

<https://selldocs.com/products/smart-accounting-4e-test-bank-knowles>  
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 =  $(220 \times £5) - (220 \times £2) - £130 = 530$

**Page reference:** 19 and 20

b. £660.

**Feedback:** Profit =  $(220 \times £5) - (220 \times £2) - £130 = 530$

**Page reference:** 19 and 20

c. £770.

**Feedback:** Profit =  $(220 \times £5) - (220 \times £2) - £130 = 530$

**Page reference:** 19 and 20

\*d. £530.

**Feedback:** Profit =  $(220 \times £5) - (220 \times £2) - £130 = 530$

**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	<b>125,000</b>	<b>125,000</b>

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