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MULTIPLE CHOICE

1. Simeon runs a business as a sole trader. One of the items on the following list is an asset of his business. Which item is the business asset?
   a. Capital introduced
   b. Amount owing to HMRC
   c. Inventory of goods for resale
   d. Loan from brother

   ANS: C PTS: 1 DIF: easy

2. Sarah runs a business as a sole trader. One of the items on the following list is a liability of her business. Which item is the liability?
   a. Amount owing by one of Sarah's customers
   b. Bank overdraft
   c. Tax refund due from HMRC
   d. Cash float kept in till

   ANS: B PTS: 1 DIF: moderate

3. Daryl runs a small business which packages and sells household and industrial cleaning products. One of the items on the following list is an asset of his business. Which item is the business asset?
   a. Bank overdraft
   b. Amounts due to cleaning fluid supplier
   c. Delivery vehicle
   d. Capital

   ANS: C PTS: 1 DIF: easy

4. Barry runs a small auditing firm with his partners Terry and Gerry. One of the items on the following list is a liability of their business. Which item is the liability?
   a. £2000 drawn out of the business by Terry
   b. Office furniture
   c. Professional subscriptions payable
   d. Amounts due from clients in respect of audit fees

   ANS: C PTS: 1 DIF: moderate

5. Which of the following correctly expresses the accounting equation?
   a. Capital + Assets = Liabilities
   b. Non-current assets - Current assets + Liabilities = Capital
   c. Non-current assets - Current assets – Liabilities = Capital
   d. Assets = Capital + Liabilities

   ANS: D PTS: 1 DIF: moderate

6. Which of the following correctly expresses the accounting equation?
   a. Non-current assets - Current assets – Capital = Liabilities
   b. Assets + Capital = Liabilities
   c. Non-current assets + Current assets - Liabilities= Capital
   d. Capital = Assets + Liabilities

   ANS: C PTS: 1 DIF: easy

7. Elliott's business has current liabilities of £9000, non-current assets of £36 000 and current assets of £12 000. There are no long-term liabilities. What is Elliott's capital?
   a. £3000
   b. £15 000
   c. £39 000
   d. £33 000

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ANS: C

a. £3000 (12 000 – 9000) - incorrect
b. £15 000 (36 000 – 12 000 – 9000) - incorrect
c. £39 000 (36 000 + 12 000 - 9000) - correct
d. £33 000 (36 000 + 9000 – 12 000) - incorrect

PTS: 1 DIF: easy

8. Evan's business has non-current assets of £62 000, current assets of £17 000, current liabilities of £10 000 and a long-term liability of £20 000. What is Evan's capital?

a. £69 000
b. £49 000
c. £7000
d. £30 000

ANS: B

a. £69 000 (62 000 + 17 000 + 10 000 – 20 000) - incorrect
b. £49 000 (62 000 + 17 000 – 10 000 – 20 000) - correct
c. £7000 (17 000 – 10 000) - incorrect
d. £30 000 (10 000 + 20 000) - incorrect

PTS: 1 DIF: easy

9. Purdy's business has non-current assets of £81 000, current assets of £34 000 and current liabilities of £36 000. There are no long-term liabilities. Which one of the following statements is correct?

a. Total assets are £115 000
b. Capital and liabilities are £117 000
c. Capital is £45 000
d. Total assets are £151 000

ANS: A

a. Total assets are £115 000 (81 000 + 34 000) - correct
b. Capital and liabilities are £117 000 (81 000 + 36 000) - incorrect
c. Capital is £45 000 (81 000 – 36 000) - incorrect
d. Total assets are £151 000 (81 000 + 34 000 + 36 000) - incorrect

PTS: 1 DIF: easy

10. Burgess's business has non-current assets of £64 000, current assets of £26 000, current liabilities of £21 000 and long-term liabilities of £5000. Which one of the following statements is correct?

a. The total of capital is the same as non-current assets
b. Total assets is greater than long-term liabilities by £90 000
c. Capital is less than non-current assets
d. The total of non-current plus current assets is £4000 less than capital.

ANS: A

a. The total of capital is the same as non-current assets (64 000 + 26 000 – 21 000 – 5000) = 64 000 – correct
b. Total assets (64 000 + 26000) is greater than long-term liabilities (5000) by £90 000 – incorrect
c. Capital (64 000) is less than non-current assets (64 000) – incorrect
d. The total of non-current plus current assets (64 000 + 26 000 = 90 000) is less than capital (64 000) – incorrect

PTS: 1 DIF: moderate

11. Finlay's business has current liabilities of £23 000, non-current assets of £52 000 and long-term liabilities of £15 000. The total of current assets less current liabilities is £13 000.

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Which one of the following statements is incorrect?
a. Current assets is greater than long-term liabilities by £21 000
b. Total assets = £88 000
c. Capital is £27 000
d. Total liabilities = £38 000

ANS: C
a. Current assets (13 000 + 23 000 = 36 000) is greater than long-term liabilities (15 000) by £21 000 – correct
b. Total assets = £88 000 (36 000 + 52 000) – correct
c. Capital is £27 000 (52 000 + 13 000 – 23 000 – 15 000) – incorrect
d. Total liabilities = £38 000 (15 000 + 23 000) – correct

PTS: 1 DIF: moderate

12. Derry's business has non-current assets of £76 000 and total assets of £121 000. Current liabilities are £25 000 and there are no long-term liabilities. Capital is £96 000. Which one of the following statements is incorrect?
a. Current assets less current liabilities = £20 000
b. Current assets are less than capital by £51 000
c. Non-current assets are less than capital by £20 000
d. Non-current assets are greater than current assets by £56 000

ANS: D
a. Current assets less current liabilities = £20 000 (Current assets = 121 000 – 76 000 = 45 000 less current liabilities of 25 000 = 20 000) – correct
b. Current assets are less than capital by £51 000 (45 000 – 96 000) – correct
c. Non-current assets (76 000) are less than capital (96 000) by 20 000 - correct
d. Non-current assets are greater than current assets by £56 000 (Non-current assets are 76 000 and current assets are 45 000 - i.e. the difference = 31 000) – incorrect

PTS: 1 DIF: moderate

13. Jürgen's business statement of financial position shows current assets of £37 000, current liabilities of £26 000 and capital of £102 000. There are no long-term liabilities. What is the total of non-current assets?
a. £102 000
b. £91 000
c. £65 000
d. £11 000

ANS: B
a. £102 000 (i.e. capital incorrect) – incorrect
b. £91 000 (102 000 – 37 000 + 26 000 = 91 000) - correct
c. £65 000 (102 000 – 37 000) – incorrect
d. £11 000 (37 000 – 26 000) – incorrect

PTS: 1 DIF: easy

14. Victoria is a sole trader. At 31 December 20X4 her business statement of financial position includes the following:

Non-current assets	£362 450
Current liabilities	£116 700
Capital	£278 920
Long-term liabilities	£120 000

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What is the total for current assets?

a. £245 750
b. £36 520
c. £83 530
d. £153 170

ANS: D

NB: Current assets = £153 170 (362 450 – 116 700 – 120 000 – 278 920)

a. £245 750 (362 450 – 116 700) - incorrect
b. £36 470 (153 170 – 116 700) - incorrect
c. £83 530 (362 450 – 278 920) - incorrect
d. £153 170 - correct

PTS: 1 DIF: moderate

15. Xavier's business has long-term liabilities of £25 000 and current liabilities of £23 470 at 31 March 20X0. At the same date, the total of current assets less current liabilities is £13 220 Capital is £30 420.

Which one of the following statements is correct?

a. Current assets are less than non-current assets by £11 780.
b. Non-current assets exceed current assets by £5510.
c. Current assets exceed long-term liabilities by £17 200.
d. Non-current assets exceed current assets by £28 980.

ANS: B

Non-current assets	42 200
Current assets (13 220 + 23 470)	36 690
Current liabilities	(23 470)
Long-term liabilities	(25 000)
Capital	30 420

a. Current assets are less than non-current assets by £11 780 (42 200 - 36 690 = 5 510) - incorrect
b. Non-current assets exceed current assets by £5 510 (42 200 - 36 690 = 5510) – correct
c. Current assets exceed long-term liabilities by £17 200 (42 200 – 25 000) – incorrect
d. Non-current assets exceed current assets by £28 980 (42 200 – 36 690) – incorrect

PTS: 1 DIF: difficult

16. Smylie Bentham is the trading name used by Harry. The business has long-term liabilities of £100 000, non-current assets of £289 770, and current assets of £124 400. The total of current liabilities less current assets is £3340. What is the total of current liabilities?

a. £21 060
b. £27 740
c. £127 740
d. £121 060

ANS: C

Non-current assets	289 770
Current assets	124 400
Current liabilities (124 400 + 3340)	(127 740)
Long-term liabilities	(100 000)
Capital	186 430

Note that the figure for current liabilities is greater than the figure for current assets.

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a. £21 060 (124 400 – 3340 - 100 000) - incorrect
b. £27 740 (124 400 + 3340 – 100 000) - incorrect
c. £127 740 (124 400 + 3340) - correct
d. £121 060 (124 400 – 3340) - incorrect

PTS: 1 DIF: easy

17. Smylie Bentham is the trading name used by Harry. The business has long-term liabilities of £100 000, non-current assets of £289 770 and current assets of £124 400. The total of current liabilities less current assets is £3340. What is the total for capital?

a. £286 430
b. £186 430
c. £193 110
d. £293 110

ANS: B

a. £286 430 (186 430 + 100 000) - incorrect
b. £186 430 (see working for question 16) - correct
c. £193 110 (186 430 + 3340 + 3340) - incorrect
d. £293 110 (193 110 [answer c] + 100 000) - incorrect

PTS: 1 DIF: easy

18. Darcy's business has two categories of non-current asset: machinery and motor cars. Capital is £117 060 at 30 April 20X4, current assets are £22 700, and long-term liabilities are £7000. There are no current liabilities. The machinery total is £76 760. What is the total for motor cars in Darcy's business balance sheet at 30 April 20X4?

a. Insufficient information provided
b. £56 000
c. £24 600
d. £101 360

ANS: C

Non-current assets – machinery	76 760
Non-current assets – cars	24 600
	101 360
Current assets	22 700
	124 060
Long-term liabilities	(7 000)
Capital	117 060

a. Insufficient information provided - incorrect; there is sufficient information
b. £56 000 (117 060 + 22 700 – 7 000 – 76 760) - incorrect
c. £24 600 - correct - see working
d. £101 360 (i.e. non-current assets total) - incorrect

PTS: 1 DIF: moderate

19. Telfer Smith's statement of financial position at 31 December shows the following balances:

	£
Non-current assets	79 000
Inventory	22 000
Trade receivables	10 000
Cash at bank	1 500
Trade payables	28 000

There were no long-term liabilities.

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What is the total of Telfer Smith's capital at 31 December?

a. £64 500	c. £84 500
b. £120 500	d. £140 500

ANS: C

a. £64 500 (Trade receivables wrong way round so: 79 + 22 – 10 + 1.5 – 28) - incorrect
b. £120 500 (Trade receivables and trade payables wrong way round so: 79 + 22 – 10 + 1.5 + 28) - incorrect
c. £84 500 (79 + 22 + 10 + 1.5 – 28) - correct
d. £140 500 (Trade payables wrong way round so: 79 + 22 + 10 + 1.5 + 28) - incorrect

PTS: 1 DIF: easy

20. Mark's statement of financial position at 31 October contains the following balances:

	£
Machinery	18 220
Office equipment	9 800
Inventory	12 220
Trade receivables	8 660
Bank overdraft	9 970
Trade payables	13 340
PAYE payable	1 860
Long-term loan	10 000

What is the total of capital at 31 October?

a. £13 730	c. £17 450
b. £33 670	d. £23 090

ANS: A

a. £13 730 (18 220 + 9 800 + 12 220 + 8 660 – 9 970 – 13 340 – 1860 – 10 000) - correct
b. £33 670 (overdraft wrong way round: 13 730 + 9970 + 9970) - incorrect
c. £17 450 (PAYE payable wrong way round: 13 730 + 1860 + 1860) - incorrect
d. £23 090 (trade receivables and trade payables both the wrong way round: 13 730 - 8660 - 8660 + 13 340 + 13 340) - incorrect

PTS: 1 DIF: moderate

21. The balances in Mansoor's statement of financial position at 31 March are given below. Only the non-current assets balance is excluded.

	£
Inventory	16 200
Due to HMRC	4 420
Loan from bank (short-term)	9 890
Capital	50 970
Trade payables	22 410
Cash in hand	250
Trade receivables	18 350
Long-term loan	10 000

What is the non-current assets balance at 31 March?

a. £82 670	c. £71 010

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b. £71 730 d. £62 890

ANS: D

Non-current assets	62 890
Inventory	16 200
Trade receivables	18 350
Cash	250
HMRC payable	(4 420)
Short-term loan	(9 890)
Trade payables	(22 410)
Long-term loan	(10 000)
Capital	50 970

a. £82 670 (ST bank loan wrong way round: 62 890 + 9890 + 9890) - incorrect
b. £71 730 (HMRC payable wrong way round: 62 890 + 4420 + 4420) - incorrect
c. £71 010 (trade payables and trade receivables wrong way round: 62 890 – 18 350 – 18 350 + 22 410 + 22410) - incorrect
d. £62 890 - correct

PTS: 1 DIF: difficult

22. Mark's statement of financial position at 31 October contains the following balances:

	£
Machinery	18 220
Office equipment	9 800
Inventory	12 220
Trade receivables	8 660
Bank overdraft	9 970
Trade payables	13 340
PAYE payable	1 860
Long-term loan	10 000

Which one of the following statements is correct?
a. Trade payables exceed capital by £390.
b. Current liabilities exceed current assets by £4290.
c. Current assets exceed non-current assets by £2830.
d. Capital is higher than the inventory figure.

ANS: B

Non-current assets (18 220 + 9800)	28 020
Inventory	12 220
Trade receivables	8 660
ASSETS	48 900
Overdraft	9 970
Trade payables	13 340
PAYE	1 860
Long-term loan	10 000
LIABILITIES	35 170
CAPITAL	13 730

a. Trade payables exceed capital by £390 - incorrect
b. Current liabilities exceed current assets by £4290 ([9970 + 13 340 + 1860] - [12 220 + 8660]) - correct
c. Current assets exceed non-current assets by £2830 (20 880 + 9970 – 28 020) - incorrect

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d. Capital is lower thanthan the inventory figure (13 730 is higher than inventory of 12 220) - incorrect

PTS: 1 DIF: difficult

23. Ilona's business bank account at 1 May 20X7 has a balance of £13 000 in her favour. On 2 May 20X7 she buys a non-current asset for £10 000.
On 3 May 20X7 she receives an amount owing of £3 600.

Assuming that there are no other transactions, what is the balance on Ilona's business bank account at the close of business on 3 May 20X7?

a. £19 400
b. £6 600
c. £26 600
d. Overdraft of £600

ANS: B

a. £19 400 (13 + 10 – 3.6) - incorrect
b. £6600 (13 + 3.6 – 10) - correct
c. £26 600 (13 + 3.6 +10) - incorrect
d. Overdraft of £600 (13 – 3.6 – 10) - incorrect

PTS: 1 DIF: easy

24. Ilona's business bank account at 1 May 20X7 has a balance of £13 000 in her favour. On 2 May 20X7 she buys a non-current asset for £10 000.
On 3 May 20X7 she receives an amount owing of £3600.

What is the effect of these transactions on Ilona's total assets?

a. Increase total assets by £6400
b. Decrease total assets by £6400
c. Increase total assets by £3600
d. Increase total assets by £10 000

ANS: C

a. Increase total assets by £6400 (10 000 – 3600) - incorrect
b. Decrease total assets by £6400 (10 000 – 3600) - incorrect
c. Increase total assets by £3600 - correct
d. Increase total assets by £10,000 - incorrect

Note: the purchase of the non-current asset for £10 000 has no effect on total assets because a current asset has been exchanged for a non-current asset. The receipt of £3600, however, decreases liabilities and increases total assets.

PTS: 1 DIF: moderate

25. Natalia's business bank account shows a balance at 1 December 20X6 of £3350 in her favour. On 2 December she draws out £500 for her own personal use. On 3 December she pays an amount owing of £1050 and pays into the bank a cheque for £250 which is due from HMRC in respect of VAT.

What is the effect of these transactions on Natalia's capital?

a. Decrease capital by £250
b. Decrease capital by £1300
c. No effect
d. Decrease capital by £500

ANS: D PTS: 1 DIF: moderate

26. Sergei has £8658 in his business bank account at 1 March 20X4.
On 2 March he pays in a cheque due in respect of a trade receivable of £6620.
On 3 March he buys a non-current asset for £9020.
On 4 March he draws his usual monthly salary of £1000 from the business.

On 5 March he pays in a cheque for £15 000 in respect of a loan he has just received from a small business expansion scheme. The loan is due for repayment in 20X7.

Assuming that there are no other transactions, what is the balance on Sergei's business bank account at close of business on 5 March 20X4?

a. Overdraft of £7982
b. £21 258
c. £20 258
d. £7 018

ANS: C

a. Overdraft of £7982 (8658 – 6620 – 9020 – 1000) - incorrect
b. £21 258 (8658 + 6620 – 9020 + 15 000) - incorrect
c. £20 258 (8658 + 6620 – 9020 – 1000 + 15 000) - correct
d. £7018 (8658 – 6620 – 9020 – 1000 + 15 000) - incorrect

PTS: 1 DIF: difficult

27. Sergei has £8658 in his business bank account at 1 March 20X4.
On 2 March he pays in a cheque due in respect of a trade receivable for £6620.
On 3 March he buys a non-current asset for £9020.
On 4 March he draws his usual monthly salary of £1000 from the business.
On 5 March he pays in a cheque for £15 000 in respect of a loan he has just received from a small business expansion scheme. The loan is due for repayment in 20X7.

What is the effect of these transactions on Sergei's capital?

a. Decrease capital by £1000
b. Decrease capital by £16 000
c. Increase capital by £15 000
d. Decrease capital by £15 000

ANS: A PTS: 1 DIF: difficult

28. Susannah's statement of financial position at 31 March 20X7 includes the following information:

	£
Non-current assets	26 650
Current assets	
Inventory	18 800
Trade receivables	21 400
Cash	-
	40 200
Current liabilities	
Trade payables	28 890
Overdraft	6 750
Other payables	1 600
	37 240

Trade payables include one amount that has been owed £4500 since 1 January. Susannah is threatened with legal action unless this amount is paid immediately. Susannah's business overdraft limit is £10 000.

Assuming that there are no other transactions, and Susannah pays the full £4500 owing, which of the two following statements are correct?

A. The current liabilities of the business will exceed current assets
B. The overdraft limit will be exceeded

a. Both A + B
b. B only
c. A only
d. Neither A nor B

ANS: B PTS: 1 DIF: difficult

29. Nerina's statement of financial position at 1 January 20X6 shows the following:

	£
Non-current assets	26 650
Current assets	
Inventory	18 800
Trade receivables	21 400
Cash	-
	40 200
Current liabilities	
Trade payables	28 890
Overdraft	6 750
Other payables	1 600
	37 240

On 2 January she receives £5000 in respect of a trade receivable.
On 3 January she pays £2000 for a new non-current asset.

Assuming there are no other transactions; if Nerina draws up a new statement of financial position at the close of business on 3 January, which one of the following statements is correct?

a. The current liabilities total is unchanged
b. The current assets total is unchanged
c. Current liabilities = £39 240
d. Current assets = £42 200

ANS: B PTS: 1 DIF: difficult

30. Paige's statement of financial position at 30 April 20X5 shows the following:

	£
Non-current assets	16 650
Current assets	
Inventory	12 000
Trade receivables	11 250
Cash	1 600
	24 850
Current liabilities	
Trade payables	13 770
Other payables	6 220
	19 990
Long-term liabilities	15 000
Capital	6 510

Paige is currently negotiating a further long-term loan of £10 000. If she is successful, and assuming no other transactions, which of the following statements will be correct in respect of her business's financial position?

a. Capital will increase by £10 000
b. Long-term liabilities will increase by £10 000 but no other figure will be affected
c. The capital figure will remain unchanged
d. Current assets will remain unchanged

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ANS: C PTS: 1 DIF: moderate

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