a production department of Morsel Ltd, based on a normal production level of 90 000 units, was as follows:

	$
Raw materials	396 000
Direct labour	225 000
Power	36 000
Heating and lighting, including $1 000 standing charge	3 700
Communications, including $1 200 standing charge	4 800
Maintenance	72 000
Indirect labour (at full production, 25% variable)	48 750
Insurance (fixed)	2 500

Full production capacity is 100 000 units.

When actual production level for the year ended 30 September 2007 was 95 000 units, costs were:

	$
Raw materials	416 000
Direct labour	235 500
Power	38 500
Heating and lighting	3 950
Communications	5 300
Maintenance	77 000
Indirect labour	49 500
Insurance	2 550

a) Briefly describe how flexible budgets work. [3]

b) Draw up flexible budgets for 90% and 95% of production capacity, and state the over/under spending on each item of expenditure of the department at the actual production rate. [18]

c) Comment on the results you have calculated in **b)**. [4]

[J01Q04Cambridge]

2057 **a)** One method of valuing stock is AVCO (Weighted Average Cost). State **three** other methods. [3]

b) Elsorem Incorporated uses AVCO (Weighted Average Cost) as their system of stock costing. One material used is *Tedifor*, a plastic which is used by designers to make full scale models of cars for test purposes.

During October, the stock card for *Tedifor* reads as follows:

Date		**Activity**	**Quantity (kg)**	**Price per kg**	**Destination**
Oct	1	Balance	3 000	$12.00	
	3	Purchased	4 000	$12.10	
	4	Issued	5 000		Job 23
	7	Purchased	6 000	$12.20	
	14	Issued	1 000		Job 24
	15	Issued	3 000		Job 23
	18	Purchased	5 000	$12.30	
	22	Returned	2 500	(part of purchases made on 18 October)	
	23	Issued	3 000		Job 25

Date		Activity	Quantity (kg)	Price per kg	Destination
Oct	25	Issued	1 000		Job 23
	26	Purchased	10 000	$12.20	
	27	Issued	5 000		Job 25
	27	Issued	3 000		Job 24

Calculate the total material cost for each of the three jobs above. All jobs were began and completed during the month of October. [10]

c) Budgeted fixed costs for the year amounted to $4 per direct labour hour.

Other data relating to **Job 24** in **b)** above was as follows:

– Job 24 was completed by one employee in 200 hours. 160 of these hours were at the basic rate of $8.80 per hour. The remainder was overtime, paid at time-and-half-a-time (1.5 times the basic rate).
– Variable overheads totalled $650.

Calculate the profit on **Job 24** if the profit to sales ratio is 25%. [8]

[N98Q5Cambridge]

2058 a) Explain the following items with reference to IAS 2 on stock valuation:

i) Cost, [2]
ii) Net realisable value, [2]
iii) LIFO, [1]
iv) FIFO, [1]
v) AVCO, [1]

b) Data below relates to purchases and sales made by Jumbo Ltd which sells only one product.

2004			Quantity	Unit cost	Unit selling price
Jan	1	Balance	5 100	$25	
	10	Units received	1 490	$28	
	30	Units issued	3 000		$40
Feb	3	Units received	2 310	$30	
	21	Units issued	4 000		$44
March	6	Units received	3 800	$32	
	15	Units issued	700		$46
	26	Units received	1 000	$40	
	30	Units issued	2 450		$48

Calculate the value of stock on 31 March based on

i) LIFO, [3]
ii) FIFO, [3]
iii) AVCO, [3]

c) Siya-so Ltd lost goods as a result of a fire during the financial year ended on 28 February 2004. The fire occurred on 28 February 2004.

According to the records, the following information is available:

Stock of 1 March 2003	$30 000
Goods bought for the resale up to 28 February 2004	$80 000
Sales up to 28 February 2004	$117 000
Salvaged stock	$11 000
Mark-up	50%

Calculate the value of stock lost in the fire. [4]

[N07Q04Zimsec]

2059 The Baked Bean Butty Company has in the past used absorption costing in valuing stocks.

The new accountant feels that a marginal costing approach would be preferable.

The following figures have been made available to you for the years ended 30 April 1999 and 2000.

Year ended	30 April 1999	30 April 2000
Sales (units)	230 000	240 000
Production (units	230 000	250 000

Year ended		30 April 1999	30 April 2000
		$	$
Unit costs:	Direct materials	0.17	0.19
	Direct labour	0.12	0.14
	Variable overheads	0.08	0.09
Selling price per unit		0.90	0.95
Fixed factory overhead		29 900	31 850

Opening stock at 1 May 1998 was 8 000 units at a total cost of $0.50 per unit.

a) Draw up the Manufacturing and Trading Accounts for the years ended 30 April 1999 and 30 April 2000, using
i) Absorption costing;
ii) Marginal costing. [22]

b) Discuss the suggestion that *direct labour* might be classified as a *fixed cost*. [2]

[N00Q4Cambridge]

2060 Bindu Ltd is a manufacturing company.

The company provided you with the following information for the two years ended 30 June 2002 and 30 June 2003:

		2002	2003
		Units	Units
Sales		4 200	4 400
Production		4 500	4 800
		$	$
Fixed costs:	Manufacturing	36 000	43 200
	Administration and marketing	11 400	13 680
Unit data:	Selling price	47	51
	Direct materials	10	12
	Direct labour	15	18
	Variable production overhead	7	9

There were no opening stocks of finished goods in the year ended 30 June 2002. Stocks are valued on a First In, First Out (FIFO) basis.

a) State **three** differences between absorption (total) costing and marginal (variable) costing. [6]

b) Calculate the closing stocks for **each** year using the absorption costing method and the marginal costing method. [9]

c) Prepare the comparative profit statements for the two years using absorption costing. [5]

d) Prepare the comparative profit statements for the two years using marginal costing. [5]

[N04Q4Zimsec]

2061 Sidi el Rahman's company currently assembles 80 000 telephones each year all of which are sold at $10 each. He employs eight workers, each of whom works an 8-hour day, five days a week for fifty weeks a year. You may assume each worker assembles 10 000 telephones per annum.

The costs of production are as follows:

Materials	$3 per telephone
Labour	$6 per hour
Variable overheads	$1.80 per telephone
Fixed costs	$160 000 per annum

Sidi's sales manager has opened new markets and expects to be able to sell 120 000 telephones next year. You, as assistant accountant, have been given three options to study.

A Buy in the additional telephones from a competitor at $8 each.

B Introduce a bonus scheme whereby each of the eight (8) workers agrees to work additional hours and is to be paid the present labour rate plus a bonus of $1 for each telephone he assembles in excess of 10 000 per annum. You have been assured that this incentive will ensure exactly the additional production required.

C Hire an additional four workers to work an 8-hour night shift, five nights a week for fifty weeks a year. Night-shift workers would have to be paid an additional $1 per hour for working unsocial hours.

a) State **three** other solutions to the problem. [3]

b) Calculate the profit on the existing production of 80 000 telephones. [7]

c) Calculate the additional profit which would be made from each if the options **A**, **B** and **C**, and advise Sidi el Rahman which one he should accept. [10]

[N98Q1Cambridge]

2062 a) Define **and** give an example of

i) variable costs, [2]

ii) fixed costs. [2]

b) Greg Ltd has the capacity to produce 120 000 units per annum and the budgeted Profit and Loss Account for 2008 is as follows:

			$000	**$000**
Sales (90 000 units)				1 350
Less: Direct materials			270	
Direct labour			360	
Production overheads:	–	variable	36	
	–	fixed	150	
Distribution overheads:	–	variable	108	
	–	fixed	60	(984)
Profit for the year				366

i) If the unit price is reduced by 10% the company will be able to produce at full capacity. Calculate the revised profit. [7]

ii) If the product packaging is improved at a cost of $1.50 per unit the sales volume would increase by 20%. Calculate the revised profit. [7]

iii) Which option should be adopted **and** why? [2]

c) Greg Ltd is a key-producer. In February 2008, the company manufactured 19 000 key-holders at a total cost of $65 000. In March 2008, the company produced 27 000 key-holders at a total cost of $89 000.

Calculate the

i) the unit variable cost, [2]

ii) total variable cost for

– February 2008,

– March 2008, [2]

iii) the monthly fixed costs. [1]

[N07Q03Zimsec]

2063 The Afrocari Company Ltd manufactures television sets which sells for $250 each.

The existing production is 60 000 units per annum, all of which are sold.

At that level of production, unit costs are as follows:

	$
Direct materials	150
Direct labour	10
Variable overheads	10
Fixed overheads	15

a) Calculate the annual profit or loss. [4]

The existing production is based on a single shift working at full capacity.

It was estimated that, if selling price is reduced to $200 per unit, a total of 90 000 units could be sold.

It is suggested that an additional evening shift to be introduced, using half the number of workers employed on the day shift. This would allow a further 30 000 units to be produced each year.

Additional costs and benefits would occur as follows:

i. The evening workers would be paid an additional 30% wages to make up for working unsocial hours;

ii. Variable overheads would increase by 20% per unit, for the evening shift only;
iii. Fixed costs would increase by $300 000 per annum;
iv. Because of the increase in the purchase of direct materials, it is anticipated that there would be a discount of 20% on all direct materials.

It is assumed that all production will be sold.

b) Calculate the additional profit or loss if the additional shift system is brought in. [10]
c) State and comment on **three** additional factors which need to be considered before deciding on whether to implement the additional shift system. These may be either financial or non-financial factors. [6]

[N99Q3Cambridge]

2064 Hoper Ltd plan to produce toy wheelbarrows for sale to retailers as follows:

Output is 600 units, all of which are sold
Selling price is $7.50 per unit
Variable costs are $4.50 per unit
Fixed costs are $1 000

a) Draw the break-even chart and identify by **name**, not value, the:
- **i)** break-even point;
- **ii)** sales revenue line;
- **iii)** variable cost line;
- **iv)** fixed cost line;
- **v)** total cost. [10]

b) Calculate, by using a formula, the break-even point in both units and values. [5]
c) State the margin of safety in both units and values. [2]
d) Calculate the profit if the business sold 800 units but fixed costs were increased by 20%. [4]
e) State **four** assumptions and **one** corresponding limitation of each assumption which are made when using the break-even charts. [8]

[J98Q2Cambridge]

2065 Pappa Mio Ltd has manufactured and sold typewriters in the U.K. since 1993. There are three types of machine – the '*Standard*' which sells for $100, the '*Office*', which sells for $155 and the '*Boardroom*', which sells for $250.

The number of machines sold in the year ended 31 May 1995 were as follows:

	Units
Standard	13 000
Office	5 000
Boardroom	2 000

Direct labour hours needed to produce each machine are:

Standard	2
Office	3
Boardroom	2

The factory has limited space and can therefore only employ a limited number of works. Labour force worked at full capacity to produce these quantities.

a) How many direct labour hours were worked during the year ended 31 May 1995? [3]
b) Explain what is meant by the term *key factor*. [2]

During the past 12 years, the sales mix has changed considerably, but no changes have been made to selling prices or working methods.

Production costs per typewriter are as follows:

	Standard	*Office*	*Boardroom*
	$	**$**	**$**
Direct materials	40	80	200
Direct labour	16	24	16
Variable overheads	10	30	10

In the year ended 31 May 2007, numbers of machines sold were as follows:

Standard	*Office*	*Boardroom*
1 000	1 000	6 000

Fixed factory overheads amount to $200 000 per annum.

c) Calculate, using the 2007 figures, the estimated unit contribution and the estimated contribution per direct labour hour for **each** year of the **three** models for the year ending 31 May 2008. [6]

The directors have decided that, if they wish to continue in business, they must look for new markets overseas.

The sell in Africa would involve additional costs of $12 per typewriter. The selling price for all models would have to be reduced by $8 in Africa.

d) Calculate the estimated unit contribution and the estimated contribution per direct labour hour for each of the three models for the year ending 31 May 2008, when sold in Africa. [6]

Annual demand in Africa is estimated as follows:

	Standard	*Office*	*Boardroom*
Units	12 000	1 000	13 000

The home demand remains constant at the 2007 level.

Workers can move easily from one production line to the other and the number of workers is limited only by the size of the factory. Directors must decide whether to continue to produce all three models and whether to sell in both the UK and Africa. The directors have ruled that at least 2 000 of any model must be produced, otherwise it must be discontinued.

e) Prepare financial statements to show which of the options **i)** or **ii)**, would offer most profit for the year ending 31 May 2008. In each instance profits must be maximised within the constraints of the option.

- **i)** Fulfil all of the demand for the *Boardroom* and as much as possible of the demand for the *Standard*. There will be no *Office* produced. [4]
- **ii)** Fulfil the total demand for *Boardroom* and *Office* and use any spare capacity to fulfil as much of the demand for *Standard* as possible. [4]

[J99Q4Cambridge]

2066 Ellipso Ltd plans to manufacture three products: Eff, Zet and Plus, made from the same raw material.

The following costs and revenue per unit are anticipated:

	Eff	**Zet**	**Plus**
	$	**$**	**$**
Selling price	43	50	36
Direct material cost	15	10	6
Direct labour cost	10	25	20

Direct materials costs $30 per kilogram. Direct labour costs $10 per hour. Direct materials available per month total 500 kg. A maximum of 1 000 units **per** product can be produced and sold per month.

The monthly rental of the premises is $6 000 and annual rates are $21 600.

a) In production, what is the meaning of *key factor*? [2]
b) What is the meaning of *contribution*? [2]
c) Calculate the unit contribution for:
- **i)** Eff, [2]
- **ii)** Zet, [2]
- **iii)** Plus. [2]

d) Calculate the contribution per unit of direct materials for
- **i)** Eff, [1]
- **ii)** Zet, [1]
- **iii)** Plus. [1]

e) Calculate the number of units for each product, to be manufactured in order to yield the highest profit. [12]

[N03Q3Zimsec]

2067 Mwenda Ltd manufactures plastic containers in two consecutive processes, **A** and **B**.

The costs for May 2003 were as follows:

Cost element	Total $	Process A $	Process B $
Direct materials	15 000	10 000	5 000
Conversion cost	11 200	8 000	3 200

Both processes have direct materials' input.

<u>Process **A**:</u>
The input for process A is 850 kg of material zeno. All units are 100% complete.

<u>Process **B**:</u>
The input for process **B** is 700 litres of material pino. Output is 1 000 plastic containers and 500 units of work-in-progress, which are 80% complete as regards labour and overheads.

No losses arise in both processes.

a) Explain the phrase *equivalent production units*. [2]
b) Calculate the total cost per unit. [7]
c) **i)** Calculate the cost of work-in-progress. [2]
ii) Calculate the cost of completed units, [1]
d) Prepare the:
i) Process **A** Account; [3]
ii) Process **B** Account. [5]
e) Distinguish a by-product from a waste product. [1]

[J04Q3Zimsec]

2068 **a)** Give **two** reasons why businesses need to know product costs. [2]
b) State **two** differences between job costing and process costing. [2]
c) Define *equivalent units* and state their importance in process costing. [2]
d) Mahwihwi Ltd manufactures a delicacy, Chomp, by passing materials through two consecutive processes, **A** and **B**. The output of Process **A** is the material input to Process **B**. In Process **A**, losses of 10% are expected but no losses occur in Process **B**. Losses from Process **A** can be sold at $1.30 per kg.

Information for May is as follows:

<u>Process **A**</u>

Materials	1 200 kg @ $3.00 per kg
Direct labour	600 hours @ $4.00 per hour
Overheads	$2.50 per direct labour hour

<u>Process **B**</u>

Materials from Process **A**	1 050 kg
Direct labour	300 hours @ $4.00 per hour
Overheads	$3.00 per direct labour hour

By the end of May, 800 kg of Chomps had been produced. The remaining 250 kg of the work in process in Process **B** were 100% complete as to materials, 50% complete as to labour and 40% complete as to overheads. There was no work in progress in Process **A**.

i) Prepare the Ledger Account for Process **A**, showing clearly the quantities and values of normal and abnormal losses. [8]
ii) Calculate the cost per kg of the Chomp. [4]
iii) Prepare the Ledger Account for Process **B**. [7]

[J07Q4Zimsec]

2069 Starprice High School hires a bus whenever it has to travel for sports. School Development Association (SDA) is considering buying a school bus.

The cost of a new bus is $110 million payable $50 million now and the balance in 12 months' time. The bus is expected to run for 5 years, after which it will be sold for $10 million.

At the beginning of the first year, the costs of running the new bus are currently:

	$000
Fuel	10 000
Repairs	5 000
Other costs	2 000

These costs will increase by 10% for each of the next 3 years and thereafter by 5% each year.

Cost of hiring a bus is currently $800 000 per trip and the school has an average of 40 trips per annum. The cost is expected to increase by 20% each year for the next two years and by a further 10% each year thereafter.

The cost of capital is 10% and extract from the $1 present value table are:

Year	**1**	**2**	**3**	**4**	**5**
10%	0.909	0.826	0.751	0.683	0.621

a) State **three** differences between capital expenditure and revenue expenditure. [3]
b) Calculate the:
  i) annual savings rounded off to the nearest dollar, to be made by running a new bus; [5]
  ii) payback period; [3]
  iii) net present value. [8]
c) Advise the SDA on whether to buy a new bus or continue to hire. Give reasons. [3]
d) State **three** disadvantages of using payback period in investment appraisal. [3]

[N05Q4Zimsec]

2070 The Ekulrac Taxi Company intends to purchase an additional taxi. Three types under consideration, all of similar specifications. Local regulations state that taxis may operate for only five years from new.

Further information on the taxis is as follows:

Type of Taxi			**Axis** $	**Beacon** $	**Courier** $
Purchase price			30 000	35 000	40 000
Estimated selling price after five years			7 000	9 000	11 000
Fixed costs (excluding depreciation):	Year	1	4 000	4 000	4 000
		2	4 000	4 000	4 000
		3	4 500	4 200	4 100
		4	4 700	4 500	4 200
		5	5 000	4 700	4 400
Variable costs per kilometre			0.35	0.37	0.36

The cost of capital is 9% per annum.

It is assumed that each taxi travels 1 000 kilometres per week, i.e. 52 000 kilometres per annum. It is expected that revenue will be on average $0.60/kilometre, including distances run without passengers.

Calculations are to be made on the assumption that there will be no prepayments or accruals at the end of a financial year.

The present value of $1 at an interest of 9% per annum is:

Year	**1**	**2**	**3**	**4**	**5**
9%	0.917	0.842	0.772	0.708	0.650

a) In what ways might investment decisions be affected by non-financial factors? [4]
b) State and explain **two** advantages that Discounted Cash Flow (DCF) has over Payback as a method of capital investment appraisal. [4]
c) Use the Payback method to compare the three types of taxi. [3]
d) Use the Net Present Value (NPV) method to compare the three types of taxi. Round-off all calculations to the nearest dollar, $. [15]
e) Advise which type of taxi should be purchase, justify your advice with supporting figures. [3]

[N01Q3Cambridge]

2071 Instructions

Questions **2 b) 5** must be answered in sentence form, not note form with supporting figures. Clear presentation and quality English will be taken into account in marking your answer to this question.

Scenario 1: Kane discover errors after draft accounts preparation for year to 30 September 2006

Kane is a general trader whose financial year ends 30 September.

He prepared draft accounts for year ended 30 September 2006 shown below:

Kane - General Trader: Draft Income Statement for year ended 30 September 2006

	$	$
Sales		400 000
Less: Cost of sales		220 000
Gross profit		180 000
Less: Selling and distribution	32 000	
Administration	103 000	135 000
Net profit		45 000

Kane - General Trader: Draft Balance Sheet at 30 September 2006

	$	$	$
Fixed assets at cost		210 000	
Less: Depreciation to date		111 000	99 000
Current assets:			
Stock		36 000	
Trade debtors	43 600		
Less: Provision for bad debts	600	43 000	
Bank and cash		12 000	
		91 000	
Less: Current liabilities			
Creditors		27 000	64 000
			163 000
Financed by:			
Capital at 1 October 2005			140 000
Add: Net profit			45 000
			185 000
Less: Drawings			22 000
			163 000

Some errors, listed below, were discovered since the above accounts were prepared:

i. Value of closing stock at 30 September 2005 was calculated as $23 000 instead of $32 000.

ii. Closing stock at 30 September 2006 contains the following items:
- Goods were invoiced to a customer for $8 000. However, the goods were sent on sale or return and the customer has not indicated acceptance of the goods. Cost price is $5 600.
- Stock costing $4 000 is damaged. If repaired at a cost of $600, it can be sold for $4 200.

iii. Fixed assets which cost $12 000 on 1 June 2003 were sold for $3 000 on 1 March 2006. The proceeds were credited to the Sales Account. Kane provides for depreciation on fixed assets on the reducing balance method using a rate of 30% per annum. A full year's depreciation charge is provided for in the year of purchase but none in the year of sale.

iv. A debtor owing $1 600 has now been found to have become bankrupt on 1 August 2006.

v. Kane considers that the provision for doubtful debts should be $2\frac{1}{2}$% of debtors.

Question 1

Prepare Kane's revised Trading and Profit and Loss Account for the year ended 30 September 2006 and his Balance Sheet at that date. [37]

Scenario 2: Kane considers forming a partnership with Abel

Kane has prepared his accounts for the year to 30 September 2007 shown on the next page:

Kane - General Trader: Trading and Profit and Loss Account for year to 30 September 2007

	$	$
Sales		360 000
Cost of sales		203 000
Gross profit		157 000
Selling and distribution	32 000	
Administration	103 000	135 000
Net profit		22 000

He is worried that his profit has decreased by about 20% year on year since 2005 and the trend seems likely to continue. Kane knows that he has not kept up with the times and the demand for his products is declining. His friend, Abel, deals in more modern products and his business is expanding.

Abel welcomes the offer of a partnership with Kane for various reasons and a partnership agreement with the following terms is prepared:

i. Interest of 10% per annum will be allowed on capitals and loans to the partnership.
ii. Abel will be allowed a salary of $8 000 per annum.
iii. Profits and losses will be shared equally.
iv. Kane's capital will be $80 000. In addition, he will lend the business $20 000. Abel will introduce $40 000 as capital.

Budgeted partnership data for the year to 30 September 2008 is as follows:

i. Abel's business (to be brought into the partnership)
   - Budgeted sales for the year $300 000
   - Mark-up on cost of goods $33\frac{1}{3}\%$
ii. Kane's budgeted sales for year $325 000
   Gross profit margin 40%
iii. Sales and distribution will consist, as in previous years, of variable expenses equal to 5% of turnover and fixed expenses. The fixed expenses are expected to increase by 2% in 1998.
iv. Administration is expected to increase by $14 000 in the partnership.

Question 2

a) Prepare for the partnership the budgeted Statement of Comprehensive Income for the year to 30 September 2008. [28]

b) Prepare a report to Kane to help him decide if he should form a partnership with Abel. [4]

Scenario 3: Kane and Abel form a limited company

Having formed a partnership, Kane and Abel realise that more capital is required if the business is to expand. They provide you with the following financial statement:

Kane and Abel: Balance Sheet as at 1 November 2007

		$	$
Fixed assets (net book value)			60 000
Current assets:	Stock	34 000	
	Debtors	41 000	
	Bank	9 650	
		84 650	
Less: Current liabilities			
	Creditors	21 300	63 350
			123 350
Less: Long term liability:	10% Loan - Kane		20 000
			103 350
Capitals:	Kane	60 000	
	Abel	40 000	
			100 000
Current Accounts:	Kane	2 000	
	Abel	1 350	3 350
			103 350

Kane and Abel decided to form a limited company, K & A Ltd, to take over the partnership business. A purchase consideration for the sale of the firm to the limited company is to be settled by the issue to the partners of shares and debentures. Kane and Abel have got a friend who is prepared to subscribe for 20 000 ordinary shares in the company.

The company is formed on 1 November 2007 and takes over the business of the partnership on the following agreed terms:

i. All assets and liabilities of the partnership to be taken over by K & A Ltd. Assets are revalued as follows:

	$
Fixed assets	85 000
Stock	31 000
Debtors	37 650

ii. The consideration for the partnership business is to be $170 000 satisfied as follows:
   - 8% Debenture stock sufficient to ensure that Kane receives the same amount of interest annually as he has received from the partnership;
   - 100 000 Ordinary shares of $1 issued as fully paid to Kane and Abel in proportion to the balances on their Capital Accounts in the partnership at 1 November 2007. Any balances remaining on the partners' Capital Accounts to be settled in cash.

iii. 20 000 Ordinary shares are to be issued to the friend of the partners on the same terms as those of Kane and Abel.

Question 3

a) Prepare the Balance Sheet of K & A Ltd as it would appear immediately after it has acquired the partnership business. [16]

b) FRS 4 refers to *Capital Instruments*.
   i) Explain the term *capital instruments*.
   ii) Name the capital instruments in K & A Ltd. [3]

c) Explain the term 'bonus (or scrip or capitalisation) issue'. State how a bonus issue could be made by K & A Ltd. [3]

d) Explain the term 'rights issue'. State why K & A Ltd might make a rights issue. [4]

e) K & A Ltd has a 'provision for doubtful debts' and a 'reserve'.
Explain the difference between provisions and reserves. [7]

Scenario 4: Kane and Abel prepare a budgeted Income Statement for the company

Kane and Abel want to know if their investment in K & A Ltd will be worthwhile. They prepare a forecast Profit and Loss Account for the company for the first year to 31 October 2008, in which they propose to issue some preference shares. The ordinary share capital will not be altered during the year.

<u>K & A Ltd: Forecast Profit and Loss Account for the year to 31 October 2008</u>

	$000	$000
Operating profit		50
Interest payable		2
Profit before tax		48
Taxation		12
Profit after tax		36
Transfer to general reserve	10	
Preference dividend	8	
Ordinary dividend	12	30
Retained profit for year		6

They are able to calculate some investment ratios from the budgeted Income Statement. The projected share price at 31 October 2008 is $1,80.

Question 4

Calculate the following ratios:

a) Interest cover;

b) Dividend cover;

c) Earnings per share (EPS);

d) Price earnings ratio (PER);
e) Dividend yield;
f) Earnings yield. [12]

Scenario 5: A proposal to manufacture a new product
The cost accountant of K & A Ltd produces an estimate of costs involved in the manufacture of a new product based on production and sale of 10 000 units as show below:

Estimate of revenue and costs for 10 000 units

		$
Revenue		300 000
Costs:	Direct materials (10 000 kg)	60 000
	Direct labour (at $11 per hour)	132 000
	Fixed overheads	70 000

18 000 units are actually made and sold but Kane and Abel are disappointed with the profit earned by the product. They provide the accountant with the actual results given below and ask for an explanation of the difference between the profit they expected and the actual profit.

Actual revenue and costs for 18 000 units

		$
Revenue		504 000
Costs:	Direct materials (17 560 kg)	119 408
	Direct labour (23 000 hours)	233 450
	Fixed overheads	70 000

Question 5
Prepare a report to Kane and Abel to explain the difference between the profit expected on 10 000 units of the new product and the profit actually made on 18 000 units.

Your report should include a financial statement reconciling the expected profit to the actual profit.

The profit reconciliation statement should show clearly the following variances:
i. Quantity (difference between profit expected on 10 000 units and that expected on 18 000 units);
ii. Sales price;
iii. Direct material usage and price;
iv. Direct labour efficiency and rate.

The report should also explain the possible relationships between variances. [36]
[N1998Cambridge]

2072 Instructions
Questions **3** and **4 b**) must be answered in sentence form, not in note form, with supporting figures.

Scenario 1: Muswe and Chinyanga admit a new partner
Muswe and Chinyanga were in partnership in the retail sector for many years. Financial statements are prepared up to 30 September every year. On 1 April 2001, they agreed to admit Dehwe as a partner.

The list of balances extracted on 30 September 2001 is given below:

		Dr $	Cr $
Capital Accounts:	Muswe		113 400
	Chinyanga		79 800
	Dehwe		48 900
Current Accounts:	Muswe		12 200
	Chinyanga		10 300
Drawings:	Muswe	12 600	
	Chinyanga	8 400	
	Dehwe	6 300	
Gross profit			357 000
Freehold premises at cost		280 000	

		Dr $	Cr $
Fixtures and fittings at cost		84 000	
Motor vehicles at cost		105 000	
Discounts		7 350	4 200
Provision for depreciation 01/10/2000:	Fixtures and fittings		25 200
	Motor vehicles		52 500
Cash at bank		10 050	
Stock at 30/09/2001		31 100	
Rates		21 000	
Wages and salaries		75 600	
Motor vehicle expenses		37 800	
Postage and stationery		10 500	
Debtors and creditors		24 400	14 600
		718 100	718 100

Further information:

i. The partnership agreement of Muswe and Chinyanga provided that:
- interest is to be allowed on partners' Capital Accounts at the rate of 15% per annum while interest on each partner's total drawings is charged at 10%.
- the residue of profits is to be shared: Muswe $^2/_3$; Chinyanga $^1/_3$.

ii. Dehwe was admitted on the following terms:
- Goodwill is to be valued at $63 000. No Goodwill Account is to be maintained in the partnership books.
- Dehwe is to maintain capital in the sum of $39 900 after the adjustment for goodwill has been effected.
- Interest rates on capital and drawings are to be maintained.
- Profits and losses are to be shared: Muswe $^4/_7$; Chinyanga $^2/_7$ and Dehwe $^1/_7$.

Additional information:

i. The gross profit is to be apportioned on the basis of sales. Sales for the half year ended 30 September 2001 were $612 000 out of total sales of $1 020 000.

ii. All other revenues and expenses accrue on an even basis throughout the year.

iii. Depreciation should be provided as follows:
- Fixtures and fittings 10% per annum on cost
- Motor vehicles 25% per annum on cost

Question 1

a) Prepare Profit and Loss and Appropriation Accounts for the two partnerships. [27]

b) Write up the partners' Capital Accounts and Current Accounts in the Ledger. [10]

c) Prepare the Balance Sheet as at 30 September 2001. [8]

Scenario 2: The partners decide to form a company

Muswe, Chinyanga and Dehwe decided to transform the partnership into a limited company, Gotora (Pvt) Ltd.

The company was formed on 1 October 2002, on the basis of the partnership Balance Sheet at 30 September 2002.

	$	$
Fixed assets		
Freehold premises at cost		280 000
Fixtures and fittings at cost	112 000	
Less: Accumulated depreciation	44 800	67 200
Motor vehicles at cost	145 000	
Less: Accumulated depreciation	115 000	30 000
		377 200
Current assets		
Stock	25 890	
Debtors	21 840	
Bank balance	14 270	
	62 000	

Less: Current liabilities				
Creditors			39 200	
Working capital				22 800
Capital employed				400 000
Financed by				
Capital Accounts:	Muswe		100 800	
	Chinyanga		93 100	
	Dehwe		39 200	233 100
Current Accounts:	Muswe		37 200	
	Chinyanga		39 300	
	Dehwe		30 400	106 900
Loan fro Dehwe at 10% per annum				60 000
				400 000

Additional information:

i. The profit and loss sharing rations had since changed to 2:1:2 respectively.

ii. The purchase consideration was satisfied by the issue to the partners of 300 000 ordinary shares of $1 each and sufficient 8% debentures to give Dehwe the same return on his loan as he had received from the partnership.

iii. All assets and liabilities were taken over by Gotora (Pvt) Ltd.

Question 2

a) Prepare the Realisation Account to record the transfer of the business to Gotora (Pvt) Ltd. [6]

b) Prepare the opening Balance Sheet of Gotora (Pvt) Ltd as at 1 October 2002. [3]

c) State any **three** disadvantages a partnership has compared with a limited company. [3]

Scenario 3: Shareholders intend to for a public limited company

Shareholders of Gotora (Pvt) Ltd want to change the company into a limited company. They consult an accountant on the issue and s/he advises them that once registered, a public company has to make public certain information about itself and its operations.

Question 3

With reference to a public limited company:

a) outline the disclosure requirements relating to fixed assets; [10]

b) what would be the contents of the auditor's report? [8]

Scenario 4: Gotora (Pvt) Ltd wants to purchase a manufacturing plant

Gotora (Pvt) Ltd wants to expand its operations into the manufacturing sector. The company's financial manager has identified two types of machines, namely **A** and **B** from which they must choose one.

The two machines have the same purchase price of $100 million. Depreciation on these assets will be provided at 20% per annum on the original cost for a period of **five** years.

The following are the expected net profits for each of the two machines over the five year period:

Year	**1**	**2**	**3**	**4**	**5**
A ($000)	10 000	15 000	20 000	30 000	5 000
B ($000)	16 000	25 000	35 000	10 000	5 000

The opportunity cost of capital is 15%.

The following discount rates apply:

Year	**1**	**2**	**3**	**4**	**5**
15%	0.870	0.756	0.658	0.572	0.497
30%	0.769	0.592	0.455	0.350	0.269

Question 4

a) For **each** of the **two** machines calculate the:

i) Accounting Rate of Return (ARR);

ii) Period of Payback;

iii) Net Present Value (NPV);

iv) Internal Rate of Return (IRR). [16]

b) Which of the two manufacturing plants should the firm purchase?
Explain fully the reasons for your decision. [9]

[J2004Zimsec]

2073 Instructions

Questions **3 a)**, **3 b)** and **4 b)** must be answered in sentence form, not in note form, with supporting figures where relevant.

Scenario 1

Shava is a dealer in electrical goods, who started trading in year 0 with $250 000 in a bank account. He has not kept proper accounting records. However, the following information is available on dates stated.

As at 31 December	**Year 0**	**Year 1**
	$	**$**
Freehold premises at cost	300 000	300 000
Trade debtors	72 000	102 000
Trade creditors	67 000	83 000
Delivery vehicles at valuation	180 000	240 000
Trading stock at cost	30 000	36 000
Cash at bank	90 000	135 000
Selling and administration expenses owing	15 600	25 600
Selling and administration expenses prepaid	28 400	17 400

Additional information

i. Shava's record of bank transactions shows that payments to creditors amounted to $960 000 during the year ended 31 December year 1.

ii. No records are available for his sales receipts but a gross profit margin of 40% has been obtained on all sales.

iii. Shava's cash drawings were a constant $3 600 per month throughout the two years. During the year ended 31 December year 1 he took some electrical fittings, which had a cost of $4 000, for use on his house. In addition, Shava took various other amounts from his sales receipts. Record of such drawings has not been maintained.

iv. The premises were bought on 1 July year 0 with the aid of a bank loan of $200 000. The balance of the purchase price was paid by Shava out of his private funds. Interest on the loan is payable at the rate of 15% per annum on 1 January and 1 July in arrears. The payments have been made as they fell due.

v. Selling and administration expenses amounting to $370 000 were paid during the year ended 31 December year 0. These do not include bank interest.

vi. Additional delivery vehicles costing $120 000 were bought during the year ended 31 December year 1. No vehicles were sold.

vii. At the end of year 1, a customer who owed Shava $42 000 was declared bankrupt. Shava has agreed that a provision for bad and doubtful debts of 2½% be created based on the remaining debtors.

Question 1

a) Calculate Shava's net profit for the year ended 31 December year 0. [7]

b) Prepare the Trading and Profit and Loss Account for the year ended 31 December year 1 and a Balance Sheet at that date. [25]

Scenario 2

Shava has heard about the importance of a Cash Flow Statement but he does not know how to prepare one. He seeks your advice and presents you with the following Balance Sheets.

Year 3		**Balance Sheet as at 31 December**	**Year 4**	
$000	**$000**		**$000**	**$000**
		Non-current assets		
300		Freehold premises (cost)	300	
280	580	Delivery vehicles (valuation)	296	596
		Current assets		
40		Trading stock	60	
66		Trade debtors	58	
80	186	Cash at bank	92	210
	766	Total assets		806

Year 3 $000	Year 3 $000		Year 4 $000	Year 4 $000
		Equity		
	400	Capital		510
	160	Add: Net profit		250
	560			760
	50	Less: Drawings		60
	510	Owner's equity		700
		Non–current liabilities		
	200	Bank loan		–
		Current liabilities		
41		Trade creditors	106	
15	56	Bank interest due	–	106
	766	Total equity and liabilities		806

Additional information

i. The bank loan was repaid on 1 July year 4.

ii. Additional delivery vehicles costing $120 000 were purchased during the year ended 31 December year 4. Delivery vehicles valued at $30 000 on 1 January 2004 were sold for $24 000 during the year.

Question 2

a) Prepare a Cash Flow Statement, for the year ended 31 December year 4. [18]

b) State **five** benefits of preparing Statements of Cash Flows in addition to Statement of Comprehensive Income and Statement of Financial Position. [5]

Scenario 3

A friend, who is an accountant, advised Shava that if extra capital amounting to $50 000 is invested in the business, the profits will increase by 40% per annum for the next five years. Consequently, Shava is considering the following three options:

Option 1

Invest the extra amount from his own private resources. To achieve this, he may have to sell a few of his private assets.

Option 2

Borrow the amount from a financial institution. Interest on the loan will be 20% per annum.

Option 3

Invite a friend, Shoko, to join him in partnership. Shoko would invest the required amount and profits will be shared equally.

Question 3

a) State **two** advantages and **two** disadvantages, to Shava, of exercising **each** of the above **three** options. [12]

b) List and explain any **four** courses of action a business can take to improve its liquidity. [8]

Scenario 4

Since commencing business, Shava has been using an outside security organisation to provide round the clock security for his business. Currently the annual cost of the security service is $20 000 but it is expected to increase by 15% each year for the next three years and by 10% each year thereafter.

Shava is considering replacing the current security system with an in-built security system that includes a closed circuit television and alarm systems. The installation cost of the system is $60 000, half of this amount is to be paid immediately and the balance after twelve months.

The current annual costs of operating the system are:

	$000
Power	2
Repairs and maintenance	3

The costs are expected to increase by 10% annually. The system has expected life of five years and a scrap value of $10 000. Shava's cost of capital is 12%.

The relevant discount rates are:

Year	1	2	3	4	5
Factor @ 12%	0.893	0.797	0.712	0.636	0.567
Factor @ 30%	0.769	0.592	0.455	0.350	0.269

Question 4

a) State **two** advantages and **two** disadvantages of
- **i)** payback period, [4]
- **ii)** net present value, [4]
- **iii)** Internal rate of return. [4]

b) Calculate for Shava the:
- **i)** payback period, [4]
- **ii)** net present value, [8]
- **iii)** internal rate of return of investing in new equipment. [11]

b) Recommend to Shava whether or not he should invest in the new security equipment. [2]

[N2007Zimsec]

2074 Instructions

Question **3) b)** must be answered in sentence form, not in note form, with supporting figures.

Scenario 1: Tanaka's business is converted into a company

Tanaka Enterprises traded as a sole trader for a very long time. The business was transformed into a company on 1 January 2000, Tantan Ltd, with an authorised share capital of $600 000 which made up of 600 000 ordinary shares of $1 each. On the same date, all assets and liabilities of Tanaka Enterprise with the exception of motor vehicles, were transferred to Tantan Ltd.

The Balance Sheet of Tanaka Enterprises as at 31 December 1999, just before the take-over is below:

Fixed assets	Cost	Depreciation	Net book value
	$	$	$
Freehold property	330 000	–	330 000
Plant and equipment	300 000	180 000	120 000
Furniture and fittings	30 000	15 000	15 000
Motor vehicles	60 000	45 000	15 000
	720 000	240 000	480 000
Investments			50 000
Current assets			
Stock		35 600	
Trade debtors		120 000	
Bank		49 400	
		205 000	
Less: Current liabilities			
Trade creditors	127 500		
Accruals	7 500	135 000	70 000
			600 000
Capital			
Balance at 1 January 1999		574 500	
Add: Net profit		142 500	
		717 000	
Less: Drawings		117 000	600 000

Additional information:

i. Motor vehicles were taken by Miss Tanaka at a value of $30 000.

ii. Freehold property was taken over at $300 000 while plant and equipment was valued at $75 000. All other assets were transferred to Tantan Ltd at their book values.

iii. Purchase consideration was agreed at $600 000, to be satisfied by the issue of 500 000 ordinary shares of $1 each to Miss Tanaka in the new company. Miss Tanaka gave $^1/_4$ of her shares to her daughter.

Question 1

a) Prepare a Realisation Account showing the transfer of the business on 1 January 2000. [6]

b) Draw up Miss Tanaka's Capital Account as at 1 January 2000. [4]

c) Prepare Tantan Ltd's Balance Sheet as at 1 January 2000, soon after the take-over. [15]

Scenario 2: Tantan Ltd values its stock

On 31 December 2000, the annual stock taking exercise by Tantan Ltd did not take place due to staff shortage.

As a result, the accountant had to calculate the company's closing stock using information given below:

i. Purchases for the year totalled $330 000.
ii. Sales for the year amounted to $382 000.
iii. Returns outwards amounted to $17 000 whilst returns inwards were $7 200.
iv. During the year goods costing $20 000 were stolen. The insurance company rejected the claim for compensation.
v. In September 2000, goods costing $7 400 were found to be valueless and therefore destroyed.
vi. Goods costing $13 000 were sent on a sale or return basis to Mulenga Mulinga in November 2000. The goods were unsold at 31 December 2000.
vii. Mark up is $33^1/_3$% on cost.

Question 2

a) Calculate the value of the company's closing stock at 31 December 2000. [10]

b) Draw up a Trading Account for Tantan Ltd for the year ended 31 December 2000. [6]

c) What is the basis for stock valuation? [2]

Scenario 3: The directors of Tantan Ltd approve and effect a scheme of capital restructuring

For the past two years, the company has recorded losses and yet there is a residue of retained income in the Balance Sheet. Creditors and bank are pressing for management changes and the possibility of some form of capital restructuring.

The latest Balance Sheet of the company as at 31 December 2002 is shown below:

	$000	$000	$000
Fixed assets			
Freehold property		1 400	
Plant and equipment		700	
Furniture and fittings		20	2 120
Current assets			
Stock	1 260		
Trade debtors	740	2 000	
Less: Current liabilities			
Trade creditors	1 660		
Loan interest due	100		
Bank overdraft	1 120	2 880	(880)
			1 240
Ordinary shares of $1 each		600	
Retained profits		140	740
10% Loan stock			500
			1 240

Additional information:

During an extraordinary meeting the shareholders passed the following resolutions:

i. Plant and equipment was to be revalued at $540 000.
ii. Stock costing $310 000 was found to be valueless.
iii. Freehold property whose original cost was $1 million and with net book value of $600 000 was to be sold immediately for $1 500 000. Other properties which had cost $400 000 (depreciation to date $240 000) were revalued to $500 000.
iv. Creditors totalling $800 000 to defer the balance on their on their claims for three years in return for an immediate payment of 30% of their outstanding balances.
v. The loan interest due was to be paid off immediately.
vi. Bad debts of $120 000 were to be written off.

vii. All cash received to be used to reduce the bank overdraft by 75% after settling amounts dueunder the scheme and any excess to be used to partly pay off loan.

Questions 3

a) Draw up the company's Balance Sheet soon after the restructuring scheme. Show all your workings. [14]

b) Management at Tantan Ltd intends to introduce the usage of computers in their business.
Write a report to management outlining the advantages and limitations of using computerised accounting systems. [18]

Scenario 4: Tantan Ltd prepares a Cash Budget

The company is putting in place a system of forward planning and on 28 February 2003, the accounts clerk made available the following information:

i.

Month	Credit sales	Cash sales	Credit purchases
	$	$	$
February (actual)	820 000	500 000	220 000
March (budgeted)	600 000	410 000	420 000
April (budgeted)	200 000	600 000	180 000
May (budgeted)	250 000	800 000	240 000

ii. The actual bank balance on 28 February 2003 is $200 000 (credit).

iii. Trade debtors are allowed one month's credit.

iv. Trade creditors are paid two months after purchase. No purchases were made in January.

v. The 10% loan stock, excluding interest due, will be paid on 1 March 2003.

vi. The following expenses are paid monthly: Wages $300 000;
Administration $150 000.
After March, the wage bill is expected to rise by 10%.

vii. On 1 March, all equipment would be replaced at a cost of $500 000. $300 000 will be allowed on the old equipment and the balance will be paid by cheque. Depreciation is allowed at the rate of 10% per annum.

viii. Rent payable will be $360 000 for the year ending 31 December 2003, payable in 4 instalments at the end of each quarter.

Question 4

a) Prepare a Cash Budget for Tantan Ltd for the **three** months to 31 May 2003. [9]

b) **i)** Discuss the requirements of an effective budgetary control system. [8]

ii) State any **four** possible limitations, on the level of activity of a business that could be principal budget factors. Suggest a way of overcoming each limitation. [8]

[N2003Zimsec]

2075 Instructions

Questions **1) c)**, **2) b) ii)**, **c)** and **3** must be answered in sentence form, not note form, with supporting figures. Clear and quality English presentation will be taken into account in marking your answer to this question. Do **not** prepare a full Cash Flow Statement for question **4**.

Scenario 1: Disposal of motor vehicle

Mr X has been in business for 7 years as a photographer. His work consists of wedding, portrait and family photography. He operates from premises near his home.

Mr X used a motor vehicle for business purposes. Until 31 December 2004, Mr X depreciated the motor vehicles as shown below:

Accounting for the motor vehicle

Vehicle purchased	1 July 2004
Purchase price	$8 000
Date of sale	1 January 2007
Proceeds of sale	$2 000

Basis of calculation of depreciation until 31 December 2004

Estimated useful life	5 years
Estimated resale value at end of useful life	$1 500
Method	Straight-line depreciation

During 2005, Mr X's accountant reviewed the depreciation policy and suggested the policy below:

Basis of calculation of depreciation from 1 January 2005

Estimated remaining life	3 years
Estimated resale value	Nil
Method	Straight-line depreciation applied to net book value on 1 January 2005

Question 1

a) Calculate the net book value of the motor vehicle at the date of sale. [5]

b) Calculate the profit or loss on disposal to be included in the Profit and Loss Account for the year ended 31 December 2007. [3]

c) Mr X is of the opinion that charging depreciation is not necessary because he has already paid for his fixed assets.

Explain to Mr X why an accountant treats depreciation as an expense in the Profit and Loss Account. [5]

Scenario 2: Preparation of Mr X's Income Statement and Balance Sheet

The financial statements for Mr X for year ended 31 December 2006 are given below:

Mr X Photographer: Profit and Loss Account for the year ended 31 December 2006

	$	$
Sales		87 500
Cost of sales		39 500
Gross profit		48 000
Less: Depreciation	3 634	
Other expenses	18 366	22 000
Net profit		26 000

Mr X Photographer: Balance Sheet as at 31 December 2006

	$	$
Tangible fixed assets (at net book values):		
Equipment and motor vehicle		16 250
Fixtures and fittings		2 000
		18 250
Current assets:		
Stock	1 500	
Debtors	1 900	
Cash at bank	1 950	
	5 350	
Current liabilities:		
Trade creditors	3 600	1 750
		20 000
Capital: At 1 January 2006		14 550
Net profit for year		26 000
		40 550
Drawings		20 550
		20 000

During the year to 31 December 2007, further transactions took place as shown below:

i. Mr X obtained a loan for $4 000 on 1 July 2007. Interest rate of 10% per annum is payable in arrears on 30 June each year.

ii. Photographic equipment costing $5 000 was purchased on 1 August 2007 to replace old equipment. The old equipment had a net book value of $1 500 at 31 December 2006 (accumulated depreciation $2 500) and was scrapped at nil value.

iii. An advertising campaign took place during the last four months of the year ended 31 December 2007. The total cost was $3 000.

iv. The motor vehicle referred to in **Scenario 1** was sold in January 2007 and not replaced.

v. Stock on 31 December 2007 amounted to $2 200.

vi. Customers unpaid amounts at 31 December 2007 totalled $1 700. One of these customers owing $500 had gone out of business during the year. Of the remaining customers, 2½% were considered uncollectible.
vii. Cash in bank and at hand at 31 December 2007 totalled $12 620.
viii. Supplies unpaid at 31 December 2007 amounted to $2 800.
ix. Sales for the year were $92 000.
x. Mr X added 130% to his cost of sales to arrive at the selling price.
xi. Depreciation of equipment and fixtures and fittings is at the rate of 10% per annum on reducing balance basis.
xii. The net profit to sales ratio was 33%.
xiii. Mr X's drawings were $400 a week throughout the year.

Question 2

a) As a member of the staff of Mr X's accountant, prepare the Profit and Loss Account for the year ended 31 December 2007 and the Balance Sheet at that date, in as much detail as is possible, assuming that the advertising expenditure is carried forward as assumed by Mr X. [39]

b) **i)** Calculate **three** ratios to help assess the profitability of Mr X's business for both the years ended 31 December 2006 and 2007. [6]

ii) Write a short report to Mr X commenting on the profitability of his business. [6]

c) Explain how your treatment of the customer who had gone out of business might have changed if this event occurred on 15 January 2008. Refer to relevant accounting standards. [3]

d) Explain the concepts which apply to:

i) Mr X's treatment of the advertising expenditure;

ii) the accountant's proposed treatment of the expenditure.

State which of the two treatments you recommend and why. [4]

Scenario 3: Mr X asks questions about his accounts

Mr X received his Profit and Loss Account and the Balance Sheet from his accountant. He had some questions to ask. Accordingly he wrote the letter below:

5 Innisfree Rd
Matsheumhlope
Bulawayo

15 February 2010

John & Co
Registered Accountant
30440 Entumbane
Bulawayo

Dear John

I know that I have little understanding of accounting matters, and have always preferred to leave such things to you. I have recently looked at the accounts that have been prepared for the year ended 31 December 2007 and I am writing to ask you to help me understand the following points:

i. My equipment is shown at a lower figure than I expected. I know that I could get more than the book value if I sold it. My Balance Sheet isn't showing the true worth of my business.

ii. I notice that my capital has increased substantially by the year end. I am thinking of making some improvements to my home at a cost of about $20 000. Rather than take out a personal loan from the bank, I would like to withdraw some of my capital - after all, it all does belong to me, doesn't it?

iii. Last time we spoke, I remember you said that my business has built up a large amount of goodwill. Surely this is worth something - why isn't it shown in the Balance Sheet.

I think I should get to know more about my accounts, so could you please explain the above points to me – and in words that I can understand.

Regards

Terry X

Question 3

Draft a reply to the questions in Mr X's letter on 1 February 2008. Refer to the generally accepted accounting principles as appropriate. [25]

Scenario 4: Mr X's investment opportunity

Mr X has received a legacy of $25 000. He has decided to invest this in another business and wants to buy some shares in a limited company, Poppers Plc, in which he is interested.

He sends you a set of financial statements from Poppers Plc but the Cash Flow Statement is missing.

Poppers Plc: Summarised Balance Sheet as at 30 September 2007 and 2006

At 30 September 2007			**At 30 September 2006**	
$000	**$000**		**$000**	**$000**
19 000		Fixed assets at cost	16 000	
7 000	12 000	Less: Accumulated depreciation	6 200	9 800
		Current assets:		
5 689		– Stocks	5 540	
1 985		– Trade debtors	1 930	
1 238	8 912	– Cash	600	8 070
	20 912			17 070
		Creditors: amounts falling due within one year		
3 220		– Trade creditors	3 040	
2 600		– Corporation tax	2 248	
5		– Interest payable	11	
648	6 473	– Dividends	538	5 837
		Creditors: amounts falling due after more than one year		
	75	– 12% Debentures		190
		Capital and reserves		
12 000		– $1 Ordinary shares fully paid	11 300	
350		– Share premium	–	
695		– Asset revaluation	–	
1 319	14 364	– Profit and Loss Account	543	11 843
	20 912			17 070

Additional information:

i. Profit before interest and tax for year to 30 September 2007 was $5 354 000

ii. During the year, tangible fixed assets which had cost $2 600 000 in 2003 on which there was accumulated depreciation at 30 September 2006 of $600 000 was revalued on 1 October 2006 to $2 700 000. These assets were sold on 1 March 2007 for $2 695 000. The company does not provide for depreciation on fixed assets in the year in which they are sold.

iii. Some debentures were redeemed on 1 October 2006 at par.

iv. The following items were debited in the Income Statement for the year to 30 September 2007:
   - Total depreciation of $800 000;
   - Debenture interest of $9 000;
   - Interim and proposed final dividends in the sum of $1 969 000.

Question 4

a) Prepare a reconciliation of net operating profit to net cash flow from operating activities for Poppers Plc's Statement of Cash Flow for the year ended 30 September 2007. [6]

b) Calculate the figures to be included in the Cash Flow Statement for

i) Interest paid; [4]

ii) Dividends paid; [4]

iii) Payments for acquisition of tangible fixed assets. [5]

Scenario 5: Mr X decides if he is to purchase the extra equipment

Mr X currently sends his professional work to be processed and printed by a specialist printer. If Mr X purchases an extra piece of equipment, he will be able to process and print his professional work himself without using the services of the specialist.

Cost of equipment: $22 000 payable in two instalments, one now and the second in 12 months' time.

Equipment is expected to have useful life of 5 years, after which it will have a scrap value of $3 500.

Additional costs of operating the equipment:
– Paper currently costing $2 600 per annum;
– Chemicals currently costing $1 800 per annum.

The cost of paper and chemicals is expected to increase by 5% each year for the next two years, and thereafter by 3% each year.

The annual cost of using the specialist printer is $10 000. This is expected to remain unchanged for the next two years and then to increase by 10% in the third year. No further increase is expected in years 4 and 5.

Sales revenue is expected to be the same regardless of whether the new equipment is purchased or the work continues to be sent to the specialist printer.

Mr X's cost of capital is 10%.

The following extract is from the present value table for $1.

Year	**10%**	**20%**
1	0.909	0.833
2	0.826	0.694
3	0.751	0.579
4	0.683	0.483
5	0.621	0.402

Question 5

a) For this proposal calculate the
- **i)** payback period; [11]
- **ii)** net present value; [7]
- **iii)** internal rate of return. [13]

b) State which option you would recommend with reasons. [4]

[J1998Cambridge]

2076 **Instructions**

Question 4 **c)** must be answered in sentence form, not note form, with supporting figures.

Scenario 1: The accountant of Buncles Ltd corrects the errors in the company books

Ab Acuss, accountant of Buncles Ltd, prepared the company's half-yearly accounts to 31 March 2007. Unfortunately, there is a difference on the Trial Balance and Ab Acuss has entered this in the Suspense Account to enable him to complete the accounts.

The draft Profit and Loss Account for the six months to 31 March 2007 shows the following:

Gross profit	$130 000
Operating profit	$ 40 000

Draft Balance Sheet at 31 March 2007 shows net working capital of $107 836. This does not include the balance on the Suspense Account.

After completing the draft accounts Ab Acuss found several errors in the books, details of these are:

i. An item for $1 076 in the Sales Day Book has been entered in Abel's Account in the Sales Ledger as $1 760.

ii. At 31 March 2007, Sara's Account in the Sales Ledger showed a debit balance of $900. There was also an account for her in the Purchases Ledger and it showed a credit balance of $650. In offsetting these balances, the Ledger clerk had debited Sara's Account in the Sales Ledger with $650 and credited her account in the Purchases Ledger with the same amount.

iii. A purchase of goods costing $1 500 had been credited to a supplier's account in the Purchases Ledger but no other entry had been made in books.

iv. A credit balance of $480 in the Sales Ledger had been included in the list of debtors as a debit balance.

v. A sales invoice for $1 070 sent to Charley had been entered in the Sales Day Book as $1 700.

vi. Discounts receivable of $300 in January 2007 was debited in the Discounts Allowed Account. Discounts allowable of $800 for the same month was credited in Discounts Received Account.

vii. Some goods had been sent to Pomeroy, a customer, and invoiced to him for $2 450. Mark-up on these goods was 40%. Pomeroy has notified Buncles Ltd on 30 March 2000 that he did not order the goods and is returning them. No entries regarding the return of these goods have been made in the books.

Question 1

a) Prepare the Journal entries required to correct each of the errors. (The narratives are not required.) [8]

b) Prepare the Suspense Account showing clearly the difference on the Trial Balance before the errors have been corrected. [5]

c) Calculate the following after the errors have been corrected:

i) Gross profit;

ii) Operating profit;

iii) Net working capital. [15]

Scenario 2: Buncles Ltd's books are burnt

In September 2007, a fire destroyed most of the accounting records of Buncles Ltd. A quantity of stock was also damaged in the fire.

As a result, the accountant had to prepare the company's final accounts for the year from incomplete records using the information listed below:

i. Extracts from the Balance Sheet at 30 September 2006:

	$
Trade debtors	80 000
Stock	73 000

ii. Trade debtors at 30 September 2007: 53 750

Stock at 30 September 2007: 112 859

iii. Discounts allowed to customers during the year to 30 September 2007: $9 024

Discounts received in the year from suppliers: $3 460

iv. 40% is added to the cost of goods to arrive at the selling price.

v. In the fire in September 2007, stock which cost $39 000 was damaged and was sold for one third of its normal selling price. This loss was not covered by insurance.

vi. All takings are banked intact.

vii. Details extracted from the bank statement for the year to 30 September 2007 are as follows:

Banked	**$**
Takings	912 176
Cheques drawn	
Selling and distribution expenses	84 000
Administration expenses	72 000
Final dividend paid in respect of the year ended 30 September 2006	20 000
Interim dividend paid in respect of the year ended 30 September 2007	16 000

viii. Annual depreciation is provided on all fixed assets owned by the company at the year end. It is calculated on the reducing balance basis using the rate of 30%.

Information regarding fixed assets and provisions for depreciation is as follows:

	Cost at 30/09/2007	*Depreciation provision at 30/09/2006*
	$000	**$000**
Delivery vehicles	70	40
Warehouse machinery	20	17
General office equipment	38	32

ix. A transfer of $10 000 is to be made to general reserve.

x. The directors propose a final dividend of $0.24 per share for the year ended 30 September 2007. The issued share capital is 100 000 ordinary shares of $1.

Question 2

a) Prepare Buncles Ltd's Trading and Profit and Loss Account for the year ended 30 September 2007 in as much detail as possible. [14]

b) Give **three** reasons why the gross profit of a business may be less than the expected margin on sales. [3]

c) What are the *general reserves* and why are they created in accounting? [5]

Scenario 3: The directors consider the effect on profit of three different ways of valuing stock

The directors study the Profit and Loss Account which was produced for the year ended 30 September 2007. They ask the accountant to explain the effect on gross profit of each of the following methods of valuing closing stock: **(i)** FIFO (First In, First Out); **(ii)** LIFO (Last In, First Out); **(iii)** AVCO (Weighted Average Cost, which should be re-calculated on the last day of each month).

The accountant calculates the value of stock at 30 September 2007 by each of the three methods using the data below:

Year 2000			**Quantity (units)**	**Cost per unit $**
May	1	Balance brought forward (at cost)	4 150	21.20
	1	Purchased	2 200	21.75
	31	Sales for month	2 000	
June	1	Purchased	2 350	22.00
	30	Sales for month	2 150	
July	1	Purchased	2 550	22.80
	31	Sales for month	2 200	
August1	Purchased		2 400	23.21
	31	Sales for month	2 350	
September	1	Purchased	2 300	24.85
	30	Sales for month	2 550	

Question 3

a) Explain the meaning of the following terms in connection with valuation of stock:
- **i)** FIFO;
- **ii)** LIFO;
- **iii)** AVCO. [3]

b) Calculate the value of Buncles Ltd's stock at 30 September 2007 if it is based on:
- **i)** FIFO;
- **ii)** LIFO;
- **iii)** AVCO. [8]

c) State which method of stock valuation gives Buncles Ltd the most gross profit. [1]

Scenario 4: A Cash Budget for Buncles Ltd

The accountant is anxious about the liquidity of the company in four months ending 31 January 2008.

He produces a Cash Budget for that period using the information bellow:

i.

		$
Actual sales	August 2007	76 100
	September 2007	77 500
Forecast sales	October 2007	78 000
	November 2007	80 000
	December 2007	84 000
	January 2008	75 000
	February 2008	76 000
	March 2008	77 000

ii. Sales are made as follows: On cash basis – 35%
Paid for in the month following sale – 60%
Paid for in second month after sale – 5%

iii. Customers purchasing on credit are allowed a discount of 2% if they pay within one month.

iv. Supplies are purchased two months before sale and paid for one month after purchase.

v. 40% is added to the cost of the goods to arrive at selling price.

vi. Wages of $7 000 per month are paid in the month in which they are earned. It is expected that the wages will be increased by a 5% pay award from 1 November 2007.

vii. Staff are paid a bonus of 4% on all sales in excess of $70 000 each month. The bonus is paid in the following month.

viii. Other expenses at present amount to $6 000 per month and are paid in the month in which they are incurred. An increase of 7% in these expenses is expected from December 2007 onwards.

ix. Fixed assets will be purchased for cash in December 2007 at a cost of $16 000.

x. The final dividend for the year ended 30 September 2007 will be paid in December 2007.

xi. The balance at the bank on 30 September 2007 was $4 000. The only other current asset at that date was stock as shown in **Scenario 2**.

Question 4

a) Prepare the Cash Budget for Buncles Ltd for **each** of the four months ending 31 January 2008. (Make all calculations to the nearest dollar) [16]

b) Prepare a Balance Sheet extract as at 31 January 2008 to show the net current assets. [6]

c) Compare and comment on **i)** the current ratios and **ii)** the acid test ratios at 30 September 2007 and 31 January 2008. (Ratios should be calculated to the **two** decimal places) [16]

[N2000Cambridge]

2077 Instructions

Question 4 **d)** must be answered in sentence form, and not note form, with supporting figures. Clear presentation and quality English will be taken into account when marking your answer to this question.

Scenario 1: Introducing Kamil - a friend in need

Kamil is in business as a general trader. Although Kamil is a successful business man, he has not kept proper accounting records. The taxation authorities required him to state the amount of profit he made in his accounting year ended 30 September 2006. He asks you to help him calculate profit for that year.

Kamil's assets and liabilities as at 30 September	2005	2006
	$	$
Premises at cost	40 000	40 000
Motor van at cost	9 000	9 000
Stock	4 000	5 750
Trade debtors	1 475	2 300
Trade creditors	925	850
Balance at bank	1 142	2 318
Cash in hand	100	50
Rent paid in advance	400	500
Electricity owing	208	115

Further information:

i. The premises have been revalued at 30 September 2006 to $55 000.

ii. The second-hand value of the motor vehicle at 30 September 2005 was $8 500 and at 30 September 2006 was $7 000.

iii. Stock at 30 September 2006 included stock costing $600, but no invoice has been received.

iv. On 20 September 2006, stock costing $100 was sent on a sale or return to a customer who has been invoiced with the selling price of $140. The customer has not indicated if he wants to purchase the goods.

v. Trade debtors represents the total of invoices sent to customers, but unpaid.

vi. Trade creditors represents the total invoices of received from suppliers awaiting payment.

vii. Kamil has withdrawn $150 per week from the business in cash. He has taken goods costing $700 from the business during the year ended 30 September 2006.

viii. In addition to all other liabilities, Kamil borrowed $2 000 from his brother on 1 January 2006. The loan carries 10% interest per annum, payable in arrears on 1 January each year.

Question 1

Calculate Kamil's profit for the year ended 30 September 2006. [31]

Scenario 2: You persuade Kamil to keep records of his receipts and payments in future

Kamil obtains a Cash Book and a Ledger. He agreed to keep a record of all his receipts and payments from 1 October 2006, but he does not know how to write up the books, and has asked you do this.

Kamil provides you with details of his receipts and payments transactions for year ended 30 September 2007 as shown on the next page:

Bank summary

Receipts	$
Receipts from debtors	26 600
Cash banked	15 000
Payments	
Suppliers	17 000
Electricity	1 024
Rent	2 000
Motor van expenses	1 816
Interest on loan	200
Wages	4 000
Telephone and stationery	1 387
Purchase of fixtures and fittings	5 000
Drawings	9 600

Cash summary

Receipts	$
Cash sales	19 600
Payments	
Goods for resale	2 848
Stationery	218
Petrol for motor van	200
Sundry expenses	750

Other information:

i. The balance of cash in hand has been maintained at $50.

ii. At 30 September 2007, the closing stock was $4 000. Trade debtors were $1 440 and the trade creditors for supplies were $925.

iii. Bad debts written off in the year were $150.

iv. Discounts received from suppliers were $300.

v. At 30 September 2007, electricity owing was $230 and rent of $450 had been prepaid.

vi. At 30 September 2007, the motor van was valued at $5 600.

vii. Fixtures and fittings are to be depreciated on the reducing balance method using the rate of 25% per annum. A full year's depreciation is to be taken in the year ended 30 September 2007.

viii. Kamil has taken goods costing $900 from the business for his own use during the year.

ix. Kamil states that he paid some private bills out of the cash takings, but cannot remember how much is involved.

Question 2

Prepare Kamil's

a) Trading and Profit and Loss Account for the year ended 30 September 2007. [14]

b) Balance Sheet as at 30 September 2007. [14]

Scenario 3: Kamil wants to know the sources and uses of cash in his business

Kamil knows that his business must produce cash to pay his bills. He is interested to see if his trading activities produce enough cash and he needs to know has the cash has been spent. You explain that a Cash Flow Statement prepared from his final statements for 2007 will give him the information. Kamil asks you why it is necessary to prepare a Cash Flow Statement when he already has a Profit and Loss Account. Surely that should provide all the required information.

Question 3

a) For the year ended 30 September 2007, calculate for Kamil the cash flow

i) resulting from trading (operating) activities;

ii) resulting from investing activities;

iii) involved in financing activities.

You are **not** required to prepare a Cash Flow Statement [22]

b) Explain the benefits of preparing a Cash Flow Statement in addition to a Profit and Loss Account. Your explanation should include a comparison on the bases of which each of the statements is prepared. [17]

Scenario 4: Kamil purchases a new machine

Kamil has decided to expand his business by introducing a new product. He must purchase a machine to make the product and has choices between machines **A** and **B**. Kamil cannot make up his mind and asks for your advice.

Kamil gives you some important information given below:

			Machine A	**Machine B**
Useful life			5 years	5 years
			$000	**$000**
Cost			40	60
Additional receipts:	Year	1	20	25
		2	23	26
		3	25	28
		4	27	30
		5	28	30
Additional costs:	Year	1	17	22
		2	18	24
		3	19	25
		4	21	27
		5	22	27
Residual value			Nil	Nil

Additional costs include depreciation. Depreciation of the machines is calculated on straight-line basis.

Additional information:

i. The cost of capital is 10%.

ii. Net present values of $1

Year	**1**	**2**	**3**	**4**	**5**
10%	0.909	0.826	0.751	0.683	0.621
20%	0.833	0.694	0.579	0.482	0.402

Question 4

a) Calculate for machines **A** and **B** the:

- **i)** Payback periods; [11]
- **ii)** Net present values; [15]
- **iii)** Internal rate of return. [5]

b) Write a report for Kamil advising him which machine he should purchase. Use figures you have calculated in question **4) a)**. Explain the reasons for your recommendations. [21]

[N1999Cambridge]

2078 Instructions

Question 2 **b)** and **4 d)** must be answered in sentence form, and not note form.

Scenario 1: Bark forms a partnership with Leaf and Twigg

Bark, a sole trader, makes and sells display cabinets. His two friends, Leaf and Twigg, are sole traders, in a similar line of business. The three friends decide to merge their businesses into a single partnership as from 1 January 2000. The opening Balance Sheet of the partnership will be based on the position of each business at 31 December 1999. Whilst Bark's accounts are made up to 31 December each year, Leaf's year ends on 31 March and Twigg's on 30 April. The accounts of Leaf and Twigg prepared in 2000 must be adjusted to show the position of each business as at 31 December 1999. The accounts of all three must also be adjusted to take account of changes in asset values.

The information required to prepare the opening Balance Sheet of the partnership is given below:

		Bark	**Leaf**	**Twigg**
Balance Sheet as at		**31 December 1999**	**31 March 2000**	**30 April 2000**
		$	**$**	**$**
Fixed assets at net book value		150 000	140 000	135 000
Current assets:	Stocks	18 000	19 000	15 000
	Debtors	9 400	8 750	6 000
	Bank and cash	13 000	4 125	5 600
Current liabilities:	Creditors	(5 800)	(9 900)	(4 480)
Total net assets		184 600	161 975	157 120

Balance Sheet as at	Bark 31 December 1999 $	Leaf 31 March 2000 $	Twigg 30 April 2000 $
Opening capital	183 025	159 575	167 370
Profit for the year	17 325	18 400	9 900
Drawings	(15 750)	(16 000)	(15 150)
	184 600	161 975	157 120

Further information:

i. Assume profits are earned evenly throughout the year.

ii. The drawings within each business are made in equal amounts in each calendar month.

iii. Leaf's and Twigg's stock balances have remained constant throughout their financial year.

iv. Other balances at 31 December 1999 for Leaf and Twigg were:

	Leaf $	Twigg $
Debtors (before provision for doubtful debts)	8 150	7 750
Bank and cash	4 400	4 900
Creditors	10 175	3 780

v. There have been no additions to or disposals of fixed assets by Leaf and Twigg between 31 December 1999 and the ends of their financial years.

vi. From 1 January 2000 partnership profits and losses are to be shared as follows:

Bark $^2/_5$; Leaf $^2/_5$; Twigg $^1/_5$.

vii. The following adjustments have been agreed for the purposes of the formation of the partnership:

	Bark $	Leaf $	Twigg $
Fixed assets	136 000	142 000	130 000
Stock	16 000	16 000	16 500
Doubtful debts provided for as follows	376	350	240

viii. The goodwill for each business at 31 December 1999 has been valued as follows:

	$000
Bark	30
Leaf	20
Twigg	15

A Goodwill account is not to be opened in the partnership books.

Question 1

a) Calculate the balances on the Capital Accounts of Bark, Leaf and Twigg for inclusion in the opening Balance Sheet of the partnership on 1 January 2000. Show your adjustments in detail. [12]

b) Prepare the opening Balance Sheet of the partnership as at 1 January 2000. [22]

Scenario 2: The partners form a limited company

On 1 June 2000, Bark, Leaf and Twigg form a limited company, BLT Ltd, to carry on the business of the partnership. They became directors of the company.

The terms on which BLT Ltd takes over the business are given below:

The partnership of Bark, Leaf and Twigg: Balance Sheet as at 31 May 2000

			$000
Tangible fixed assets at net book value			400
Net current assets			100
Total net assets			500
Less:	Long-term liability:	10% Loan from Bark	200
			480
Capital Accounts:	Bark		165
	Leaf		153
	Twigg		162
			480

The directors agree to make their friend, Root, a shareholder.

Terms of acquisition of the partnership business by BLT Ltd:

i. BLT Ltd will acquire the assets and the liabilities as shown in the partnership Balance Sheet at 31 May 2000.
ii. Bark will receive sufficient 8% debentures 2012-2015 in BLT Ltd to ensure that he will continue to receive the same amount of interest as he was entitled to receive from the partnership.
iii. The company will issue 300 000 ordinary shares of $1 each fully paid at $1.75 per share. These shares will be divided between the partners in proportion to their capitals.
iv. Following the above, 100 000 ordinary shares of $1 are issued to Root on the same terms as those issued to Bark, Leaf and Twigg. Root pays for his shares in cash.

Question 2

a) Prepare the Journal entries required to open the books of BLT Ltd on 1 June 2000. Narratives are required. (The Journal entries should include Cash Book entries) [11]

b) Explain what is meant by the *gearing* of a company and how it may affect the ordinary shareholders. [5]

Scenario 3 BLT Ltd's budgeted Profit and Loss Account for its first year of trading.

To ensure that the new company will be successful, the directors prepare a budgeted Profit and Loss Account for the year ending 31 May 2001 based on the data given below:

Proposed budget for BLT Ltd for the year to 31 May 2001:

i. Fixed asset turnover will be 1.3 times, based on the tangible fixed assets at 31 May 2000.
ii. Gross profit/ turnover to be 40%.
iii. Operating profit/ turnover to be 30%.
iv. $100 000 will be transferred to a General Reserve
v. A dividend of 10% will be paid for the year.

The directors then receive the information about the average performance for the industry based on the year to 31 December 1999.

i.	Fixed asset turnover	2 times
ii.	Gross profit/ turnover	48%
iii.	Operating profit/ turnover	24%
iv.	Dividend cover	1.3 times

Question 3

a) Prepare in as much detail as possible BLT Ltd's budgeted Profit and Loss Account for the year ending 31 May 2001. [8]

b) Compare BLT Ltd's Profit and Loss Account for the year ending 31 May 2001 with the average performance for the industry. State **one** reason why such comparison may be misleading. [7]

Scenario 4 The directors of BLT Ltd plan to increase the company's profitability

The directors believe the budgeted profit for year ending 31 May 2001 can be improved. The company is operating at only 75% of capacity. Leaf suggests that turnover can be increased to 100% of capacity if the selling price of the cabinets is reduced. Bark says that he has received a large order from Outlets Ltd, but the order is conditional upon the price to Outlets being reduced by $15.

The facts upon which the directors make their decision are given below:

Production costs of display cabinets

Present costs at 75% of capacity

Number of cabinets produced 6 000

		$000
Direct materials		21
Direct labour (3 hours @ $12 per hour per cabinet)		216
Production expenses:	Variable	21
	Fixed	108

Selling price per cabinet $87

Option 1

To increase the sales of cabinets to 100% of capacity by reducing the selling price of all cabinets to $80. As a result of the increased requirement for materials, all materials will be obtained at a discount of 10%

Option 2

Outlets Ltd have offered to purchase 4 000 cabinets per annum at the agreed price of $72 per cabinet. BLT ltd will produce these cabinets in addition to its present output which will continue to be sold at $87 per cabinet.

If order is accepted, the discount on all materials purchased will be increased to 15%.

The increased output will be produced by the existing workforce. Hours worked in excess of basic hours will be paid at 50% above the normal basic rate.

Fixed production expenses will be increased by $20 000.

Question 4

a) Calculate for the present production of 6 000 cabinets the:
- **i)** break-even point in units;
- **ii)** margin of safety as a percentage (to one decimal place);
- **iii)** profit. [5]

b) Calculate for *Option 1* the
- **i)** break-even point in units;
- **ii)** margin of safety as a percentage (to one decimal place);
- **iii)** profit. [8]

c) Calculate the profit obtainable from *Option 2*. [8]

d) Evaluate the three courses of action:
- **i)** continuing to produce 6 000 cabinets,
- **ii)** *Option 1*,
- **iii)** *Option 2*.

Include a recommendation as to the choice which the directors should make. [14]

[J2000Cambridge]

2079 Instructions

Questions **1 b)**, **2 b)** and **3 c)** must be answered in sentence form, not note form.

Scenario 1

Katsotso Ltd has experienced increasingly difficult trading conditions in the past three financial years. As a result, a capital reconstruction scheme has been prepared for the company.

The company's Balance Sheet as at 31 December 2004, before the capital reconstruction scheme had been effected, is shown below.

Assets	**$000**	**$000**
Non-current assets		
Tangibles		
Freehold property	10 000	
Plant and equipment	12 000	
Motor vehicles	8 000	30 000
Intangibles		
Goodwill	4 000	
Trademarks and patents	6 000	10 000
		40 000
Current assets		
Stock	12 000	
Trade debtors	8 000	20 000
Total assets		60 000
Equity and Liabilities		
Share capital		
Ordinary shares of $1 each	20 000	
14% Cumulative preference shares of $1 each	10 000	30 000
Reserves		
Profit and Loss Account		(5 000)
Shareholders interest		25 000

	$000	$000
Non-current liabilities		
10% Loan stock (2009)		20 000
Current liabilities		
Trade creditors	5 000	
Bank overdraft	4 000	
Loan interest due	6 000	15 000
Total equity and liabilities		60 000

Additional information:

i. The current fair values of the assets are:

	$000
Freehold property	15 000
Plant and equipment	11 500
Motor vehicles	5 500
Trademarks and patents	2 500
Stock	7 500
Trade debtors	7 500

The goodwill has been found to be valueless

ii. No loan stock interest has been paid in the last three years.

iii. No dividends on the ordinary and preference shares have been declared in the past three years.

iv. After discussion among the various interested parties, the following capital reconstruction scheme has been agreed on:

- The 10% loan stockholders have agreed to support the scheme and are prepared to accept 1 ordinary share for every $1 of interest due. The loan stock repayment date has been moved to the year 2014.
- The 14% cumulative preference shareholders are willing to forgo their dividend arrears and will accept one ordinary share for each preference share they hold.
- The company's ordinary shares of $1 each are to be reduced to ordinary shares of $0.50 each.
- A rights issue of **two** ordinary shares for every **three** already held is to be made at $0.625 per share.

Question 1

a) Prepare the company's Balance Sheet immediately after the completion of the reconstruction scheme. [15]

b) State **six** differences loan stockholders and ordinary shareholders. [12]

Scenario 2

Directors of Katsotso Ltd cannot understand why the net profit earned in the year 2006 is not the same as the change in cash between year 2005 and 2006.

The Balance Sheets of Katsotso Ltd as at 31 December 2005 and 2006 are shown below:

2005		Balance Sheet as at 31 December	2006	
$000	$000		$000	$000
		Assets		
		Fixed assets at net book value		
		Tangibles		
14 700		Freehold property	14 400	
10 350		Plant and machinery	18 000	
6 000		Motor vehicles	3 000	
	31 050			35 400
		Intangibles		
	2 000	Trademarks and patents		1 500
	33 050			36 900
		Current assets		
15 000		Stock	23 000	
12 000		Trade debtors	15 000	
9 950		Bank	16 100	
	36 950			54 100
	70 000	Total assets		91 000

2005 $000	2005 $000	Balance Sheet as at 31 December	2006 $000	2006 $000
		Equity and Liabilities		
		Capital		
	30 000	Ordinary shares of $0.50 each		40 000
		Reserves		
2 000		Capital reserve	2 000	
3 000		Share premium	8 000	
7 000	12 000	Profit and loss	15 000	25 000
		Non-current liabilities		
	20 000	10% Loan stock		15 000
		Current liabilities		
5 000		Trade creditors	7 000	
3 000	8 000	Proposed dividends	4 000	11 000
	70 000			91 000

The Profit and Loss Appropriation Account for the year ended 31 December 2006 is shown below:

	$000
Operating profit	13 500
Less: Debenture interest	1 500
Net profit	12 000
Less: Proposed dividends	4 000
Retained profit for the year	8 000
Add: Retained profit brought forward	7 000
Retained profit carried forward	15 000

Notes:

i. Plant and equipment costing $10 000 000 was purchased during the year 2006.

ii. A motor vehicle which had cost $12 million and had a provision for deprecation of $10 million was sold for $5 million.

iii. $5 000 000 of the 10% loan stock was repaid on 1 January 2006.

Question 2

a) Prepare a Cash Flow Statement for Katsotso Ltd for the year ended 31 December 2006 in accordance with IAS 7 (revised), *Cash Flow Statements*. [19]

b) As a financial accountant, write a short report to the directors explaining why the profit earned is not the same as the change in cash. Ignore taxation. [10]

Scenario 3

The goods that Katsotso Ltd manufactures and sells fall into three categories: carpets, furniture and gifts. The firm prepares departmental Trading and Profit and Loss Accounts annually in columnar form.

The relevant information for year ended 31 December 2007 is shown below:

	Carpets $000	Furniture $000	Gifts $000
Sales	1 200	1 600	1 000
Stock: 1 January 2007	80	70	55
Salaries	23	56	29
Cost of goods manufactured	580	620	560
Stock: 31 December 2007	60	50	65

Notes:

i. Katsotso Ltd incurred the following additional expenses for the year ended 31 December 2007:

	$000
Rates	80
Lighting and heating	70
Salesmen's commissions	57

ii. Percentage of area of shop occupied: Carpets 30%; Furniture 50%; Gifts 20%

iii. Depreciation is to be charged as follows:
- Freehold premises $300 000. 40% of this is a manufacturing charge.
- Motor vehicles 20% on the written down value at the beginning of the year to be shared 60% furniture and 40% carpets.

Question 3

a) Prepare, in columnar form, the Departmental Trading and Profit and Loss Accounts for the year ended 31 December 2007. [6]

b) Justify the methods that you have used in **a)** above. [4]

c) Calculate the following ratios for each department:
i) Gross profit percentage;
ii) Net profit percentage;
iii) Rate of stock turnover. [9]

Scenario 4

During a board meeting, one of the directors mentioned International Accounting Standard 10, which he said was concerned with *Contingencies and Post Balance Sheet Events*. The majority of the board looked confused and lost. As a consequent, the Chief Executive Officer asked for assistance from the financial accountant on this standard.

Question 4

Write a memo to the board members explaining the following terms according to IAS 10 and IAS 37:
a) provision;
b) contingent;
c) post balance sheet event;
d) adjusting event;
e) non-adjusting event; [20]

Scenario 5

Katsotso Ltd want to introduce a man's watch called *Orion* in their gifts department.
Anticipated unit costs for the production and sale of 20 000 units of *Orion* are given below:

	$
Direct materials	8
Direct labour	16
Direct selling expenses	3
Variable production overheads	6
Fixed overhead	15
Total cost	48

Each unit of *Orion* is expected to sell for $63.

Question 5

a) **i)** How many units of *Orion* must Katsotso Ltd sell in order to break even? [3]
ii) What would be the sales revenue at break-even point? [2]
b) What is the profit at the anticipated level of activity? [5]
c) Calculate the margin of safety in:
i) units manufactured and sold; [3]
ii) sales value. [2]
d) What selling price would need to be charged at this level of activity in order to make a profit of $60 000? [5]
e) What profit or loss would be made if the selling price is:
i) increased to $66 per unit and 15 000 units of *Orion* are sold? [2]
ii) reduced to $57 per unit and 30 000 units of *Orion* are sold? [3]

[J2007Zimsec]

2080 Instructions

Questions **2 b) iii)** and **4 a) iv)** must be answered in sentence form, not note form, with supporting figures.

Scenario 1: J. Phiri and G. Boyle are two separate sole traders who retail hardware

The Balance Sheets for the two sole traders as at 30 June 2003 are shown on the next page:

J. Phiri $	J. Phiri $		G. Boyle $	G. Boyle $
		Fixed assets		
	100 000	Freehold premises at cost		
		Office equipment at cost	60 000	
		Less: Accumulated depreciation	18 000	42 000
80 000		Furniture and fittings at cost		
24 000	56 000	*Less*: Aggregate depreciation		
160 000		Motor vehicles at cost	120 000	
96 000	64 000	*Less*: Depreciation to date	72 000	48 000
		Current assets		
20 000		Stock	15 000	
16 400		Trade debtors	18 900	
14 360		Bank balance	6 100	
50 760			40 000	
		Less: Current liabilities		
30 760	20 000	Trade creditors	10 000	30 000
	240 000			120 000
		Financed by		
	200 000	Capital: Balance at 1 July 2002		90 000
	70 000	*Add*: Net profit		50 000
	270 000			140 000
	30 000	*Less*: Drawings		20 000
	240 000			120 000

J. Phiri wants to enter into partnership with G. Boyle.

For the purpose of the amalgamation, it is agreed that:

i. Debts of $400 owing to J. Phiri and $900 owing to G. Boyle are irrecoverable. In addition, each of the two prospective partners is to create a provision for bad debts of 2½% of debtors.

ii. J. Phiri's freehold premises have a market value of $120 000.

iii. J. Phiri's stock is overvalued by $4 200 whilst that of G. Boyle is overvalued by $3 650.

iv. J. Phiri's business has total value of $280 000 while that of G. Boyle has total value of $130 000. No Goodwill Account is to be opened in the books of the partnership.

v. Profits and losses are to be shared as follows: J. Phiri $^{3}/_{5}$, G. Boyle $^{2}/_{5}$.

Question 1

a) Prepare the opening Balance Sheet of the partnership of J. Phiri and G. Boyle at 30 June 2003. Show all workings. [25]

b) State and explain **three** reasons why it is difficult to account for goodwill. [6]

Scenario 2: The partnership prepares control accounts

The partners decide to maintain control accounts as a way of improving internal control system.

The total of the balances in the partnership Sales Ledger at 30 June 2004 amounted to $81 800 which does not agree with the closing balance on the control account.

The following data is available from the books of the partnership for the year ended 30 June 2004:

	$
Sales Ledger balances at 1 July 2003	20 160
Credit sales for the year	942 240
Credit sales returns	11 320
Cash and cheques received from credit customers	852 880
Cash sales	8 540
Interest charged on customers' overdue accounts	6 680
Bad debts recovered during the year	2 420
Debit balances transferred to the Purchases Ledger	7 560
Bad debts written off	4 620
Discount allowed to credit customers	5 640

Investigations revealed the following errors:

i. The total of the discount allowed column in the Cash Book is understated by $2 000.
ii. A credit sale of $3 560 had been recorded in the Sales Journal as $3 650.
iii. A Sales Ledger account had been overstated by $2 400.
iv. A debit balance of $420 had been set off against a balance in the Purchases Ledger but no entry had been in the control account for this item.
v. A debit balance of $6 420 had been omitted from the schedule of debtors.
vi. The total of a page in the Sales Journal was carried forward as $4 500 when the correct amount was $5 400.
vii. A receipt of $1 240 had been recorded in the Bank Account but omitted from the customer's account.
viii. A debtor owing $960 had been declared bankrupt. The customer's account was closed but this debt had not been written off in the control account.

Question 2

a) Draw up a Sales Ledger Control Account for year ended 30 June 2004 before the errors are discovered. [9]
b) Starting with the balance brought down in your answer to **a)**, prepare an amended Sales Ledger Control Account and balance it off. [9]
c) Draw up a statement reconciling the amended Sales Ledger Control Account balance with the total of the Sales Ledger. [5]
d) Explain the purpose of control accounts and outline the benefits that accrue from maintaining a control account system. [8]

Scenario 3

J. Phiri and G. Boyle had the whole of their stock stolen from the shop during the night of 30 September 2004. The burglars also started a fire which destroyed most of the accounting records except for the Sales Ledger and Purchases Ledger and cheque books.

It has been possible to ascertain the following facts:

i. Stock on 30 June 2004, the last balance sheet date, was $57 600.
ii. Creditors at 30 June 2004 were $35 600 and at 30 September 2004 were $45 400. Payments to creditors during this period amounted to $289 600.
iii. Trade debtors at 30 June 2004 stood at $43 600 while at 30 September 2004 these were $60 000. Receipts from customers totalled $396 400.
iv. Discount allowed amounted to $7 200 while discounts received totalled $4 800.
v. Depreciation of office equipment, motor vehicles and furniture and fittings is to be calculated at 10%, 20% and 10% on cost per annum respectively. The cost of motor vehicles now stands at $320 000.
vi. A mark-up of 40% on cost is achieved on all sales
vii. Wages for the three months amounted to $9 250.
viii. Rates of $1 500 per month are payable quarterly in advance on 1 February, 1 May, 1 August and 1 November. An increase of 20% in rates is expected for the year ended 30 June 2005.
ix. Postage and stationery expenses for the three months period totalled $5 000.
x. The insurance company has agreed to compensate the partnership an amount of $50 000 for their stock loss.
xi. The provision for bad debts is to be increased from $2 000 to $3 000.

Question 3

a) Prepare Trading and Profit and Loss Account for the three months ended 30 September 2004.
Note: A Profit and Loss Appropriation Account is not required. [12]
b) Prepare an extract of the Balance Sheet as at 30 September 2004 relating to debtors in as much detail as possible from given information. [3]

Scenario 4

J. Phiri and G, Boyle intend to venture into manufacturing. There will have two productive departments, the machine shop and the finishing department. In addition, the firm will have two service departments, canteen and personnel.

Budgeted costs for the four departments are shown below:

	Machine shop	**Finishing dept**	**Canteen**	**Personnel**
Direct materials	$260 000	$140 000		
Direct labour	$400 000	$215 400		
Indirect labour	$20 000	$30 000	$60 000	$40 000

	Machine shop	Finishing dept	Canteen	Personnel
Indirect materials	$18 000	$15 000		
Direct labour hours	20 000	56 000		
Machine hours	42 000	10 000		
Floor area (m²)	500	300	400	200
Number of employees	20	30	10	15
Cost of machinery	$300 000	$100 000	$30 000	$20 000

Other overhead costs which cannot be analysed to specific departments are expected to be:

	$000
Rent and rates	28
Heat and light	49
Inspection	60

Depreciation is charged at an annual rate of 10% on the original cost of machines.

Question 4

a) **i)** Using appropriate bases of charge, prepare an overhead analysis sheet for the four departments, showing totals for each department. [6]

ii) Re-apportion the service department overheads to the production departments.
Note: Calculations should be to the nearest dollar. [2]

iii) Calculate the overhead absorption rate for each production department. [4]

iv) Justify the bases used to calculate the overhead absorption rates in **iii)**. [5]

b) The following information relates to job HC104:

	Machine shop	Finishing department
Direct materials	$400	$200
Direct labour hours	20	50
Rate per direct labour hour	$4	$3
Machine hours	40	10

An administration charge of 40% of the total production cost of the job is added to arrive at the selling price.

Calculate the selling price of job HC104. [8]

[J2005Zimsec]

2081 Instructions

Question **5** must be answered in sentence form, not note form, with supporting figures. Clear presentation and quality English will be taken into account in marking your answers to this question.

Scenario 1: Pygalion Ltd's accountant prepares the company's final accounts.

Pygalion Ltd is a trading company. It purchases goods which it modifies before reselling them.

A Trial Balance extracted from books of Pygalion Ltd is shown below:

Pygalion Ltd: Trial Balance as at 30 September 2007	$000	$000
Issued share capital: Ordinary shares of $1 each, fully paid		700
8% Debentures 2014 - 2018 (issued 2004)		300
Share premium		200
General reserve		160
Retained profit at 1 October 2006		87
Freehold premises at cost	800	
Provision for depreciation on freehold premises		200
Plant and machinery at cost	400	
Provision for depreciation on plant and machinery		145
Motor vehicles at cost	113	
Provision for depreciation of motor vehicles		54
Stock at 1 October 2006	396	
Sales		3 070
Purchases	1 691	
Salaries and wages	655	

	$000	$000
Distribution vehicle expenses	54	
Advertising	50	
Administration expenses	163	
Trade debtors	354	
Trade creditors		296
Balance at bank	547	
Debenture interest	12	
Dividends paid	21	
Suspense		44
	5 256	5 256

The accountant has prepared a schedule of adjustments to be made in the Trading and Profit and Loss Account and Balance Sheet of the company as shown below:

i. Stock of goods at 30 September 2007 valued at cost $214 000.

ii. Analysis of salaries and wages

	$
Analysis of salaries and wages	(655 000)
Cost of sales	216 000
Selling and distribution	299 000
Administration	140 000

iii. Expenses prepaid at 30 September 2007:

	$
Advertising	13 000
Administration	7 000

iv.. Depreciation is to be provided as follows:

		$
Cost of sales :	Plant and machinery	60 000
Selling and distribution:	Plant and machinery	20 000
	Motor vehicles	28 000

v. Analysis of Suspense Account

	$
Analysis of Suspense Account	(44 000)
Proceeds of sale of warehouse machinery	28 000
Proceeds of sale of motor vehicles	16 000

vi. Fixed assets sold during the year (*not recorded in the books*)

	Cost	Net book value at date of sale
Warehouse machinery	$96 000	$31 000
Motor vehicles	$40 000	$17 000

vii. Additions to fixed assets during the year at cost (*already recorded in the books*)

Warehouse machinery	$80 000
Motor vehicles	$22 000

viii. Freehold premises are to be revalued at 30 September 2007 to $1 000 000.

ix. The directors recommend payment of a final dividend of $42 000. They also propose to transfer $40 000 to general reserve.

x. Debenture interest is payable half-yearly on 1 April and 1 October.

Question 1

a) Prepare a Trading and Profit and Loss Account of Pygalion Ltd for year ended 30 September 2007. [30]

b) Prepare the Pygalion Ltd's Balance Sheet as at 30 September 2007. [22]

Scenario 2: The accountant drafts notes which must be appended to the company accounts

Certain information must be disclosed by companies in their annual accounts. This information includes a reconciliation of the movements of fixed assets of all fixed assets between the beginning and the end of the year, and the changes in the provisions for depreciation of fixed assets during the year.

Question 2

Prepare a schedule to show movements of fixed assets and changes in the provisions for depreciation of fixed assets, for year ended 30 September 2007. The schedule should be in a suitable form for the inclusion as a note to Pygalion Ltd's accounts. [25]

Scenario 3: A Cash Budget is prepared

Directors of Pygalion Ltd are planning a re-organisation of the company to take effect from 1 October 2007. The re-organisation will result in goods being purchased in their modified form so that no further modification will be required before they are sold.

To assist them in their planning, the directors ask the accountant to prepare a Cash Budget for each of the four months to 31 January 2008.

The accountant obtains the necessary information to prepare the budget shown below:

i. Sales

			$000
Actual	2007:	August	280
		September	340
Budgeted	2007	October	357
		November	375
		December	394
	2008	January	414
		February	577

Analysis of sales: 10% of the sales are for cash and the remainder are on credit;
80% of the debtors pay in the following month;
The balance is received **two** months after sale.

ii. Goods are sold at a mark-up of two-thirds on the cost of goods. They are purchased **one** month before sale and the suppliers allow **two** months credit.
iii. Wages of $55 000 each month will be paid currently.
iv. Variable selling expenses will be 5% of sales and will be paid one month in arrears.
v. Fixed expenses in September 2007 amounted to $30 000 (including depreciation of $10 000 calculated as one-twelfth of the annual charge for depreciation). Fixed expenses other than depreciation will increase by 6% in October 2007 and by a further 7% in December 2007 and are paid monthly as incurred.
vi. A machine costing $60 000 will be obtained in November 2007. Under the purchase agreement, one third of the price must be paid immediately, and the balance will be settled by four monthly instalments, the first of which will become due in December.
vii. A motor vehicle with a list price of $15 000 will be purchased and paid for in January 2008. The seller has agreed to take another vehicle in part-exchange. The part-exchange vehicle will be valued at $4 000.
viii. The recommended final dividend for the year to 30 September 2007 will be paid in November 2007.
ix. 6 months interest on the 8% Debentures will be paid on 1 October 2007.

Question 3

Prepare a monthly Cash Budget for **each** of the four months ending 31 January 2008. *Calculations should be made to the nearest thousand dollars.* [31]

Scenario 4: Budgeted final accounts for the year ending 30 September 2008

In planning the re-organisation of Pygalion Ltd, the directors set some detailed targets to be met by 30 September 2008. These targets are shown to the accountant who is asked to prepare a Profit and Loss Account for the year ending 30 September 2008 and a Balance Sheet at that date based on the targets.

The company's targets for the year to 30 September 2008 are as follows:

i. The value of stock at 30 September 2008 will be 50% above the value of 30 September 2007
ii. Stockturn to be 9 times.
iii. The cost of goods sold will represent the cost price of the goods only and will not include wages or depreciation of machinery.
iv. Gross profit margin 35%.
v. Selling and distribution expenses will be 16% of sales.
vi. Administration expenses will be 9% of sales.
vii. Fixed asset turnover will be 2 times.
viii. Debtors collection period will be 30 days. Credit sales will account for 90% of total sales.
ix. The current assets will consist of stock, debtors and bank.
x. Creditors payment period: 60 days.
xi. Current ratio will be 2.028:1.

xii. There will be no changes during the year in the issued capital, share premium, revaluation reserve, general reserve or the amount of debentures in issue.

Question 4

Prepare a summarised budgeted Income Statement for Pygalion Ltd for the year ending 30 September 2008 and a summarised budgeted Balance Sheet for the year company as at that date in accordance with the targets set by the directors. *All calculations to the nearest thousand dollars.* [28]

Scenario 5: The re-organisation of Pygalion Ltd requires additional capital

The company's plant and machinery requires replacement at cost of $500 000. The directors have suggested three methods of raising additional capital. They have asked the accountant to explain the advantages and disadvantages of each of the methods.

Methods suggested by the directors of raising additional capital of $500 000:

- Issue $500 000 of new 8% debentures 2025 - 2018 at par;
- Make a bonus issue of 500 000 ordinary shares of $1;
- Make an issue of ordinary shares of $1 at $2.50.

Question 5

Write a report to the directors explaining advantages and disadvantages of **each** of the **three** methods of raising capital. Your report should state the effect on the gearing ratio of the company of each of the three methods. [14]

[J1999Cambridge]

2082 Instructions

Question 4**) d)** must be answered in sentence form, not note form, with supporting figures.

Scenario 1

Foursum is a partnership owning a departmental store which sells furniture, clothing and hardware. The partners have seen the final accounts for the year ended 30 September 2007 and noticed that the bank balance has increased considerably during the past year. They ask their accountant to explain how this might be and s/he refers to the Balance Sheets shown blow:

As at 30 September	**2006**		**2007**	
Fixed assets	**$000**	**$000**	**$000**	**$000**
Freehold premises at cost (valuation)	800		1 000	
Provision for depreciation	(300)	500	(40)	960
Fixtures and fittings at cost	430		510	
Provision for depreciation	(280)	150	(330)	180
Total fixed assets at net book value		650		1 140
Current assets				
Stock	600		545	
Debtors	216		297	
Bank balance	108		254	
	924		1 056	
Less: Current liabilities				
Creditors	149		213	
Net current assets		775		883
Total net assets		1 425		2 023
Partners' capitals at 1 October 2005		1 326		
1 October 2006				1 925
Profit for the year		414		730
		1 740		2 655
Less: Drawings		315		632
		1 425		2 023

Notes to the accounts:

i. There were no additions to or disposals of freehold premises during the year ended 30 September 2007.

ii. During the year ended 30 September 2007 fixtures and fittings which had cost $60 000 (net book value at date of sale $34 000) were sold for $15 000.

Question 1

a) Prepare a Cash Flow Statement in accordance with IAS 7, to show the net change in cash during the year ended 30 September 2007. [11]

b) Prepare a reconciliation statement of the opening and closing bank balances for the year ended 30 September 2007. [3]

c) Explain fully the reason for the difference between the partners' capitals at 30 September 2006 and 1 October 2006. [6]

d) Define the following terns in relation to International Accounting Standard 7, *Cash Flow Statements*:
- **i)** cash;
- **ii)** cash equivalent. [4]

Scenario 2

Foursum's annual Trading and Profit and Loss Accounts are produced to show results of the separate departments in columnar form.

Balances in the books from which the accountant prepared the Trading and Profit and Loss Account for the year ended 30 September 2007 are listed on the next page:

	Furnishing	Clothing	Hardware
	$000	**$000**	**$000**
Sales	1 140	690	870
Stock at 30 September 2006	280	75	245
Purchases	393	322	325
Stock at 30 September 2007	315	52	178
Salaries for the year ended 30 September 2007	46	48	34
Fixtures and fittings at cost at 30 September 2007	240	110	160

Notes:

i. Foursum incurred the following expenses for the year ended 30 September 2007:

	$000
Rent	75
Heating and lighting	60
General expenses	496

ii. Percentage of premises occupied:

Furnishing	40%,
Clothing	25%,
Hardware	35%.

iii. Depreciation is to be charged as follows: Premises – 4% per annum on cost at valuation;
Furniture and fittings – 15% per annum on cost.

iv. General expenses are apportioned over the departments in the ratio of their respective turnovers.

Question 2

a) Prepare, in columnar form, the departmental Trading and Profit and Loss Account for year ended 30 September 2007. *Where necessary calculations should be made to the nearest $000.* [16]

b) Calculate the following ratios for each department:
- **i)** Gross profit percentage;
- **ii)** Net profit percentage;
- **iii)** Overheads incurred;
- **iv)** Stock turnover. [12]

c) Compare the ratios you have calculated in **b)** and comment on the bases used for apportioning the overheads. [11]

Scenario 3

The partnership is owned by Abel, Baker, Chas and Del. Abel decided to retire on 30 September 2007 and the remaining partners admitted Epp on 1 October 2007.

The accountant was required to make the necessary entries in the partners' Capital Accounts using the information at 30 September 2007 extracted from the Balance Sheet:

		$000
Partner's capitals:	Abel	708
	Baker	511
	Chas	304
	Del	500

Profit/loss sharing ratios: Abel $^3/_8$; Baker $^2/_8$; Chas $^1/_8$; Del $^2/_8$.

Fixtures and fittings were to be revalued to $420 000. It was agreed that the Profit and Loss Account for the year ended 30 September 2007 should not be revised to take account of this revaluation.

Goodwill was valued at $400 000. A Goodwill Account was **not** opened in the books.

$500 000 was transferred from Abel's Capital Account to a Loan Account and left in the business. The balance on his Capital Account was paid to Abel in cash on his retirement.

On 1 October 2007 Epp introduced $500 000 into the business as his capital and his share of goodwill. The profit/loss sharing ratios then became Baker $^3/_8$; Chas $^2/_8$; Del $^2/_8$; Epp $^1/_8$.

Question 3

a) Prepare the Capital Accounts of the old partnership to give effect to Abel's retirement. [9]

b) Prepare the Capital Accounts of the new partnership to give effect to the admission of Epp as a partner. [9]

c) Explain the treatment of revaluation profit in

i) companies;

ii) partnerships. [4]

d) What is the accounting treatment for:

i) non-purchased goodwill;

ii) negative goodwill;

iii) purchased goodwill. [6]

Scenario 4

The term *accounting* is broad in meaning. Financial statements are prepared based on the *Generally Accepted Accounting Principles* with adherence to *International Accounting Standards*.

Question 4

a) Distinguish between *cost accounting* and *management accounting*. [4]

b) Give any **four** differences between *cost accounting* and *financial accounting*. [8]

c) What is meant by Generally Accepted Accounting Principles (GAAP)? [1]

d) Suggest any **two** purposes served by International Accounting Standards. [2]

Scenario 5

One of the items sold in Hardware department is the Mushie food mixer. Foursum wished to promote the sale of this food mixer in the year ended 30 September 2007 and prepared a budget accordingly.

Details of budgeted and actual sales are shown below:

		Budgeted	*Actual*
Purchases:	Units	160	200
	Price per unit	$32	$34
Sales:	Units	160	195
	Price per unit	$50	$47

To aid the promotion of the sales of the food mixer, the staff was paid a bonus equal to 5% of the sales proceeds.

The purchasing department has calculated the cost of ordering the food mixers at $2 per unit.

Question 5

a) Calculate the contribution per Mushie food mixer based on:

i) budgeted data;

ii) actual data. [6]

b) Calculate the following sales variances for the sales of the Mushie food mixer:

i) total variance;

ii) volume variance;

iii) price variance. [9]

c) Calculate the following variances for the purchase by Foursum of the Mushie food mixer:
- **i)** total variance;
- **ii)** volume variance;
- **iii)** price variance. [6]

d) Give **two** reasons for:
- **i)** adverse purchases price variance;
- **ii)** favourable sales volume variance. [4]

e) Explain **four** ways in which standard costing may be helpful to management. [8]

[N2001Cambridge]

2083 Instructions

The business in this case study is assumed fictitious. **All** questions must be answered in the order they are set. Question **2c)** must be answered in sentence form, not in note form.

Scenario 1: Rhutzu prepares financial statements

On 1 July 2005 Rhutzu, a sole-trader, commenced business with the following:

	$000
Freehold land and premises (land $700 000)	1 500
Plant and machinery	900
Delivery vehicle	600
Cash in hand	80

The following data relates to 30 June 2006:

		$000
Stock:	Raw materials	206
	Work-in-process	99
	Loose tools	55
	Finished goods	88

Totals for the year ended 30 June 2007 are:

		$000
Administration overheads		100
Advertising expenses		321
Bad debts, credit losses written off as irrecoverable		8
Cash drawings		389
Delivery vehicle running expenses		246
Discounts:	Purchases	17
	Sales	49
Heating and lighting		420
Non-productive supervisors' salaries		560
Packaging on goods sold		121
Productive labour paid, equal to ¾ of the annual wage bill		1 098
Purchases:	Indirect materials	399
	Loose tools	199
	Raw materials (including carriages $69 000 and net of $25 000 returns)	1 844
Rent received (including $12 000 for year ending 30 June 2008)		77
Royalties		253
Sales (gross of $642 000 returns)		9 202
Salesmen salaries		475

Balances at 30 June 2007:

		$000
Cash balance (before adjusting for $10 000 stolen)		84
Stock:	Finished goods	153
	Loose tools	33
	Raw materials (including $28 000 value of damaged stock)	333
	Work-in-process	(note ii)
Trade creditors		219
Trade debtors		250

Notes

i. Market value of finished goods for the year ended 30 June 2007 was $6 375 000.

ii. Work-in-process on 30 June 2007 was equal to 2% of full production cost after taking work-in-process adjustments into account.

iii. Annual depreciation policy as from 1 July 2005:

- Delivery vehicle — 25% on carrying amount
- Freehold premises — 10% on cost
- Plant and machinery — 30% on written down value

iv. Factory occupies 60% of total space.

v. Rhutzu took goods with a market value of $11 000 for personal consumption on 5 May 2007.

vi. A provision for doubtful debts of 5% is to be created.

Question 1

Prepare for Rhutzu, the:

a) Manufacturing and Trading and Profit and Loss Account for the year ended 30 June 2007, [24]

b) Balance Sheet as at 30 June 2007. [12]

Scenario 2: Professional assessors provide new valuations

On 1 July 2007, the delivery vehicle was involved in a deadly accident. The insurance company settled for compensation equal to ¾ of its net book value on 30 June 2007 financial statements, payable three months later on 1 October 2007.

Following the delivery vehicle accident, the assessors from the insurance company recommended the following to be the fair valuations of Rhutzu's assets:

	$000
• Freehold land	800
• Freehold premises	600
• Plant and machinery	500
• Trade debtors	240

Loose tools are assessed to be worth a third of their book value on 30 June 2007.

Provision for doubtful debts should be maintained at 5% of trade debtors.

Question 2

a) Show the Delivery Vehicle Disposals Account. [4]

b) Prepare Journal entries for the revaluations, narratives not required. [7]

c) Compose a brief memo (memorandum) to Rhutzu explaining the purpose and contents of the

i) Fixed Asset Disposals Account;

ii) Revaluation Account. [6]

Scenario 3: Midzi Ltd purchases the business of Rhutzu

On 31 December 2007, the abridged Balance Sheet of Rhutzu was as follows:

		$000			$000
Current liabilities		**410**	**Fixed assets**		**1 950**
Accounts payable	380		Freehold land	800	
Sundry expenses	130		Freehold premises	600	
Capital		**2 550**	Plant and machinery	550	
Balance b/d	2 419		**Current assets**		**1 010**
Profit	331		Inventories	480	
Drawings	(200)		Accounts receivable	320	
			Cash	210	
		2 960			**2 960**

Midzi Ltd bought Rhutzu's business for $2 400 000 through an issue of 1 600 000 $1 ordinary shares at an appropriate premium.

Rhutzu paid up all the sundry expenses less $10 000 cash discount. Rhutzu also took inventories worth $110 000 for home use.

Midzi Ltd acquired all other assets and liabilities at the following market values:

	$000
Freehold land	940
Freehold premises	660
Plant and machinery	450
Remainder of the inventories	350
Accounts payable	280
Accounts receivable	300

Midzi Ltd maintains a 3% provision for uncollectible debtor debts.

Question 3

a) Show the following, on 31 December 2007, in the books of Rhutzu:
- **i)** Realisation Account; [5]
- **ii)** Cash Account; [2]
- **iii)** Capital Account. [3]

b) Draft the Business Purchase Account in the books of Midzi Ltd o 1 January 2008. [5]

c) Distinguish between a Realisation Account and a Business Purchase Account. [6]

Scenario 4: Efficient use of scarce resources

Midzi Ltd manufactures three products, viz. Pan, Plate and Pot, using three identical machines whose total machining hours are 48 750. A tremor in the area where the factory plant is located caused very serious malfunctions on one of the three machines. It would take four full months to rectify the machine back to normal operational efficiency without producing rejects.

Data for each product is as follows:

	Pan	Plate	Pot
Demand (units)	40 000	80 000	50 000
Unit data			
	$	$	$
Raw materials	30	25	45
Machining costs	20	15	30
Other direct expenses	10	5	15
Fixed overhead costs	13	7	11
Total production cost	73	52	101
Profit	47	68	49
Selling price	120	120	150

Each machining hour costs $80.

Question 4

a) For each product, calculate the:
- **i)** Variable cost per unit; [3]
- **ii)** Contribution per unit; [3]
- **iii)** Machine hours per unit; [3]
- **iv)** Contribution per machine hour and rank the products to maximise profitability. [4]

b) How many units of each product must be produced and what would be the resultant profit if the available machine hours are to be optimised? [7]

c) How would the situation in **b)** above have been if at least 24 000 units of each product are to be manufactured? [6]

[Author]

2084 Instructions

Questions **2 b)** and **3 b)** must be answered in sentence form, not note form.

Scenario 1

Kufuma Ltd has been in business for several years. You have been requested by company directors to prepare a statement which explains how the bank balance has increased during past year as reflected in the final accounts.

They provided you with the following information:

		31 December 2000		31 December 2001	
		$	$	$	$
Ordinary shares of $1 each		300 000		450 000	
12% Redeemable preference shares of $1 each		30 000		–	
Share premium			120 000		105 000
Revaluation reserve					345 000
Retained income			210 000		192 000
10% Loan stock			–		45 000
Freehold property:	At cost	240 000			
	At valuation			585 000	
Plant and equipment:	At cost	414 000		387 000	
	Accumulated depreciation		189 000		144 300
Stock		108 000		219 000	
Trade debtors		72 000		165 000	
Bank		43 500		56 300	
Trade creditors			6 900		12 000
Sales					720 000
Cost of sales				481 000	
Profit on disposal of plant and equipment					9 000
Overhead expenses				117 000	
Preference dividend:	Proposed		3 600		
Ordinary dividends:	Interim paid			12 000	
	Final proposed		18 000		
		877 500	877 500	2 022 300	2 022 300

Additional information:

i. In January 2001, a bonus issue of one for every five ordinary shares was made.

ii. The preference shares were redeemed in February 2001 at a premium of 60%.

iii. In April 2001, a rights issue of one ordinary share of $1 each for every four shares currently held was fully subscribed at a price of $1.50 each.

iv. There were no additions to freehold property during the year.

v. During the trading period there were disposals of plant and equipment bought by the company for $105 000. At the date of disposal, they had a net book value of $21 000.

Question 1

a) Prepare a Cash Flow Statement for the year ended 31 December 2001 in line with IAS 7. [17]

b) Prepare a reconciliation statement of the opening and closing bank balances for the year ended 31 December 2001. [2]

Scenario 2

The directors further request you to look into their books that have been prepared by an inexperienced bookkeeper.

Below and overleaf is a draft Balance Sheet which had been prepared:

Draft Balance Sheet of Kufuma Ltd as at 31 December 2002

Fixed Assets	Cost	Accumulated depreciation	Net book value
	$	$	$
Freehold property	400 000	80 000	320 000
Plant and equipment	580 000	272 000	308 000
	980 000	352 000	628 000
Current assets			
Stock		296 000	
Debtors		418 000	
Bank		38 000	
		752 000	

Less: Current liabilities		
Creditors	132 000	620 000
		1 248 000
10% Loan stock		(200 000)
		1 048 000
Capital and reserves		
Ordinary shares of $1 each	600 000	
12% Preference shares of $1 each	200 000	
Retained income	248 000	1 048 000

You discover the following:

i. The evaluation of the freehold property at $500 000 in December 2002 has not been effect in the accounts as intended.

ii. Depreciation has been provided on the plant and equipment for the year ended 31 December 2002 at 10% per annum straight-line instead of 15% straight-line.

iii. Closing stock included a machine costing $50 000 (selling price $70 000) which was transferred in January to plant and equipment and used in the company's workshops. No accounting entries have been made so far for this transfer.

iv. In October 2002. Some goods were sent on a sale or return basis to Nyathi and remain unsold. However, in the company's books, these have been regarded as sold to Nyathi for $11 200 upon their dispatch from the company's warehouse. All goods are sold at the mark up of 40%.

v. No record has been made in the company's accounts of a bonus issue made in February 2002 of one ordinary share of $1 each for every ten previously held.

vi. Provision has not been made in the company's books for a proposed final dividend of 15 cents per share for the year ended 31 December 2002. No interim dividend was paid during the year.

vii. Kufuma Ltd let part of a warehouse to Murombo Ltd at an annual rental of $8 000 from 1 April 2002. Murombo Ltd has not yet paid rentals due to Kufuma Ltd at the end of the year.

Question 2

a) **i)** Prepare Journal entries to record above items. [7]

ii) Draw up a corrected Balance Sheet as at 31 December 2002. [17]

b) In relation to IAS 1, *Presentation of financial statements*, explain each of the following:

i) Fundamental accounting principles, [8]

ii) Accounting policies. [3]

Scenario 3

During 2004, Kufuma Ltd suffered a burglary and a large quantity of stock was stolen along with some of the records of stock.

However, the information shown on the next page has been obtained from the remaining records.

As at 31 December 2003	**$**
Trading stock at cost	80 250
Sales Ledger: Debit balances	60 750
Credit balances	1 775
Purchases Ledger: Debit balances	2 750
Credit balances	84 750
Year ended 31 December 2004	
Purchases	864 000
Purchases returns	58 500
Sales	780 000
Sales returns	36 500
Bad debts written off	2 400
Discount received	7 275
Cheques paid to suppliers	858 000
Discount allowed	2 750
Cash received from customers	717 750

		$
Wages and salaries		28 300
Administration overheads		19 825
Trading stock at cost		95 500
Sales Ledger: Debit balances		to be determined
Credit balances		1 325
Purchases Ledger:	Debit balances	975
	Credit balances	to be determined

Other information:

i. All purchases and sales are on credit.

ii. Normally all the sales produce a margin of 25%. During the year ended 31 December 2004, stocks costing $22 500 were sold at half normal retail price due to obsolescence.

iii. Kufuma Ltd's insurance company agreed to pay $100 000 in settlement of the stolen stock.

Question 3

Draw up, for the year ended 31 December 2004, a

a) Sales Ledger Control Account; [6]

b) Purchases Ledger Control Account; [5]

c) Trading and Profit and Loss Account. [9]

Scenario 4

At an Annual General Meeting held in January 2005, directors of the company decided to manufacture a new product, Lido, in order to maximise profits.

The information below relates to the new product:

	Units
Sales	20 000
Production	25 000
	$
Total fixed costs	120 000
Unit data	
Selling price	50.00
Direct materials	10.00
Direct labour	12.00
Variable expenses	7.50

Additional information:

The cost accountant has two assistants. He sends each of them of a copy of the figures and asks them to produce a statement showing their calculation of the company's profit for the year ended 31 December 2005. One of the assistants prepares a statement on a marginal costing basis and the other one produces his statement on an absorption costing format.

Question 4

a) Formulate the two statements in columnar form, showing the different ways that the assistant cost accountants were likely to have produced their statements. [11]

b) Write a report to the managing director explaining why these two methods gave different results. Use data from the statements to illustrate your explanation. [9]

c) Outline **three** merits of the:

i) Marginal costing system; [3]

ii) Absorption costing system. [3]

[N2005Zimsec]

2085 Instructions

Question 3) **b)** must be answered in sentence form, not in note form, with supporting figures.

Scenario 1: Camio Ltd prepares its financial statements

Camio Ltd is an indigenous company formed on 1 July 2003 to manufacture and market hoes and axes for the local market and SADC region.

Information shows information extracted from the books of Camio Ltd on 30 June 2007:

		$
Bad debts		400
Bank interest received		7 500
Carriage outwards		4 500
Customs duty on additional hoes purchased		500
Depreciation for the year:	Furniture and fittings	1 000
	Motor vehicles	1 750
Distribution salaries		3 500
Extraordinary charges		150
Income from shares in associate companies		2 500
Interim dividend paid		1 250
Interest paid - Dentures		4 000
Purchases of additional hoes		1 500
Office expenses		1 000
Office salaries		4 000
Returns inwards		1 500
Provision for bad debts		1 200
Sales		100 000
Selling expenses		2 000
Total cost of production		57 500
Wages - Production of axes		1 500

Additional information:

i. Closing stock of finished goods at 30 June 2007: Axes $19 500, Hoes $4 500.

ii. Salaries include amounts paid to the following: D. Dube (Managing Director) $1 500, F. Edwards (Marketing Director) $2 125, T. Tanaka (Chairman) $750.

iii. Provision for bad debts is to be increased to $1 450.

iv. Extraordinary charges are for discontinued operations.

v. Taxation for the year to be provided is $9 000.

vi. The directors recommend a transfer of $2 500 to general reserve.

vii. Issued share capital is 25 000 ordinary shares of 50 cents each and the declared dividend is 5 cents per share.

Question 1

a) Prepare for Camio Ltd the Trading and Profit and Loss Account for internal use, for the year ended 30 June 2007. [20]

b) State **three** advantages of a private limited company over a partnership. [3]

c) State any **five** items which should be covered in a directors' report. [5]

Scenario 2: Camio Ltd sponsors a soccer club for its workers

An assistant has been asked to examine the financial situation of Camio Soccer Club. S/he approached you for assistance and provided with the following information:

Receipts	$	Payments	$
Balance at 1 January 2007	11 300	Purchases of sports equipment	8 500
Subscriptions from members	13 750	Administration expenses	11 000
Other social functions	5 700	Allowances for coaches (matches)	7 800
Donations received	2 500	Secretary's honorarium	5 500
Ticket sales from matches	19 800	Transport costs (matches)	9 700
Programme sales - matches	3 200	Refreshments for players	12 000
Sponsorship	1 000		

Notes to the accounts:

i. An analysis of subscriptions received revealed the following:
   - Subscriptions for the year ended 31 December 2006 amounted to $1 000;

- The soccer club had 47 members for the year ended 31 December 2007 and the annual subscription was $250 per member;
- The outstanding amount in the Subscriptions Account refers to the amount received for year ended 31 December 2008.

ii. The transport costs for matches and refreshments for players did not include $1 700 and $1 400 respectively. These costs relate to a match played on 20 November 2007.

iii. The assets of the club were valued as follows:

	31 December 2006	31 December 2007
Soccer stands	$ 2 350	$ 2 000
Soccer equipment	$17 000	$22 500

Question 2

a) Calculate the profit or loss from the soccer matches for the year ended 31 December 2007. [5]

b) Prepare the Income and Expenditure Account for the year ended 31 December 2007. [12]

c) Calculate the accumulated fund at 1 January 2007. [3]

Scenario 3: Camio Ltd plans to purchase a machine

Camio Ltd wants to expand its activities both locally and abroad. The management wants to purchase an additional machine and has a choice between **Bite** and **Mega**.

Information for the two machines is provided below:

Bite $	Details		Mega $
60 000	Cost of machine		75 000
12 500	Estimated net cash inflows: Year	1	25 000
17 500		2	35 000
15 000		3	15 000
20 000		4	15 000
15 000	Residual value		15 000

Depreciation is charged on both machines using the straight-line method.

Camio Ltd's cost of capital is 12% and the extracts from Present Value Tables of $1 are:

Year	*1*	*2*	*3*	*4*
Discount factors at 12%	0.893	0.797	0.712	0.636

Question 3

a) For each machine calculate:

i) Payback period;

ii) Accounting rate of return using average investment;

iii) Net present value. [18]

b) Write a report to Camio Ltd advising management on which machine to purchase. Explain the reasons for your recommendations. [11]

Scenario 4: Camio Ltd plans to value its closing stock

The accountant of Camio Ltd knows that stock valuation is an important task that can be accomplished by using any of the many method available.

Below are the statistics for the production and sales of hoes for the month of June 2002.

2002	June	2	Opening stock	6 000 units at $3.00 each
		5	Production	1 000 units at $2.70 each
		9	Sales	4 000 units
		13	Production	6 000 units at $2.25 each
		19	Sales	2 000 units
		21	Purchases: Additional hoes	1 600 units at $2.40 each
		29	Sales	1 200 units

Question 4

a) **i)** State any **three** methods of stock valuation. [3]

ii) Discuss any **two** advantages and **two** disadvantages, in each case, of any **two** of the methods stated in **a) i)**. [8]

b) Explain the following statement: '*Accountants should value stock at lower of cost or net realisable value.*' [2]

c) You have learnt that Camio Ltd uses the periodic inventory system. What are the benefits of using this inventory system. [2]

d) Calculate the value of stock at 30 June 2002 using any **two** methods is **a) i)**. [8]

[J2003Zimsec]

2086 **Instructions**

Answers should be rounded off to the nearest dollar

Scenario 1: Simango forms a sole proprietorship and trades as such

On 1 January 1996, Simango started a family business in Chinhoyi. He buys fresh *kapenta* fish, dries them into *matemba* and packs them into packets of various sizes. He does not keep proper accounting records. However, scantily records at Simango's premises show that on 31 December 1996 he had the following assets and liabilities:

	$000
Trade creditors	30
Stock at cost	90
Van at valuation	40
Cash at bank	15

He intends to transform the form of the business into a company. Before this can happen, he should put his books in order.

For the two years ended 31 December 1997 and 1998, he was only able to supply the information shown below:

	31 December 1997	**31 December 1998**
	$000	**$000**
Land and buildings at cost	200	200
Trade debtors	40	50
Trade creditors	65	70
Cash at bank	45	38
Stock	70	80
Accrued sundry expenses	5	
Prepaid sundry expenses		3
Bank loan	150	150
Delivery vans at valuation	35	60

Additional information:

i. Payments to suppliers in the year ended 31 December 1998 amounted to $520 000.

ii. Mark up on cost is 30%.

iii. For the year 31 December 1997, his drawings were $3 000 per month. He estimated the he should increase these in the next year to $3 500. In February 1997, the family went for their annual holiday and this trip cost the business $24 000.

iv. During the year ended 31 December 1998, Simango took various amounts out of sales proceeds but has forgotten the exact amounts.

v. The land and buildings were bought on 30 December 1997 with the aid of the bank loan. The balance was paid out of private funds. The bank loan attracts an interest of 15% per annum payable on 1 January and 1 July every year in arrears.

vi. During the year ended 31 December 1998, he paid sundry expenses amounting to $63 000. These do not include loan interest.

vii. Additional delivery van was purchased for $50 000 during the year ended 31 December 1998. No vehicles were sold during the two years.

Question 1

a) Calculate the net profit for the year ended 31 December 1997. [7]

b) Draft the Income Statement for the year ended 31 December 1998. [10]

c) Calculate the actual drawings made during the year ended 31 December 1998. [6]

d) Draft the Balance Sheet as at 31 December 1998. [7]

Scenario 2: Simango forms a company

On 1 January 1999 Simango registered a company trading as Fish (Pvt) Ltd. At the end of 2000 financial year, the company provides you with the following information:

Items extracted from the Balance Sheets:	**31 – 12 – 2000**	**31 – 12 – 1999**
	$000	**$000**
Investments at cost	100	50
Stock	110	180
Machinery at net book value	130	100
Delivery vehicles at cost	50	–
Long–term loan	80	110
Retained income	50	20
Share premium	30	–
Ordinary share capital	250	150
Taxation	20	10
Dividends due to shareholders	40	30
Bank overdraft	–	5
Accrued interest on loan	5	2
Creditors	140	148
Cash at bank	35	–
Debtors	190	144
Accrued dividends on investments	–	1

The following were extracted from the Income Statement for the year ended 31 December 2000.

	$
Dividends declares	60 000
Depreciation	20 000
Taxation	60 000
Interest on loan	9 500
Loss on sale of machinery	5 000
Dividends received	5 000

Additional information:

i. On 3 April 2000, new machinery was purchased to replace machinery with a net book value of $10 000, which was sold on 1 April 2000.

ii. The delivery van was purchased on 1 April 2000.

Question 2

Prepare a Cash Flow Statement for Fish (Pvt) Ltd for the year ended 31 December 2000. [22]

Scenario 3: Fish (Pvt) Ltd discloses earnings

The management at Fish (Pvt) Ltd provides you with information extracted from the annual financial statements and record of their Kariba branch.

Abridged Income Statement		**31 December 2002**	**31 December 2001**
		$	**$**
Profit before tax		200 000	250 000
Less: Taxation		70 000	112 000
Income after tax		130 000	138 000
Less: Extra–ordinary item		–	15 000
Net profit/ (loss)		130 000	123 000
Dividends:	Preference shares	(7 200)	(14 400)
	Ordinary shares	(100 000)	(80 000)
Redemption of preference shares		(90 000)	–
Premium on share redemption		(9 000)	–
Accumulated loss for the year		(76 200)	28 600

Abridged Income Statement	31 December 2002	31 December 2001
	$	$
Retained profit/ loss brought forward	78 600	50 000
Accumulated loss at the end of the year	(2 400)	78 000

Share Capital Structure

i. Ordinary share capital was:
- 100 000 Ordinary shares of $1 each issued for $150 000 on incorporation.
- A bonus issue on 1 September 1999 of one share for every two held to date.
- 100 000 Ordinary shares of $1 each were issued for $130 000 on 1 July 2000.
- A rights issue for the full value of three shares for every five shares held on 1 January 2002.

ii. Preference share capital was:
- 60 000 8% Cumulative redeemable preference shares of $3 each were issued at par on 1 January 2001.
- 30 000 8% Cumulative redeemable preference shares of $3 each were redeemed at a premium 10% on 1 January 2002 out of profits.

Question 3

a) What are the differences between earnings per share and dividends per share? [5]

b) Calculate the earnings per share for the two years ended 31 December 2001 and 2002. [6]

c) The directors of Fish (Pvt) Ltd plan to expand their operations to Binga, but discover that they do not have adequate funds.

i) Advise the directors on any **four** possible sources of finance. [4]

ii) State any **one** advantage and **one** disadvantage of each of the sources you have suggested in **i)** above. [8]

Scenario 4: Fish (Pvt) Ltd is offered a contract

The Kariba branch manufactures dried *matemba* from fresh *kapenta*. Purchases of fresh *kapenta* are made from two sources. 2 500 kg of fresh *kapenta* are bought from Tiger Fisheries on a monthly basis at $20/kg. Any additional *kapenta* required by the branch are sourced from other fisheries at $25/kg.

Currently the branch manufactures and sells 1 000 kg of dried matemba per month at $65 per kg.

The branch manager has been approached by a non-governmental organisation to supply dried matemba to a local orphanage. The terms of the contract are stated below:

i. The contract will not affect current sales.
ii. Monthly sales to the orphanage will be 5 000 packets.
iii. Mass of each packet will be 500g.
iv. Selling price per packet will be $30.

The branch manager also provides you with the following information:

- One kg of fresh *kapenta* yields 0.8 kg of dried *matemba*.
- The processing of 1 kg fresh *kapenta* requires 0.25 labour hours. Labour rate is $25 per hour.
- Other consumable used to process 1 kg of fresh *kapenta* cost 65 cents.
- Current fixed costs amount to $10 000 per month.
- Packing materials cost 50 cents and 90 cents for 500g and 1 kg packets respectively.
- If the contact is accepted, the production for the contract will be done after normal working hours at double the normal labour rate.
- If the contact is accepted, additional fixed costs will be $3 550 per month.

Question 4

a) Calculate the branch's current monthly contribution and net profit. [5]

b) Calculate the branch's current break-even point in sales revenue. [2]

c) Advise the branch manager of whether s/he should accept or reject the contract if he expects a return of 25% on sales. [11]

d) Calculate the margin of safety ratio of the contract. [4]

e) Calculate the contract selling price charged per packet for the company to earn a net profit of 30% based on contract sales. [3]

[N2002Zimsec]

2087 Instructions

Questions **1 c)**, **4 e)** and **4 f)** must be answered in sentence form, not note form.

Scenario 1

Soko Mukanya is a beverages dealer who does not keep full set of accounting records. Although he keeps details of all his expenses, he has no proper record of his receipts from sales.

Information on Soko Mukanya's assets and liabilities is given below:

Balances at	**1 July 2002**	**30 June 2003**
	$	**$**
Motor vehicle	500 000	(see note vi)
Stocks	1 125 000	1 525 000
Trade debtors	197 500	262 500
Trade creditors	632 500	767 500
Accrued rent	225 000	205 000
Insurance prepaid	40 000	53 750
Cash in hand	82 500	116 250

Additional information:

i. During the year, Mukanya won $3 500 000 in a lottery draw. He put this sum into the business.

ii. He agrees that any discrepancy on the Cash Account should be regarded as additional personal drawings.

iii. Soko Mukanya estimates that he maintained a uniform margin of 25%.

iv. Payments by cash were as follows:

	$
Suppliers	13 045 000
Rent	1 803 750
Insurance	1 332 500
Private rent	1 562 500
New motor vehicle	(see note vi)
4% Loan to sister	875 000

v. The loan to Soko Mukanya's sister was issued on 31 March 2003.

vi. On 2 July 2002, he bought a new motor vehicle, paying $1 450 000 cash, which was after deducting an allowance of $300 000 on the old motor vehicle. The new motor vehicle is to be depreciated at 10% per annum on cost.

Question 1

a) Draw up the Cash Account of Soko Mukanya's business for the year ended 30 June 2003. [7]

b) Prepare a Trading and Profit and Loss Account for the year ended 30 June 2003 and a Balance Sheet as at that date. [15]

c) From the financial statements you have just prepared, identify and explain **four** problems likely to be faced by Soko Mukanya. [8]

Scenario 2

In an attempt to ascertain the debtors at 30 June 2004, Soko Mukanya prepared the Sales Ledger Control Account shown below:

Sales Ledger Control Account

	$		**$**
Balance brought down	262 500	Credit sales	752 800
Credit sales returns	29 875	Dishonoured cheques	4 100
Cash & cheques from debtors	500 000	Discount allowed	42 300
Cash sales	21 000	Bad debts	14 605
Set off	10 800	Balance carried down	20 470
Provision for bad debts	6 000		
	830 175		830 175

Soko Mukanya's total Sales Ledger balances amounted to $389 720 which does not agree with the closing balance in the Sales Ledger Control Account.

Subsequently, you discover the following additional errors:

i. A balance due of $24 600 by J. Jones had been omitted from the list of debtors.

ii. A receipt of $31 300 was correctly entered in the Bank Account. However, no entry has been made in the debtor's account.

iii. A debit balance for $18 500 in the Sales Ledger had been transferred to the Purchases Ledger but no entry had been made in the control account.

iv. A sales invoice for $11 200 had not been entered in the Sales Journal.

v. A debtor's account had been understated by $15 000.

vi. A payment of $18 450 by a debtor, C. Ncube, had been posted to the debit side of her account.

vii. The disposal of a motor vehicle for $55 000 had been credited to the Sales Account.

viii. The Discount Allowed Account had been undercast by $4 900.

ix. Bad debts of $2 300 had been written off in the control account but no entry had been made in the debtor's account to cancel the debt.

x. Goods returned by a debtor, which had been invoiced to him at $6 800, had been correctly entered in the Sales Returns Account but debited to the debtor's account as $8 600.

Question 2

a) Prepare a corrected Sales Ledger Control Account. [6]

b) Draw up a statement amending the total of the Sales Ledger balance so that it agrees with the corrected Sales Ledger Control Account balance. [13]

Scenario 3

On 1 July 2005, Soko Mukanya decided to enter into partnership with Dziva Hove, who has also been trading as a sole trader.

The Balance Sheets of the separate businesses at 30 June 2005 are shown below:

Soko Mukanya		**Dziva Hove**
$	Non-current assets (at net book value)	**$**
720 000	Plant and equipment	690 000
–	Motor vehicles	100 000
720 000		790 000
	Current assets	
52 000	Stock	43 000
60 000	Debtors	130 000
10 000	Bank	17 000
842 000		980 000
	Capital	
700 000	Opening balance	810 000
222 500	Net profit	230 000
(100 000)	Drawings	(80 000)
822 500		960 000
	Current liabilities	
19 500	Creditors	20 000
842 000		980 000

Additional information:

i. For amalgamation purposes, the assets of the separate businesses are to be valued at the following agreed figures:

	Soko Mukanya	**Dziva Hove**
	$000	**$000**
Plant and equipment	700	745
Stocks	54	48
Goodwill	30	50

ii. Dziva Hove is to take over his firm's motor vehicles at $110 500.

iii. It is agreed that a provision for doubtful debts of 5% should be created.

iv. The partnership will not show goodwill in its Balance Sheet.

v. The capitals of the partnership to be as follows:

	$000
Soko Mukanya	800
Dziva Hove	900

vi. Profits and losses are to be shared equally between the partners.
vii. The adjustments are made in the books at 30 June 2005 and the partnership is formed on the following day.

Question 3

a) Draw up the following:
- **i)** Revaluation Accounts; [5]
- **ii)** Capital Accounts to reflect the amalgamations on 1 July 2005; [9]
- **iii)** Balance Sheet of the partnership immediately after Soko Mukanya and Dziva Hove merge their interests. [7]

b) Suggest any **five** possible reasons for amalgamation. [5]

Scenario 4

The partnership business buys and sells fruit juice and on 1 July 2006, the partners wish to increase the sales volume through an advertising campaign.

Six different types of juices are bought in cases of 12 each. The juices are then repackaged and sold in cases of 6, each case containing one bottle of each type.

Details of costs and revenues of the juices are as follows:

		$
Purchase cost per case of 12:	Banana	9 000
	Muonde	10 200
	Mupfura	12 000
	Orange	9 000
	Umganu	9 300
	Umviyo	10 500
Selling price per case of 6		6 000
Variable distribution costs per case		250
Annual fixed costs:	Storage	1 000 000
	Salary	500 000

Question 4

a) Calculate the annual break-even point in sales revenue and units. Show all your workings. [4]

b) The partners think that by spending $100 000 monthly on advertising, they can achieve annual sales of 5 000 cases. Calculate the firm's profit under this scheme. [2]

c) The salary is paid to Mark, who sells the juice. Mark offers to forgo his salary in exchange for a $125 commission for every case sold. If the partners accept the offer, what would be the annual break-even point in sales revenue and units? [2]

d) The partners target profit is $3 000 000.

Calculate the cases that should be sold to achieve this figure if
- **i)** Mark receives his $500 000 salary,
- **ii)** Mark is paid by commission. [8]

e) Using your calculations in **d)** above, advise the partners whether they should pay Mark a salary or a commission. [4]

f) Explain the meaning of the term *contribution* and discuss its relevance in marginal costing. [5]

[N2006Zimsec]

2088 Instructions

Questions **2**, **3 b)** and **3 c)** must be answered in sentence form, not in note form, with supporting figures.

Scenario 1

The bookkeeper for Chipo and Nyasha pointed out that there is a difference between a profitability and liquidity. S/he further stressed that there are ratios useful to measure these.

Question 1

a) Distinguish between *liquidity* and *profitability*. [6]

b) State whether the following are *liquidity* or *profitability* ratios:

- **i)** Acid-test ratio;
- **ii)** Debtors days;
- **iii)** Margin percentage;
- **iv)** Rate f stock turn;
- **v)** Return on capital employed. [5]

c) Give the formula for each of the ratios in **b)** above. [5]

d) Distinguish between ratio *vertical trend analysis* and *horizontal trend analysis*. [4]

Scenario 2

The partnership of Chipo and Nyasha has been in the business of manufacturing reading desks for many years. On 31 March 2001, the following Trial Balance was extracted from the partnership books.

			Dr $	Cr $
Capital Accounts, 1 April 2000:	Chipo			250 000
	Nyasha			200 000
Currents Accounts, 1 April 2000:		Chipo		20 000
		Nyasha	8 000	
Drawings:	Chipo		18 000	
	Nyasha		16 000	
Premises at cost			200 000	
Accumulated depreciation on premises				12 000
Plant and equipment at cost			360 000	
Provision for plant and equipment depreciation				108 000
Motor vehicles at cost			240 000	
Total depreciation on motor vehicles				101 760
Debtors and creditors			45 600	70 000
Raw material purchases			560 000	
Sales of finished goods				1 406 600
Direct labour			320 000	
Stocks at 1 April 2000:	Raw materials		60 000	
	Work in progress		48 000	
	Finished goods (100 units)		66 000	
Production overheads:	Fixed		64 000	
	Variable		52 000	
Indirect materials			21 600	
Selling and administrative expenses			38 400	
Balance at bank			32 760	
Provision for doubtful debts				1 000
Provision for unrealised profit				6 000
Rates			16 000	
Insurances			9 000	
			2 175 360	2 175 360

The following matters are to be taken into account when preparing the financial statements:

i. The provision for doubtful debts is to be adjusted to 2½% of the debtors at 31 March 2001.

ii. All stocks are valued on a FIFO basis. Raw materials stocks at 31 March 2001 were $44 000 while work in progress was valued at $36 000. Output is transferred from the factory to the warehouse at a manufacturing cost plus 10%. During the year 1 600 desks were manufactured and 1 550 were sold.

iii. Depreciation is to be provided on fixed assets at the following annual rates:

Premises	–	2% on cost
Plant and equipment	–	10% on cost
Motor vehicles	–	20% on the reducing balance basis

Depreciation on premises is to be shared 60% to the factory; 40% general administration.
Motor vehicles are used exclusively by the sales department.

iv. There was a prepayment of $1 000 and an accrual of $3 000 on the rates and insurances accounts respectively at 31 March 2001. The costs are to be shared 80% to the factory and 20% to the general administration.

v. The partnership agreement provided the following:
- Partnership salaries: Chipo $20 000 and Nyasha $18 000.
- Interest on Capital Accounts and Current Accounts to be credited or charged at 10% per annum.
- Residue of the profits to be shared equally.

Question 2

Prepare the

a) Partnership Manufacturing, Trading, Profit and Loss and Appropriation Accounts for the year ended 31 March 2001. [20]

b) Partners' Current Accounts in the Ledger of the same year. [5]

c) Balance Sheet as at 31 March 2001. [7]

Scenario 3

At a recently held business seminar the partners heard of IAS 1, *Presentation of Financial Statements,* formally called *Disclosure of Accounting Policies*, which deals with fundamental accounting. Among them are:
- going concern,
- consistency,
- accruals and
- materiality.

Question 3

a) Explain clearly the meaning of **each** of these **four** accounting concepts or principles. [12]

b) Explain how **each** of these **four** principles has been applied in the preparation of the financial statements of Chipo and Nyasha. [8]

Scenario 4

At the end of 2002 Chipo and Nyasha decide to find out how they are performing relative to the general performance of the whole industry. The following are summaries of the Income Statement for 2002 and the Balance Sheet at the end of 2002.

Income Statement for the year ended 31 March 2002

	$000
Sales	1 500
Less: Cost of sales	900
Gross profit	600
Less: Expenses	450
Net profit	150

Balance Sheet as at 31 March 2002

		$000	$000	$000
Fixed assets (at net book value)				500
Current assets				
Stocks:	Raw materials	65		
	Work in process	70		
	Finished goods	75		
Debtors		100		
Bank balance		20	330	
Less: Current liabilities				
Creditors		72		
Accrued expenses		4	76	
Working capital				254
				754

Financed by:		$000	$000
Capital Accounts:	Chipo	250	
	Nyasha	200	450
Current Accounts:	Chipo	160	
	Nyasha	144	304
			754

Averages for the whole industry have been calculated as follows:

i.	Gross profit percentage	50%
ii.	Net profit percentage	15%
iii.	Return on capital employed (ROCE) using fixed assets plus working capital	25%
iv.	Debtors' collection period	20 days
v.	Current ratio	2:1
vi.	Acid test ratio	0.9:1
vii.	Utilisation of fixed assets	4 times

Question 4

a) Calculate the same ratios for the partnership. [7]

b) Comment on the performance of the partnership, in as far as profitability and liquidity are concerned, relative to average industry averages. [10]

c) State and explain **three** limitations of the accounting ratios as a basis for assessing the performance of individual firms. [6]

Scenario 5

The partners are concerned at the cost of manufacture. Consequently at the beginning of 2003 they decide to introduce a standard costing system.

The standard cost card for a reading desk included the following:

Direct materials	–	$2m^3$ of timber at $150/m^3$	=	$300
Direct labour	–	4½ hours at $80 per hour	=	$360

During the year ended 31 March 2003, 2 500 reading desks were manufactured.
Actual expenditure was as follows:

5 $750m^3$ timber at $851 000

10 500 direct labour hours at $892 500

Question 5

a) Calculate the:

- **i)** Total direct material cost variance
- **ii)** Direct material price variance
- **iii)** Direct material usage variance
- **iv)** Total direct labour cost variance
- **v)** Direct labour rate variance
- **vi)** Direct labour efficiency variance [12]

b) State **two** factors which would contribute to each of the following:

- **i)** A favourable material price variance;
- **ii)** An adverse material usage variance;
- **iii)** An adverse labour rate variance;
- **iv)** A favourable labour efficiency variance. [8]

c) State **five** benefits of using a standard cost system. [5]

d) What is meant by the following terms:

- **i)** attainable standard;
- **ii)** basic cost;
- **iii)** current standard
- **iv)** ideal standard
- **v)** standard cost. [20]

[N2004Zimsec]

2089 Instructions

Question **2) c)** must be answered in sentence form, not in note form, with supporting figures.

Scenario 1

Beldoy Ltd is a manufacturing company. Its financial year ends on 31 March. The accountant extracted a Trial Balance at 31 March 2007 from the company's books and this is shown below:

Beldoy Ltd: Trial Balance as at 31 March 2007			**$000**	**$000**
Stocks at 31 March 2006:		Raw materials	300	
		Work in progress	250	
		Finished goods	260	
Factory wages:	Direct		600	
	Indirect		60	
Materials purchases:		Direct	1 500	
		Indirect	30	
Carriage inwards (wholly relate to direct materials)			108	
Factory overheads			162	
Sales				4 050
Office salaries			262	
Other administration expenses			450	
Debenture interest paid			15	
Dividends paid:	Ordinary shares		10	
	8% Preference shares		16	
Provision for unrealised profit				52
Freehold premises at cost			1 300	
Provision for depreciation of freehold premises				180
Manufacturing plant and machinery at cost			800	
Provision for depreciation of manufacturing plant and equipment				400
Office equipment at cost			380	
Provision for depreciation of office equipment				100
Trade debtors			394	
Trade creditors				184
Balance at bank			305	
Issued share capital:		Ordinary shares of $10 each		1 000
		8% Redeemable preference shares of $5 each		400
10% Debenture stock (2018 - 2020)				300
Share premium				250
General reserve				100
Retained profit brought forward				186
			7 202	7 202

In preparing the annual accounts from the Trial Balance, the accountant has to take into account further information which is shown below:

i. Stocks at 31 March 2007 valued at lower of cost and net realisable value:

Raw materials	$294 000
Work in progress	$375 000
Finished goods	$396 000

ii. Finished goods are transferred from the factory to the warehouse at a mark-up of 20%.

iii. Factory occupies $^3/_4$ of freehold premises, administrative offices occupy the remainder.

iv. Depreciation policies:

Freehold premises	–	4% per annum on cost;
Plant and machinery	–	30% per annum on net book value;
Office equipment	–	15% per annum on net book value.

v. The freehold premises have been professionally valued at 31 March 2007 at $1 500 000. This revaluation is to be incorporated in the accounts.

vi. $100 000 is to be transferred to the general reserve.

vii. The directors propose a final dividend of $0.30 per share on the ordinary shares together with a further 6 months' preference dividend, both dividends to be paid on 1 June 2007.

Question 1

Prepare for Beldoy Ltd a:

a) Manufacturing, Trading and Profit and Loss Account for the year ended 31 March 2007. [18]

b) Balance Sheet as at 31 March 2007. [12]

Scenario 2

The Managing Director (MD), who is not an accountant, has seen the accounts produced by the accountant and is not satisfied with the profit figure.

The Managing Director sent the accountant a memo, with **three** suggestions for action to increase the profit, is given below:

MEMORANDUM

FROM: Managing director

TO: Accountant

I believe the profit shown in the Profit and Loss Account could be improved if you amend the accounts as follows:

i. You have calculated depreciation on the factory machinery at the rate of 30% on the net book value and yet you have used the rate of 15% for the office equipment. You should use the same 15% for factory machinery as that will not only increase profit but will have the merit of being consistent.

ii. You have valued some of the stock at cost, but other stock at net realisable value when that is less than cost. Cost can be ascertained with certainty but it seems to me that the net realisable value does not present any identifiable figure in the stock records. For the sake of consistency you should value stock at cost. Besides, if the stock has not been sold yet, no loss can be incurred at the date of the accounts in respect of the stock you have included at net realisable value.

iii. You have included a provision for unrealised profit on finished goods in the accounts. The factory has made the profit and full credit for it should be included in the accounts. You should therefore delete the provision.

The accountant explains to the Managing Director that there are rules to be followed in the preparation of company accounts and tells the Managing Director about International Accounting Standard (ISA1) which is about disclosure of accounting policies and names four fundamental accounting concepts that must be followed.

Question 2

a) Name the **four** fundamental accounting concepts mentioned in IAS1. [4]

b) State what is meant in IAS1 by '*accounting policies*'. [2]

c) State with reasons whether the accountant should carry out the instructions contained in the Managing Director's memorandum. [15]

Scenario 3

Beldoy Ltd's Balance Sheet as at 31 March 2007 is given on the next page:

Summarised draft Balance Sheet at 31 May 2007

		$000	$000
Fixed assets a net book value			1 970
Current assets:	Stock	1 066	
	Debtors	360	
	Bank	275	1 701
Current liabilities			(215)
Long term liability:	10% Debenture stock		(300)
			3 156
Ordinary share capital			1 000
8% Preference share capital			400
Capital reserves			630
Revenue reserves			1 126
			3 156

The above balance sheet does not include the results of some certain transactions between 1 April and 31 May 2007 which concerned changes in the share capital and the acquisition of a new machine on a hire purchase, which are as follows:

i.	April 1	A bonus issue was made on the basis of one ordinary share for every two ordinary shares already held; this was done in a manner which left the remaining reserves in the most flexible form.
ii.	May 1	In order to provide funds for the redemption of the preference shares, a right issue was made on the basis of one ordinary share for every three held at $13 per share after the bonus issue on 1 April. All the rights issue was taken up immediately.
iii.	May 14	The preference shares were redeemed at a premium of $0.50 each. These shares were originally issued at par.
iv.	May 31	A machine was acquired on hire purchase terms. Cash price of the machine was $30 000. Hire purchase agreement required 25% of price to be paid immediately.

Question 3

a) Redraft the Balance Sheet at 31 May 2007 to show how it will appear after all the above transactions have been recorded. [15]

b) Explain why your treatment of the reserves in your answer to **3 a)** have left the reserves in the most useful form following the issue of bonus shares. [4]

c) State who legally owns the machine which has been acquired on hire purchase and explain the reason for your treatment of it in the company's Balance Sheet. [6]

Scenario 4

On 1 July 2007 Beldoy Ltd acquires another factory in order to expand its production capacity. This factory has three production departments: Moulding, Assembly and Paint Shop. There is also a service department: Stores. The accountant must apportion the overheads of the factory to the three production departments.

Details of the departments and the budgeted overhead expenses for the six months to 31 December 2007 together with data for Product **Q** are given below:

Departmental statistics for six months ending 31 December 2007

	Moulding	*Assembly*	*Paint Shop*	*Stores*
Area in squire metres	6 000	8 000	5 000	1 000
Machinery at cost	$80 000	$40 000	$20 000	–
No. of workers	30	40	20	10
No. of stores requisitions	700	500	300	

Budgeted overheads for 6 months to 31 December 2007:

	$
Rent	90 000
Lighting & heating	23 000
Insurance of premises	7 000
Canteen costs	54 000

Machinery is to be depreciated at 30% per annum on cost.

All workers will work 35 hours per week and there will be 24 working weeks in the six months to 31 December 2007.

Product **Q** passes through all three departments in the course of manufacture and the time taken in each department is: Moulding 2¼ hours; Assembly 1¾ hours; Paint Shop 1½ hours.

Question 4

a) Prepare a table to show the apportionment of the factory overheads to the production departments for the six months to 31 January 2007. [14]

b) Calculate for each production department an hourly overhead rate. (Your calculations should be to three decimal places). [3]

c) Calculate the total overhead to be awarded to each unit of Product **Q**. [4]

d) If the actual overhead expenditure for the 6 months amounts to $200 000, how will the difference between this amount and the budgeted overheads be treated in the company's final accounts? State the assumptions that you make. [3]

[J2001Cambridge]

2090 Instructions

All questions **must** be answered with reference to Companies Act and relevant International Accounting Standards where applicable.

Question 1: Notes to the accounts

a) List any **five** contents of the:
  i) Auditors' report;
  ii) Directors' report. [10]

b) State any **four** disclosure requirements for:
  i) Company directors;
  ii) Fixed assets;
  iii) Staff or employees. [12]

Question 2: Published Income Statement

Figures taken from internal Profit and Loss Account of Demo Ltd for the year ended 30 June 2008 are:

	$000
Administration costs	700
Corporate tax on ordinary activities	200
Cost of turnover	4 900
Extra-ordinary gains net of tax	300
Interest charges	100
Other operating income	400
Selling and distribution expenses	600
Turnover	7 200

a) Prepare the Income Statement in the format suitable for publication. [10]
b) Explain the significance of the layout you have adopted in **a)** above. [3]
c) Suggest any **three** limitations of historical cost accounting? [3]
d) What is meant by the term *extra-ordinary item*? [2]

[Author]

2091 Instructions

Answer **all** questions in the order they are set. Show **all** workings

Scenario 1

The directors of Franken Ltd provide you with the following Trial Balance as at 28 February 2006:

	$000	**$000**
Purchases and sales	914	1 750
Operating expenses (excluding depreciation)	330	
Interest paid	10	
Interim dividend paid	80	
Profit and loss		450
Land and buildings	700	
Provision for depreciation on land and buildings		90
Machinery	450	
Provision for depreciation on machinery		130
Stock at 1 March 2005	280	
Trade debtors and trade creditors	410	190
Bank balance	106	
8% Debentures (2012)		110
Ordinary shares of $1 each fully paid		560
	3 280	3 280

i. Stock at 28 February 2006 was $339 000.

ii. The directors wish to provide the following:

Taxation	$204 000
Final dividend	$50 000

Depreciation on all fixed assets at 10% per annum using straight-line method

Question 1

a) Prepare a Trading, Profit and Loss and Appropriation Account for the year ended 28 February 2006. [12]

b) Show the Balance Sheet as at 28 February 2006. [11]

Scenario 2

The directors of Franken Ltd ask you to prepare a Cash Flow Statement. You are provided with a copy of the Balance Sheet at 28 February 2005 shown below:

	Cost	Dep	Net
Fixed assets	**$000**	**$000**	**$000**
Land and buildings	540	90	450
Machinery	340	130	210
	880	220	660
Current assets			
Stock		280	
Trade debtors		375	
Bank balance		185	
		840	
Creditors: Amounts falling due within 1 year			
Trade creditors	250		
Taxation	176		
Proposed dividends	24	450	390
			1 050
Creditors: Amounts falling due after more than 1 year			
8% Debentures (2012)			110
			940
Share capital and reserves			
Ordinary shares of $1 each		490	
Profit and loss		450	940

Note: There were no disposals of fixed assets during the year.

Question 2

a) Prepare the Cash Flow Statement for the year ended 28 February 2006 [13]

b) Identify and explain **two** reasons why a business may prepare a Cash Flow Statement [4]

Scenario 3

Directors of Franken Ltd have offered to purchase the business of Anjni Lagrad. The Balance Sheet for Franken Ltd at 28 February 2007 is as follows:

Fixed assets	**$000**	**$000**
Land and buildings		1 200
Machinery		1 155
		2 255
Current assets		
Stock	138	
Trade debtors	190	
Bank balance	280	
	608	
Creditors: Amounts falling due in less than 1 year		
Trade creditors	110	498
		2 853
Creditors: Amounts falling due after more than 1 year		
8% Debentures (2012)		300
		2 553
Share capital and reserves		
Ordinary shares of $1 each	1 500	
Profit and loss	1 053	2 553

The market price of ordinary shares in Franken Ltd is $2.10. The ordinary dividend yield is 4.5% and the directors of Franken Ltd are confident that the same level of dividend can be maintained if Anjni Lagrad's business is acquired. The Balance Sheet for Anjni Lagrad as at 28 February 2007 was as follows:

	$000	$000
Plant property and equipment		
Land and buildings		300
Plant and machinery		160
		460
Current assets		
Stock	60	
Trade debtors	40	
Bank balance	68	
	168	
Less: Current liabilities		
Trade creditors	48	120
		580
Represented By		
Capital	430	
Profit	380	810
Less: Drawings		230
		580

Profit made by Anjni Lagrad's business in the year ended 28 February 2007 is similar to than earned by the business over the past few years.

Anjni Lagrad currently earns 5% per annum on any cash investment s/he is able to make.

Franken Ltd has offered to take over the assets and liabilities of Anjni Lagrad, except bank account, at the book value.

The purchase consideration is $1 350 000, which will be settled as follows: $300 000 cash and 500 000 ordinary shares of $1 each in Franken Ltd.

As part of purchase the agreement, Anjni Lagrad will be offered a job working for Franken Ltd at an annual salary of $200 000.

Directors of Franken Ltd will use the purchase of Anjni Lagrad's business as an opportunity to revalue their land and buildings to the maximum possible value without the creation of the revaluation reserve.

After the revaluation of the land and buildings, the directors will make a bonus issue of two ordinary shares for every three held to members of Franken Ltd who were members at 28 February 2007.

Question 3

a) Prepare the financial statement showing Anjni Lagrad's expected annual income if s/he accepts the offer from Franken Ltd. [10]

b) Advise Anjni Lagrad whether s/he should, on financial grounds, accept the offer from Franken Ltd. [4]

c) Explain **two** non-financial factors which Anjni Lagrad may take into account before deciding on whether or not to accept the offer from Franken Ltd. [4]

d) Prepare the Balance Sheet of Franken Ltd, if the purchase of Anjni Lagrad's business goes ahead. [22]

Scenario 4

On 28 February 2008, the Balance Sheet of Franken Ltd was as follows:

	$000	$000
Non-current assets		
Intangibles: Goodwill	500	
Tangibles	6 500	7 000
Current assets		
Stock	320	
Trade debtors	800	
Bank balance	60	
	1 180	

	$000	$000
Less: Creditors: Amounts falling due within one year		
Trade creditors	420	760
		7 760
Less: Creditors: Amounts falling due after more than 1 year		
8% Debentures		300
		7 460
Share capital and reserves		
Ordinary shares of $1 each		9 700
Profit and loss		(2 240)
		7 760

Franken Ltd has started trading at a loss and no dividends have been paid to the shareholders.

Directors are of the opinion that goodwill is now valueless. The tangible fixed assets are overvalued by $1 400 000. Some stock which cost $100 000 now has no value. Included in the amount owed by the trade debtors is $111 000 from a customer who is now become insolvent.

The directors are confident that, as a result of improved efficiency and introduction of new products, the company can look forward to annual net profits of $500 000. They have proposed to the shareholders a capital reduction scheme whereby each shareholder will receive one ordinary share with a par value of $0.55 for every $1 share currently held. This will enable the debit balance on the Income Statement (≡ Profit and Loss Account) to be eliminated and adjustments are to be made to the company assets to take account of the matters mentioned above.

The directors' policy in the future will be to pay dividends which are covered twice by the earnings. The shareholders have agreed to the directors' proposals and the capital reduction scheme was effected on 1 March 2008.

Question 4

a) Show journal entries to effect the capital reduction scheme. Narratives not required. [6]

b) Prepare the Balance Sheet as it will appear immediately after the capital reduction. [10]

c) Explain the reasons why the shareholders agreed to the capital reduction in the nominal ≡ par ≡ face ≡ stated value of their shares. [5]

Scenario 5

A segment of Franken Ltd manufactures four types of camera that all use 'yugara', a component made only in one factory. Each 'yugara' costs $50 to purchase. Due to a prolonged strike by workers in the 'yugara' factory, Franken Ltd will only be able to purchase 20 000 'yugara' this year.

The following information relates to each type of camera manufactured by Franken Ltd:

	Digital	*Cinema*	*Spy*	*Medical*
Maximum demand (units)	10 000	4 000	3 000	500
Per camera	**$**	**$**	**$**	**$**
Yugaras	50	100	200	350
Other direct materials	40	90	98	300
Direct labour	20	30	30	55
Fixed costs	60	80	40	70
Profit	50	70	52	490
Selling price	220	370	420	1 265

Question 5

a) Calculate the numbers of each type of camera to be produced and sold that would maximise the profit of Franken Ltd. [21]

b) Prepare a marginal costing statement showing the profit for the year. [9]

c) Calculate the total annual sales revenue required by Franken Ltd to break-even this year. [6]

d) Outline **two** disadvantages that might be encountered if the planned production pattern was adopted. [4]

[J2006Cambridge]

2092 Instructions

Answer **all** the questions in the order they are set

Scenario 1

David Mpofu has been in the business of providing canned fish. On 31 March 2005, he prepared a Trial Balance with a difference of $45 100, the total of the debit side being larger by that amount. He opened a Suspense Account until such a time as the error(s) could be found. Meanwhile, David Mpofu went on to prepare final accounts for the business which showed a net loss of $23 000 for the year.

Subsequently, David Mpofu found the following errors:

i. Major repair work to a damaged motor car amounting to $27 800 was debited to Motor Vehicles Account as $28 700.
ii. The sale of goods on credit to E. Bvundi for $5 000 was debited to E. Bvundi's Account. No other entry was made.
iii. The figure of stock on 1 April 2004 had been entered in the Trial Balance as $140 000 instead of $104 000 as shown in the Stock Account.
iv. A stock sheet totalling $13 000 had been omitted from the closing summary on 31 Mach 2005.
v. A credit balance of $1 600 in the Sales Ledger had been extracted as a debit balance.

Question 1

a) Prepare the Journal entries to correct the above errors, narrative not required. [10]
b) Draw up the Suspense Account [5]
c) Calculate the revised profit or loss of David Mpofu's business for the year. [5]

Scenario 2

From 1 April 2005, David Mpofu was joined by Turuka Dururu as a partner. Their business became big success that required expansion. On 1 January 2006, they decided to covert their business into Mapple Leaf Gardens Limited company.

The partnership Balance Sheet at 31 December 2005 was as follows:

Fixed Assets	$	$	Capital Accounts	$	$
Freehold premises	60 000		David Mpofu	120 000	
Plant and machinery	45 000		Turuka Dururu	80 000	200 000
Fixtures and fittings	12 000	117 000	Current Accounts		
Current Assets			David Mpofu	2 000	
Stock	50 000		Turuka Dururu	3 500	5 500
Debtors	60 000		Current Liabilities		
Bank	12 500	122 500	Creditors		34 000
		239 500			239 500

Mapple Leaf Gardens Limited's authorised share capital was $1 500 000. This was made up of 500 000 8% preference shares of $1 each and 1 000 000 ordinary shares of $1 each.

The company agreed to take over all assets and liabilities except bank. The company valued acquired assets as follows:

	$000
Premises	100
Plant and machinery	35
Fixtures and fittings	6
Stock	46

The company created a provision for doubtful debts of 2½% of debtors.

Purchase ≡ consideration price was $250 000 to be settled by the issue of 180 000 $1 ordinary shares at par and the balance to be settled in cash. The shares were distributed according to partners' capital ratios on 31 December 2005.

Question 2

Show the entries necessary to close the partnership business in the following accounts:

a) Realisation Account [9]
b) Bank Account [4]
c) Partners' Capital Accounts [4]
d) Mapple Leaf Gardens Limited Account [3]

Scenario 3

Mapple Leaf Gardens Limited sent information shown below to their accountant to enable him prepare the final accounts for year ended 31 December 2007.

i. 50% of the motor vehicle costs are to be apportioned to the factory.

ii. Finished goods were transferred from the factory to the warehouse at $900 000.

iii. Freehold premises is to revalued to $300 000 on 31 December 2007.

iv. Trial Balance as at 31 December 2007:

		$	$
Stocks at 1 January 2007:	Raw materials	18 000	
	Work in progress	27 800	
	Finished goods	42 500	
	Loose tools	15 000	
Purchase of raw materials		245 500	
Direct wages		345 000	
Indirect wages		21 000	
Rent and rates:	Factory	54 000	
	Offices	28 000	
Electricity:	Factory	27 000	
	Offices	13 500	
Repairs and maintenance:	Factory	10 000	
	Offices	8 200	
Insurance:	Factory	12 000	
	Offices	4 000	
Purchase of loose tools		13 650	
Sales			1 200 000
Motor vehicle expenses		17 600	
Carriage inwards		1 350	
Selling and distribution		52 190	
Administration		74 000	
Discounts		2 140	1 760
Debenture interest		800	
Freehold premises (at cost)		240 000	
Provision for depreciation of freehold premises			96 000
Plant and machinery (at cost)		215 000	
Provision for depreciation of plant and machinery			125 000
Motor vehicles (at cost)		84 000	
Provision for depreciation of motor vehicles			42 000
Office machinery and equipment (at cost)		26 000	
Provision for depreciation of office machinery and equipment			18 000
Debtors and creditors		114 640	23 540
Bank		54 260	
Provision for unrealised profit			4 000
Share capital (150 000 ordinary shares of $1 each)			150 000
8% Debentures			20 000
Retained profits			86 830
		1 767 130	1 767 130

v. Stocks at 31 December 2007:

	$
Raw materials	22 000
Work in progress	24 500
Finished goods	67 500
Loose tools	13 400

vi. Accrued expenditure at 31 December 2007:

		$
Rent:	Factory	5 000
	Offices	2 800
Direct wages		6 000
Indirect wages		1 900
Selling and distribution		3 000

vii. Prepayments at 31 December 2007:

Rates:	Factory	1 000
	Offices	800
Insurance:	Factory	1 800
	Offices	600

viii. Depreciation is to be provided for the year on straight-line basis:

Freehold premises	4%	(¾ factory and ¼ administration)
Plant and machinery	20%	
Motor vehicles	25%	
Office machinery and equipment	20%	

ix. Directors proposed a dividend of 30 cents per share.

x. A bonus issue of 1 share for every 3 shares currently held is to be made on 31 December 2007. These shares do not rank for dividends. Reserves are to be left in the most flexible form.

xi. A transfer of $20 000 to the general reserve is to be made.

Question 3

a) Prepare for the year ended 31 December 2007 the Manufacturing, Trading and Profit and Loss and Appropriation Accounts. [24]

b) Show the Balance Sheet as at 31 December 2007. [10]

c) Explain clearly, giving examples, the term *adjusting events*. [4]

Scenario 4

The directors of Mapple Leaf Gardens Limited prepared flexible budgets for two output levels for the half-year ending 30 June 2008. The budgets and actual results are as shown below:

Flexible budgets for 6 months ending 30 June 2008:

Production and sales (units)		50 000	70 000
		$000	**$000**
Direct materials		75	105
Direct labour		50	70
Maintenance		25	30
Depreciation		30	30
Total costs		180	235
Profit		120	185
Sales revenue	($6 per unit)	300	420

Actual production and sales were 62 000 units and actual revenues and costs were:

			$
Direct materials			93 000
Direct labour			74 400
Maintenance:	Variable costs	16 000	
	Fixed costs		14 000
Depreciation			30 000
Total costs			227 400
Profit			150 800
Selling price			378 200

Question 4

a) Prepare a flexible budget for 62 000 units using a marginal costing format. [13]

b) Comment on the differences between the flexible budget and actual results. [3]

c) State three advantages and three disadvantages of standard costing. [6]

[J2006Zimsec]

2093 Abridged data for Eat With Me Ltd, a food chain store, and Drive In Style Ltd, motor manufacturers, is given below:

	Eat With Me Ltd	**Drive In Style Ltd**
	$ million	**$ million**
Sales	500	125
Gross profit ratio	100	35
Net operating profit	20	20
Fixed assets	50	40
Stock	25	40
Debtors	–	25
Bank	25	10
Current liabilities	50	30
Loans	–	20

a) Calculate the following for each company, Eat With Me Ltd and Drive In Style Ltd.
- **i)** Current ratio;
- **ii)** Acid test ratio;
- **iii)** Stock turnover;
- **iv)** Gross profit percentage;
- **v)** Operating profit margin;
- **vi)** Return on total assets;
- **vii)** Return on equity. [14]

b) Comment on the performance of the two companies based on the calculations in **a)** above. [6]

[J08Q3Zimsec]

2094 Themba's Balance Sheet at 31 December 2003 is as follows:

	$	**$**	**$**
Fixed assets		560 000	
Less: Accumulated depreciation		384 000	176 000
Current assets:			
Stock	68 000		
Debtors	24 000		
Prepaid establishment expenses	1 600		
Bank	34 000	127 600	
Less: Current liabilities:			
Creditors	24 800		
Accrued administrative expenses	2 800	27 600	100 000
			276 000
Financed by:			
Capital on 1 January 2003		248 000	
Add: Net profit		64 000	312 000
Less: Drawings			36 000
			276 000

The information pertaining to the year ended 31 December 2004 is as follows:

i. Stock was valued at $44 000 on 31 December 2004.

ii. Themba applies a mark-up of $33^1/_3$%.

iii. Payments made:

	$
Creditors	442 800
Administration expenses	44 800
Establishment expenses	37 600
Purchase of fixed assets	80 000
Themba's personal expenses	40 000

iv. Cash sales amounted to $328 000.

v. Creditors on 31 December 2004 were $13 200 more than the previous year.

vi. Other balances on 31 December 2004 were:

	$
Establishment expenses prepaid	3 200
Debtors	26 000
Accrued administrative expenses	2 000
Bank overdraft	20 000

vii. Themba realises that the cashier has been systematically stealing cash from the business. The insurance company has agreed to cover the loss.

viii. Depreciation is provided at the rate of 5% on the cost of fixed assets.

a) For the year ended 31 December 2004, draw up the:
- **i)** Trading, Profit and Loss Account; [14]
- **ii)** Total Debtors Account; [3]
- **iii)** Bank Account. [5]

b) Prepare the Balance Sheet as at 31 December 2004. [8]

[J08Q1Zimsec]

2095 Images Ltd's Income Statement and comparative Balance Sheets are shown below.

Income Statement for the year ended 30 June 2006.

	$000	**$000**
Sales	1 950	
Cost of sales	1 145	805
Wages	315	
Depreciation	70	
Goodwill amortised	40	
Other operating expenses	130	
Interest payable	85	640
Net profit		165

Balance Sheet as at	**30 June 2006**	**30 June 2005**
Assets	**$**	**$**
Inventory	580 000	476 000
Cash and cash equivalents	120 000	100 000
Prepaid expenses	90 000	30 000
Accounts receivable	196 000	255 000
Plant and equipment	890 000	650 000
Accumulated depreciation (Plant and equipment)	(380 000)	(310 000)
Goodwill	–	40 000
	1 496 000	1 241 000
Liabilities and shareholder's equity		
Accounts payable	135 000	70 000
Wages payable	30 000	12 500
Interest payable	15 000	22 500
Ordinary shares	675 000	625 000
Loan stock	80 000	–
Retained earnings	525 000	445 000
Bank overdraft	36 000	66 000
	1 496 000	1 241 000

During the year ended 30 June 2006, dividends were paid.

a) State any **four** benefits to management of preparing a cash flow statement. [4]

b) Distinguish between the **direct** and **indirect** methods of preparing Cash Flow Statement. [6]

c) Prepare a Cash Flow Statement according to IAS 7 under the following sub-headings
- **i)** Cash flow from operating activities, using the:
  - **A)** Direct method;
  - **B)** Indirect method;

ii) Cash flow from investing activities;
iii) Cash flow from financing activities. [21]
d) Reconcile the opening and closing balances of cash and cash equivalents. [4]

[J08Q2Zimsec]

2096 Mushonga Chemicals manufactures product AB using a single process.

The following information relates to the month of October:

i. Inputs: Material – 25 000 kgs @ $4.96/kg
Labour – 8 000 hours at $11.00 per hour
Overheads – $126 000
ii. A kg of direct materials is expected to produce two units.
iii. Normal loss is 4% of input.
iv. Scrap is sold at $4 per kg.
v. Finished output amounted to 30 000 units.
vi. Closing work in process/ progress amounted to 12 000 units and was fully complete for material; $^2/_3$ complete for labour and $^1/_2$ complete for overheads.
vii. There was no opening work in progress.

a) Define and give an example:
i) By-product;
ii) Joint product;
iii) Waste product;
iv) Equivalent production. [8]
b) State **three** differences between normal and abnormal losses. [6]
c) Compute a schedule to determine the value of a complete unit. [6]
d) Calculate the value of closing work in process/ progress. [3]
e) Prepare for the month of October the:
i) Process Account; [7]
ii) Abnormal Loss Account; [3]
iii) Scrap (Normal Loss) Account. [3]

[J08Q4Zimsec]

2097 **Instructions**

Each question in this case study describes an event in the life of a business, and is then followed by a question. Answer **all** questions. You are advised to answer the questions in the order in which they are set. Workings should be shown. Questions **1b)**, **1c)**, **3b)** and **4c)** must be answered in sentence form.

Scenario 1: Myriad Tennis Club run by partnership of Afro, China and Euro

The following information is available on 1 January 2004:

	$
Club premises	80 000
Creditors for refreshments	7 250
Furniture and fittings	45 000
Motor vehicles	60 000
Rent and rates paid in advance	1 750
Sports equipment	42 500
Stock of refreshments	8 640
Subscriptions owing	830
Subscriptions paid in advance	360
Water and electricity outstanding	700

The Receipts and Payments Account for the year ended 31 December 2004 is shown below

Receipts	$	Payments	$
Balance b/d	29 140	Water and electricity	12 100
Disposal of sports equipment	4 500	Salaries and wages	14 400
Life membership fees	30 000	Repairs to equipment	13 500
Loan from bank	50 000	Rent and rates	12 750

Receipts	$	Payments	$
Profit from dances	5 250	Raffle expenses	16 250
Receipts from raffles	37 440	Purchase of refreshments	33 800
Sale of refreshments	79 960	Purchase of furniture	50 000
Subscriptions	53 600	New sports equipment	20 500
		Loan repayment	20 000
		General expenses	16 250
		Balance c/d	77 540
	289 890		289 890

Notes

i. The following information was available on 31 December 2004:

	$
Water and electricity paid in advance	520
Subscriptions paid in advance	880
Subscriptions owing	1 440
Stock of refreshments	5 000
Rent and rates outstanding	450
Raffle expenses outstanding	1 400
Furniture and fittings at valuation	92 500
Creditors for refreshments	6 650
Club premises	80 000

ii. The loan from the bank was received on 1 January 2004. The rate of interest is 15% per annum. The loan repayment took place on 30 June 2004.

iii. It is the policy of Myriad Tennis Club to depreciate both motor vehicles and equipment using the reducing balance method at the following rates:

Motor vehicles	20% per annum
Equipment	15% per annum

iv. At 1 January 2004, the net book value of the equipment sold on 30 June 2004 was $6 000.

v. Out of the general expenses, $8 450 is for the sale of refreshments.

Question 1

a) **i)** Calculate the accumulated fund of the club at 1 January 2004. [3]

ii) Prepare the Income and Expenditure Account for the year ended 31 December 2004. [10]

iii) Show the club's Balance Sheet at 31 December 2004. [7]

b) Explain the following terms, giving examples where possible:

i) Life subscriptions;

ii) Donations;

iii) Ancillary activities. [6]

c) You are told that the following took place during year 2005:

i. $60 000 was deposited into a new club house fund.

ii. Entry fees received from new members totalled $100 000.

iii. Donations to coach young members amounted to $67 000.

iv. Legacy received from a deceased club member was $500 000.

v. Subscriptions to the tune of $1 330 were received in relation to year 2004.

Show how the above matters would be treated in the accounts. [10]

Scenario 2: The partnership is dissolved

At 31 December 2006, the partners decided to dissolve the partnership business. Afro, China and Euro shared profits and losses in the ratio 3:2:1 respectively. Balance Sheet of the partnership immediately before the dissolution is shown below:

Assets	$	Liabilities	$	$
Premises	400 000	4% Loan: Afro		60 000
Furniture	108 000	Creditors		274 000
Motor vehicles	116 000	Bank overdraft		73 000

	$				$	$
Stock	174 000	Capital:	Afro		300 000	
Debtors	244 000		China		200 000	
Cash	7 000		Euro		100 000	600 000
		Current accounts:		Afro	29 500 Cr	
				China	24 200 Cr	
				Euro	(11 700) Dr	42 000
	1 049 000					1 049 000

Notes

i. Some of the assets were sold as follows:

	$000
Premises	416
Furniture	48
Motor vehicles	34
Stock	162

ii. The partners took over the assets not sold as follows:

Asset	Value $000	Partner
Furniture	40	Afro
Motor vehicles	47	China
Furniture	10	Euro
Stock	5	Euro

iii. Debtors owing $160 000 paid $150 400 in full settlement. Afro will collect the outstanding debts subject to a provision of 10% for the possible bad debts.

iv. Creditors amounts of $180 000 were paid $171 000 in full settlement. The balance due to the remaining creditors was to be paid in due course.

v. Afro was paid the loan plus the interest due.

vi. The dissolution expenses amounted to $6 600.

Question 2

Prepare the:

a) Realisation Account; [10]

b) Partner's Capital Accounts, in columnar form; [6]

c) Bank Account. [7]

Scenario 3: Afro & Co Ltd is formed and acquires another business

At 30 June 2007, a new company, Afro & Co Ltd, was formed. Three months after its formation, Afro & Co Ltd took over the business of Themes, a sole trader. The Balance Sheet of Afro & Co Ltd before the take over is shown below:

Balance Sheet as at 30 September 2007

	$000	$000
Fixed assets		
Premises	2 000	
Motor vehicles	800	2 800
Current assets		
Stock	900	
Debtors (net)	700	
Bank	280	1 880
		4 680
Issued shared capital		
Ordinary shares of $10 each		2 500
Reserves		
Share Premium Account	300	
Profit and Loss Account	840	1 140
Current abilities		
Trade creditors		1 040
		4 680

Notes

i. The assets and liabilities of Themes, taken over by Afro & Co Ltd on 30 September 2007, are:

Assets	$	Liabilities	$
Premises	1 400 000	Capital	1 812 000
Motor vehicles	400 000	Creditors	836 300
Stock	360 000		
Debtors	440 000		
Bank	48 300		
	2 648 300		2 648 300

ii. The cash of Themes' business was not taken over.

iii. The purchase consideration payable to Themes was $2 400 000 and this were settled as follows:

- 120 000 Ordinary shares of $10 each at $13 each;
- $600 000 14% Debentures at par
- and the balance in cash

iv. The assets taken from Themes were revalued as follows:

	$000
Premises	1 640
Motor vehicles	360
Debtors	420
Stock	330

v. The decrease in debtors was due to bad debts written off.

vi. The authorised share capital for Afro & Co Ltd was 600 000 ordinary shares of $10 each.

vii. Afro & Co Ltd made a rights issue of 40 000 shares at $12 each which was fully subscribed.

viii. $40 000 was paid for the expenses for the above matters.

ix. The premises of the company were revalued at $2 750 000.

Question 3

a) Prepare the:

i) Journal entries necessary to record the above matters in the books of Afro & Co Ltd. [11]

ii) Balance Sheet of Afro & Co Ltd as at 30 September 2007. [6]

b) Explain the terms:

i) Capital reserve;

ii) Debentures;

iii) Gearing;

iv) Goodwill;

v) Rights issue. [12]

Scenario 4: Afro & Co Ltd prepares budgets

Afro & Co Ltd wants to prepare its master budgets for 6 months ending 31 December 2008. The budget officer has the following trading forecasts for the 8 months ending 31 December 2008.

	Sales in units	Purchases	Wages and salaries	Overheads excluding depreciation	Purchase of fixed assets	Issue of 40 000 $10 shares	Proposed dividend
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
May	8 200	648	432	378			
June	8 200	702	432	378			
July	9 000	756	432	378			
August	9 200	972	540	378			
September	9 600	864	540	378		400	
October	10 000	756	540	432			189
November	7 600	648	648	432	1 620		
December	6 000	648	648	432			

The Balance Sheet as at 30 June 2008 is as follows:

			$000	$000	$000
Fixed Assets at cost					6 912
Less: Depreciation					432
Carrying amount					6 480
Current Assets:	Stock			1 350	
	Trade debtors			1 394	
	Bank			56	
				2 800	
Less: Current liabilities:		Trade creditors	1 350		
		Other creditors	486	1 836	964
					7 444
Capital and reserves:		Share capital		5 400	
		Profit and loss		2 044	7 444

Notes

i. May 2008 selling price was $170 per unit and this will be increased to $240 per unit in October. 50% of the sales are for cash and 50% on credit to be paid for two months later.
ii. Purchases are to be paid for two months after purchase.
iii. Wages and salaries are to be paid 75% in the month incurred and 25% the following month.
iv. Overheads are to be paid the month after they are incurred.
v. The fixed assets will be acquired at the end of November. They are to be paid for in three equal monthly instalments following the month of purchase.
vi. Dividends are to be paid three months after they are declared and receipts from the share issue are budgeted to be received in the month of issue.
vii. Fixed assets are to be depreciated at 10% per annum on the reducing balance method on those assets owned on 31 December 2008.
viii. Opening stock at the beginning of the period under review is equal to purchases of previous two months. At 31 December 2008, closing stock will be equal to purchases of the last three months of the forecast period.

Question 4

a) Draw up, for the six months ending 31 December 2008,
- **i)** a Cash Budget, [8]
- **ii)** the Master Budget. [7]

b) List **four** advantages of preparing a Cash Budget. [4]

c) Write a report to the managing director of Afro & Co Ltd, explaining why the bank balance will be low although the company will be profitable. Use the figures in the Cash and Master Budgets. [10]

[J2008Zimsec]

2098 Which of the following appears on the credit side of the Cash Account? [Author]

A Bank charges **B** Bank overdraft **C** Cash discount **D** Cash stolen

2099 The following information was provided by a business on 30 June 2008:

	$000
Balance as per Bank Statement	1 210
Bank charges	115
Cheque received from customer not yet deposited	495
Cheques not yet presented to the bank by creditors	500
Credit transfer – Dividend	640
Customers' dishonoured cheques	75

What is the Cash Book balance? [J08Q17Z]

A $755 000 **B** $765 000 **C** $1 205 000 **D** $1 280 000

2100 Which of the following appears on the credit side of a Sales Discount Account? [Author]

A Bad debts written off **C** Disallowed discount
B Bad debts recovered **D** Dishonoured cheques

2101 Rudo purchased a motor van for the business from Chipo for $10 quadrillion on credit. She debited the motor expenses and credited Chipo with $10 quadrillion.

What type of error did she make? [N08Q09Z]

A A compensating error
B An error of commission
C An error of complete reversal
D An error of principle.

2102 The difference in a Trial Balance has been entered in a Suspense Account. A receipt of $150 000 from a debtor has been debited to the Bank Account and credited to Sales Account.

Which entry corrects the error? [J08Q09Z]

	Debit	Credit	With
A	Debtors Account	Suspense Account	$150 000
B	Sales Account	Debtors Account	$150 000
C	Sales Account	Suspense Account	$150 000
D	Suspense Account	Sales Account	$150 000

2103 Stock was recorded in the Trial Balance as $123 000 instead of $132 000 while the bank overdraft of $7 000 were recorded on the wrong side.

The Suspense Account balance was [Author]

A $2 000 Cr. **B** $2 000 Dr. **C** $5 000 Cr. **D** $5 000 Dr.

2104 A Trial Balance failed to agree and the difference was entered in a Suspense Account. This was due to the discount received of $60 million posted as discount allowed, and a discount allowed of $2.5 million posted as discount received.

What was the balance in the Suspense Account? [N08Q10Z]

A $3.5 million credit **B** $3.5 million debit **C** $7 million credit **D** $7 million debit

2105 The difference in a Trial Balance was entered on the debit side of the Suspense Account.

It is discovered the:

i. Opening stock balance had been undercast by $17 000
ii. Sales Day had been overcast by $63 000
iii. Total for debtors in the Trial Balance was $57 000 instead of $67 000

The Suspense Account was debited with [J08Q02Z]

A $36 000. **B** $56 000. **C** $70 000. **D** $90 000

2106 Which of the following is found on the credit side of a Creditors Control Account? [Author]

A Cash refunds
B Cash purchases
C Dishonoured cheques
D Interest charged

2107 The Purchases Ledger Control Account for the year showed the following:

	$000	
Opening balances	30	Cr
	6	Dr
Suppliers' invoices	90	
Credit notes received	3	
Discount received	2	
Sales Ledger contra	8	
Closing balances	35	Cr
	2	Dr

How much cash was paid to creditors during the year? [N08Q07Z]

A $60 000 **B** $65 000 **C** $67 000 **D** $68 000

2108 The table below shows information relating to a retail business.

	Purchases		Credit purchases	Cash paid for cash and	Discounts received
2008	Cash	Credit	returns	credit purchases	from credit suppliers
	$000	**$000**	**$000**	**$000**	**$000**
January	500	4 000	200	2 500	100
February	650	5 100	100	3 700	300
March	900	6 200	400	5 000	440

How much is owed to credit suppliers on 31 Mach 2008? [J08Q14Z]

A $2 560 000 **B** $4 610 000 **C** $6 200 000 **D** $6 660 000

2109 A debit balance in a supplier's account means [Author]

A money is owed to that creditor.
B money is owed to that debtor.
C that creditor was overpaid in error.
D that debtor overpaid in error.

2110 A credit balance in a customer's account means that [Author]

A creditor was paid in advance.
B creditor owes us that amount.
C debtor paid in advance.
D debtor owes us that amount.

2111 Which item does **not** appear in the Sales Ledger Control Account? [J08Q07Z]

A Bad debts recovered
B Cash received from customers
C Discount Allowed
D Provision for discount allowed

2112 A trading concern had the following information in its books:

	$000
Cash sales	500
Credit sales	900
Cash purchases	800
Credit purchases	500
Debtors	180
Creditors	20

What is the debtors' collection period? [N08Q25Z]

A 46.93 days **B** 50.54 days **C** 73 days **D** 82.13 days

2113 Selected data on 31 July 2008, for a company, is given below:

	$000
Cash sales	1 000
Cost of sales	1 200
Credit sales	2 500

[J08Q23Z]

If the debtors' collection period is 73 days, what is the amount owed by debtors on 31 July 2008?

A $200 000 **B** $240 000 **C** $500 000 **D** $700 000

2114 A manufacturing company had the following balances at its year end:

		$000
Raw materials:	Opening stock	45
	Closing balance	56
	Purchases	172
Wages:	Direct	300
	Supervisor's	54
Manufacturing overheads		25

What was the prime cost for the year? [N08Q08Z]

A $461 000 **B** $472 000 **C** $515 000 **D** $540 000

2115 According to IAS 2, *Inventories,* which of the following is included as part of the cost of inventory?

A Abnormal amounts of wasted materials, labour, or other production costs.
B Administrative overheads that do not contribute to bringing inventories to their present location and situation.
C Cost of conversion.
D Selling costs. [N08Q18Z]

2116 The information below is about a business whose stock valued at $40 000 was destroyed by fire on 30 June 2008. All sales are made at a uniform gross profit margin of 20 per cent.

	$000
Stock on 1 June 2006	200
Sales	1 500
Purchases	1 380

[J08Q04Z]

What is the value of the stock which was not destroyed by fire on 30 June 2006?

A $290 000 **B** $330 000 **C** $340 000 **D** $420 000

2117 A total of $940 000 was paid to creditors during the year and the following is available:

		$000
1 January 2008:	Stock	360
	Trade creditors	240
31 December 2008:	Stock	400
	Trade creditors	300

What is the cost of sales for the year? [J08Q18Z]

A $840 000 **B** $920 000 **C** $960 000 **D** $1 040 000

2118 A company's accounts show a gross profit of $160 quintillion and a sales figure of $640 000 quintillion.

What is the company's mark-up? [N08Q15Z]

A $^1/_3$ **B** ¼ **C** $^1/_5$ **D** $^1/_6$

2119 The following information relates to a company's trading activities for a period:

Sales	$250 000
Mark-up	25%
Opening stock	$40 000
Closing stock	$60 000

What is the company's rate of stock turnover? [N08Q24Z]

A 2 times **B** 2.5 times **C** 3.75 times **D** 4 times

2120 When should a department be closed?

A When its fixed costs are greater than the contribution
B When its net profit is falling each year
C When its sales are low
D When its variable costs are greater than the sales revenue [N08Q33Z]

2121 Which concept is **not** mentioned in IAS 1, *Presentation of Financial Statements*? [Author]

A Accruals **B** Going concern **C** Materiality **D** Prudence

2122 Which accounting convention is followed when leased assets are shown in Balance Sheet? [J08Q08Z]

A Accruals **B** Materiality **C** Prudence **D** Substance over form

2123 The term used to write off part of a lease is called [J08Q13Z]

A amortisation. **B** depletion **C** depreciation **D** devaluation

2124 The distinction between capital and revenue expenditure is important when [N08Q05Z]

A calculating investment ratio.
B preparing Bank Accounts.
C preparing Control Accounts.
D preparing Profit and Loss Accounts.

2125 Capitalisation of development costs is an example of [N08Q29Z]

A going concern concept.
B matching concept.
C money measurement concept.
D realisation concept.

2126 A business commenced trading and purchased a motor van for $410 sextillion on 1 January 2007. The business uses the reducing balance method to depreciate its motor vans at a rate of 20% per annum.

What is the depreciation charge for the year ended 31 December 2009? [N08Q02Z]

A $52.48 sextillion **B** $82 sextillion **C** $147.6 sextillion **D** $200.08 sextillion

2127 A motor vehicle purchased for $1 200 000 was traded-in for $400 000. The net book value of the motor vehicle was $350 000, and the new motor van was acquired at a cost of $1 500 000.

The transfer to the Profit and Loss Account was [J08Q06Z]

A $50 000. **B** $250 000. **C** $350 000. **D** $450 000

2128 At the beginning of a year, prepaid electricity is $30 000, and at the end of the year, the business owes $60 000 for electricity. The business paid $750 000 for electricity during the year.

The amount charged to the Profit and Loss Account for the year is [J08Q03Z]

A $660 000. **B** $720 000. **C** $780 000. **D** $840 000

2129 The provision for doubtful debts is maintained at 5 per cent of debtors. [J08Q05Z]

	$000
Provision for doubtful debts on 1 January 2007	30
Debtors at 31 December 2007	750

What was the amount transferred to the Profit and Loss Account on 31 December 2007?

A $7 500 credit **B** $7 500 debit **C** $37 500 credit **D** $37 500 debit

2130 A company decreases its provision for bad debts by $15 000.

What will be the effect of this adjustment on the final accounts? [N08Q04Z]

	Net profit	**Net debtors**
A	Decrease by $15 000	Decrease by $15 000
B	Decrease by $15 000	Increase by $15 000
C	Increase by $15 000	Decrease by $15 000
D	Increase by $15 000	Increase by $15 000

2131 Which of the following will increase profit? [J08Q01Z]

A Decreasing the provision for discount allowed
B Decreasing the value of closing stock of finished goods
C Increasing distributable reserves
D Increasing the provision for doubtful debts

2132 After preparing the final accounts for the year, the following errors were discovered:

- A credit sale of $110 000 has been omitted from the books
- No account had been taken of a prepaid rent of $25 000
- The purchases figure was overcast by $70 000

If the draft net profit figure is $360 000, what is the corrected net profit? [J08Q10Z]

A $295 000 **B** $375 000 **C** $525 000 **D** $565 000

2133 An estate agent receives annual rent of $60 billion. The tenant makes quarterly payments in advance on 1 January, 1 April, 1 July and 1 October.

Assuming that the tenant makes payments on the due dates, which of the following will be included in the agent's books for the rent income for the year ended 30 April 2009? [N08Q03Z]

A $5 billion accrual **C** $15 billion accrual
B $10 billion in advance **D** $15 billion in advance

2134 What is the equation for working capital? [N08Q01Z]

A Capital employed – Fixed assets **C** Capital employed + Current assets
B Capital employed – Liabilities **D** Capital employed + Fixed assets

2135 The following are extracts from a Balance Sheet at the end of the year:

	$000
Stock	200
Accounts receivable (Trade debtors)	300
Prepayments	40
Bank	60

	$000
Cash	20
Accounts payable (Trade creditors)	300
Accrual for expenses	50

What is the quick ratio? [N08Q23Z]

A 1.2:1 **B** 1.4:1 **C** 1.77:1 **D** 2.07:1

2136 A business has a current ratio of 2:1 and a quick ratio of 0.5:1.

What is the effect on the liquidity ratios if the company uses cash to buy stock? [J08Q20Z]

	Current ratio	Quick ratio
A	decreases	decreases
B	decreases	increases
C	no change	decreases
D	no change	increases

2137 A donation to a club to help it build a new pavilion will be shown as [N08Q12Z]

A a special fund in the Balance Sheet.
B an addition to accumulated fund.
C an addition to surplus over expenditure.
D an asset in the Balance Sheet.

2138 The following information relates to a partnership business: [J08Q12Z]

	$000
Net profit before interest	970
Interest on partner's loan to the firm	170
Interest on capitals	270
Drawings	130

What is the profit which is going to be appropriated between partners?

A $400 000 **B** $530 000 **C** $800 000 **D** $970 000

2139 Interest on partners' drawings is recorded by [J08Q16Z]

	Debiting	Crediting
A	Bank Account	Partners' Current Accounts
B	Bank Account	Profit and Loss Appropriation Account
C	Partners' Current Accounts	Profit and Loss Appropriation Account
D	Profit and Loss Appropriation Account	Partners' Current Accounts

2140 The following information relates to the partnership of Shingi, Virimayi and Tatenda who share profits and losses in the ratio 2:2:1 respectively:

		$000
Capital Accounts:	Shingi	40
	Virimayi	30
	Tatenda	20
Current Accounts:	Shingi	2
	Virimayi	3
	Tatenda	(1)
Profit before appropriation		150

Interest on capital is 10% and interest on current account is 5%. [N08Q11Z]

What are the Current Account balances for each partner at the end of the year?

	Shingi $	Virimayi $	Tatenda $
A	68 420	59 470	27 110
B	60 420	59 470	30 110
C	62 320	62 320	29 160
D	62 320	62 470	29 110

2141 Tanaka, Thandiwe and Tigere, who have been sharing profits and losses equally, agree to share profits and losses in ratio 2:2:1. They value goodwill at $300 000 but no Goodwill Account will be maintained in the books.

Before the change, their capitals were:

	$000
Tanaka	360
Thandiwe	180
Tigere	240

[J08Q21Z]

What will be their Capital Account balance **after** the changes in profit and loss sharing ratio?

	Tanaka	Thandiwe	Tigere		Tanaka	Thandiwe	Tigere
A	$340 000	$160 000	$280 000	**C**	$480 000	$300 000	$300 000
B	$460 000	$280 000	$300 000	**D**	$580 000	$400 000	$400 000

2142 Lokhuzeni and Nhinginikiriki have been in partnership for some years sharing profits and losses in the ratio 2:1respectively. They admitted Somebody into the partnership and the profit and loss sharing ratio of Lokhuzeni, Nhinginikiriki and Somebody became 2:2:1 respectively. Somebody introduced $100 000 cash as capital. Goodwill is valued at $120 000 and is not to be recorded in the partnership books.

What is the balance on Somebody's Capital Account? [N08Q13Z]

A $76 000 Cr **B** $100 000 Cr **C** $120 000 Cr **D** $124 000 Cr

2143 The following information relates to the partnership of Mhizha and Shava.

		$000	
Premises		30	
Land and buildings		60	
Motor vehicles		45	
Stock		10	
Debtors		8	
Bank		4	
Creditors		6	
Accrued expenses		3	
Current Accounts:	Mhizha	4	Cr
	Shava	3	Cr

What is the sum of the Capital Account balances for the partners? [N08Q06Z]

A $141 000 **B** $148 000 **C** $155 000 **D** $157 000

2144 When a partnership is dissolved, the loss on dissolution is [J08Q15Z]

A credited to the partners' Capital Accounts.
B credited to the partners' Current Accounts.
C debited to the partners' Capital Accounts.
D debited to the partners' Current Accounts.

2145 The table below shows the fair value of the net assets of a business.

	$000
Tangible fixed assets	320
Net current assets	50
Intangible fixed assets (excluding goodwill)	65

The net assets are acquired by another company for $530 000. [N08Q16Z]

What is the value of goodwill arising from acquisition?

A $95 000 **B** $145 000 **C** $160 000 **D** $210 000

2146 A business has the following assets and liabilities:

		$000
Fixed assets		1 500
Current assets:	Stock	450
	Debtors	550
Current liabilities		250

A company agrees to purchase the business above by issuing $5.00 shares at par for the agreed price. The assets and liabilities will be taken over at the above values subject to the following adjustments:

	$000
Allowance for stock loss	60
Bad debts	50
Goodwill, to be valued at	210

What is the number of shares that can be issued to satisfy the purchase price? [J08Q30Z]

A 470 000 **B** 492 000 **C** 520 000 **D** $542 000

2147 A business of a sole trader is acquired by a limited company. The net assets of the business are valued at $334 septillion but the purchase price of the business is agreed at $274 septillion. The company will pay $100 septillion in cash and issue 120 septillion shares of $1 each.

What is the premium per share? [N08Q17Z]

A $0.25 **B** $0.45 **C** $0.52 **D** $0.95

2148 A company's liquidity may be improved by [N08Q14Z]

A a rights issue of shares.
B creating a Capital Redemption Reserve.
C issuing bonus shares.
D not providing for bad debts.

2149 A company has just been wound up and its assets realise $500 000.

The capital structure of the company was as follows: [J08Q27Z]

	$000
Ordinary shares	500
Preference shares	260
Loan stock	300

How will the $500 000 be distributed?

	Ordinary shares	**Preference shares**	**Loan stock**
A	$200 000	$260 000	$ 40 000
B	$500 000	—	—
C	—	$200 000	$300 000
D	—	$260 000	$240 000

2150 A company wishes to raise finance without increasing its gearing.

It can do so by [J08Q28Z]

A a bonus issue of ordinary shares.
B a rights issue of ordinary shares.
C an issue of debentures.
D an issue of preference shares.

2151 Which of the following expressions represents gearing? [N08Q26Z]

A Debt/Debentures
B Debt/(Equity + Fixed cost capital)
C Debt/Fixed cost capital
D Debt/(Preference shares + Debentures)

2152 The market price per share for a company is $3. [J08Q33Z]

	$000
6% Debentures	3 000
8% Preference shares	3 000
$1 Ordinary shares	4 000
Net profit before debenture interest	1 000

What is the company's price/ earnings ratio?

A 12 **B** 14.63 **C** 15.79 **D** 20.69

2153 An ordinary share in a public limited company has a nominal value of $1. The earnings per share is $0.25 and the price earnings ratio is 10.

What is the market value of the company's ordinary share? [J08Q25Z]

A $2.50 **B** $4 **C** $25 **D** $40

2154 Which item is included in the reserves of a limited company? [J08Q11Z]

A Debentures **B** Ordinary shares **C** Preference shares **D** Share premium

2155 What are the ordinary shareholder's funds? [J08Q26Z]

	$000
Ordinary share capital	600
10% Debentures	250
General reserve	125
Profit and Loss Account	55

A $600 000 **B** $725 000 **C** $780 000 **D** $975 000

2156 What was the distributable profit for the year ending 31 October 2008? [J08Q22Z]

	$000
Operating profit	1 000
Less: Debenture interest	175
	825
Add: Profit on sale of investments	275
	1 100
Less: Transfer to general reserve	500
	600

A $600 000 **B** $825 000 **C** $1 000 000 **D** $1 100 000

2157 Which of the following is **not** required as a note to the Profit and Loss Account? [N08Q20Z]

A Hire of plant and machinery **C** Revaluation of fixed assets

B Particulars of staff **D** Turnover

2158 Which transaction does **not** require entries in a company's Ledger? [J08Q24Z]

A A bonus issue of shares

B A rights issue of shares

C A sale by a shareholder, of shares at a price above the nominal value

D An issue of shares at a price above the nominal value

2159 A company's Balance Sheet showed the following:

			$000
Authorised share capital			20 000
Issued share capital:	Ordinary shares of $1 each	12 000	
Reserves:	Share premium		2 000
	General reserves		1 600
	Profit and Loss Account		1 400

What is the maximum number of bonus shares that could be legally issued? [J08Q29Z]

A 3 million **B** 3.4 million **C** 3.6 million **D** 5 million

2160 The following is the capital structure of VA (Pvt) Ltd: [N08Q22Z]

	$000
100 000 $1 Ordinary shares	100
10% Preference shares of $1 each	200
Share premium	20
General reserve	30
Profit and loss	40
	390

Bonus shares of 1 ordinary share for every 2 held was issued, followed by a rights issue of 1 for every 3 held at a price of $1.20.

Assuming the reserves are to be left in the mot flexible manner/ state, what will be the balances in the Share Premium Account and the Ordinary Share Capital Account?

	Share premium	**Ordinary share capital**		**Share premium**	**Ordinary share capital**
A	-----------	$200 000	**C**	$10 000	$200 000
B	$10 000	$150 000	**D**	$30 000	$200 000

2161 A company redeems 40 zillion $1 ordinary shares at a premium $0.20 per share. These shares were originally issued at par. There is no issue of shares to finance the redemption.

What are the effects on the Profit and Loss Account and the Capital Redemption Reserve? [N08Q30Z]

	Profit and Loss Account		Capital Redemption Reserve	
A	Decrease	$48 zillion	Increase	$40 zillion
B	Decrease	$48 zillion	Increase	$48 zillion
C	Increase	$40 zillion	Decrease	$40 zillion
D	Increase	$48 zillion	Decrease	$40 zillion

2162 Which of the following events that occur after the Balance Sheet date is an adjusting event? [N08Q21Z]

A Closing a significant part of trading activities
B Losses of fixed assets as a result of fire or flood
C Purchases of fixed assets
D Valuation of property

2163 What are the proper headings for a cash flow statement according to IAS 7? [N08Q19Z]

A Cash flow from operating activities, Investing activities, Financing activities
B Cash flow from operating activities, Returns on investments and servicing of finance, Investing activities, Financing activities
C Cash flow from operating activities, Returns on investments and servicing of finance, Taxation, Investing activities, Financing activities
D Cash flow from operating activities, Taxation, Investing activities, Financing activities

2164 In a Cash Flow Statement, which item will **not** be an adjustment, to operating profits/ losses, to arrive at cash from operations? [J08Q19Z]

A Decrease in stock **C** Purchase of machinery
B Interest payable **D** Tax payable

2165 A hairdresser is facing some working capital problems and would want to take a short-term loan. The bank has asked to see budgets for the next six months.

Which budget should be prepared first? [N08Q32Z]

A Cash **B** Labour **C** Materials **D** Sales

2166 A tailor and his single employee are working at full capacity and turning away new work. The tailor has decided to employ an additional worker. The bank overdraft is at its limit and for the tailor to negotiate any increase on his overdraft limit, the bank would want to see the tailor's budgets for next 12 months.

Which budget should be drawn up first? [J08Q34Z]

A Cash **B** Labour **C** Materials **D** Sales

2167 A company budgets sales of 30 000 units next year. Budgeted stocks at the start of the year are 16 000 units and at the end of the year 22 000 units. Two kilograms of raw materials are required for each unit.

What is the company's raw materials budget for the next year? [J08Q39Z]

A 18 000 kgs **B** 24 000 kgs **C** 48 000 kgs **D** 72 000 kgs

2168 The following information relates to a manufacturing company?

Overheads	$3 500 000
Budgeted production	100 000 units
Budgeted man hours	350 000 hours
Budgeted marginal cost	$1 350 000 per year

What is the overhead absorption rate based on labour hours? [N08Q36Z]

A $10 **B** $13.50 **C** $13.86 **D** $35

2169 What could be the cause of under-absorption of overheads? [N08Q35Z]

A Actual level of activity is in line with budgeted level of activity
B Actual level of activity is less than budgeted level of activity
C Actual overhead is less than budgeted overhead
D Budgeted level of activity is less than actual level of activity

2170 A carpenter manufactures chairs and the following are the costs per unit:

	$000
Materials	10
Labour	5
Variable overheads	2
Fixed overheads (based on budgeted output of 1 000 units)	3
Variable selling expenses	1

The number of chairs in stock is 50.

What is the value of closing stock using marginal costing principles? [N08Q31Z]

A $850 000 **B** $900 000 **C** $1 000 000 **D** $1 050 000

2171 What is the contribution to sales ratio?

		$	**$**
Sales			200 000
Less:	Fixed costs	15 000	
	Variable costs	75 000	90 000
			110 000

[J08Q36Z]

A 37.5% **B** 45% **C** 55% **D** 62.5%

2172 The information below shows the company's budget for two levels of activity.

	2 000 units	5 000 units
	$000	**$000**
Materials	200	500
Labour	100	250
Overheads	160	250

The selling price per unit is $500.

What is the break-point in units? [N08Q34Z]

A 212.76 **B** 285.71 **C** 312.5 **D** 585.71

2173 A manufacturing company provides you the data below:

	$000
Sales (10 000 units)	?
Break-even sales	9 000
Fixed costs	?
Total costs	?
Profit	5 400

If the contribution margin ratio is 40%, the selling price per unit is [Author]

A $2 250 **B** $2 700 **C** $3 400 **D** $3 600

2174 The data below relates to three products, ***L***, ***M*** and ***N*** which use the same raw material.

Product	***L***	***M***	***N***
Selling price per unit	$34	$38	$42
Variable costs per unit	$24	$26	$34

Each product requires the same amount of raw materials.

If this raw material is in short supply, then production should begin with [N08Q39Z]

A ***L*** followed by ***M***. **B** ***M*** followed by ***L***. **C** ***N*** followed by ***L***. **D** ***N*** followed by ***M***.

2175 The company is experiencing a shortage of labour.

Product	**X**	**Y**	**Z**
Contribution per unit	$390	$420	$440
Fixed overhead per unit	$210	$250	$300
Labour hours per unit	1.5	1.75	1.60

In which order should the products be ranked to maximise profits? [J08Q37Z]

	1	2	3		1	2	3
A	**X**	**Y**	**Z**	**C**	**Z**	**X**	**Y**
B	**X**	**Z**	**Y**	**D**	**Z**	**Y**	**X**

2176 Chirandu Ltd manufactures wooden cabinets whose cost of making 1 cabinet is as follows:

	$
Wood	1 200
Labour (15 hours at $60 per hour)	2 400
Production overhead ($200 per direct labour hour)	3 000
Cost per cabinet	6 600

At the end of the year, work in progress consisted of 12 cabinets which are 75% complete as to direct and 50% as to labour.

What is the value of work in progress? [N08Q37Z]

A $39 600 **B** $43 200 **C** $59 400 **D** $79 200

2177 A company's monthly budgeted sales were $560 000, based on selling price of $70 per unit and a cost of $35 per unit. In the second month, 13 000 units were sold for $806 000.

What is the sales price variance for the month? [J08Q35Z]

A $104 000 Adverse
B $104 000 Favourable
C 351 000 Adverse
D 351 000 Favourable

2178 Budgeted overheads for a company for three months are $480 000. The actual overheads for the three months are $420 000.

	Budget	**Actual**
Output hours	220 000	165 000
Hours per unit	2.75	2.75

Using the information above, what is the standard overhead cost per unit? [J08Q32Z]

A $5.25 **B** $6 **C** $7 **D** $8

2179 The following information relates to a flour manufacturer: [N08Q38Z]

	Standard	**Actual**
Price of materials ($/ tonne)	12.80	12.60
Usage of materials (tonnes)	1 140	1 260
Wage rate ($/ hour)	6.84	6.44
Direct labour hours	240	280

What are the material price and labour efficiency variances?

	Material price	**Labour efficiency**		**Material price**	**Labour efficiency**
A	228 A	257.6 A	**C**	252 A	273.6 F
B	228 F	257.6 F	**D**	252 F	273.6 A

2180 The following is supplied by a company relating to an investment which a company wants to undertake:

		Project **$000**	**Discount factor** **10%**
Initial capital expenditure		75	
Profit or loss: Year	1	40	0.909
	2	45	0.826
	3	30	0.751
	4	(11)	0.683
Estimated residual value at the end of Year 4		11	

What is the net present value of the project? [J08Q38Z]

A $13 547 **B** $21 060 **C** $64 251 **D** $71 764

2181 What is the purpose of cost accounting? [J08Q31Z]

A To aid decision making
B To calculate capital expenditures
C To identify non-performing departments
D To provide financial statements to stakeholders

2182 Cost and management accounting does **not** make use of [Author]

A incremental costs. **B** opportunity costs. **C** relevant costs **D** sunk costs

2183 The following information relates to a project proposal for a company. [N08Q40Z]

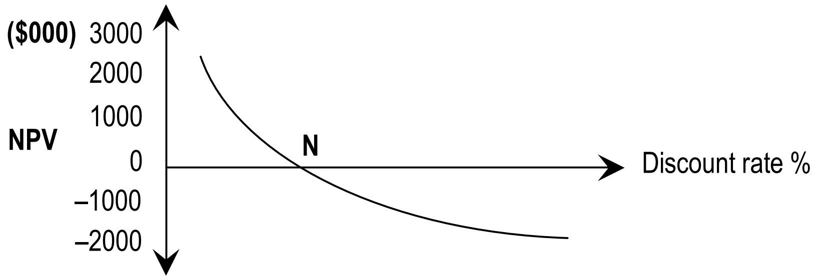
Year	**1**	**2**	**3**	**4**
Revenue ($000)	2 000	3 000	4 000	2 000
Expenses ($000)	800	2 500	1 500	700

The cost of the project is $4 million and the expected scrap value is $1 million at the end of year 4.

What is the accounting rate of return for this project based on the average investment?

A 25% **B** 31.25% **C** 55% **D** 62.5%

2184 The graph relates to a project under consideration by a company as a possible investment. [J08Q40Z]



What does point **N** represent?

A Accounting rate of return
B Break-even point
C Internal Rate of Return
D Return on capital employed

2185 <u>**Scenario 1**</u>

Willy is a sole trader who has been in business for many years. He wants to know how the cash has been spent during the trading period and provides the Balance Sheets of his business below:

Balance Sheet as at 31 December	**2001**		**2002**	
<u>Non-current assets</u>	**$**	**$**	**$**	**$**
Equipment (cost)	840 000		1 090 000	
Less: Accumulated depreciation	90 000	750 000	192 000	898 000
Motor vehicles (cost)	192 000		192 000	
Less: Aggregate depreciation	96 000	96 000	144 000	48 000
Office furniture	120 000		110 000	
Less: Total depreciation	84 000	36 000	72 000	38 000
<u>Current assets</u>				
Stock	150 000		240 000	
Debtors	54 000		84 000	
Bank	214 800		153 200	
<u>Current liabilities</u>				
Creditors	(59 400)		(136 800)	
Loan interest	------------		(6 000)	
Net current assets		359 400		334 400
		1 241 400		1 318 400
Capital	943 000		1 091 400	
Net profit	617 000	1 560 000	570 200	1 661 600
Drawings		(468 600)		(433 200)
		1 091 400		1 228 400
8% Loan		150 000		90 000
		1 241 400		1 318 400

Additional information

i. No equipment was sold during the year ended 31 December 2002.

ii. Willy sold some office furniture which had originally cost $30 000 for $8 000 cash. The office furniture was bought four years ago and was depreciated at 20% per annum on cost.

Question 1

a) Prepare a cash flow statement for the year ended 31 December 2002. [11]

b) Explain any **three** reasons why a profitable business may make a bank overdraft. [6]

Scenario 2

At the end of 2003 Willy extracted a Trial Balance which failed to agree. He entered the difference in a Suspense Account

The draft Profit and Loss Account prepared by Willy showed a gross profit of $1 970 000 and net profit of $1 380 000.

After completing his draft final accounts, Willy consults you as an accountant and you discover these errors:

i. A credit balance in the Purchases Ledger, $62 000, had been omitted from list of balances extracted from this Ledger.

ii. Goods returned by Willy to P. Moyo, a supplier, had been credited to P. Moyo's Account and debited to Returns Outwards Account. The goods had cost $120 000.

iii. A debt of $28 000 had been written off as bad in the Sales Ledger but no other entry was made.

iv. Repairs to Willy's business motor vehicle, $605 000, had been debited in error to Motor Vehicles Account as $650 000.

v. The opening stock figure at 1 January 2003 had been entered in the Trial Balance as $434 000 instead of $344 000 as shown in the Stock Account.

vi. Purchases from S. Supplier amounting to $810 000 were received on 31 December 2003. These were included in closing stock at that date, but this invoice was not entered in the Purchases Journal.

vii. In November 2003, Willy purchased a large quantity of stationery at a bargain price of $420 000. Three fifths of this stationery was in stock on 31 December 2003 but no adjustment was made in the accounts.

viii. A delivery van held as a fixed asset had been sold during the year for $144 000. The proceeds of the sale had been credited to the Sales Account. The original cost of the van, $360 000, and the accumulated depreciation to date, $240 000, were included in the Motor Vehicles Account. Willy depreciates delivery vans at 25% per annum on straight-line basis with a proportionate depreciation charge in the year of purchase but none in the year of sale.

Question 2

a) Prepare the Journal entries necessary to correct each of the errors. Narratives not required. [10]

b) Write the Suspense Account. [5]

c) Prepare computations for the year ended 31 December 2003 of the corrected:

i) gross profit;

ii) net profit. [14]

d) List **five** methods that Willy can employ to persuade overdue debtors to pay their accounts. [5]

Scenario 3

In December 2004, Willy agreed to amalgamate his business with that of Freddy, also a sole trader, to form a partnership as from 1 January 2005. The statements of financial position at the end of 2004 are as given below.

Balance Sheet as at 31 December 2004	***Willy's business***		***Freddy's business***	
	$000		**$000**	
Fixed assets				
Plant and equipment	900		600	
Fixtures	216		168	
Motor vehicles	300		204	
		1 416		972
Current assets				
Stock	708		804	
Debtors	852		780	
Bank	684		372	
		2 244		1 956
		3 660		**2 928**

	Willy's business	Freddy's business
	$000	**$000**
<u>Current liabilities</u>		
Creditors	768	672
<u>Equity</u>		
Capital at 1 January 2004	2 000	1 800
Net profit	1 200	840
Drawings	(308)	(384)
Net capital employed	2 892	2 256
	3660	**2928**

<u>Additional information:</u>

The partners agree the following provisions which should be effected on amalgamation:

i. Willy will take over his firm's vehicles at $230 000. Freddy's motor vehicles are sold for $220 000 and the cash retained in the business.

ii. The partnership is to take over the assets of the old firms at the following values:

	Willy's firm	Freddy's firm
	$000	**$000**
Fixtures	250	120
Plant and equipment	940	612
Stock	658	745
Goodwill	800	500

iii. The partnership will not show goodwill in the Balance Sheet.

iv. Profits and losses will be shared in the ratio of Willy $^3/_5$; Freddy $^2/_5$.

v. The capitals of the partners in the partnership are to be: Willy $2 700 000; Freddy $2 200 000.

Question 3

a) Distinguish between an *amalgamation* and *merger*. [2]

b) Explain any **three** factors which partners should consider when establishing profit and loss sharing ratios. [3]

c) Draw up the following:

i) Revaluation Accounts in columnar form; [4]

ii) Capital Accounts of the partners, in columnar form, to effect the amalgamation; [12]

iii) Opening Balance Sheet of the partnership as at 1 January 2005 [7]

<u>Scenario 4</u>

In 2005, the partnership experienced a steady growth in sales. However, increased competition led Willy and Freddy to believe that manufacturing their own products will be necessary in the following year in order to cut costs and maintain the partnership's present growth. Details for the year ended 31 December 2006 are given below.

	$000
Sales	?
Direct materials	1 440
Direct labour	?
Variable manufacturing overheads	360
Fixed manufacturing overheads	?
Variable selling expenses	216
Fixed selling and administration expenses	400
Contribution	?
Net profit	720
Break-even point in sales value	3 600

<u>Additional information:</u>

i. The contribution margin ratio is 40%.

ii. There were no stocks at the beginning and end of the year.

iii. Apart from those costs listed above, there were no other costs.

Question 4

a) Explain the limitations of break-even analysis. [6]

b) Calculate, for the year ended 31 December 2006, the;

i) total fixed costs;

ii) fixed manufacturing overheads;

iii) contribution;

iv) sales;

v) direct labour. [17]

Scenario 5

Willy and Freddy learnt that being a company is more advantages than operating a partnership. One of their bookkeepers made mention of the Companies Act 24:03, the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and how they regulate corporate entities.

Question 5

a) Distinguish between a public limited and a private limited company. [2]

b) Name any **two** documents to be lodged with the registrar of companies before a certificate of incorporation can be issued. [3]

c) List any **four** advantages of running a company instead of a partnership. [4]

d) According to IAS 1, *Presentation of Financial Statements*,

i) list any **four** concepts mentioned therein; [4]

ii) state any **four** components of published financial statements; [4]

[N2008Zimsec]

2186 Instructions

Questions **4) b)** and **4) c)** must be answered in sentence form, **not** note form.

Scenario 1: Teen Seen discovers and corrects errors in control accounts

Teen Seen is a sole trader who deals in children's toys. Below is her Sales Ledger Control Account for the year ended 31 March 2008:

Sales Ledger Control Account			
Balance b/d	30 086	Sales returns	10 885
Sales	500 000	Cash	461 884
Dishonoured cheques	500	Discount allowed	20 400
		Bad debts	9 400
		Set off	1 032
		Balance c/d	26 985
	530 586		530 586

The total of Teen Seen's Sales Ledger balances is $28 698 and this does not agree with the closing balance in the above account.

i. The Discount Allowed Account was overcast by $300.

ii. A debit balance of $2 000 was omitted from the list of debtors.

iii. A sales invoice for $1 000 was omitted from the books completely.

iv. An entry for $800 in the Sales Day Book was not posted to the to the debtor's account.

v. A Sales Ledger account was undercast by $50.

vi. A page from the Sales Day Book with entries amounting to $3 942 was not included in total sales. The amounts were posted to the debtors' accounts.

vii. A credit note for $160 sent to a debtor was entered in the Sales Journal and posted as a sale to both accounts

viii. A debit balance of $1 091 in the Sales Ledger was set off against a contra account in the Purchases Ledger. No entry was made in the control accounts.

ix. Muza, a debtor owing $894 was declared bankrupt in March 2008. The debt was written off in the control account but no entry was made to cancel the debt in the debtor's account.

x. A receipt of $518 was debited to the Bank Account but no entry was made in the debtors' account.

Question 1

a) **i)** Show the amendments to be made to the control account and calculate its new balance. [15]

ii) Prepare a statement adjusting the total of the Sales Ledger balance so that it agrees with the new control account balance. [9]

b) What are the benefits of maintaining control accounts? [3]

Scenario 2: Teen asks a friend, Keen, to keep her accounting records

In April 2008, Teen asked her friend Keen, an inexperienced bookkeeper, to manage the business and keep accounting records whilst she sought medical treatment abroad. Unfortunately, Keen has not been able to keep proper accounting records for the whole year.

Keen provides you with the information below and asks you to help her calculate the profit for the financial year:

i. Bank Account for the year ended 31 March 2009

	$		$
Opening balance	700	Paid to suppliers	23 600
Cash banked (note iii.)	73 328	Rent and rates	1 800
		Lights and heat	1 400
		Advertising	950
		Wages	6 030
		Stationery	920
		Drawings	10 300
		Closing balance	29 028
	74 028		74 028

ii. Details of assets and liabilities other than the bank balances are as follows:

	1 April 2008	31 March 2009
Debtors	$30 816	(See note iv.)
Prepaid advertising	–	$650
Creditors	$4 000	$5 200
Advertising expenses owing	$200	–
Stocks	(See note v.)	(See note v.)
Equipment	$10 620	(See note vi.)

iii. All daily takings were banked with the exception of $1 000 which was used to purchase a printer for Teen's daughter.

iv. Closing debtors' figure was equivalent to one week's sales. One quarter of this total is considered doubtful and should be provided for. Assume that the business operated for fifty weeks in a year.

v. The total of opening and closing stocks at selling price was $21 105. It is known, however, that stock at 31 March 2009 was valued at $180 less than it was at the beginning of the financial year at cost. Average mark up on cost of stock was 75%.

vi. Equipment is to be depreciated over five years, using the straight-line method. By 31 March 2009, the equipment had been owned for exactly two years.

Question 2

a) Prepare Teen's Trading and Profit and Loss Account for the year ended 31 March 2009 and a Balance Sheet as at that date. [21]

b) Why depreciation provided for in the books of accounts? [2]

Scenario 3: Teen forms a partnership with Pams

Teen analysed the net profit she made during the year ended 31 Mach 2010 and felt that it was little. As a result, she felt she needed someone to share all the business risks with and inject more capital into the business. She approaches her friend Pams and the two agree to form a partnership starting on 1 April 2010.

Their Balance Sheets immediately before the two businesses were merged are shown below:

Balance Sheets as at 31 Mach 2010

	Teen $	Pams $
Freehold property	7 500	5 000
Fixtures	1 800	1 400
Motor vehicles	2 500	1 700
Stock	5 900	6 700
Debtors	7 100	6 500
Investments	1 500	–
Bank balance	4 200	3 100
	30 500	24 400

	Teen	Pams
	$	$
Creditors	(6 400)	(5 600)
Net assets	24 100	18 800
Capital	22 500	18 000
Profit for year	1 600	800
	24 100	18 800

Additional information:

i. The following adjustments were agreed upon for the purposes of partnership formation:

	Teen	Pams
	$	$
Stock	5 700	6 200
Motor vehicles	2 200	1 600
Fixtures	2 000	–
Freehold property	9 500	–

ii. It was agreed that Pams' fixtures and freehold property be disposed on 1 April 2010. The proceeds of the sale amounted to $10 000 and are deposited.

iii. Teen took over her investments.

iv. Provision for doubtful debts: Teen $400 and Pams $500.

v. Creditors were taken over at:

	$
Teen	6 240
Pams	5 460

vi. Goodwill of each of the businesses at 31 Mach 2010 was valued as follows:

	$
Teen	7 500
Pams	5 000

A Goodwill Account is not to be opened in the books of the partnership

vii. It As from 1 April 2010, the partnership profits and losses are to be shared as follows:

Teen	55%
Pams	45%

viii. It was proposed that the partnership of Teen and Pams should have a capital of $50 000. This was to be provided by the partners in the same ratio as they share profits and losses. Any adjustments required for this purpose have to be fulfilled by partners either by paying cash into or withdrawing cash from the partnership Bank Account.

Question 3

a) For each business, prior to partnership formation, prepare in columnar form a:

i) Revaluation Account; [6]

ii) Capital Account. [6]

b) For the partnership, prepare the:

i) Partners Capital Accounts, in columnar form; [5]

ii) Opening Balance Sheet. [8]

c) What are the disadvantages of a partnership when compared to a sole trader? [2]

Scenario 4: Partnership considers manufacturing products.

To ensure that the new partnership will be a success, the partners are considering manufacturing a range of children's toys. They have approached you to help them prepare budgets for the partnership, for May 2010.

They provide you with the details below:

i. The four toys to be manufactured are: a school, a house, a boat and a caravan.

ii. Wages costs are estimated at $1 per unit for each of the models.

iii. There will be no stocks of raw materials and work-in-progress at the end of the period. However, the opening stocks of finished goods valued at $11 900 consist of 600 schools, 800 houses, 600 boats and 450 caravans.

It is also anticipated that stocks of finished goods on hand at 31 May will be as follows:

	Units
Schools	150
Houses	200
Boats	100
Caravans	50

iv.

	School	House	Boat	Caravan
Sales quantity (units)	1 200	1 500	900	850
Selling price per unit	$10	$14	$20	$12
Materials usages per unit	**$**	**$**	**$**	**$**
Moulded plastic	4	6	8	5
Accessories	2	2	1	1
Packing	2	2	1	1

Question 4

a) Prepare for the month of May a:

- **i)** Sales Budget; [4]
- **ii)** Production Budget; [6]
- **iii)** Material Purchases Budget. [4]

b) State and explain any **three** requirements of an effective system of budgetary control. [6]

c) What factors should be considered when preparing budgets? [3]

[9197/3 Specimen 2003]

2187 Instructions

Questions **2) b)**, **3) b)** and **4) b)** must be answered in sentence form, **not** note form, with supporting figures where applicable, to illustrate your answer.

Scenario 1

The following Trial Balance was extracted from the books of S. Simago, a sole trader, on the date shown.

S. Simago's Trial Balance as at 30 June 2006.

	Dr	Cr
	$	$
Premises	1 400 000	
Equipment	70 000	
Motor vehicles	100 000	
Drawings	60 000	
Debtors	282 500	
Creditors		321 400
Capital		500 000
Sales		2 638 800
Bank	272 000	
Discount allowed	14 000	
Wages and salaries	412 000	
Returns inwards	5 200	
Purchases	660 000	
Returns outwards		6 300
Opening stock	138 000	
Discount received		12 280
Advertising	20 000	
General expenses	46 800	
Motor vehicle expenses	2 200	
Suspense	.	3 920
	3 482 700	3 482 700

An inexperienced accounts clerk extracted the Trial balance for S. Simago above, which failed to agree and the difference was entered in a Suspense Account.

Investigations were carried out and the following errors were discovered:

i. Simago had taken some goods which cost $16 000, for private use, during the year. No entries had been made in respect of these goods.
ii. Returns outwards of $2 160 were posted to the debit side of the Returns Inwards Account.
iii. No record was made in respect of a cheque of $8 000 received from a debtor which was dishonoured by the bank.
iv. Equipment bought for $88 000 had been debited in the Purchases Account.
v. Discount allowed of $1 100 had been credited to the Discount Received Account.
vi. Included in the wages and salaries figure is an amount of $1 800 which was paid by the business' bank for Simango's personal expenses. In an attempt to correct the error, the accounts clerk debited the Motor Vehicle Expenses Account. No other entry was made.

Question 1

a) **i)** Prepare the Journal entries to correct the errors. (Ignore narrations) [5]
ii) Write up the Suspense Account. [3]
b) Draw up a corrected Trial Balance as at 30 June 2006. [11]
c) Prepare a statement of corrected net profit after making adjustments for the above errors. The original net profit was $500 000. [6]

Scenario 2

After a few successful years, Simago converted his business into a private limited company called Sims (Pvt) Ltd.

The new company has an authorised share capital of 200 000 ordinary shares of $1 each and 32 000 8% redeemable preference shares of $1 each.

The company's Trial Balance as at 31 March 2008 is shown below:

	Dr $	Cr $
Plant and equipment at cost	152 000	
Motor vehicles at cost	228 000	
Provisions for depreciation: Plant and equipment		120 000
Motor vehicles		104 800
Purchases	653 956	
Debtors	177 920	
Sales		933 336
Creditors		101 480
160 000 Ordinary shares of $1 each, fully paid		160 000
Share premium		40 000
10% Debentures, issued at 1 April 2007		36 000
Bank	144 340	
Insurance	5 200	
Wages and salaries	62 840	
Office expenses	34 080	
Opening stock	30 800	
Provision for bad debts		2 120
Retained income		61 520
Debenture interest	1 800	
Discounts received		6 520
Preference interim dividend	1 280	
Directors' remuneration	64 000	
Bad debts	9 600	
	1 565 816	1 565 816

Additional information:

i. Stock at 31 March 2008 was $33 000.
ii. Insurance paid in advance totalled $840.
iii. At 31 mach 2008, the balance on the provision for doubtful debts was $1 800.
iv. The provision for corporation tax was $14 000.

v. The company's policy is to depreciate fixed assets as follows:
- Plant and equipment at 10% per annum on cost,
- Motor vehicles at 20% per annum on reducing balance method.

vi. 32 000 8% Redeemable preference shares were redeemed at par on 1 October 2007.
vii. No new shares were issued by the company during the year.
viii. The directors have recommended a dividend of 10% on the ordinary shares.

Question 2

a) Prepare the:
  i) Trading and Profit and Loss Account of Sims (Pvt) Ltd for the year ended 31 March 2008, [11]
  ii) Balance Sheet as at that date. [8]

b) Explain **two** advantages and **two** disadvantages, to a company, of raising funds through the issue of debentures. [8]

Scenario 3

Sims (Pvt) Ltd wasnts to analyse its performance over the past two years. Below are the company's financial statements.

Balance Sheets as at 31 March 2009 and 2010

	2009		2010	
	$000	**$000**	**$000**	**$000**
Ordinary shares of $1 each		2 500		3 300
Share premium		500		1 208
Profit and loss		466		906
		3 466		5 114
Fixed assets				
Plant and equipment and net book value		2 000		2 500
Motor vehicles at net book value		1 400		1 700
		3 400		4 200
Current assets				
Stock	840		1 020	
Debtors	800		900	
Bank	200	1 840	240	2 160
Current liabilities				
Trade creditors	560		620	
Dividends	120		140	
Taxation	174		226	
Accruals	120	(974)	260	(1 246)
Long-term liabilities				
12% Debentures		(800)		—
		3 466		5 114

Trading and Profit and Loss Accounts for the years ended 31 March 2009 and 2010

	2009		2010	
	$000	**$000**	**$000**	**$000**
Turnover		4 200		6 000
Less: Cost of sales				
Opening stock	700		840	
Add: Purchases	2 940		4 380	
	3 640		5 220	
Less: Closing stock	840	2 800	1 020	4 200
Gross profit		1 400		1 800
Less: Expenses		706		894
Net profit before tax		694		906
Taxation		(174)		(226)
		520		680
Dividends		(180)		(240)
Retained profit for the year		340		440

Additional information:

i. Purchases were on credit.

ii. 90% of sales were on credit.

Question 3

a) **i)** Calculate any **two** profitability ratios of Sims (Pvt) Ltd for each of the two years under review. [6]

ii) Calculate any two liquidity ratios of Sims (Pvt) Ltd for each of the two years under review. [6]

b) Write a report to the directors of the company, using the ratios in a) above to comment on the profitability and liquidity of Sims (Pvt) Ltd over the two years. [11]

Scenario 4

The accountant of Sims (Pvt) Ltd wants to introduce some budgetary control for its tuckshop. The following Balance Sheet as at 31 March 2010 is presented to him by the assistant accountant.

Balance Sheet as at 31 March 2010

	$	$
Fixed assets		
Furniture and fittings at cost		52 000
Less: Provision for depreciation		20 800
		31 200
Current assets		
Stock	9 400	
Debtors	20 800	
Cash at bank	1 400	
	31 600	
Less: Current liabilities		
Creditors	13 120	18 480
		49 680
Capital		49 680

Additional information:

i. 20% of sales are on cash basis. The debtors are given one month's credit.

ii. Purchases are paid for one month after purchase.

iii. The purchases and sales figures are as follows:

	Actual	Forecast		
	March	April	May	June
	$	$	$	$
Total purchases	13 120	12 600	15 140	16 600
Total sales	26 000	25 000	30 000	33 000

iv. Rent is paid half yearly in advance on 1 April and 1 October each year. Annual rent payable is $24 000.

v. The stock at 30 June is estimated to cost $10 020.

vi. The salary of the tuckshop attendant will be paid at $2 400 per month, payable in the month incurred.

vii. Other tuckshop expenses will be $3 600 per month, payable in the month in which they are incurred.

viii. The accountant will acquire a new van for the tuckshop on 1 May 2010. It will cost $29 400. A $15 400 deposit will be paid on 21 May 2010 and the outstanding balance on 22 July 2010.

ix. The depreciation policy will be as follows:

- Motor van: 20% per annum, straight-line method.
- Furniture and fittings: 10% per annum on cost.

Depreciation is provided for on a monthly basis.

Question 4

a) Draw up a:

i) Cash Budget for the three months ending 30 June 2010, [6]

ii) Budgeted Trading and Profit and Loss Account for the three months ending 30 June 2010, together with a Balance Sheet at that date. [10]

b) Explain to the directors **three** possible reasons why the budgeted profit will be different from the budgeted bank balance at the end of the three months. Make use of answers to **a)**. [9]

[N2009Zimsec]

2188 a) Define a:

i) Sales Ledger; [1]

ii) Control account. [1]

b) Shungu enterprise's books of original entry showed the following information for the month of March:

		$
Cash Book:	Cheques received from debtors	417 740
	Cheques paid to creditors	348 880
	Dishonoured cheques	15 240
	Discount allowed	10 220
	Discount received	4 410
Journal:	Bad debts written off	2 100
	Set off between Sales Ledger and Purchases Ledger	1 200
Other books:	Purchases Day Book	354 480
	Sales Day Book	442 750
	Returns Inwards Journal	7 140
	Returns Outwards Journal	6 590

i) Use the information above to complete the following control accounts:

Sales Ledger Control Account

Mar 1	Balance b/d	74 830	Mar 1	Balance b/d	920

[8]

Purchases Ledger Control Account

			Mar 1	Balance b/d	59 010

[6]

ii) State the meaning of **each** of the opening balances on both control accounts. [3]

c) The Sales Ledger Control Account balance differed from Sales Ledger list total of $102 930.

The following matters have now been discovered:

i. The bad debt written off of $2 100 had not been posted to the customer's account;

ii. A refund of $6 700 to a debtor who overpaid his account had not been recorded anywhere in the books;

iii. An invoice of $4 700 had been entered directly in the customer's account but omitted from the Sales Day Book;

iv. Interest of $2 630 charged on customers' overdue accounts had not been recorded in the control account.

i) Prepare the amended Sales Ledger Control Account. [4]

ii) Reconcile the Sales Ledger list total with the amended control account balance. [4]

d) State **two** advantages of using a Debtors Ledger. [2]

[N08Q1Zimsec]

2189 Farai Kapenzi owns a small clothing store. He has always found it difficult to maintain proper accounting records.

However, it has been possible to glean the following from his records:

31 December	**2008**	**2009**
	$	**$**
Shop premises at cost	40 000	40 000
Office furniture at net book value	16 000	14 400
Motor vehicles at net book value	12 000	?
Stock	16 400	12 800
Trade creditors	15 490	19 270
Trade debtors	18 420	19 300
Accrued insurance	360	
Prepaid insurance		260
Prepaid rates	280	
Accrued rates		360

It has also been possible to ascertain the following information from Bank Statements and other documents:

Cash Book summary

	$		$
Cash in hand and at bank on 01/01/09	8 640	Cheques to creditors	62 780
Receipts from debtors	96 720	Purchase of new vehicle	18 000
Proceeds from sale of motor vehicle	11 600	Insurance	940
Sale of laptop	7 640	Rates	690
		Wages	7 800
		Advertising	1 360
		Light and heat	1 730
		Drawings	14 880
	.	Cash in hand and bank on 31/12/09	16 420
	124 600		124 600

Additional information:

i. Farai Kapenzi took goods which cost $1 060 for his own use.
ii. Cash from sales amounting to $6 470 had been given to Kapenzi's daughter as pocket money.
iii. The old motor vehicle was sold during the year.
iv. Depreciation is calculated on the new vehicle at 25% per annum using the reducing balance method.
v. The laptop was legacy from Kapenzi's lete aunt.

a) Prepare the Trading and Profit and Loss Account for the year ended 31 December 2009. [10]
b) Compile the Balance Sheet as at 31December 2009. [9]
c) Evaluate the management of the business on the basis of liquidity and drawings. [5]

[J05Q01Zimsec]

2190 Taparara is a general dealer whose business year ends 30 June. His shop and records were destroyed by fire on 30 June 2004. The following records were obtained after the fire:

i. Balances on 30 June 2003:

			$
Shop fixtures (net book value)			3 840
Stock			4 600
Debtors			760
Rates prepaid			144
Bank			11 008
Cash			560
Creditors			3 760
Accruals:	–	Advertising	64
	–	Accounting services	288

ii. Payments by cheque for the year ended 30 June 2004:

	$
Purchases	86 320
Rent	3 000
Rates	576
Advertising	3 600
Accounting services	344
Sundry expenses	368
Drawings	3 600

iii. Total bankings for the year amounted to $98 008.

iv. Weekly cash payments were as follows:

	$
Wages	124
Sundry expenses	80
Drawings	?

v. During the year, Taparara won Lotto jackpot amount of $1 200 which he put in the cash till of the business.

vi. An amount of $200 cash was recovered from a bad debtor. This amount is not included in the receipts from debtors of the current year.

vii. An amount of $208 cash was received for the rent of storage space on the first floor.
viii. The insurer agreed to pay $3 600 for the fixtures and $3 400 for stock in full settlement. The business was satisfied with this compensation.
ix. Taparara's margin has been 20% for the past six years.
x. Balances at 30 June 2004 included:

			$
Debtors			880
Creditors			4 080
Accruals	–	Advertising	80
	–	Accounting services	544
	–	Rent	1 000
Rates prepaid			160
Cash			680

a) Calculate:
i) Purchases [3]
ii) Sales [3]
b) Write up the Trading and Profit and Loss Account for the year ended 30 June 2004. [11]
c) Prepare the:
i) Cash Account [5]
ii) Bank Account [3]

[N09Q01Zimsec]

2191 **a)** State **two** differences between capital reserves and revenue reserves. [4]
b) State **three** ways in which a company may use its reserves. [3]

On 1 January 2003, the books of A. Trader show a balance on the provision for doubtful debts account amounting to $256 500.

The following transctions took place during the year:
i. G. Asazi, who owed $76 000, paid $57 000 but was clearly unable to make any further payments.
ii. C. Black, whose debt had been previously written off paid $71 250 in full settlement.
iii. On 31 December 2003, A. Trader decided that a further debts of $323 000 were irrecoverable.
iv. The total debtors now remaining in the books amounted to $8 474 000. However, he feared that T. Ncube, whose debt had been included in that figure, would be unable to pay $114 000 due from him.
v. A. Trader maintains a general provision for doubtful debts equal to 5% of debtors.
vi. A. Trader has decided to create a provision for discounts allowed equal to 2½% of debtors.
vii. Total discounts during the year were $693 500.

c) Prepare the following Ledger accounts:
i) G. Asazi, [3]
ii) Bad debts, [3]
iii) Bad debts recovered, [1]
iv) Provision for doubtful debts, [2]
v) Provision for discount allowed, [1]
vi) Discount allowed. [1]
d) Write up the relevant:
i) Profit and Loss Account extract for the year ended 31 December 2003. [4]
ii) Balance Sheet extract as at 31 December 2003. [3]

[J09Q02Zimsec]

2192 **a)** Janice Jersey's first six months of trading showed the following purchases and sales of stock:

1990	**Purchases**	**Sales**
January	280 units @ $65 each	
February		140 units @$82 each
March	100 units @ $69 each	
April		190 units @ $85 each
May	220 units @ $72 each	
June		200 units @ $90 each

Calculate Janice's profit for the six months ended 30 June 2006 using the following methods of stock valuation:

i) FIFO (First In First Out)

ii) LIFO (Last In First Out)

iii) AVCO (Weighted Average Cost). Calculate to 2 decimal places. [16]

b) Janice's Trading and Profit and Loss Account for the year ended 30 April 2008 was as follows:

	$	$
Sales		290 000
Less: Cost of sales		
Opening stock	31 000	
Purchases	169 000	
	200 000	
Less: Closing stock	26 000	174 000
		116 000
Expenses		87 000
Net profit		29 000

At 1 May 2008, Janice reduced all selling prices by 10% which increased her sales volume by 7½%. She also decreases her expenses by 2½%. Her purchases for the year ended 30 April 2009 were $170 000 and the closing stock was $21 000.

i) Calculate Janice's net profit ratio for the year ended 30 April 2008 and for the year ended 30 April 2009. Show all calculations. [8]

ii) Discuss the consequences of the changes in Janice's policy. [3]

iii) Janice achieved her decrease in expenses by altering her method of depreciation. Comment on this change. [3]

[J02Q02Cambridge]

2193 The following table relates to fixed assets of Sigogo Ltd.

Date of purchase	**Asset**	**Cost**	**Depreciation policy**
		$	
01/10/1991	Land and buildings	1 200 000	Not depreciated
01/10/2000	Plant and machinery	720 000	20% p.a. straight line

In the year ended 30 September 2003, the following events took place:

i. On 1 October 2002, land and buildings were revalued to $3 000 000.

ii. On 1 January 2003, additional land was purchased for $300 000.

iii. On 1 May 2003, machinery which had been purchased on 1 October 2000 at a cost of $300 000 was sold. This was replaced by a new machine at a cost of $330 000.

a) Calculate the provision for depreciation on plant and machinery on 1 October 2002. [2]

b) Complete the fixed assets schedule below on 30 September 2003. [17]

Details	**Land and buildings**	**Plant and machinery**
	$	$
Cost at 01/10/2002		
:		
:		
:		
NBV at 30/09/2003		

c) Identify **three** stakeholders and state how they would benefit from published accounts. [6]

	Stakeholder	Expected benefit
i)		
ii)		
iii)		

[J09Q03Zimsec]

2194 Ogedo Duri, a general dealer, relies on you for the preparation of his final accounts for the year ended 31 December 2009 from the following information:

Net profit percentage	15.5%
Mark up	25%
Rate of stock turn	10 times
Selling expenses	2.5% of sales
Other overheads	?
Average period of credit taken by debtors	28.8 days
Average period taken to pay creditors	45 days
Sales: Current assets	5.3:1
Sales: Fixed assets at net book value	5:1

Current assets comprise stock, debtors and prepayments.
The bank account is overdrawn.
Stock at 31 December 2009 was valued at $50 000 which $20 000 more than at the end of the previous year
All sales and purchases were on credit.
Capital on 31 December 2008 was $92 500.
Duri takes drawings equal to the value of 7.5% of his sales.
The shop opened for **360** days during the year.

a) Prepare Duri's Trading and Profit and Loss Account for the year ended 31 December 2009 and his Balance Sheet as at that date. Round off your calculations to the nearest dollar. [23]

b) **i)** Give **four** reasons why having profit does not necessarily mean having cash? [4]

ii) What method can be adopted by a company to distribute profits and reserves taking into account the unavailability of cash? [2]

iii) What are the characteristics of the method mentioned in **b) ii)** above? [3]

[J03Q03Zimsec]

2195 **a)** Why do partnership agreements provide for:

i) Partners' salaries; [2]

ii) Interest on capital. [2]

b) The agreement of Bruno, Chula and Darren provides for the following:

i. Interest on capital of 5% per annum;

ii. Annual salaries of $15 000, $10 000 and $5 000 to Bruno, Chula and Darren respectively;

iii. A profit sharing ratio of 5:3:2 for Bruno, Chula and Darren respectively. Darren's share of residual profit should not be less than $10 000 per year.

The Trial Balance of the partnership on 31 May 2008 was as follows:

		$	$
Purchases and sales		420 000	697 500
Premises at cost		90 000	
Fixtures and fittings at cost		159 000	
Provision for depreciation:	Fixtures and fittings		21 000
Stock: 1 June 2007		63 000	
Salaries and wages		96 000	
General expenses		75 200	
Rent, rates and insurance		16 000	
Trade debtors		30 000	
Trade creditors			37 700
Loan from Bruno			20 000
Bank		88 000	
Capital accounts:	Bruno		120 000
	Chula		75 000
	Darren		45 000
Current accounts:	Bruno		24 000
	Chula	18 000	
	Darren		15 000
		1 055 200	**1 055 200**

<u>Additional information:</u>

i. Stock on 31 May 2008 was valued at $54 000.

ii. Salaries and wages included drawings of $1 400 by Bruno, $800 by Chula and $1 300 by Darren.
iii. A customer owing $3 000 has been declared bankrupt. The partners have agreed to create a bad debt provision of 5% of debtors.
iv. Insurance of $3 800 was prepaid and $3 600 was owing for rent on 31 May 2008.
v. Depreciation is to be provided as follows:

Premises	2% using straight-line method
Fixtures and fittings	10% using reducing balance method

vi. Bruno took goods worth $15 000 for his own use.

For the year ended 31 May 2008 the:

i) Trading and Profit and Loss Account; [7]
ii) Profit and Loss Appropriation Account; [5]
iii) Current Accounts in columnar form; [7]

c) The partners are considering converting their business into a limited company.
State **four** advantages of a limited company over a partnership. [4]

[N08Q3Zimsec]

2196 Dellow and Coucom are in a partnership in a business with three retail departments; Television, Computing and Telephones.

The following balances were extracted from the business accounts at 30 April 2010:

		Dr	Cr
		$000	**$000**
Purchases and sales:	Television	120	214
	Computing	220	428
	Telephones	40	107
Wages		56	
Stocks at 1 May 2009:	Television	8	
	Computing	19	
	Telephones	3	
Sales-staff salaries		147	
General expenses		5	
Office salaries		35	
Advertising		14	
Rent		40	
Electricity		9	
Insurance		5	
Motor vehicles at cost		45	
Furniture & fittings		30	

Notes:

The following must be taken into consideration:

i. Stocks at 30 April 2010:

	$
Television	17 000
Computing	40 000
Telephones	5 000

Stock taking computerised and is based solely on sales and purchases – no physical stock check has been taken.

ii. Accruals at 30 April 2010:

	$
General expenses	2 000
Electricity	1 000
Rent	2 000

iii. Number of sales staff employed:

Television	3
Computing	4
Telephones	1

Commission is paid to the sales-staff at 1% of sales.

iv. Depreciation is charged on motor vehicles and furniture & fittings at 20% per annum on cost.

v. Floor space (squire metres):

Television	2 000
Computing	2 500
Telephones	500

vi. Expenses are to be apportioned as follows:

Expense	Basis of apportionment
Wages	Sales
General expenses	Sales
Office salaries	Sales
Sales-staff salaries	Number of sales-staff
Advertising	Sales
Rent and rates	Floor area
Electricity	Floor area
Insurance	Floor area
Depreciation	Equally amongst departments

vii. Interest on capital is payable at 1% of opening capital. Dellow and Coucom share profits in the ratio of their Capital Accounts, which at 1 May 2009 were: Dellow $60 000, Coucom $40 000.

viii. Interest is chargeable on drawings at 2% of total drawings for the year. The cash drawings for the year were: Dellow $15 000 and Coucom $4 000. During the year, Coucom took from stock for her own use a television costing $1 000. No entries were made for this television in the accounts.

ix. Coucom is paid a partnership salary of $7 600.

a) Prepare, in columnar format, the Departmental Trading and Profit and Loss Accounts for the year ended 30 April 2010. [21]

b) Prepare the partnership Appropriation Account for the year ended 30 April 2010. [7]

c) It has been suggested that any department that is making a loss should be closed.
Comment on this suggestion. [4]

[N02Q01Cambridge]

2197 The following Receipts and Payments Account for the year ended 31 October 2009 has been prepared for West End Sports Club:

	$		$
Balance b/fwd	32 140	Purchase of sports uniform	580 000
Legacy	14 000	Warehouse costs (uniform shop)	72 000
Subscriptions ($400 each)	397 600	Stationery and postage	46 000
Sale of sports uniform	690 000	Club house rent (for 18 months to 30 April 2010)	48 000
Balance c/fwd	112 260	Purchase of land for club house	500 000
	1 246 000		1 246 000

The members of the club are concerned that despite the increase in membership, the cash position seems to be unfavourable. Accordingly, the treasurer has agreed to prepare an Income and Expenditure Account for the year 31 October 2009 and a Balance Sheet as at that date.

Additional information:

i. The membership records show that 940 members have paid their subscriptions for the year ended 31 October 2009. This includes 30 members whose subscriptions for the year were paid in September 2008. During the year ended 31 October 2009, one member paid her subscriptions for the previous year. The club does not seek to recover subscriptions not paid by the year end.

ii. The stock of sports uniforms was valued at $62 000 at 1 November 2008 and $52 000 at 31 October 2009.

iii. Creditors for sports uniforms totalled $74 000 on 1 November 2008 and $106 000 on 31 October 2002.

a) Prepare the Income and Expenditure Account for the year ended 31 October 2009. [10]

b) Draft the Balance Sheet as at 31 October 2009 for West End Sports Club. [12]

c) State and explain **four** limitations of a Receipt and Payment Account. [8]

[9197/2Specimen2003Q01]

2198 **a)** State any **three** differences between an Income and Expenditure Account and a Receipts and Payments Account. [3]

b) The treasurer of Massimo Golf Club prepared the following Receipts and Payment Account for the year ended 31 December 2008.

Jan 1	Balance	b/d	346 500	Dec 31	General expenses		1 990 000
Dec 31	Subscriptions		2 258 850		Bar purchases		2 017 950
	Bar takings		4 100 250		Rent and rates		1 300 200
	Disco takings		754 050		Disco expenses		589 050
	Donations		330 000		Bar wages		1 369 500
					Balance	c/d	522 950
			7 789 650				**7 789 650**
Jan 1	Balance	b/d	522 950				

The following information is also made available:

i.

	1 January 2008	31 December 2008
	$	$
Bar stocks	268 950	305 250
Subscriptions in arrears	127 050	102 300
Subscriptions in advance	41 250	51 150
Rent and rates accruals	123 750	135 300
Savings account	346 500	415 800
Cash	9 900	4 950
Bar creditors	219 450	189 750

ii. Of the donations received, $200 000 was to be used to buy a special grass cutter.

iii. The savings were credited with interest earned.

iv. Bar takings of $79 200 on 31 December 2008 were not included in the Receipts and Payments Account. The stewardess locked up the money in her office.

v. Some bar stocks were bought for cash.

For the year ended 31 December 2008, prepare the:

i) Bar Trading Account; [4]

ii) Subscriptions Account; [4]

iii) Rent and Rates Account; [3]

iv) Income and Expenditure Account. [7]

c) Prepare the Balance Sheet extract showing, in detail, the calculation of net current assets as at 31 December 2008. [4]

[N08Q4Zimsec]

2199 The following information was prepared by the Amateur Sports Club:

Assets and liabilities as at 30 April 2005

	$
Buildings at cost	168 000
Rent payable	3 600
Subscriptions in advance	3 040
Subscriptions in arrears	4 400
Travelling expenses owing to members	8 560
Investments	76 800
Bank	14 800

Receipts and Payments Account for the year ended 30 April 2006

	$		$
Legacy	40 000	Dinner dance expenses	15 280
Receipts from dinner dance	16 560	Rent	14 400
Subscriptions	149 120	Investment (purchased on 30/04/06)	11 200
		Secretarial fees	6 720
		Travel expenses	26 400
		Insurance	2 720
		Office furniture (purchased on 01/08/05)	13 200
		Stationery	4 080
		Telephone	1 360

Additional information as at 30 April 2006:

i) Closing stock of stationery is $1 520.
ii) Subscriptions in advance amounted to $2 880.
iii) Subscriptions in arrears amounted to $3 520.
iv) Members have not been reimbursed with travel expenses of $4 880.
v) Office furniture is to be depreciated at 20% per annum.
vi) The legacy was used to set up the Achievers Prize Fund.
vii) Investments earn interest at 20% per annum.

a) Prepare the club's Income and Expenditure Account for the year ended 30 April 2006. [12]
b) Draft the club's Balance Sheet as at 30 April 2006. [9]
c) State **two** methods of accounting for donations received by a club. [2]
d) State **two** differences between Receipts and Payments Account and Income and Expenditure Account. [2]

[J09Q01Zimsec]

2200 The following information was obtained from the books of Squire Ltd:

Profit and Loss Account for the year ended 31 December 2001

		$
Net profit		47 400
Taxation		(9 000)
Net profit after tax		38 400
Dividends:	Interim	(3 000)
	Final	(12 000)
Retained profit for the year		23 400

Balance Sheet as at 31 December	2001	2000
	$	$
Ordinary shares, $1 each	100 000	40 000
Share premium	14 000	10 000
Retained profit	71 500	48 100
	185 500	98 100
Fixed assets (NBV)	190 000	150 000
Current assets:		
Stock	63 000	79 000
Debtors	23 000	15 000
Bank	–	22 900
Current liabilities:		
Creditors	(42 800)	(49 800)
Taxation	(9 000)	(11 000)
Dividends	(12 000)	(8 000)
Bank	(26 700)	–
	185 500	198 100
Long term liabilities:		
16% Debentures	–	(100 000)
	185 500	98 100

Additional information:

i. A summary of the Fixed Asset Account is shown below:

2001		$	2001		$
Jan 1	Cost b/fwd	270 000	Jan 1	Disposals	20 000
Dec 31	Additions	80 000	Dec 31	Cost c/fwd	330 000
		350 000			350 000

Assets disposed realised $700 in a loss on disposal of $3 000.

ii. A bonus issue of 10 000 shares was made for the year ended 31 December 2001 financed by the Share Premium Account.

a) Prepare a Cash Flow Statement for year ended 31 December 2001. [22]
b) Give **three** reasons why cash in hand may differ from net profit after preparing annual financial statements. [3]

[N09Q03Zimsec]

2201 The following information relates to two separate companies, which both sell the same product, for the year ended 31 October 2009:

Income Statements for the year ended 31 October 2009.

	Mukai Ltd $000	Vukani Ltd $000
Trading profit	600	750
Less: Debenture interest	150	150
Profit **before** tax	450	600
Taxation	(100)	(180)
Profit **after** tax	350	420
Dividends: Ordinary	(150)	(120)
Preference	(50)	(70)
Retained profits for the year	150	230
Market price per ordinary share at 31 October 2009	$4	$5

Balance Sheet (extracts) as at 31 October 2009

	$000	$000
Capital and Reserves:		
Ordinary shares of $1 each	400	400
10% Preference shares of $1 eac	40	650
Share premium	60	20
Revaluation reserve	30	–
Profit and Loss Account	250	500
	780	1 570
10% Debentures	1 500	1 500
	2 280	3 070

a) For each company calculate:
- **i)** Interest cover; [2]
- **ii)** Earnings per share; [2]
- **iii)** Ordinary dividend cover; [2]
- **iv)** Dividend yield; [4]
- **v)** Price earnings ratio [2]

b) Which of the two companies is most highly geared? Explain your answer. [7]

c) Which of the two companies would you advise a potential investor as a better investment opportunity. Use the answers to **a)** and **b)** as a basis for your advice. [10]

[9197/2Specimen2003Q01]

2202 The summarised Balance Sheet Magadlela as at 31 March 2004 is as follows:

	$ 000
Land and buildings	3 000
Other assets	1 180
	4 180
Equity and liabilities:	
Ordinary shares of $1 each	8 000
6% Redeemable preference shares of $1 each	1 000
Profit and loss	(7 000)
	2 000
9% Loan stock	2 000
Preference share dividend due	180
	4 180

The directors propose the following scheme of reconstruction:

i. The existing 9% loan stock is to be cancelled and the loan stockholders are to be issued with $1 300 000 10% loan stock and the balance in ordinary shares of $0.20 each fully paid.

ii. The existing ordinary shares are to be cancelled and the ordinary shareholders are to be issued with 8 million ordinary shares of $0.20 each fully paid.
iii. A preference share dividend due to be settled through an ordinary share issue.
iv. Land and buildings to be revalued to $3 600 000.
v. Redeemable preference shares with a nominal value of $350 000 are to be redeemed at par. The necessary funding is to be through an issue of 1 500 000 ordinary shares $0.28 each.

a) **i)** What is capital reconstruction? [2]
ii) Define convertible loan stock. [2]
b) Prepare the summarised Balance Sheet as at 1 April 2004, assuming the scheme was implemented. [17]
c) Explain the effect on the Balance Sheet of a
i) Bonus issue, [2]
ii) Rights issue. [2]

[N09Q02Zimsec]

2203 **a)** State **three** benefits of budgeting. [3]
b) What is flexible budgeting? [2]
c) Orange Ltd makes one product. Its plant capacity is 80 000 units per annum.

The budgeted Profit and Loss Account for the next year at 75% capacity is as follows:

		$	$
Sales			900 000
Less:	Expenses		
	Direct materials	180 000	
	Direct wages	240 000	
	Factory power	18 000	
	Factory water	6 000	
	Factory rent	60 000	
	Factory rates	40 000	
	Vehicle licences	40 000	584 000
Profit			316 000

i) All goods produced are sold
ii) Consultants have proposed two alternatives to the presented budget.

For each of the following, calculate the revised profit:

i) If the product is packaged at a cost of $1 per unit, it is anticipated that sales volume would be increased by 20%. [10]

ii) The company has a chance of accepting a special order to supply 25 000 units at a special price of $12 per unit. The special order does not affect normal sales.

For the production in excess of plant capacity, direct labour costs rise by 50%, factory power and water by 20%. [10]

[N09Q04Zimsec]

2204 **a)** Define standard costing. [2]
b) What is the purpose of variance analysis? [3]

A company which operates a system of standard costing has the following details which relate to August 2004:

Department	X	Y
Direct labour hours worked	3 400	9 200
Direct wages earned	$37 944	$114 816
Units produced	900	2 400
Standard hours per unit	4	3
Standard hourly wage rate	$11.10	$12.00

c) For each department, calculate the:
i) standard direct labour cost per unit, [4]
ii) total labour variance, [4]
iii) labour efficiency variance, [4]
iv) labour rate variance. [4]

d) Explain what the answers in **b)** above indicate the production manager about the performance of:
i) Department X [3]
ii) Department Y [3]
[J09Q04]

2205 a) State the meaning of each of the following terms:
i) Fixed cost; [1]
ii) Variable cost; [1]
iii) Contribution margin; [1]
iv) Margin of safety. [1]

b) Tuxedo had the following figures for the year ended 31 December 2008:

Production/ Sales	**5 000 units**
	$000
Sales	3 000
Direct materials	750
Direct labour	500
Variable overheads	450
Fixed manufacturing costs	480
Marketing and distribution expenses	600

Prepare profit statements for year 2008 using:
i) Absorption costing; [3]
ii) Marginal costing. [3]

c) Due to increased competition, the company expects to sell only 4 500 units.
i) Prepare the forecast profit statement for 2009 using marginal costing, assuming the same cost and revenue behaviour as in year 2008. [3]
ii) Calculate to the nearest dollar the break-even sales revenue for year 2008. [3]
iii) Calculate to the nearest whole number, the sales volume (in number of units) required to achieve a profit of $20 000. [3]

d) The management is considering cutting the unit selling price to $500 and eliminating a sales promotion costing $80 000 included in the year 2008 expenses. Total sales are expected to increase to 10 000 units.

Advise management on the viability of this move. [4]
[N08Q2Zimsec]

2206 Which of the following does **not** apply to the going concern concept? [J09Q01Z]
A Balances are carried forward to the next financial period
B Fixed assets are shown at replacement cost
C Fixed assets are shown in Balance Sheet at net book value
D Stocks should be valued at the lower between cost and net realisable value

2207 A business purchased goods for $100 000 less 20% trade discount and was allowed 5% cash discount for prompt payment. [N09Q12Z]

What amount was entered in the Purchases Journal?
A $75 000 **B** $76 000 **C** $80 000 **D** $100 000

2208 Bhobho Dealers sold goods to the value of $5 400 on credit to Amato retailers. The goods were subject to a trade discount of 10% and a cash discount of 5%. [J09Q04Z]
To record the sale:

	Debit	**Credit**	**$**		**Debit**	**Credit**	**$**
A	Amato	Sales	4 617	**C**	Amato	Sales	5 130
B	Amato	Sales	4 860	**D**	Sales	Amato	4 860

2209 Which of the following items will be credited to the accounts in the Sales Ledger? [J09Q11Z]
A Bills receivable and interest on overdue accounts
B Bills receivable and returns inwards
C Interest on overdue accounts and sales
D Returns outwards and dishonoured cheques

2210 Which of the following errors will be revealed by a Trial Balance? [J09Q02Z]

A A transaction is completely omitted from the books
B Failure to post a debit entry from a Journal
C Posting to the correct side in the wrong account
D Purchase of a motor vehicle recorded as an expense

2211 A sales returns of $40 000 has been recorded to the debtor's account as $4 000. A Suspense Account is created to complete the Trial Balance. [J09Q09Z]

What is the balance on the Suspense Account?

A $36 000 Cr **B** $36 000 Dr **C** $44 000 Cr **D** $44 000 Dr

2212 The difference on a Trial Balance has been entered in a Suspense Account. It was then found that rent received of $700 had been debited to the Rent Payable Account. [N09Q21Z]

Which entry corrects the error?

	Rent Received Account	Rent Payable Account	Suspense Account
A	Cr $700	Cr $700	Dr $1 400
B	Cr $700	Dr $1 400	Cr $700
C	Cr $1 400	Dr $700	Dr $700
D	Dr $700	Dr $700	Cr $1 400

2213 Discounts received of $24 000 were recorded on the wrong side of that account and discounts allowed of $31 200 were also recorded on the wrong side of the Discount Allowed Account. [J09Q13Z]

What entries are required to correct the errors?

	Dr	$	Cr	$
A	Discounts allowed	31 200	Discounts received	24 000
			Suspense	7 200
B	Discounts allowed	62 400	Discounts received	48 000
			Suspense	14 400
C	Discounts received	24 000	Discounts allowed	31 200
	Suspense	7 200		
D	Discount received	48 000	Discounts allowed	62 400
	Suspense	14 400		

2214 The following relate to a manufacturing company: [J09Q40Z]

1 Carriage inwards
2 Depreciation of factory machinery
3 Insurance of machinery
4 Machine operators' wages
5 Royalties of production

Which item makes up factory overheads?

A 1 and 2 **B** 2 and 3 **C** 2 and 4 **D** 3 and 5

2215 A company transfers its products from its Manufacturing Account to its Trading Account at factory cost plus 25% mark up. [J09Q10Z]

The information below shows closing stock of manufactured goods at transfer price:

		$000
Year	1	500
	2	500
	3	600

What is the provision for unrealised profit charged against Year 3 profit?

A $20 000 **B** $25 000 **C** $100 000 **D** $120 000

2216 A business sells goods on sale or return basis at a mark-up of 25%. [J09Q30Z]

At 31 December 2005, the following information is available:

	$
Goods in the warehouse	6 000 (cost)
Goods on sale or return	4 000 (at invoice price)

What will be the value of closing stock in the company's accounts?

A $6 000 **B** $9 000 **C** $9 200 **D** $10 000

2217 A firm has its year-end stock as follows: [J09Q24Z]

Stock	Purchase price	Production costs incurred	Selling costs not yet incurred	Sales value
	$	$	$	$
Clay	120 000	20 000	22 000	130 000
Plastic	50 000	10 000	12 000	80 000
String	100 000	24 000	30 000	120 000

At what value should the business include its stock in the Balance Sheet?

A $258 000 **B** $266 000 **C** $324 000 **D** $388 000

2218 Purchases and sales for Andy for the month of May 2006 were as follows: [N09Q07Z]

May 1	Purchased 160 units at $40 each
8	Purchased 150 units at $41 each
15	Sold 200 units at $55 each
29	Purchased 60 units at $47 each

What is the value of each unit of stock at 31 May based on AVCO?

A $40.48 **B** $42.67 **C** $42.79 **D** $55.00

2219 A company has all of its stock stolen on 4 March 2008. [J09Q06Z]

Information concerning stock movement between 31 December 2007 and 4 March 2008 is given below:

	$
Opening stock	23 000
Sales	42 000
Purchases	38 000

If mark up is $33\frac{1}{3}$%, the cost value of stolen stock was

A $19 000. **B** $28 000. **C** $29 500. **D** $33 000.

2220 The following information is for a business which lost all its stock in a fire on 10 June 2005: [N09Q19Z]

	$
Stock on 30 May 2005	1 300 000
Sales for the period 1 – 9 June 2005	192 000
Purchases for the period 1 – 9 June 2005	150 000

What was the value of stock on 9 June 2005, if the business makes a margin of 25%?

A $1 258 000 **B** $1 294 000 **C** $1 306 000 **D** $1 342 000

2221 The following relates to a business for a financial year: [J09Q05Z]

	$000
Sales	300
Purchases	275
Opening stock	25
Closing stock	55
Purchases returns	50
Carriage on sales	40
Customs duty	5

What is the gross profit percentage for the year?

A $13\frac{1}{3}$% **B** 20% **C** $33\frac{1}{3}$% **D** 50%

2222 In the final accounts of a sole trader, the closing stock has been overvalued by $8 000 and an uninsured theft of stock costing $10 000 has not been taken into account. [N09Q09Z]

What is the effect of correcting these errors?

	Gross profit	Net profit
A	increased by $2 000	reduced by $8 000
B	increased by $2 000	reduced by $18 000
C	reduced by $2 000	reduced by $2 000
D	reduced by $2 000	reduced by $18 000

2223 The table shows extracts from the Income Statement of a firm for the years ended 31 December 2004 and 2005:

Year ended 31 December	2004	2005
	$	$
Sales	250 000	500 000
Cost of sales	75 000	170 000

What might explain the change in the profit margin? [J09Q32Z]

A Cheaper supplies
B Cut is sales price
C Increase in market share
D Loss of a major customer

2224 Which of the following is **not** an expense account? [J09Q03Z]

A Directors' remuneration
B Loss on sale of property
C Preliminary expenses
D Provision for depreciation

2225 The table shows information taken from the records of a sole trader at 31 December 2006. [N09Q05Z]

	$	
Balance per Bank Statement	720 000	Dr
Uncredited cheques	4 200 000	
Unpresented cheques	1 750 000	

What is the balance in the Cash Book at 31 December 2006?

A $1 730 000 Cr **B** $1 730 000 Dr **C** $3 170 000 Cr **D** $3 170 000 Dr

2226 An accountant has been tasked to prepare Cash Flow Statements for four years ended 31 December 2005.

The minimum information he requires is Profit and Loss Accounts [J09Q29Z]

A and Balance Sheets for the five years ended 31 December 2005.
B and Balance Sheets for the four years ended 31 December 2005.
C for the four years ended 31 December 2005 and Balance Sheets for the five years ended 31 December 2005.
D for the three success years ended 31 December 2005.

2227 When preparing a Cash Flow Statement, the revaluation of fixed assets should be [N09Q28Z]

A excluded from the Cash Flow Statement.
B included in the cash flow from financing activities.
C included in the cash flow from invetuing activities.
D included in the cash flow from operating activities.

2228 The Purchases Ledger Control Account for the year showed the following: [N09Q20Z]

		$
Opening balances:	Debit	8 000
	Credit	40 000
Suppliers' invoices		90 000
Discounts received		1 000
Credit notes received		3 000
Sales ledger control		10 000
Closing balances:	Debit	Nil
	Credit	46 000

How much cash did the company pay its creditors during the year?

A $62 000 **B** $70 000 **C** $89 000 **D** $108 000

2229 The following balances are in respect of subscriptions receivable for a Sports Club: [J09Q15Z]

	1 January 2007	31 December 2007
	$	$
Subscriptions owing	10 000	15 000
Subscriptions in advance	12 000	18 000

If $279 000 was income for the year, how much cash was received for the year ended 31 December 2007?

A $274 000 **B** $279 000 **C** $280 000 **D** $285 000

2230 Extracts from the Balance Sheet of a business are: [J09Q08Z]

	1 July 2006	30 June 2007
	$000	$000
Fixed assets at cost	190	245
Less: Accumulated depreciation	75	90
	115	155

Additional information for the financial year 2006/2207 is as follows:

	$000
Depreciation charged	40
Fixed assets purchased (at cost)	105
Loss on sale of fixed assets	10

The amount received on sale of fixed assets was

A $15 000. **B** $25 000. **C** $30 000. **D** $35 000.

2231 A business provides the information below. [N09Q06Z]

	30 June 2002	30 June 2003
	$	$
Motor vehicles (at cost)	460 000	550 000
Accumulated depreciation	170 000	196 000

Information for the year ended 30 June 2003 is as follows:

	$
Depreciation charged in the Profit and Loss Account	50 000
Purchase of motor vehicle	120 000
Loss on sale of motor vehicle	2 000

How much was received from the sale of the motor vehicle?

A $4 000 **B** $6 000 **C** $8 000 **D** $10 000

2232 What should be disclosed by way of note in the financial statements for each class of depreciable asset? [N09Q01Z]

A Date of acquisition
B Estimated net residual value
C Estimated proceeds of disposal
D Useful economic life

2233 Which accounting convention is observed when capitalising a fixed asset bought on hire purchase? [N09Q11Z]

A Going concern **B** Materiality **C** Prudence **D** Substance over form

2234 Sopeng prepares her accounts annually to 30 June. She pays an annual rent of $36 000 and makes the payments quarterly in advance on 1 June, 1 September, 1 December and 1 March. [N09Q22Z]

Which amount should be included in the Balance Sheet at 30 June 2006?

A $3 000 accrual
B $3 000 prepayment
C $6 000 accrual
D $6 000 prepayment

2235 A tenant pays annual rent of $120 000. Payment is made quarterly in advance starting on 1 January. [J09Q07Z]

Which figure for rent is included in the Balance Sheet on 31 October?

A $10 000 accrual
B $10 000 prepayment
C $20 000 accruals
D $20 000 prepayment

2236 What appears as a credit in the Appropriation Account of a partnership? [N09Q11Z]

A Interest on capital **B** Interest on loans **C** Net profit **D** Partnership salaries

2237 In the absence of a partnership agreement the partners claim that they are entitled to an interest on [J09Q14Z]

A capital to the firm at 5% per annum.
B drawings of 10% per annum.
C loans to the firm at 5%.
D loans to the firm at 10%.

2238 Sato and Tato are partners sharing profits and losses in the ratio of 2:1 respectively. They admit Vato as a partner and the new profit and loss sharing ratio of Sato, Tato and Vato is 2:2:1 respectively. [N09Q15Z]

Goodwill is valued at $120 000 but is not to be recorded in the books.

Which entries will be made in the partners' Capital Accounts?

	Sato	Tato	Vato
A	Dr $32 000	Cr $8 000	Cr $24 000
B	Dr $48 000	Dr $48 000	Cr $96 000
C	Cr $32 000	Dr $8 000	Dr $24 000
D	Cr $48 000	Cr $48 000	Dr $96 000

2239 The following are extracts from a company's Trial Balance at 31 December 2006: [N09Q10Z]

	Debit $	Credit $
Creditors Control Account	10 420	135 042
Bank Account		14 000
Cash	9 000	

There are no other current liabilities.

Which total for current liabilities should be disclosed in the company's financial statement at 31 December 2006?

A $129 622 **B** $135 042 **C** $138 622 **D** $149 042

2240 The current liabilities of a business total $400 000. The current ratio is 2.55:1 and the quick ratio 0.9:1. [N09Q17Z]

What is the stock figure?

A $300 000 **B** $360 000 **C** $660 000 **D** $1 020 000

2241 The quick ratio of a company is lower this year than last year. [J09Q27Z]

What caused the reduction in the ratio?

A A decrease in stock
B An increase in bank
C An increase in creditors
D An increase in debtors

2242 Under which heading should negative goodwill be included in a company's Balance Sheet? [N09Q26Z]

A Capital reserve **B** Long-term liabilities **C** Revenue reserve **D** Share capital

2243 How would you treat non-purchased goodwill in the amounts (accounts) of a company? [N09Q08Z]

A Do not recognise its existence
B Include in the Balance Sheet as an asset at to be amortised
C Include in the Balance Sheet as an asset at valuation
D Write off against reserves

2244 Try Again Ltd agrees to buy assets from Cleanwell Ltd for $40 000. The book value of the assets is $34 000. The purchase price comprises cash $12 000, an issue of $10 000 debenture stock and an issue of 3 700 shares.

What is the market value of each ordinary share? [J09Q33Z]

A $3.24 **B** $4.86 **C** $5.95 **D** $7.57

2245 A business was purchased by a limited company. [J09Q16Z]

Details of the assets and liabilities taken over are:

	$
Tangible assets at valuation	18 000
Net current assets	24 000
Long-term loan	40 000
Goodwill	50 000

The purchase consideration was

A $28 000. **B** $52 000. **C** $68 000. **D** $74 000.

2246 Moyo and Tembo agree to sell their partnership with net assets valued at $420 000 to a limited company.
The goodwill is $100 000 and the purchase consideration is made up of [N09Q30Z]
$120 000 cash
$160 000 debentures
360 000 ordinary shares of $0.50 each

What is the share premium?
A $60 000 **B** $100 000 **C** $180 000 **D** $240 000

2247 A building cost $400 000 some years ago. At 31 December 2005 its accumulated depreciation was $50 000. On that date it was revalued to $600 000. [N09Q18Z]

What will be the balance on the Revaluation Reserve?
A $150 000 **B** $200 000 **C** $250 000 **D** $550 000

2248 Which of the following is a source of revenue reserves? [J09Q12Z]
A Issue of new shares
B Revaluation of fixed assets
C Share premium received on issue of shares
D Trading activities of a company

2249 Share premium can legally be used for [J09Q23Z]
A making a right issue.
B paying an ordinary dividend.
C repaying debentures.
D writing off preliminary expenses.

2250 A company's Balance Sheet includes the following: [N09Q13Z]

Issued share capital	**$000**
4 million ordinary shares of $1 each	4 000
Reserves	
Share premium	4 000
Capital redemption reserve	1 000
Profit and loss	2 000

What is the maximum number of bonus shares that could legally be issued?
A 5 million **B** 6 million **C** 7 million **D** 11 million

2251 The Balance Sheet extract of a company include the following: [J09Q19Z]

		$
Authorised share capital:	800 000 Ordinary shares of $0.25 each	200 000
Issued share capital:	160 000 Ordinary shares of $0.25 each	40 000
Reserves:	Share premium	40 000
	General reserve	10 000
	Profit and loss	20 000

What is the maximum number of bonus shares that may be issued?
A 70 000 **B** 200 000 **C** 240 000 **D** 280 000

2252 The following balances are provided: [J09Q18Z]

	$
Ordinary shares of $1 each	200 000
Share premium	20 000
Profit and loss	96 000
Bank	100 000

A one-for-four bonus issue took place leaving the reserves in the most flexible form.

What is the new account balance?

	Share Premium	**Profit and loss**	**Bank**
	$	**$**	**$**
A	–	66 000	100 000
B	–	66 000	150 000
C	20 000	46 000	100 000
D	20 000	46 000	150 000

2253 A limited company has an authorised share capital of $900 000 in $1 ordinary shares. The issued share capital is $600 000. It make a 1 for 3 rights issue at $2 per share which is fully taken up. [N09Q31Z]

What is the balance on the Share Capital Account after the rights issue?

A $800 000 **B** $900 000 **C** $1 000 000 **D** $1 200 000

2254 The following are extracts from the accounts of a company for the years ended 30 June 2005 and 2006: [N09Q24Z]

	2005	**2006**
	$	**$**
Retained profit carried forward	100 000	140 000
Dividends paid and proposed	80 000	90 000
Transferred to General Reserve	200 000	200 000
Interest payable on debentures	60 000	72 000
Taxation	70 000	76 000

What was the operating profit for the year ended 30 June 2006?

A $388 000 **B** $406 000 **C** $478 000 **D** $578 000

2255 Information for Wade Ltd for the year ended 31 December 2005: [J09Q31Z]

	$
Operating profit	200 000
Debenture interest	30 000
Profit on sale of investments	340 000
Proposed dividends	150 000

What was the distributable profit for the year ended 31 December 2005?

A $150 000 **B** $170 000 **C** $200 000 **D** $510 000

2256 The table shows the capital structure of a company. [N09Q03Z]

	$000
Ordinary share capital	300
Share premium	600
Capital redemption reserve	100
Retained profit	500
10% Debentures	500

If the operating profit is $300 000, what is the return on shareholders' funds?

A 15% **B** 16.67% **C** 20% **D** 27.78%

2257 The table shows the capital of Dube Ltd: [J09Q22Z]

	Ordinary shares of $1 each	5% Preference shares of $0.50 each
Number of shares authorised	20 000	12 000
Number of shares issued	12 000	8 000

The directors propose an ordinary dividend of 7.5%.

What will be the total dividend for the year?

A $1 100 **B** $1 300 **C** $1 900 **D** $2 100

2258 The following is a Balance Sheet extract for a company: [J09Q17Z]

	$
100 000 6% Preference shares of $1 each	100 000
600 000 Ordinary shares of $0.50	300 000
7½% Debentures	200 000

The operating profit is $570 000 and the dividend cover is two times.

The dividend per ordinary share is

A $0.458 **B** $0.46 **C** $0.47 **D** $0.5

2259 An extract from Nhanga Limited's Profit and Loss Account for the year ended 30 April 2006 was as follows: [N09Q16Z]

	$000
Ordinary dividend paid and proposed	350
Preference dividend paid and proposed	120

The issued share capital at 30 April 2006 consisted of:

	$ 000
Ordinary shares of $10 each	4 000
8% Preference shares of $5 each	1 500

The market price of the ordinary shares at 30 April 2006 was $30 per share.

What is the dividend yield?

A 0.292% **B** 0.392% **C** 2.92% **D** 3.92%

2260 A company has a price earnings ratio that is 20% less than the average for the industry. The average for the industry is 30. Its earnings per share is $0.15 [J09Q20Z]

The company's share price is

A $0.60 **B** $2.40 **C** $3.00 **D** $3.60

2261 A company has an authorised share capital of 800 000 ordinary shares $1.00 each. The net profit after taxation is $150 000. The market value of each share is $3.00. [N09Q02Z]

What is the price/ earnings ratio?

A 5.33 **B** 16 **C** 21.33 **D** 38

2262 A company's Balance Sheet extract is given below: [N09Q04Z]

Share capital and reserves	**$**
100 000 Ordinary shares of $1 each	100 000
Profit and Loss Account	(38 000)

The directors have decided to write off the debit balance in the Profit and Loss Account and to make a provision for depreciation on fixed assets of $12 000.

The shareholders have agreed to exchange their shares for new ordinary shares of $0.50 each.

How many shares will be issued to the shareholders?

A 50 000 **B** 62 000 **C** 100 000 **D** 124 000

2263 A company may issue redeemable shares when it has [N09Q27Z]

A already issued non-redeemable debentures.
B already issued non-redeemable shares.
C already redeemed its debentures.
D sufficient reserves to fund the issue.

2264 Which of the following would increase a company's gearing? [N09Q28Z]

A Increasing retained profits
B Issuing additional debentures
C Issuing new ordinary shares
D Redeeming debentures

2265 A company wishes to raise finance without raising its gearing ratio. [J09Q28Z]

Which option makes its plan possible?

A A bonus issue of ordinary shares
B A rights issue of ordinary shares
C An issue of debentures
D An issue of preference shares

2266 Which is the safest form of investment in a limited company? [N09Q23Z]

A Long-term shares **B** Ordinary shares **C** Preference shares **D** Short-term debentures

2267 Which of the following occurring after the Balance Sheet date is an adjusting event? [N09Q32Z]

A A capital reconstruction duly approved by creditors
B A debtor at Balance Sheet date subsequently becoming bankrupt
C An issue of ordinary shares at a premium
D Loss of stock in a fire

2268 A company's year-end is 30 November. On 10 December 2005 a major fire took place at the company's factory and destroyed most of the stock. On 11 December 2005, a major debtor on 30 November 2005 went into liquidation.

In accordance with IAS10 (Contingencies and events occurring after Balance Sheet date), how would the two events be treated in the financial statements? [J09Q26Z]

	Fire	Liquidation
A	accrued in the accounts	accrued in the accounts
B	accrued in the accounts	disclosed in the notes
C	disclosed in the notes	accrued in the accounts
D	disclosed in the notes	disclosed in the notes

2269 When a shareholder disposes his shares for more than he paid for them, what happens to the capital of a company?

A It decreases by the proceeds of the shares sold. [J09Q21Z]
B It increases by the nominal value of the shares sold.
C It increases by the proceeds of the shares sold.
D It remains the same as before.

2270 A company redeems 100 000 $1 redeemable preference shares at a premium of $0.50 per share. The shares were originally issued at par. No new issue of shares was made to finance the redemption. [N09Q25Z]

What is the effect of the redemption on the Profit and Loss Account and the Capital Redemption Reserve?

	Profit and Loss Account	Capital Redemption Reserve
A	decreased by $100 000	increased by $100 000
B	decreased by $100 000	increased by $150 000
C	decreased by $150 000	increased by $100 000
D	decreased by $150 000	increased by $150 000

2271 A company has just been wound up and the only assets that remain have realised $90 000. [J09Q25Z]

A summary of the company's capital structure is as follows:

	$
Ordinary shares	40 000
Preference shares	80 000
Loan stock	60 000

How will the $90 000 be distributed to complete the winding up process?

	Ordinary shares $	Preference shares $	Loan stock $
A	–	30 000	60 000
B	–	80 000	10 000
C	20 000	40 000	30 000
D	40 000	50 000	–

2272 The following data has been prepared: [J09Q--Z]

Production volume	50 000 units $ 000	52 500 units $ 000
Direct materials	3 600	3 780
Direct labour	4 300	4 515
Overheads	5 500	5 555

At a production volume of 55 000 units, the unit cost would be

A $256. **B** $260. **C** $264. **D** $268.

2273 The following budgets have been prepared: [N09Q36Z]

Production volume	200 000 units $	210 000 units $
Direct materials	360 000	378 000
Direct labour	430 000	451 500
Overhead	520 000	531 000

What would be the budgeted production cost per unit for 220 000 units?

A $5.05 **B** $6.41 **C** $6.48 **D** $6.55

2274 A company has forecast the following sales in units for the first three months of next year: [N09Q37Z]

	Units
January	4 000
February	4 200
March	4 800

The opening stock in January was 600 units. The company requires that stock at the end of each month be equal to half of the sales for the following month.

How many units were produced in February?

A 4 500 units **B** 4 800 units **C** 5 500 units **D** 6 600 units

2275 Uni Ltd makes a tablet of soap that requires 0.6kg material per unit. The material is purchased in the month prior to production. The production quantity each month is the amount of expected sales in the following month plus 10% extra for stock. [J09Q--Z]

The expected sales quantities are:

	Units
October	24 000
November	28 000
December	20 000

What are the purchases of materials in October?

A 13 200kg **B** 15 840kg **C** 16 800kg **D** 18 480kg

2276 The following budgeted and actual data relates to a manufacturing company: [J09Q--Z]

	Budgeted	**Actual**
Production overheads	$1 000 000	$1 200 000
Direct labour hours	360 000	400 000

It uses absorption costing system and absorbs production overheads on a direct labour hour basis.

Production overheads during the period were:

A over-absorbed by $88 889.
B over-absorbed by $200 000.
C under-absorbed by $88 889.
D under-absorbed by $200 000.

2277 A company uses a predetermined rate of $6 per machine hour to absorb production overhead. Each unit of product manufactured requires 2 machine hours. [N09Q35Z]

The following information is available for the month of October:

	$
• Actual production overhead	643 200
• Over-absorbed production overhead	33 600

What was the actual output of the production in October?

A 50 800 units **B** 56 400 units **C** 101 600 units **D** 112 800 units

2278 Marginal costing gives a different profit from absorption costing when [N09Q40Z]

A all production costs are fixed.
B all production costs are variable.
C opening stock and closing stock are different.
D there is neither opening nor closing stock

2279 King Tubby produces a single product. [J09Q34Z]

The following information relates to the product:

	Number of units
Opening stock	100 000
Production	300 000
Closing stock	40 000

The variable production cost per unit is $10 and the fixed production cost is $1 200 000. Sales revenue is $7 200 000.

If the absorption costing profit is $2 160 000, the profit, based on marginal costing would be

A $160 000 higher. **B** $160 000 lower. **C** $240 000 higher. **D** $240 000 lower.

2280 A trader has given you the following information concerning her product: [J09Q39Z]

	Per unit
	$
Selling price	2 000
Variable labour cost	700
Raw materials cost	500

If the break-even point is 5 000 units, what is the total fixed cost?

A $4 million **B** $6 million **C** $6.5 million **D** $7.5 million

2281 A company manufactures jackets. Each jacket is expected to be produced in 5 direct labour hours at a rate of $200 per direct labour hour. During the last period 50 000 jackets were produced at a labour cost of $46 million in 240 000 hours. [J09Q38Z]

What is the labour efficiency variance?

A $1 million adverse **C** $2 million adverse
B $1 million favourable **D** $2 million favourable

2282 The cost of production for Choga Limited comprised direct materials and direct labour. [N09Q33Z]

At the end of a production period, the following variances are calculated:

	$
Direct materials usage variance	1 800 adverse
Direct materials price variance	1 500 favourable
Direct labour efficiency variance	900 favourable
Direct labour rate variance	1 000 adverse

If the actual cost of production was $30 440, what was the standard cost?

A $30 040 **B** $30 249 **C** $30 640 **D** $30 840

2283 Which method of investment appraisal uses profits as a basis for calculation? [N09Q39Z]

A Accounting rate of return **C** Net present value
B Internal rate of return **D** Payback

2284 The following relates to a project whose cost of capital is 10% per annum: [N09Q38Z]

	Present value
	$
Initial outlay	(1 000 000)
Receipts	3 411 900
Variable costs	(947 750)
Fixed costs	(1 326 850)
Net present value	137 300

Which item would make the project unacceptable if it were 10% worse than the budget?

A Fixed costs **B** Initial outlay **C** Receipts **D** Variable costs

2285 A project has an IRR of 13% and the firm's cost of capital is 15%. [N09Q34Z]

At the cost of capital, the NPV will be

A equal to IRR. **B** negative. **C** positive. **D** zero.