

CBA Model Question Paper – C02

Question 1

The difference between an income statement and an income and expenditure account is that

- A** an income and expenditure account is an international term for a Income statement.
- B** an income statement is prepared for a business and an income and expenditure account is prepared for a not-for-profit making organisation.
- C** an income statement is prepared on an accruals basis and an income and expenditure account is prepared on a cash flow basis.
- D** an income statement is prepared for a manufacturing business and an income and expenditure account is prepared for a non-manufacturing business.

Question 2

Which one of the following sentences does NOT explain the distinction between financial accounts and management accounts?

- A** Financial accounts are primarily for external users and management accounts are primarily for internal users.
- B** Financial accounts are normally produced annually and management accounts are normally produced monthly.
- C** Financial accounts are more accurate than management accounts.
- D** Financial accounts are audited by management where as management accounts are audited by external auditors

Question 3

Which one of the following should be accounted for as capital expenditure?

- A** cost of painting a building.
- B** The replacement of windows in a building.
- C** The purchase of a car by a garage for re-sale.
- D** Legal fees incurred on the purchase of a building.

Question 4

A company includes in inventory goods received before the year end, but for which invoices are not received until after the year end. This is in accordance with

- A** the historical cost convention.
- B** the accruals concept.
- C** the consistency concept.
- D** the materiality concept.

Question 5

When there is inflation, the historical cost convention has the effect of

- A overstating profits and understating statement of financial position values.
- B understating profits and overstating statement of financial position values.
- C understating cash flow and overstating cash in the statement of financial position.
- D overstating cash flow and understating cash in the statement of financial position

Question 6

Which ONE of the following best describes the stewardship function?

- A Ensuring high profits.
- B Managing cash.
- C Ensuring the recording, controlling and safeguarding of assets.
- D Ensuring high dividends to shareholders.

Question 7

The accounting equation at the start of the month was:

Assets \$14000 less liabilities \$6500

during the following month, the business purchased a non-current asset for \$6000, paying by cheque, a profit of \$9000 was made, and payables of \$7500 were paid by cheque.

What would the balance on capital be at the end of month?

Question 8

Non-current assets can best be defined as Items of machinery which are not moveable and are purchase with an intention of resale. **True/False**

Question9

The objective of financial statements is it enables users to assess the performance of management and to aid in decision making. **True/false**

Question 10

The core objective of accounting is

- A. Provide financial information to the users of such information
- B. Maintain records of assets and liabilities
- C. Keep record or transactions
- D. To fulfil statutory requirements

Question 11

B operates the imprest system for petty cash. At 1 July there was a float of \$150, but it was decided to increase this to \$200 from 1 August onwards. During July, the petty cashier received \$25 from

staff for using the photocopier and a cheque for \$90 was cashed for an employee. In July, cheques were drawn for \$500 for petty cash.

What was the total expense paid from petty cash in July?

- A \$385.
- B \$435.
- C \$515.
- D \$615.

Question 12

Z's bank statement shows a balance of \$825 overdrawn. The bank statement includes bank charges of \$50, which have not been entered in the cash book. There are unpresented cheques totalling \$475 and deposits not yet credited of £600. The bank statement incorrectly shows a direct debit payment of \$160, which belongs to another customer.

What figure for the bank balance should be shown in the statement of financial position?

- A \$590 overdrawn.
- B \$540 overdrawn.
- C \$790 overdrawn.
- D \$840 overdrawn.

Question 13

What is an imprest system?

- A records the use of a company's seal.
- B helps to reconcile the cash book with the bank statement.
- C helps to control petty cash.
- D is part of computerised accounting.

Question 14

The entries in a sales ledger control account are:

Sales	\$250,000
Bank	\$225,000
Sales returns	\$2,500
Bad debts (irrecoverable debts?)	\$3,000
Returned unpaid cheque	\$3,500
Contra with purchase ledger account	\$4,000

What is the balance on the sales ledger control account?

- A \$12,000
- B \$19,000
- C \$25,000
- D \$27,000

Question 15

P is a sole proprietor whose accounting records are incomplete. All the sales are cash sales and during the year \$50,000 was banked, including \$5,000 from the sale of a business car. He paid \$12,000 wages in cash from the till and withdrew \$2,000 per month as drawings. The cash in the till at the beginning and end of the year was \$300 and \$400 respectively.

What were the sales for the year?

- A \$80,900
- B \$81,000
- C \$81,100
- D \$86,100

Question 16

N operates an imprest system for petty cash. On 1 February , the float was \$300. It was decided that this should be increased to \$375 at the end of February .

During February, the cashier paid \$20 for window cleaning, \$100 for stationery and \$145 for coffee and biscuits. The cashier received \$20 from staff for the private use of the photocopier and \$60 for a miscellaneous cash sale.

What amount was drawn from the bank account for petty cash at the end of February?

- A \$185
- B \$260
- C \$315
- D \$375

Question 17

On 1 May, East owed a supplier \$1,200. During the month of May, East:

- Purchased goods for \$1,700 and the supplier offered a 5% discount for payment within the month.
- returned goods valued at \$100 which had been purchased in April.
- sent a cheque to the supplier for payment of the goods delivered in May.

What is the balance on the supplier's account at the end of May?

- A \$1,015
- B \$1,100
- C \$1,185
- D \$1,300

Question 18

North, which is registered for sales tax, received an invoice from an advertising agency for \$4,000 plus sales tax. The rate of sales tax on the goods was 20%.

What would the correct ledger entries be?

Debit \$

Credit \$

- A Advertising expense 4,000 Payables 4,000
- B Advertising expense 4,800 Payables 4,800
- C Advertising expense 4,800 Payables 4,000 Sales tax account 800
- D Advertising expense 4,000 Payables 4,800 Sales tax account 800

Question 19

which of the following are used in a coding system for accounting transactions?

- A Department code.
- B Nominal ledger code.
- C Product code.
- D All of the above.

Question 20

Which ONE of the following attributes is the most important for any code to possess in order to be of use in an accounting system?

- A Easy to change the code number.
- B Each code is a unique number.
- C A combination of letters and digits to ensure input accuracy.
- D Linked to assets, liabilities, income, expenditure and capital.

Question 21

On 1 May, A pays a rent bill of \$1,800 for the twelve months to 30 April. What is the charge/credit to the income statement for the year ended 30 November?

Question 22

A car was purchased for \$12,000 on 1 April in year 1 and has been depreciated at 20% each year straight line, assuming no residual value. The company policy is to charge a full year's depreciation in the year of purchase and no depreciation in the year of sale. The car was traded in for a replacement vehicle on 1 August in year 4 for an agreed figure of \$5,000.

What was the profit or loss on the disposal of the vehicle in year 4?

Question 23

The following information relates to M :

<i>At 30 September</i>	<i>Year 2</i>	<i>Year 1</i>
	<i>\$000</i>	<i>\$000</i>
Inventories:		
Raw materials	75	45
Work-in-progress	60	70
Finished goods	100	90

For the year ended 30 September Year 2

	\$
Purchases of raw materials	150,000

Manufacturing wages	50,000
Factory/production overheads	40,000

What is the prime cost of production in the manufacturing account for year 2?

Question 24

A company bought a machine on 1 October year 1 for \$52,000. The machine had an expected life of eight years and an estimated residual value of \$4,000. On 31 March year 6, the machine was sold for \$35,000. The company's yearend is 31 December. The company uses the straight-line method for depreciation and it charges a full year's depreciation in the year of purchase and none in the year of sale.

What is the profit or loss on disposal of the machine?

- A Loss \$13,000
- B Profit \$7,000
- C Profit \$10,000
- D Profit \$13,000

Question 25

N purchased a machine for \$15,000. The transportation costs were \$1,500 and installation costs were \$750. The machine broke down at the end of the first month in use and cost \$400 to repair. N depreciates machinery at 10% each year on cost, assuming no residual value.

What is the net book value of the machine after one year?

- A \$13,500
- B \$14,850
- C \$15,525
- D \$15,885

Question 26

B made an issue of 150,000 \$1 ordinary shares at a premium of 20% the proceeds of which is received by cheque.

What is the correct journal to record this?

	<i>DR</i>	<i>CR</i>
	\$	\$
A Bank	180,000	
Share capital		150,000
Share premium		30,000
B Bank	180,000	
Share premium		180,000
C Bank	180,000	
Share capital		180,000
D Bank	150,000	
Share premium		30,000
Share capital		120,000

Question 27

APM provides the following note to non-current assets in its statement of financial position.

Plant and machinery

	<i>Cost</i>	<i>Depreciation</i>	<i>Net book value</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Opening balance	25	12	13
Additions/charge	15	4	11
Disposals	(10)	(8)	(2)
Closing balance	30	8	22

The additional machinery was purchased for cash. A machine was sold at a profit of \$2,000.

What is the net cash outflow for plant and machinery?

- A \$9,000
- B \$11,000
- C \$13,000
- D \$15,000

Question 28

Which ONE of the following expenses should be included in prime cost in a manufacturing account?

- A Repairs to factory machinery.
- B Direct production wages.
- C Office salaries.
- D Factory insurance.

Question 29

S&G bought a machine for \$40,000 in January year 1. The machine had an expected useful life of six years and an expected residual value of \$10,000. The machine was depreciated on the straight-line basis where a full year's charge is made in the year of purchase and none in the year of sale. In December year 4, the machine was sold for \$15,000. The company has a policy in its internal accounts of combining the depreciation charge with the profit or loss on disposal of assets. Its year end is 31 December.

What is the total amount of profit/loss charged to the income statement over the life of the machine?

- A \$15,000
- B \$20,000
- C \$25,000
- D \$30,000

Question 30

At the beginning of the year GHI, had opening work-in-progress of \$240,000. During the year, the following expenditure was incurred:

	\$
Prime cost	720,000

Factory/production overheads 72,000

Closing work-in-progress was 350,000

What was the factory/production cost of goods completed during?

A \$538,000

B \$610,000

C \$682,000

D \$902,000

Question 31

In July year 1, a company sold goods at VAT rate with a net value of

\$200,000, goods exempt from VAT with a value of \$50,000 and goods at zero VAT rate with a net value of \$25,000. The purchases in July year 1, which were all subject to VAT, were \$161,000, including VAT. Assume that the rate of VAT is 15%.

What is the balance on the sales tax account?

A Dr £9,000

B Cr £5,850

C Cr £9,000

D none of these

Question 32

S purchased equipment for \$80,000 on 1 July year 1. The company's accounting year end is 31 December. It is S's policy to charge a full year's depreciation in the year of purchase. S depreciates its equipment on the reducing balance basis at 25% per annum.

What is the net book value of the equipment at 31 December year 4?

A Nil

B \$25,312

C \$29,531

D \$33,750

Question 33

H began trading on 1 July. The company is now preparing its accounts for the accounting year ended 30 June year 1. Rent is charged for the year from 1 April to 31 March, and was \$1,800 for the year ended 31 March year 1 and \$2,000 for the year ended 31 March year 2. Rent is payable quarterly in advance, plus any arrears, on 1 March, 1 June, 1 September and 1 December.

The charge to H's income statement for rent for the year ended 30 June year 2 is

A \$1,650

B \$1,700

C \$1,850

D \$1,900v

Question 34

The following information related to Q for the year ended 28 February : For use

	\$
Prime cost	122,000
Factory/production overheads	185,000
Opening work-in-progress	40,000
Factory cost of goods completed	300,000

What is the closing work-in-progress for Q?

Question 35

The profit of a business may be calculated by using which one of the following formulae?

- A Opening capital - drawings + capital introduced - closing capital
- B Closing capital + drawings - capital introduced - opening capital
- C Opening capital + drawings - capital introduced - closing capital
- D Closing capital - drawings + capital introduced - opening capital

Question 36

On 1 June year 1, H paid an insurance invoice of \$2,400 for the year to 31 May year 2. What is the charge to the income statement and the entry in the statement of financial statement for the year ended 31 December year 1?

- A \$1,000 income statement and prepayment of \$1,400.
- B \$1,400 income statement and accrual of \$1,000.
- C \$1,400 income statement and prepayment of \$1,000.
- D \$2,400 income statement and no entry in the statement of financial position.

Question 37

The following information at 5 January year 3 relates to a club, which has a year end of 31 December year 2:

	\$
Subscriptions for year 1 unpaid at January year 2	300
Subscriptions for year 1 paid during the year ended 31 December year 2	250
Subscriptions for year 2 paid during the year ended 31 December year 2	6,000
Subscriptions for year 3 paid during the year ended 31 December year 2	1,000
Subscriptions for year 2 unpaid at 31 December year 2	750

It is the club's policy to write off overdue subscriptions after one year.

What amount should be credited to the income and expenditure account for 31 December year 2?

- A \$6,250
- B \$6,750
- C \$7,050
- D \$7,250

Question 38

On the first day of Month 1, a business had prepaid insurance of \$10,000. On the first day of Month 8, it paid, in full, the annual insurance invoice of \$36,000, to cover the following year.

What is the amount charged in the income statement and the prepayment shown in the statement of financial position at the year end?

	<i>IS \$</i>	<i>SFP\$</i>
A	5,000	24,000
B	22,000	23,000
C	25,000	21,000
D	36,000	15,000

Question 39

SAD paid \$240,000 in net wages to its employees in August . Employees’ tax was \$24,000, employees’ national insurance was \$12,000 and employer’s national insurance was \$14,000. Employees had contributed \$6,000 to a pension scheme and had voluntarily asked for \$3,000 to be deducted for charitable giving.

What is the amount of wages expense to be charged to the income statement in August?

- A** \$285,000
- B** \$293,000
- C** \$296,000
- D** \$299,000

Question 40

Which ONE of the following formulae correctly expresses the relationship between the return on capital employed (ROCE), net profit margin (NPM) and asset turnover (AT)?

- A** $ROCE = NPM \div AT$
- B** $ROCE = NPM + AT$
- C** $ROCE = NPM \times AT$
- D** $ROCE = NPM - AT$

Question 41

An increase in inventories of \$500 and a decrease in the bank balance of \$600 and an increase in payables of \$1400 results in:

- A** a decrease in working capital of \$1500
- B** an increase in working capital of \$1500
- C** a decrease in working capital of \$1300
- D** an increase in working capital of \$1300

Question 42

A has net credit sales of \$50,000 and estimates that bad debts are approximately 3% of net credit sales. The yearend balance in accounts receivables is \$100,000, the allowance account has a credit balance of \$500, what would be the value of accounts receivables after adjustments.

Question 43

The following information was extracted from the balance sheets of ABC at 31 December Year2 and at 31 December Year1:

	Year1	Year2
	\$000	\$000
Stock	100	120
Debtors	140	175
Trade creditors	120	140
other creditors	55	75

What figure should appear as part of the cash flow statement for the year ended 31 December 2002?

- A \$25,000 outflow
- B \$15,000 outflow
- C \$15,000 inflow
- D \$25,000 inflow

Question 44

What is the fundamental objective of an external audit of a limited company?

- A give advice to shareholders.
- B detect fraud and errors.
- C measure the performance and financial position of a company.
- D provide an opinion on the financial statements.

Question 45

Which one of the following statements most closely expresses the meaning of “true and fair presentation”?

- A There is only one true and fair presentation of a company’s financial statements.
- B True and fair presentation is determined by compliance with accounting standards.
- C True and fair presentation is determined by compliance with company law.
- D True and fair presentation is largely determined by reference to generally accepted accounting practice.

Question 46

What is the principal duty of an external auditor?

- A to confirm that financial statements give fair presentation.
- B to ensure that a company’s systems and controls are adequate to ensure the reliability of the accounting records.
- C to prevent fraud and errors.
- D to provide a report to the shareholders.

Question 47

Which ONE of the following provides the best explanation of the objective of an internal audit?

- A The objective is to assist directors of a company in the effective discharge of their financial responsibilities towards the members.
- B The objective is to provide support to the external auditor.
- C The objective is to detect fraud and error.
- D The objective is to audit the financial statements.

Question 48

Which of the following best describes the role of the internal auditor?

- A auditing the financial accounts.
- B supporting the work of the external auditors.
- C reporting to management on the accounting systems.
- D ensuring value for money.

Question 49

Which of the following errors will cause the trial balance totals to be unequal?

- A Errors of transposition.
- B Errors of omission.
- C Errors of principle.
- D All of the above.

Question 50

An error of commission occurs where the entries required for a transaction are partially omitted.

True/False

CBA Model Question Paper – C02

Answers

Question	Answer
1	B
2	D
3	D
4	B
5	A
6	C
7	\$16,500
8	False
9	False
10	A
11	A
12	B
13	C
14	B
15	C
16	B
17	B
18	C
19	D
20	B
21	\$1050
22	\$200
23	\$170,000
24	D
25	C
26	A
27	B
28	B
29	C
30	C
31	
32	B
33	C
34	\$47,000
35	B
36	C
37	B
38	D
39	D
40	A
41	A
42	\$98,200
43	B
44	D
45	A

46	A
47	A
48	C
49	A
50	False