# C02-Fundamentals of financial accounting

Chartered Institute of Management Accountants

CIMA

## Sample Exam Paper

### 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 an 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 $14,000 less liabilities $6,500.
During the following month, the business purchased a non-current asset for $6,000, paying by cheque, a profit of $9,000 was made, and payables of $7,500 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

## Question 9

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:
*At 30 September*

| | Year 2 | Year 1 |
|---|---|---|
| | *$000* | *$000* |
| 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?

| | Dr | Cr |
|---|---|---|
| **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*

| | Cost $000 | Depreciation $000 | Net book value $000 |
|---|---|---|---|
| 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

SSG 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 in 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 | 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%.
The difference between VAT input tax and VAT output tax is

- **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.** $1,900

## 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 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?

| | IS $ | SFP$ |
|---|---|---|
| **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 ÷ AT
- **B.** ROCE = NPM + AT
- **C.** ROCE = NPM x 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 $1,400 results in:

- **A.** A decrease in working capital of $1,500
- **B.** An increase in working capital of $1,500
- **C.** A decrease in working capital of $1,300
- **D.** An increase in working capital of $1,300

## Question 42

The turnover of a company was $4 million and its receivables were 7.5% of turnover. The company wishes to have an allowance of 3% of receivables, which would result in an increase of 25% of the current allowance. What figure would appear in the income statement for bad debts?

## Question 43

The following information was extracted from the balance sheets of ABC at 31 December Year 2 and at 31 December Year 1:

| | Year 1 | Year 2 |
|---|---|---|

| | $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

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## C02-Answers

| Question | Answer | | Question | Answer |
|---|---|---|---|---|
| 1 | B | | 40 | A |
| 2 | D | | 41 | A |
| 3 | D | | 42 | Debit $1,800 |
| 4 | B | | 43 | B |
| 5 | A | | 44 | D |
| 6 | C | | 45 | A |
| 7 | $16,500 | | 46 | A |
| 8 | False | | 47 | A |
| 9 | False | | 48 | C |
| 10 | A | | 49 | A |
| 11 | A | | 50 | False |
| 12 | B | | | |
| 13 | C | | | |
| 14 | B | | | |
| 15 | C | | | |
| 16 | B | | | |
| 17 | B | | | |
| 18 | D | | | |
| 19 | D | | | |
| 20 | B | | | |
| 21 | $1,050 | | | |
| 22 | $200 | | | |
| 23 | $170,000 | | | |
| 24 | D | | | |
| 25 | C | | | |
| 26 | A | | | |
| 27 | B | | | |
| 28 | B | | | |
| 29 | C | | | |
| 30 | C | | | |
| 31 | C | | | |
| 32 | B | | | |
| 33 | C | | | |
| 34 | $47,000 | | | |
| 35 | B | | | |
| 36 | C | | | |
| 37 | B | | | |
| 38 | D | | | |
| 39 | D | | | |

**Explanations:**

1. Principle difference between Income Statement and Income & Expenditure Account.

2. Principle knowledge about the usage and preparation of Financial Accounts and Management Accounts.

3. Option A, B & C are the examples of revenue expenditure. Capital expenditure is the funds used to acquire or upgrade the physical assets.

4. Principle knowledge of Accruals concept.

5. Principle knowledge of historical cost convention.

6. Principle knowledge of stewardship function.

7. **$16,500** **Assets = Capital + Liabilities**

| Assets | = | Capital | + | Liabilities |
|---|---|---|---|---|
| 14,000 | | 7,500 | | 6,500 |
| 6,000 | | | | |
| (6,000) | | | | |
| 9,000 | | 9,000 | | |
| (7,500) | | | | (7,500) |
| 15,500 | | **16,500** | | (1,000) |

8. **False**
Non current assets are the assets acquired with a going concern view.

9. **False**
The users of financial statements are external stake holders who do not necessarily advise the management on the decision making and to address the operational issues of the company.

10. Principle knowledge of accounting.

**11.**

| | |
|---|---|
| 1st July Float | = $150 |
| Cash from staff | =$25 |
| Cheque for employee | = ($90) |
| Cheques drawn for petty cash | = $500 |
| **Amount paid in to petty cash X** | **= ($385)** |
| 1st August Balance maintained | = 200 |

**12.**

| | |
|---|---|
| Over drawn | (825) |
| Un presented cheques | (475) |
| Incorrect direct debit | 160 |
| Deposits not credited | 600 |
| Over drawn in SOFP | $540 |

**13.** Principle knowledge of petty cash Imprest system. One of the advantages of having imprest system in place.

**14.**

Sales Ledger Control Account

| | | | |
|---|---|---|---|
| Sales | 250,000 | Bank | 225,000 |
| Dis Hon Chq | 3,500 | RI | 2,500 |
| | | Bad debts | 3,000 |
| | | Contra | 4,000 |
| | | C/F | 19,000 |
| B/F | 19,000 | | |

**15.**

Total cash during the year
Banked $50,000
Paid wages $12,000
With drew cash $24,000
Difference between
Opening and closing $100
Total cash = $86,100 Less cash deposited from car sale $5000 ➔
Sales $ 81,800

**16.**

| | |
|---|---|
| O/B | $300 |
| Window cleaning | $(20) |

| | |
|---|---|
| Stationery | $(100) |
| Coffee and biscuits | $(145) |
| Photocopy revenue | $20 |
| Miscellaneous received | $60 |
| **Bank Amount** | **$260** |
| C/B | $375 |

**17.**

| | |
|---|---|
| owing money | $1200 |
| Good received | $1700 |
| Good returned | $(100) |
| Cheques Presented | $(1615) |
| Discount | $(85) |
| **Net balance** | **$ 1100** |

**18.**

Expenses are recorded excluding the VAT there fore we will have expenses as per the gross amount $4000 and sales VAT separately however the total payables will be $4800.

**19.** Principle knowledge of coding accounting systems.

**20.** Principle knowledge of coding accounting systems.

**21. $1050**

Rent Per month $1,800/12 = $150
No of months May to Nov = 7
Charge to IS = 7x$150 = $1050

**22. $200**

Car Value $12,000
End year 1 Value $12,000- 2400 = $9600
End year 2 Value $9,600-2400 = $ 7200
End year 3 Value $7200- 2400= $4800
Year 4 carrying Value $4,800 Less sale price $5000 profit = $200.

**23. $170,000**

Prime cost = DM+ DL
Material O/B $45,000
Material Purchase $ 150,000
Material C/B %75,000
Total Material Consumer = 45,000+150,000-75,000 = 120,000
Direct Manufacturing wages = $50,000
Prime cost = 120,000+50,000 = 170,000

**24.** Machine Value = 52,000
Residual Value =4000
Estimated life = 8 years
straight line depreciation each year over a 8 year life = $6,000
Machine sold in year 6 for $35,000
Book Value year 6 = 52,000-30000 = 22000
Profit = Sale – Book Value ➔ 35,000-22,000 ➔ $13,000.

**25.** Total value of asset is $15,000+$1500+$750 = $17,250
10% deprecation for the year $1725
Book value at the end of year = $15,525
Repairing cost of $400 does not adds up to the value of asset.

**26.** Bank is debited with the actual amount received Share capital and Share premium are credited individually.

**27.** **($11,000)**
1. Additional machinery purchased on cash ➔ cash outflow $15,000
2. NBV of the asset disposed $2,000
3. Profit on Asset disposed $2,000
Total cash from sales $4,000
Net cash flow = -$15,000 + $4,000 ➔ ($11,000)

**28.** Principle knowledge of prime cost.

**29.** Machine cost $40,000
Estimated life = 6 years
Residual Value = $10,000
Depreciation straight line
Year 4 selling price =$15,000
NBV year 4 = $40,000-$15,000 = $25,000
Profit/loss = Loss $10,000 + 15,000 of depreciation as per internal policy

**30.** O/B $240,000
Prime cost $ 720,000
Over heads $72,000
C/B $ 350,000
Total cost of finished goods = O/B + Prime cost + over heads –C/B
= 240,000+720,000+72,000-350,000= $682,000

**31.** VAT received by customer is $30,000 VAT paid by the company $21,000
Purchase made 161,000 inclusive of VAT gross purchase ➔ 161,000/1.15 give 15% rate of Vat.

**32.** Reducing balance method
Year1 end value 8,000x75% = 60,000

year 2 end value 60,000x75%= 45,500
Year 3 end value 45,000x75%= 33,750
year 4 end value 33,750x75%=25312

**33.** $1,800x9/12 + $2,000x3/12
= $1,850

**34.** **$47,000**
Goods complete cost = O/B + Prime cost + Overheads – closing balance.
300,000= 40,000 + 122,000 + 185,000 –C/B
300,000-347,000= -C/B
-47,000= -C/B
47,000= C/B

**35.** Principle knowledge of Accounting equation.

**36.** $2,400/12X7 charge to IS
$2,400/12x5 SOFP as prepayment

**37.** The subscription charged for year 2. $6000+$750 = $6750. Ignoring the paid dates and recognizing on the issuing date.

**38.** Charge to income statement is balance brought forward + 5/12 of 36,000
prepayments = 7/12 of 36,000

**39.** **D**

**40.** **C**

**41.** Increase in inventory = increase in working capital
decrease in Bank = decrease in working capital
Increase in payables = decrease in working capital
➔ 500-600-1400 ➔ Total decrease of $1500 in working capital.

**42.** **Debit $1800**
TR= 4,000,000 % of receivables 7.5%
Amount for receivables = $300,000
Provision for bad debts = 3% of receivables ➔ $9,000
Increase in provision is 25% more than previous year Previous provision 9,000/1.25 = $7,200
$9000-$7200 = $1800 Debit income statement.

**43.** **B $15,000 outflow**
Cash flow from working capital activities.

Increase in Trade creditors + Increase in other creditors Less Increase in stock + Increase in debtors. ➔ (20+20) - (20+35) ➔ (15)

**44.** Principle knowledge of an external audit.

**45.** The “true and fair presentation” is an opinion and can vary within certain parameters so there can be more than a single true and fair presentation of a company’s financial statements.

**46.** Principle knowledge of external audit.

**47.** Principle knowledge of internal audit.

**48.** One of the primary functions of an internal auditor is to report on the current accounting systems, evaluate the reliability of the system and identify the loop holes in the current accounting system.

**49.** All the mentioned above accounting error result in an equal trail balance as they effect the different accounting heads but not the sides of each entry. What usually causes the trail balance to be unequal are arithmetic errors that is when you sum up each side or the wrong amounts for one but not both entries in the trial balance.

**50. False**

An error of commission occurs where a correct amount is entered, but in the wrong person`s account.