INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.
Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has already been done for you.
There are forty questions in this paper. Answer all questions. For each question there are four possible answers, A, B, C and D. Choose the one you consider correct and record your choice in soft pencil on the separate answer sheet.
Read very carefully the instructions on the answer sheet.

INFORMATION FOR CANDIDATES

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.
Calculators may be used.
1 Which of the following in the Balance Sheet of a business shows the owner how well his business is doing?

A debtors  
B drawings  
C net profit  
D working capital

2 X receives a cheque from a customer and pays this into his business bank account. How does this affect X’s current assets?

<table>
<thead>
<tr>
<th></th>
<th>bank</th>
<th>debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>decrease</td>
<td>decrease</td>
</tr>
<tr>
<td>B</td>
<td>decrease</td>
<td>increase</td>
</tr>
<tr>
<td>C</td>
<td>increase</td>
<td>decrease</td>
</tr>
<tr>
<td>D</td>
<td>increase</td>
<td>increase</td>
</tr>
</tbody>
</table>

3 A business provides the following information for the year ended 30 September 2002.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>sales</td>
<td>100 000</td>
</tr>
<tr>
<td>cost of goods sold</td>
<td>60 000</td>
</tr>
<tr>
<td>expenses</td>
<td>15 000</td>
</tr>
</tbody>
</table>

What is the net profit for the year ended 30 September 2002?

A $ 25 000  
B $ 40 000  
C $ 45 000  
D $ 55 000

4 What is a Balance Sheet?

A a list of all the accounts in the books of a business  
B an account showing the trading activities of a business  
C an account showing the financial position of a business at a certain date  
D a list of assets, liabilities and capital of a business at a certain date
5 A business applies the money measurement concept. Which would be recorded in its accounting records?

A the benefits of staff training  
B the cost of property owned  
C the effect of new laws  
D the value of the skills of its managers

6 What is meant by the realisation concept?

A Revenue and profit should not be anticipated.  
B Revenue is recognised as being earned when ownership of goods passes to the customer.  
C Similar items should be accounted for in a similar way from one accounting period to the next.  
D Transactions must be expressed in monetary terms.

7 A business bought a machine for $5000 and depreciated it by 20% a year. At the end of Year 2, the total depreciation amounted to $2000.

Using the concept of consistency, how much is charged for depreciation in Year 3?

A $400  
B $600  
C $1000  
D $2000

8 A trader has paid insurance in advance at the end of her financial year. She deducted this amount from the insurance paid during the year to calculate the total insurance cost for the year.

Which accounting concept applies?

A business entity  
B matching  
C money measurement  
D realisation

9 Which accounting concept requires provision to be made for foreseeable losses?

A consistency  
B duality  
C prudence  
D realisation
10 Which document from a supplier reduces the amount owed by a customer?

A credit note  
B debit note  
C invoice  
D statement

11 An invoice for goods for $1200 has been wrongly entered as a credit note. The balance on the purchases account is $17 000.

What is the correct balance?

A $14 600  
B $15 800  
C $18 200  
D $19 400

12 A shop selling office furniture purchased a desk on credit. The desk was not sold, so the shop decided to use it in its own office.

In which book of prime entry were the adjustments made?

A cash book  
B journal  
C purchases journal  
D purchases returns journal

13 X returned faulty goods to Y, the supplier.

What are the entries in Y’s books?

<table>
<thead>
<tr>
<th></th>
<th>debit</th>
<th>credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>purchases returns</td>
<td>X</td>
</tr>
<tr>
<td>B</td>
<td>X</td>
<td>purchases returns</td>
</tr>
<tr>
<td>C</td>
<td>sales returns</td>
<td>X</td>
</tr>
<tr>
<td>D</td>
<td>X</td>
<td>sales returns</td>
</tr>
</tbody>
</table>
14 Which ledger account entries are made to record the purchase on credit of a motor vehicle?

<table>
<thead>
<tr>
<th></th>
<th>debit</th>
<th>credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>creditors</td>
<td>motor vehicles</td>
</tr>
<tr>
<td>B</td>
<td>motor vehicles</td>
<td>cash</td>
</tr>
<tr>
<td>C</td>
<td>motor vehicles</td>
<td>creditors</td>
</tr>
<tr>
<td>D</td>
<td>motor vehicle expenses</td>
<td>creditors</td>
</tr>
</tbody>
</table>

15 Credit notes issued by X are listed in which book of prime entry?

A purchases journal
B purchases returns journal
C sales journal
D sales returns journal

16 $2000 paid for Machinery repairs is entered in the Machinery account.

What kind of error is this?

A commission
B compensating
C original entry
D principle

17 In which columns of a trial balance do discounts allowed and discounts received appear?

<table>
<thead>
<tr>
<th></th>
<th>debit</th>
<th>credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>discounts allowed</td>
<td>discounts received</td>
</tr>
<tr>
<td>B</td>
<td>discounts allowed</td>
<td>discounts received</td>
</tr>
<tr>
<td>C</td>
<td>discounts received</td>
<td>discounts allowed</td>
</tr>
<tr>
<td>D</td>
<td>discounts allowed</td>
<td>discounts allowed discounts received</td>
</tr>
</tbody>
</table>
18 The totals of a trial balance are:

Debit $46 800 Credit $39 700

The following errors have been discovered:

1 Rent received, $3550, has been included as a debit balance.
2 Cash received from K Greener in settlement of a debt of $2000 has been credited to B Greener.

What will be the corrected trial balance totals?
A $38 150   B $41 250   C $43 250   D $45 250

19 The balance of the Discount Allowed account, $200, is entered on the wrong side of the trial balance. This is the only error.

Which Suspense account entry will make the trial balance totals agree?
A credit $200
B credit $400
C debit $200
D debit $400

20 A trial balance does not agree and the difference has been entered in a Suspense account. It is then found that a receipt of $120 from Natasha, a credit customer, has been recorded correctly in the cash book but debited in the Sales account.

What will be the correcting journal entry?

<table>
<thead>
<tr>
<th></th>
<th>debit</th>
<th>credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Natasha $120</td>
<td>Suspense $120</td>
</tr>
<tr>
<td>B</td>
<td>Natasha $120</td>
<td>Suspense $240</td>
</tr>
<tr>
<td></td>
<td>Sales $120</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Suspense $120</td>
<td>Sales $120</td>
</tr>
<tr>
<td>D</td>
<td>Suspense $240</td>
<td>Natasha $120</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sales $120</td>
</tr>
</tbody>
</table>

21 What is the purpose of preparing a bank reconciliation statement?

A to check that all expenses have been paid
B to check on the amount owed by debtors
C to explain the difference between the bank statement balance and cash book balance
D to see by how much the bank balance has increased
22 The balance of cash at bank shown in the cash book is $1200. The bank statement shows the balance to be $1440.

Which can explain the difference?

A payment to a supplier, $120, entered on the wrong side of the cash book
B bank charges, $240, not in the cash book
C cheques to suppliers, $240, not yet presented to the bank
D receipts from customers, $240, banked but not yet entered in the bank statement

23 In connection with stock valuation, what is meant by “net realisable value”?

A selling price
B selling price minus estimated profit
C selling price minus selling expenses
D selling price minus estimated trade discount


How should the transaction of 31 December be classified?

A capital expenditure
B capital receipt
C revenue expenditure
D revenue receipt

25 The purchase of fixtures and fittings has been mistakenly entered in the General Expenses account.

What is the effect of this on the final accounts?

<table>
<thead>
<tr>
<th>Profit and Loss Account</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>A profit understated</td>
<td>assets overstated</td>
</tr>
<tr>
<td>B</td>
<td>assets understated</td>
</tr>
<tr>
<td>C profit overstated</td>
<td>assets overstated</td>
</tr>
<tr>
<td>D</td>
<td>assets understated</td>
</tr>
</tbody>
</table>
26 What is the purpose of depreciating a fixed asset?

A to find the value of the asset at the end of its useful life
B to estimate the profit on sale at the end of the asset’s useful life
C to provide money for a replacement at the end of the asset’s useful life
D to spread the cost of the asset over its expected useful life

27 A machine is purchased for $15 000. It is to be depreciated at 20% per annum using the reducing balance method.

What is the charge for depreciation in the second year?

A $2400  B $3000  C $5400  D $6000

28 At the end of the financial year, X has prepaid her insurance by $60.

What action has to be taken to record the correct expense in her final accounts?

<table>
<thead>
<tr>
<th>Profit and Loss Account</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>increase expenses</td>
<td>decrease expenses</td>
</tr>
<tr>
<td>A ✔✔</td>
<td>✔✔</td>
</tr>
<tr>
<td>B ✔ ✔</td>
<td>✔</td>
</tr>
<tr>
<td>C ✔</td>
<td>✔</td>
</tr>
<tr>
<td>D ✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

29 What is the effect of providing for depreciation?

A It increases profit.
B It reduces profit.
C It increases the cash balance.
D It extends the life of fixed assets.
30  The following information is provided.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales for the year</td>
<td>$220 000</td>
</tr>
<tr>
<td>Purchases for the year</td>
<td>$130 000</td>
</tr>
<tr>
<td>Opening stock</td>
<td>$10 000</td>
</tr>
<tr>
<td>Closing stock</td>
<td>$12 000</td>
</tr>
</tbody>
</table>

What is the cost of goods sold?

A  $90 000  
B  $92 000  
C  $128 000  
D  $132 000

31  In a partnership, Adam has a capital of $20 000 and Ben $10 000. Adam receives a salary of $8 000.

The balance of profit is shared equally. The net profit for the year is $26 000.

What is Ben's total income from the business?

A  $9 000  
B  $10 000  
C  $13 000  
D  $17 000

32  The table shows information relating to a trader at a given date.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>fixed assets at valuation</td>
<td>33 000</td>
</tr>
<tr>
<td>stock at cost</td>
<td>8 000</td>
</tr>
<tr>
<td>debtors</td>
<td>6 500</td>
</tr>
<tr>
<td>cash at bank</td>
<td>7 000</td>
</tr>
<tr>
<td>creditors</td>
<td>3 000</td>
</tr>
</tbody>
</table>

What is the trader's capital at that date?

A  $44 500  
B  $51 500  
C  $54 500  
D  $57 500


What will be the amount of prepaid rent at 31 December 2001?

A  nil  
B  $800  
C  $1600  
D  $2400
34 Which is an intangible asset?
   A debtors
   B goodwill
   C prepayment
   D stock

35 Which is a current liability for a business?
   A accrued interest charges on loan from bank
   B provision for depreciation of fixed assets
   C five year loan from bank
   D insurance premium prepaid

36 A trader has 2000 units of stock of which 100 are unsaleable. Each unit costs $10 and the sale price is $20.

What is the value of the stock?
   A $19 000    B $20 000    C $38 000    D $40 000

37 A business provides the following information for the year ended 31 May 2002.

\[
\begin{array}{l}
\text{Sales} & 200 000 \\
\text{Cost of sales} & 150 000 \\
\text{Expenses} & 30 000 \\
\end{array}
\]

What is the percentage of net profit to sales?
   A 10 %    B 15 %    C 25 %    D 60 %

38 The following is extracted from a Balance Sheet.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>fixed assets</td>
<td>80 000</td>
</tr>
<tr>
<td>current assets</td>
<td>45 000</td>
</tr>
<tr>
<td>total assets</td>
<td>125 000</td>
</tr>
<tr>
<td>current liabilities</td>
<td>20 000</td>
</tr>
</tbody>
</table>

What is the working capital?
   A $15 000    B $25 000    C $60 000    D $105 000
39. How is the quick ratio calculated?

- A. current assets minus current liabilities
- B. current assets divided by current liabilities
- C. (current assets minus stock) minus current liabilities
- D. (current assets minus stock) divided by current liabilities

40. The following information about a business is provided.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$75,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$60,000</td>
</tr>
<tr>
<td>Opening stock</td>
<td>$6,000</td>
</tr>
<tr>
<td>Closing stock</td>
<td>$9,000</td>
</tr>
</tbody>
</table>

What is the rate of stock turnover?

- A. 4 times
- B. 5 times
- C. 8 times
- D. 10 times