Accounting A smart approach 4th edition Carey Test Bank

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Chapter 2: Introduction to the Statement of Profit or Loss

Test Bank

Type: multiple choice question
Title: Chapter 02 Question 01
1) Kate sells candles at £5 each and each one costs her £2. During June she bought 300 candles and sold 220 candles. Her expenses amounted to £130 for the month. Kate's profit for June was:
a. £930.
Feedback: Profit = (220 x £5) - (220 x £2) - £130 = 530
Page reference: 19 and 20
b. £660.
Feedback: Profit = (220 x £5) - (220 x £2) - £130 = 530
Page reference: 19 and 20
c. £770.
Feedback: Profit = (220 x £5) - (220 x £2) - £130 = 530
Page reference: 19 and 20
*__d.__ £530.
Feedback: Profit = (220 x £5) - (220 x £2)- £130 = 530
Page reference: 19 and 20

Type: multiple choice question
Title: Chapter 2 Question 02
2) Which of the following statements regarding trade receivables is NOT true?
a. Trade receivables owe money to the business.
Feedback: Trade receivables do owe money to the business.
Page reference: 21
*__b.__ Trade receivables have supplied goods to the business.
Feedback: Trade receivables supply goods to the business.
Page reference: 21
c. Trade receivables are customers of the business who owe for the goods they have received.
Feedback: Trade receivables are customers who owe for goods received.
Page reference: 21
d. Trade receivables are treated as current assets.
Feedback: Trade receivables are short-term assets of the business.
Page reference: 21

Type: multiple choice question
Title: Chapter 02 Question 03
3) Shirley has made the following predictions for her business for the first six months of trading to 30 June:

Sales in Jan, Feb and March = £30,000 per month.
Sales in Apr, May and June = £45,000 per month.
Sales will be on one month's credit.

The trade receivables figure as of 30 June will be:
a. £NIL
Feedback: Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.
Page reference: 21
b. £30,000.
Feedback: Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.
Page reference: 21
*__c.__ £45,000.

Feedback: Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.
Page reference: 21
d. £90,000.
Feedback: Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.
Page reference: 21

Type: multiple choice question
Title: Chapter 02 Question 04
4) Which of the following payments is capital expenditure?
a. Money put into the business by the owner.
Feedback: This is treated as capital introduced into the business but is NOT capital expenditure.
Page reference: 26
*__b.__ Purchase of a motor van.
Feedback: A motor van is capital expenditure.
Page reference: 26
c. Cost of servicing the motor van.
Feedback: The cost of servicing a van is revenue expenditure.
Page reference: 26
d. Cost of hiring a motor van.
Feedback: The cost of hiring a van is revenue expenditure.
Page reference: 26

Type: multiple choice question
Title: Chapter 02 Question 5
5) Which of the following is not a revenue expense?
***a.** Drawings
Feedback: Drawings are money taken out of the business by the owner and are NOT a revenue expense.
Page reference: 23, 26
b. Rent and rates.
Feedback: Rent and rates are a revenue expense.
Page reference: 26
c. Salaries.
Feedback: Salaries are a revenue expense.
Page reference: 26
d. Advertising.
Feedback: Advertising is a revenue expense.
Page reference: 26

Type: multiple choice question
Title: Chapter 02 Question 06
6) Which of the following is prepared to determine a business's net profit or net loss for the year?
a. A trial balance.
Feedback: A trial balance shows all the account balances but does not show the net profit/loss for the year.
Page reference: 24
b. A statement of financial position.
Feedback: A statement of financial position shows the assets and liabilities and capital of the business.
Page reference: 27
c. A statement of cash flows.
Feedback: A statement of cash flows looks at the cash flows for the period.
Page reference: 27
*__d.__ A statement of profit or loss.
Feedback: A statement of profit or loss shows the net profit or loss for the year.

Page reference: 27

Type: multiple choice question
Title: Chapter 02 Question 07
7) During the year ended 31 December, the business made sales of £35,000 and purchases of £20,000. Inventory at the beginning of the year was valued at £6,000 and, at 31 December, inventory was valued at £3,500. The gross profit for the year was:
a. £17,500.
Feedback: Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500
Page reference: 28–9
b. £24,500.
Feedback: Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500
Page reference: 28–9
*__c.__ £12,500.
Feedback: Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500
Page reference: 28–9
d. £5,500.
Feedback: Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500
Page reference: 28–9

Type: multiple choice question
Title: Chapter 02 Question 08
8) Ben started trading on 1 January. His trial balance at 31 December, the end of his first year of trading is given below.

	Debit	Credit
	£	£
Opening capital		26,000
Turnover		95,000
Purchases	64,000	
Rent	6,000	
Motor van	18,000	
Drawings	10,000	
Other expenses	27,000	
Bank overdraft		4,000
Total	**125,000**	**125,000**

If the closing inventory at 31 December was £5,000 and depreciation is to be ignored, which one of the following is true?
a. The gross profit will be £31,500 and the net profit will be £25,000.
Feedback: Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 +27) = 3
Page reference: 27–9
b. The gross profit will be £36,000 and the net profit will be £9,000.
Feedback: Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 + 27) = 3
Page reference: 27–9
c. The gross profit will be £31,000 and the net profit will be £3,000.
Feedback: Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 + 27) = 3
Page reference: 27–9
*__d.__ The gross profit will be £36,000 and the net profit will be £3,000.
Feedback: Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 + 27) = 3
Page reference: 27–9

Type: multiple choice question
Title: Chapter 02 Question 09
9) If the purchase of shop fitting for £25,000 is included in the cost of sales, then:
a. Gross profit ONLY will be understated by £25,000.
Feedback: Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.

Page reference: 28–9 ,31
b. Gross profit ONLY will be overstated by £25,000.
Feedback: Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.
Page reference: 28–9 ,31
c. Net profit ONLY will be understated by £25,000.
Feedback: Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.
Page reference: 28–9 ,31
*__d.__ Both gross profit and net profit will be understated by £25,000.
Feedback: Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.
Page reference: 28–9 ,31

Type: multiple choice question
Title: Chapter 02 Question 10
10) In accounting what is meant by the term ‘purchases’?
a. All items bought.
Feedback: Items bought will include all revenue and capital expenses.
Page reference: 20
b. All good purchased and paid for.
Feedback: All good purchased and paid for will exclude items bought but not yet paid for.
Page reference: 20
*__c.__ All good bought for re-sale.
Feedback: Purchases are all good bought for re-sale.
Page reference: 20
d. All goods held in inventory.
Feedback: This will only include purchases that remain unsold.
Page reference: 20