59 To which account will interest on drawings be charged in a partnership, if fixed capital accounts are kept?

A Capital account

B Salaries account

C Drawings account

D Current account

60 Partnerships are usually formed for all of the following reasons except to:

A access additional capital for expansion

B share profits

C obtain further management expertise

D share the workload in the business

4 PRINCIPLES OF ACCOUNTS – PAPER 01 – MULTIPLE CHOICE ANSWERS

Paper 01 Test A

1 **D**

2 **C**

3 **A**

4 **C**

5 **C**

6 **A** The consistency convention states that the same accounting method should be used year after year to avoid portraying misleading profits.

7 **D**

8 **B**

9 **D** This is a bad debt, i.e. one that will never be repaid.

10 **D** A return by customer is a return inwards and therefore goes to the Sales Returns Book. The credit purchase of inventory goes in the Purchases Book.

11 **B**

12 **C** 15% = $450

100% (i.e. original amount owed) = $\frac{450}{15} \times \frac{100}{1}$ = $3,000

13 **A**

14 **B** Debit column – Credit column = 610 – 350 = $260

15 **B** Note: Land is a real account while Rent expense and Sales are nominal accounts.

16 **C** Cash will always have a debit balance as the firm cannot spend money it does not have in hand.

17 **A**

18 **B** The Accounts Receivable ledger is used to maintain debtors' accounts and all transactions pertaining to them, such as amounts owing, sales returns and discounts allowed.

19 **C**

20 A Machinery is a fixed asset. Money has been used from the Bank account (reduction in bank reflected by the *credit*) to pay for/obtain Machinery (increase in machinery shown by the *debit*).

21 A

22 C

23 D Opening inventory + Purchases + Carriage inwards – Return outwards – Closing inventory = 630 + 2,700 + 140 – 80 – 390 = $3,000

24 A Opening capital $25,650 – Drawings $3,400 – Net loss $4,100 = $18,150

25 D

26 D Acid test ratio = (Current assets – Closing inventory) ÷ Current liabilities

= (13,600 – 4,300) ÷ 7,200 = 1.3

27 C

28 C The prudence concept states that profits and assets should not be overstated. As such, calculating a provision for doubtful debts, which can increase expenses (hence reducing profits) and reduce debtors in the balance sheet, is in keeping with this concept.

29 A (Cost – Disposal value) ÷ Useful life = (12,600 – 600) ÷ 6 years = $2,000

Using the SLM method, the depreciation change is the same each year.

30 B

31 B 5% of Accounts Receivable = 5% × $27,000 =$1,350

32 D Total provision for 2022 = 5% of $25,000 = $1,250

Reduction in provision from 2021 to 2022 = $1,350 – $1,250 = $100

33 C Opening accrual + Amount due for the year – Amount received

= $65 + $2,200 – $1,095 = $1,170

34 D Insurance for the year = Opening prepayment $300 + Amount paid $1,200 + ending

Amount owed $240 = $1,740

35 A Yearly/Annual depreciation using the RBM = Rate of depreciation × Net book value

Year 1= 12% of $25,000 = $3,000

Year 2 = 12% of (25,000 – 3,000) = $2,640

Note: NBV is the Original cost of the asset – Accumulated depreciation

36 B

37 C Proposed dividends = 10% of (400 shares × $3) = $120

38 C Debenture interest = 6% of (250 debentures × $500) = $7,500

39 D

40 B Patronage refund = 5% of ($2,500 × 12 months) = $1,500

41 C Purchase of RM + Transport in + Factory workers wages + Direct expenses

= $4,300 + $620 + $1,200 + $760

= $6,880

42 C Cost of RM consumed + Indirect labour + Production workers' wages + Factory rent and electricity + Net work in progress

= $3,700 + $1,000 + $2,230 + $840 + $900 = $8,670

43 B

44 A For the FIFO method, inventory is sold starting from the first batch of goods purchased. The 28 units sold will be taken from the goods purchased on May 1, leaving 7 units in this batch of goods (35 – 28).

Closing inventory

= (7 × $25) + (50 × $15) = $175 + $750 = $925

45 B Note that total capital contribution is the sum of all the assets Joy has brought into the partnership.

46 D

47 C Ending Current A/C Balance = (Opening Current A/C Balance + Salary + Share of profit) – (Drawings + Interest on drawings)

= (1,200 + 2,000 + 1,540) – (3,000 + 920) = 4,740 – 3,920 = $820

The capital account will be a fixed capital account so the balance remains the same.

48 D

49 A Interest on drawings

= 10% of (6,340 +3,620) = $996

Residual profit = (Net profit + Interest on drawings) – (Interest on capital + Salary)

= (5,965 + 996) – (1,000 + 3,000 + 2,500) = $461

50 B One part of the double entry would be missing and this would cause debits not to equal credits in the trial balance.

51 C Overcast sales will cause the credit side of the trial balance to be too large. In correcting this error, the sales account will be debited and the suspense account credited with $150. This credit entry will close the suspense account.

52 B (Opening debtors + credit sales + cash refunded) – (cash received + bad debts + discounts allowed)

= (3,840 + 8,200 + 700) – (9,000 + 250 + 330) = \$3,160

53 B Updated cash book balance + Unpresented cheque – Bank deposit not credited

= \$10,200 + \$220 – \$1,500 = \$8,920

54 A (Subscriptions received + Ending accrual) – (Opening accrual + Ending prepayment) = (500 + 20) – (30 + 70) = \$420

55 C Income – Expenditure

= (Trading A/C Profit + Donations + Subscriptions due for the year) – (Rent + Depreciation) = (816 + 1,300 + 5,100) – (900 + 630) = \$5,686

Note: Subscriptions due for the year = Subscriptions received – Prepayment

= 5,200 – 100 = \$5,100

56 C Accumulated Fund = Assets – Liabilities

= (Premises \$9,000 + Bank \$6,200 + Golf clubs \$3,500) –

(Creditors \$1,300 + Accrued expenses \$880) = \$16,520

57 D

58 B A standing order enables payments to be made automatically from a bank account at a set date and for a set amount.

59 C National Insurance (NIS) = 5% of \$5,600 = \$280

Income tax = 10% of (5,600 – 280) = \$532

Total deductions = NIS + Tax = \$812

60 A Outflows are expenses while inflows are sources of revenue such as sales.

Paper 01 Test B

1 **D**

2 **C** Lenders are external parties.

3 **B**

4 **C**

5 **A** Real accounts are fixed asset accounts.

6 **B** Payment by a creditor will be recorded in the Accounts Payable/Purchases Ledger.

7 **B**

8 **A**

9 **C** A debit entry in the drawings account shows a withdrawal of assets by the owner. A credit entry in the purchases account shows a reduction in the inventory originally bought.

10 **A** A refund to a debtor reduces cash (hence cash is credited). The debtor's account would have been reduced by too much due to the overpayment. It is now debited to increase it.

11 **B** The balance carried down on the last day of the month/period represents the closing balance (difference between the debit and credit sides) on the account.

12 **B** Gross Profit = Net Sales – Cost of goods sold

= (Sales – Sales Returns) – (Purchases + Carriage Inwards – Closing inventory)

= (50,000 – 1,900) – (31,400 + 2,700 – 2,000)

= $16,000

13 **D** ROCE is a measure of profitability and also calculates the amount of net profit made for every $100 of capital employed/invested. Therefore only I and III are correct.

14 **C** A net loss occurs when expenses are greater than gross profit.

15 **A** Opening Capital = Closing Capital – Additional investment – Net profit + Drawings

= 19,600 – 3,500 – 2,900 + 800 = $14,000

16 **C**

17 C Inventory turnover

= Cost of goods sold ÷ Average inventory

= (Opening inventory + Purchases – Returns outwards – Closing inventory)

÷ ((Opening inventory + Closing inventory) ÷ 2)

= (600 + 4,000 – 360 – 850) ÷ ((600 + 850) ÷ 2)

= 3,390 ÷ 725 = approx. 5 times

18 D

19 B Depreciation charge

= (15% of \$20,000) × 8/12 = \$2,000

20 A Provision figures for (i) 2019 = 3% of \$9,200 = \$276; (ii) 2020 = 3% of \$10,400 = \$312.

Provision figure for Income Statement in 2020 is the change in the provision from 2019 to 2020 = \$312 – \$276 = \$36.

21 C Annual depreciation (RBM)

= Rate of depreciation × Net book value

Year 1 = 25% of \$140,000 = \$35,000

Year 2 = 25% of (140,000 – 35,000) = \$26,250

NBV = Cost – Accumulated depreciation

= 140,000 – (35,000 + 26,250) = \$78,750

22 B

23 A

24 A Income statement rates expense figure

= Rates paid – Opening accrual – Ending prepayment

= \$342 – \$48 – \$60 = \$234

25 D

26 C

27 C Credit purchases = (Closing creditors + Discounts received + Returns outwards) – Opening creditors

= (1,800 + 750 + 395) – 1,625 = \$1,320

Total purchases = Credit purchases + Cash purchases

= 1,320 + \$2,100 = \$3,420

28 B Updated bank balance

= Old balance – Standing order + Direct credit – Bank charges

= 4,625 – 2,300 + 1,400 – 70 = $3,655

29 A In this error only one part of the double entry has been completed. To correct the error, the Suspense A/C must be debited and the cash book credited. The debit of $90 in the Suspense A/C will close the account.

30 B

31 C Accumulated fund = Assets – Liabilities

= (Cash + Knitting supplies + Club premises + Stock of magazines) – (Bank overdraft + Loan)

= (2,330 + 3,400 + 20,000 + 500) – (920 + 5,000) = $20,310

32 D Surplus = Income – Expenditure

= (Donations + Subscriptions due for the year + Profit from cake sale) – Electricity

= (1,500 + 8,020 + $2,760) – 1,300 = $10,980

Note: Subscriptions due for the year = Amount received + Accrual

= 7,400 + 620 = $8,020

33 B Statutory deductions are those which must be deducted from pay by law.

34 C Monthly net pay = Gross pay – Deductions

= (Hours worked × Hourly rate) – Income tax

35 D Electronic funds transfers refer to the transfer of money from one bank to another using a computerised network.

36 B

37 A

38 B

39 B

40 A Authorised share capital = 6,000 × par value

= 6,000 × $2 = $12,000

Issued share capital = 4,000 × par value

= 4,000 × $2 = $8,000

Share premium = 4,000 × (selling price – par value)

= 4,000 × ($3 – $2) = $4,000

41 A Total dividend for the year = 12% × (1,000 shares × $5) = $600

Proposed dividend

= $600 × 4/12 = $200

42 B

43 D The matching concept states that revenues must be recorded when earned (not when received) and expenses when incurred (not when paid).

44 D

45 C

46 B

47 C A sales invoice will be issued

48 C

49 D

50 B Since the customer pays within the 30 days, he is entitled to an 8% cash discount. He will pay $1,100 – (8% of $1,100)

= 1,100 – 88 = $1,012

51 C

52 D

53 B Total cost of production

= (Cost of raw materials available for use – Closing inventory of raw materials) + Factory rent + Factory electricity

= (1,970 – 225) + 840 + 635 = $3,220

Unit cost of production = Cost of Production ÷ Units produced

= $3,220 ÷ 200 = $16.10

54 C

55 **C** For the LIFO method, inventory is sold starting from the last batch of goods purchased. The 30 units sold will be taken: first from the batch bought on 10 August (15 units) and the remainder from the batch on 5 August (15 units).

Closing inventory

= ((40 – 15) × \$13) + (10 × \$20)

= \$325 + \$200 = \$525

56 **C**

57 **D** Note: Capital = Assets – Liabilities

Merry's capital = (7,000 + 3,400) – 1,600 = \$8,800

Time's capital = 3,200 + 5,500 = \$8,700

58 **B** Residual profit to be shared = (Net income + Interest on drawings) – (Salaries + Interest on capital)

= (65,000 + 3,200) – (9,640 + 15,000) = \$43,560

Share of profit: Chelsea \$26,136 (3/5 × 43,560)

Faith \$17,424 (2/5 × 43,560)

59 **A** Opening balance = (Salary + Share of profit + Interest on capital) – Drawings – Ending balance

= 1,200 + 960 + 420 – 380 – 1,560 = \$640 debit

60 **C**

Paper 01 Test C

1 **C**

2 **C**

3 **B**

4 **D**

5 **D**

6 **A**

7 **B**

8 **D**

9 **C** The debit to the equipment account indicates an increase in the asset, while the credit to Tim Ltd. implies an increase in the amount owed to a creditor. Hence it can be concluded that equipment was bought on credit from Tim Ltd.

10 **A** As the owner used his personal funds to pay a business expense, this will represent an increase in his capital i.e. the amount he has put into the firm. Since the expense has been paid, the electricity account will be debited.

11 **D** 6 February: credit purchases occurred

15 February: discount received reduced amount owed to creditor

9 February: returns outwards represents returns to a creditor/supplier

12 **A**

13 **C** Working capital = Current Assets – Current Liabilities

= (Accounts Receivable + Cash + Inventory) – (Accounts Payable + Bank overdraft)

= (1,600 + 750 + 1,340) – (800 + 920)

= \$1,970

14 **B**

15 **C** ROCE = (Net profit ÷ Capital employed) × 100

Note: Capital employed = (Opening capital + Closing capital) ÷ 2

= (15,300 + 17,600) ÷ 2 = \$16,450

ROCE = (8,400 ÷ 16,450) × 100

= 51% (approx.)

16 **D**

17 D

18 C Annual depreciation (SLM)

= (Original cost – Disposal value) ÷ Estimated useful life

= (10,500 – 1,400) ÷ 5 = $1,820

NBV at end of 3 years

= Cost – Accumulated depreciation for 3 years

= 10,500 – (1,820 × 3 years)

= $10,500 – $5,460 = $5,040

19 A Capital expenditure will increase the value of fixed assets while revenue expenditure refers to the day-to-day running expenses of the business.

20 B 3% of 2022 Accounts Receivable

= 3% of $6,200 = $186

21 B Provision figure for 2023

= 3% of $5,900 = $177

Changes in provision for 2022 to 2023

= $186 – $177 = $9 (decrease)

The decrease is added to the gross profit in the profit and loss account.

22 A Annual depreciation using the RBM

= Rate of depreciation × Cost/NBV

2025 = 5% of $65,000 = $3,250

2026 = 5% of (65,000 – 3,250) × 6/12 = $1,543.75

Total depreciation charged to asset = $3,250 + $1,543.75

= $4,793.75

23 D Opening prepayment $62 + Cash paid $700 + Cheque paid $394 + Ending accrual $45 = $1,201

24 B

25 C

26 C If one part of a double entry is omitted, then debits will not equal credits.

27 A A set-off refers to a situation where an amount owed by a firm which is a debtor is used to write off or reduce the amount owed to the same firm which is also a creditor.

As such, the creditor's account is debited to reduce it and the debtor's account is credited to reduce it.

28 D

29 B The credit sale has to be removed from J. Maraj's account (therefore credit J. Maraj) and then entered in the J. Malon account (therefore debit J. Malon).

30 A

31 B Subscriptions due for the year = (50 members × $120 annual fee) = $6,000

Subscriptions owing = 5 × $120 = $600

Subscriptions prepaid = 3 × $120 = $360

Subscriptions received during the year = (Amount due for the year + Prepayment) – Accrual

= (6,000 + 360) – 600 = $5,760

32 C

33 C Utilities represent an expense which will lead to an outflow of funds.

34 D Total expected sales = Total expected sales units for the 3-month period × selling price

= (540 + 600 + 730) × $6 = $11,220

35 B

36 A Taxable income = Gross salary – Taxable allowance

= $10,000 – $2,000 = $8,000

Income tax on $0 to $3,000

= 10% of $3,000 = $300

$3,001 and above

= 15% of ($8,000 – $3,000)

= 15% of $5,000 = $750

Total income tax = $300 + $750 = $1,050

37 A

38 D The total cash received = Receipts from sale of shares + Receipt from deposit = (1,500 × $2) + 10,000 = $13,000.

39 C

40 D When shares are sold above par value, the excess amount earned goes to a share premium account.

41 A

42 A

43 C

44 B The amount owed to the creditor (current liability) is reduced. The owner's capital increases since his payment of the debt essentially increases the amount he has put into the business.

45 B

46 A Purchase of inventory by cash goes to the Cash Book and Purchases of equipment on credit to the (General) Journal.

47 B Cash receipts are issued for cash sales.

48 A

49 B She paid: Catalogue price – Trade discount

$= 1,450 - (0.25 \times 1,450) = \$1,087.50$

50 C Since Pilot Ltd. is K. Joseph's creditor, the discount provided to him will be a discount received. Further, the discount will reduce the amount owed to the creditor (hence the debit entry in the Pilot Ltd. A/C).

51 C The Sales Book is only for Credit Sales and NOT returns of goods.

52 B Opening inventory + Purchases + Carriage – Returns out – Ending inventory

$= \$1,280 + \$3,400 + \$320 - \$600 - \$1,430 = \$2,970$

53 C Rent (2/3 × $6,000) + Depreciation (50% of $2,500) + Factory electricity ($1,925) + Factory manager's salary $4,100 = $11,275

54 D

55 A Determine total unit cost = $10 + $8 + $7 =$25

Selling price = Unit cost + (mark-up on Unit cost) = $25 + (10% of $25) = $27.50

56 B Lamp's Capital contribution = 70% = ($50,000 + $48,000) = $98,000

Shade's contribution

$= 30\% = \frac{98,000}{70} \times \frac{30}{1}$

$= \$42,000$

57 C Balance brought down = Credit side – Debit side

$= (3,100 + 1,260 + 1,655) - (2,940 + 511) = \$2,564$ Credit side

58 C

59 D Total capital = Total interest on capital ÷ 10%

= (1,200 + 860) ÷ 10/100

= $20,600

60 C

Paper 01 Test D

1 **C**

2 **B**

3 **C**

4 **D**

5 **A**

6 **D**

7 **B** On 9 August, the debit entry indicates the purchase of new motor vans using a cheque (through the bank).

On 15 August, the credit entry indicates a reduction in the value of motor vans owned due to the sale of motor vans for cash.

The entry on 20 August is not a credit purchase, but a return of motor vans to Vans Ltd.

8 **A** To Pencil Point Ltd., N. Apple's purchase represents a *credit sale*. Hence, N. Apple is Pencil Point Ltd.'s debtor.

Therefore the N. Apple account is debited (to record an increase in the amount owed by N. Apple) and the Sales account is credited (to record an increase in sales revenue).

9 **D**

10 **D** Assets like accounts receivable are typically shown on the debit side and liabilities like bank overdraft on the credit side of the trial balance.

11 **C**

12 **D** Current ratio = Current assets ÷ Current liabilities

= (Cash \$2,200 + Inventory \$1,800 + Bank \$700 + Accrued revenues \$150) ÷ (Creditors \$1,000 + Accrued expenses \$320)

= 4,850 ÷ 1,320 = 3.7 : 1

13 **C** The acid test ratio measures liquidity in a business, therefore Liam Ltd. is more liquid as it has a higher ratio.

The net profit margin measures profitability, therefore Aaron Ltd. is more profitable as it has a higher percentage.

14 **B**

15 **A**

16 **D**

17 C

18 B Annual depreciation (SLM) = 15% of \$8,400 = \$1,260

Accumulated depreciation at the end of 2½ years = \$1,260 × 2 ½ = \$3,150

NBV = Cost – Accumulated depreciation

= 8,400 – 3,150 = \$5,250

19 A

20 C

21 A Revenue receipts are issued for revenue expenditure i.e. expenditure incurred in the daily running of the business.

22 A

23 D

24 C

25 C The accumulated depreciation figure up to 2023 will be shown in the balance sheet

= 2022 depreciation + 2023 depreciation

= \$3,500 + \$2,200 = \$5,700

26 B

27 C The Discounts allowed account must be *debited* to enter the \$130 in this account. The Discounts received account must be *debited* to remove the incorrect entry as the account would have originally been credited with \$130. As such there must be a corresponding credit entry of \$260 (130 + 130) in the Suspense account.

28 D

29 A (Debit balance b/f + Credit sales) – (Credit balance b/f + Discounts allowed + Cash received + Returns inwards)

= (2,600 + 6,000) – (720 + 300 + 4,500 + 520) = \$2,560

30 A

31 C Surplus/Deficit = Income – Expenditure

= (Fees revenue + Profit from fundraiser) – (Rent + Electricity + Secretary's wages)

= (3,100 + 800) – (1,200 + 920 + 720) = \$1,060

There is a *surplus* as revenue is greater than expenditure.

32 B (Opening accrual + Amount due for the year) – (Opening prepayment + Closing accrual)

= (480 + 8,000) – (160 + 400) = \$7,920

33 C Gross pay = Normal pay (40 hours × \$5/hour) + Overtime pay (6 hours × \$5/hour × 1½)
= \$200 + \$45 = \$245

Net pay = Gross pay – Deductions

= \$245 – (Income tax \$15 + National insurance \$22) = \$208

34 A Net cash flow = Cash inflows – Cash outflows

= Sales revenue – Expenses

= (300 units × \$4) – (Wages \$250 + Transport \$130 + Electricity \$500) = \$1,200 – \$880 = \$320

35 D

36 D

37 C

38 A Value of goods purchased = 10% × \$168,000 = \$16,800

Patronage refund = 15% × \$16,800

= \$2,520

39 B Total dividends = (7,000 shares × \$0.50) + (3,000 shares × \$0.50 × 6/12)

= \$3,500 + \$750 = \$4,250

Note: The shares sold on 1 December will only earn dividends for 6 months.

40 C

41 A

42 B Note that liquidity refers to how quickly an asset can be converted into cash.

43 D When the motor van is sold, fixed assets are reduced. When the cash is received from the sale, current assets increase.

44 C Note: amounts owed by the firm and which must be paid within 12 months are current liabilities. (Hence, the 6-month loan is a current liability.)

45 B Capital = Assets – Liabilities

= (Cash + Machinery + Accounts Receivable) – (Bank overdraft + Loan + Creditors)

= (700 + 3,950 + 870) – (350 + 1,200 + 620)

= \$3,350

46 C The seller is 'The Lollipop Shop'. CK Grocery is the buyer.

47 C This represents the drawings of stationery by the owner and will be recorded in the (general) journal.

48 D

49 B This transaction represents payments received by the business, both by cash and through the bank account, as well as a discount given to a customer (discount allowed).

50 A

51 D A debit balance indicates that receipts exceeds payments and the business has money in its bank account.

52 A

53 A Total cost of production ÷ No. of units produced

= (Prime cost + Factory costs + Opening WIP – Closing WIP) ÷ Number of units produced

= (10,300 + 7,250 + 650 – 400) ÷ 200

= \$17,800 ÷ 200 units

= \$89/unit

54 B

55 B Opening inventory = 20 × \$10 = \$200

Closing inventory = (20 × \$10) + (3 × \$15)

= \$245

(Note that under the LIFO method, the 12 units sold will be taken from the batch of 15 units purchased on 2 September.)

Purchases = 15 × \$15 = \$225

Sales = 12 × \$30 = \$360

Gross profit = Sales – Cost of goods sold

= Sales \$360 – (Opening inventory \$200 + Purchases \$225 – Closing inventory \$245)

= \$180

56 A Corn's Capital = 4/10 of \$268,000 = \$107,200

Interest on capital = 8% of \$107,200 = \$8,576

57 D

58 B 1 June to 28 February is 9 months.

Interest on drawings = \$8,600 × 6% × 9/12 = \$387

59 C

60 A

Paper 01 Test E

1 **D**

2 **B**

3 **D**

4 **D**

5 **A**

6 **C** The loan owed to J. Perry is a liability and will be shown as a credit entry in his account. The receipt of funds via the cheque increases bank and will be shown as a debit entry in the bank account.

7 **D** 3 Jan – sales on credit to P. Noah

15 Jan – cash refund

11 Jan – payment of cash by P. Noah

8 **B**

9 **D** The accounts payable ledger (purchases ledger) is only for transactions relating to creditors, e.g. amounts owed to creditors, discounts received and purchases returns.

Discounts allowed pertain to debtors.

10 **B**

11 **C**

12 **B**

13 **B** Gross profit margin = (Gross profit ÷ Sales) × 100

= (5,300 ÷ 20,000) × 100 = 26.5%

14 **B** Current assets ÷ Current liabilities

= 6,800 ÷ 3,000 = 2.3 : 1

15 **C** ROCE = (Net profit ÷ Capital employed) × 100

= 2,100 ÷ ((5,000 + 6,600) ÷ 2) × 100

= (2,100 ÷ 5,800) × 100

= 36.2%

16 **A** Drawings = Opening capital + Net profit – Closing capital

= 5,000 + 2,100 – 6,600 = $500

17 D

18 D

19 A

20 B Amount paid – Opening accrual – Amount due for the month

= 800 – 50 – 720 = $30 (prepayment)

Since the amount paid exceeds the opening accrual and the amount due for the month, there will be a closing prepayment.

21 B The purchase of the new motor van is capital expenditure as it increases the value of the fixed asset held.

Engine maintenance and petrol costs are expenses incurred in the daily running of the business and so these are revenue expenditure.

22 D Total depreciation = $1,500 × 4 years = $6,000

Original cost = Total depreciation + Scrap value

= $6,000 + $500 = $6,500

23 C

24 B Depreciation year 1 = 20% of cost $400,000

= $80,000

NBV = Cost – Accumulated depreciation

= $400,000 – $80,000 = $320,000

25 C Depreciation year 1 = $80,000

Depreciation year 2 = 20% × Net book value

= 20% of (400,000 – 80,000)

= $64,000

The depreciation posted to the balance sheet in year 2 is the accumulated depreciation at end of year 2

= 80,000 + 64,000 = $144,000

26 A

27 C (Opening credit balance + Credit purchases + Interest on overdue amounts) – (Opening debit balance + Discounts received + Payments to creditors)

= (920 + 3,300 + 400) – (650 + 120 + 2,800)

= $1,050

28 D Errors that cause the trial balance to disagree will involve the use of the suspense account to correct such errors.

The purchases account must be credited to reduce it and there will be a corresponding debit entry in the suspense account.

29 C Cash book balance + Dividends received + Payment by debtor – Standing order – Bank charges

= 625 + 1,400 + 520 – 300 – 135

= $2,110

30 A

31 B Profit = Sales – Cost of goods sold – Sales person's wages

= 1,500 – (730 – 90) – 180

= $680

32 A

33 C

34 C Weekly gross pay = (Monthly net pay + Monthly deductions) ÷ 4 weeks

= ($5,800 + Income tax $500 + Union dues $200 + National insurance $100) ÷ 4 weeks

= $6,600 ÷ 4 weeks = $1,650

35 B Cash is the best method since it is a very small amount to be repaid.

36 D Total variable costs + Fixed costs = (500 units × $6 variable cost per unit) + $800 = $3,800

37 B

38 C (Undistributed surplus b/f + Surplus for the year) – (transfer to special reserve + proposed dividend)

= (9,500 + 12,600) – (7,200 + 1,000)

= $22,100 – $8,200

= $13,900

39 D Authorised capital indicates how many shares the company is allowed to sell (200). Since a share premium exists, this indicates that shares were sold above par value.

As the number of shares issued (100) is less than the number authorised for sale (200), more shares (up to 100 more) can still be sold to raise capital.

40 B Net profit c/f to 2022 = (2021 Net profit + 2020 Retained profits) – (Proposed dividends + Transfer to reserve)= (5,500 + 3,000) – (1,700 + 3,200) = $3,600

41 B

42 A Effect on current assets = Increase in inventory of \$500 – Payment by cash \$300 = Overall increase of \$200

Effect of current liabilities: Increase of \$200 as there is an increase in the amount owed to a creditor.

43 C Total assets = Cash \$640 + Bank \$760 + Land \$9000 + Equipment \$4500

= \$14,900

44 C

45 A The separate entity concept advocates that the owner's private activities should be treated as separate from the business' activities.

46 B Credit purchase on 1 December entered in the purchases journal; Return to supplier on 12 December entered in Returns Outwards Journal.

47 A

48 C

49 D Value of the float after restoring the imprest (i.e. reimbursing the petty cashier)

= Opening balance + Amount reimbursed = 65 + 425 = \$490

50 C He or she is reimbursed with the amount spent during the month plus the increase in the float = 430 + 50 = \$480

51 B

52 C

53 A Gross profit = Sales – Cost of goods sold = Sales – (Opening inventory + Purchases + Total Cost of production – Ending inventory)

= \$30,000 – (\$2,600 + \$1,400 + \$17,320 – \$3,500)

= \$12,180

54 B Average cost of stock = Value of stock ÷ Number of units of stock

= ((10 × \$30) + (70 × \$10)) ÷ (10 + 70) = \$12.50

Number of units of closing stock = Stock in hand – units sold

= (10 + 70) – 60 = 20 units

Value of closing = \$12.50 × 20 units = \$250

55 C Unit cost = (Fixed costs + Variable costs) ÷ Units produced

= (2,300 + 4,900) ÷ 720 = \$10/unit

Selling price = Unit cost + Mark-up = \$10 + (30% × \$10)

= \$13

56 C

57 C Balance = (1,020 + 560 + 2,400 + 1,190) – 800 = \$4,370

58 A

59 D

60 B