

MULTIPLE CHOICE

1. Which of the following accounts would appear in an income statement?

- A. Accumulated depreciation
- B. Cost of goods sold
- C. Wages payable
- D. None of the above

ANS: B PTS: 1 TOP: The income statement

2. Which of the following statements about a balance sheet is TRUE?

- A. A balance sheet presents the financial performance of a company for a period of time.
- B. A balance sheet presents the company's financial position at a point in time.
- C. A balance sheet shows which source of finance produced each asset.
- D. A balance sheet shows the profit for the period.

ANS: B PTS: 1 TOP: Introduction to the balance sheet

3. Which of the following questions CANNOT be answered from a balance sheet?

- A. What has caused the changes in cash held during the period?
- B. Is the company soundly financed?
- C. Can the company pay its bills on time?
- D. Should a dividend be declared?

ANS: A PTS: 1 TOP: Introduction to the balance sheet

4. To which balance sheet grouping does the item 'accounts receivable' normally belong?

- A. Current asset
- B. Noncurrent asset
- C. Current liability
- D. Noncurrent liability

ANS: A PTS: 1 TOP: A closer look at the balance sheet

5. The Great Escape Company has just purchased a supply of 80 000 litres of diesel fuel for its buses. The diesel fuel is an expense to the company in the accounting period in which the fuel is:

- A. ordered from the supplier.
- B. received from the supplier.
- C. paid for to the supplier.
- D. consumed in the running of the buses.

ANS: D PTS: 1 TOP: The income statement

6. Which of the following statements is NOT true?

- A. If total assets decreased by \$30 000 during the period and shareholders' equity decreased by \$20 000, liabilities decreased by \$10 000 for the period.
- B. If total assets decreased by \$50 000 during the period and shareholders' equity decreased by \$30 000, liabilities decreased by \$80 000 for the period.
- C. If the total assets owned by a company were \$80 000 and shareholders' equity totalled \$35 000 for the period, liabilities are \$45 000.
- D. If total assets increased by \$45 000 for the period and liabilities decreased by \$20 000, shareholders' equity increased by \$65 000.

ANS: B PTS: 1 TOP: Maintaining the accounting equation

7. Which of the following CANNOT be classified as a current liability?

- A. Wages payable
- B. Provision for employee entitlements
- C. Loans
- D. Inventory

ANS: D PTS: 1 TOP: A closer look at the balance sheet

8. Which of the following statements about assets is NOT true?

- A. Assets provide future economic benefits.
- B. Assets are controlled by an organisation.
- C. Assets result from past transactions or other events.
- D. Assets are recorded at the amount they can be sold for.

ANS: D PTS: 1 TOP: Explanations of the three balance sheet categories: assets, liabilities and equity

9. Which of the following is NOT a liability?

- A. Provision for long service leave
- B. Interest payable
- C. Share capital
- D. Creditors

ANS: C PTS: 1 TOP: A closer look at the balance sheet

10. The summarised balance sheet of Apcor Ltd at 30 June 2019 was as follows:

	\$		\$
Current assets	700 000	Current liabilities	300 000
Noncurrent assets	1 300 000	Noncurrent liabilities	1 300 000
	<u> </u>	Share capital	<u>400 000</u>
	2 000 000		2 000 000

What was Apcor Ltd's working capital at 30 June 2019?

- A. \$300 000
- B. \$400 000
- C. \$500 000
- D. \$2 000 000

ANS: B PTS: 1 TOP: Some preliminary analysis of the Sound and Light balance sheet

11. Which of the following statements is TRUE?

- A. If the liabilities owed by a business total \$650 000, then the assets also total \$650 000.
- B. If the assets owned by a business total \$500 000, then shareholders' equity also totals \$500 000.
- C. If the assets owned by a business total \$190 000 and liabilities total \$50 000, then shareholders' equity totals \$140 000.
- D. If the assets owned by a business total \$90 000 and liabilities total \$50 000, then shareholders' equity totals \$140 000.

ANS: C PTS: 1 TOP: Maintaining the accounting equation

12. If a company pays a 12-month insurance premium for \$2 400 on 1 May 2019, then at 30 June 2019 the accounts will show:

- A. a prepayment of \$2 000 in the balance sheet and an insurance expense of \$400 in the profit and loss account.
- B. a prepayment of \$400 in the balance sheet and an insurance expense of \$2 000 in the profit and loss account.

- C. a \$2 400 asset in the balance sheet.
- D. a \$2 400 expense in the profit and loss statement.

ANS: A PTS: 1 TOP: A closer look at the balance sheet

13.If the last wages bill for the year is paid on 28 June and \$8 000 is owing at 30 June in unpaid wages, then:

- A. the \$8 000 would appear as accrued wages payable in the balance sheet but it would not be included in the expenses for the year.
- B. the \$8 000 would appear as accrued wages payable in the balance sheet and would be included in the expenses for the year.
- C. the \$8 000 would not be included in either the balance sheet or the profit and loss statement.
- D. the \$8 000 would appear as an expense in the profit and loss statement.

ANS: B PTS: 1 TOP: A closer look at the balance sheet

14.Consider the following transactions:

- i. Payment of wages for work done in 2019
- ii. Depreciation of equipment in June 2019
- iii. Payment of accounts payable in June 2019
- iv. Payment of an insurance bill in June 2019, which covers 1 July 2019 to 30 June 2020

Which of the above transactions increase June 2019 expenses?

- A. ii only
- B. i and ii only
- C. i, ii and iii only
- D. i, ii and iv only

ANS: B PTS: 1 TOP: The income statement

15.Which of the following is NOT a revenue of a company?

- A. Cash sales
- B. Credit sales
- C. Rent received
- D. Borrowing from a bank

ANS: D PTS: 1 TOP: The income statement

16.Which of the following is NOT an expense of a company?

- A. Cost of goods sold
- B. Repayment of principal on a loan
- C. Payment of interest on a loan
- D. Sales commission

ANS: B PTS: 1 TOP: The income statement

17.Given only the following information, calculate net profit.

	\$
Sales	250 000
Cost of sales	80 000
Wages	60 000
Dividends paid	30 000
Dividends received	30 000

- A. \$90 000
- B. \$100 000
- C. \$110 000
- D. \$140 000

ANS: D PTS: 1 TOP: The income statement

18. Which of the following is NOT a revenue of a company?

- A. Cash sales
- B. Dividends received on shares
- C. Rent from premises
- D. Issue of shares

ANS: D PTS: 1 TOP: The income statement

19. Which of the following is NOT an expense of a company?

- A. Cost of goods sold
- B. Dividends paid to shareholders
- C. Interest for the period
- D. Depreciation on factory

ANS: B PTS: 1 TOP: The income statement

20. A company buys 100 televisions for \$500 each. It sells 60 televisions for \$900 each. What is the 'cost of goods sold' expense?

- A. \$24 000
- B. \$30 000
- C. \$50 000
- D. \$54 000

ANS: B PTS: 1 TOP: The income statement

21. What is total revenue for the period in which credit sales are \$20 000, cash sales are \$16 000 and \$15 000 cash is received from a customer as a deposit for work done in the next period?

- A. \$16 000
- B. \$34 000
- C. \$36 000
- D. \$51 000

ANS: C PTS: 1 TOP: The income statement

22. What is total revenue for the period in which the following occurs?

- i. Credit sales are \$100 000 of which \$30 000 was received at year-end.
- ii. \$10 000 cash was received from customers for work done in the previous year.
- iii. \$15 000 was received from customers for work to be done in the next accounting period.

- A. \$30 000
- B. \$100 000
- C. \$110 000
- D. \$115 000

ANS: B PTS: 1 TOP: The income statement

23. Which of the following is an expense?

- A. Prepaid rent
- B. Dividends paid
- C. Purchase of equipment
- D. Wages owing but not paid at the end of the accounting period

ANS: D PTS: 1 TOP: The income statement

24. Wages of \$40 000 were paid in June for work done in June; \$5 000 of wages were owed at end of June for work done in June; and an invoice for \$8 000 was received for June advertising to be paid in July. What are total expenses for June 2019?

- A. \$40 000

- B. \$45 000
- C. \$53 000
- D. \$40 000

ANS: C PTS: 1 TOP: The income statement

25. Which of the following statements about retained profits is TRUE?

- A. Retained profits is the sum of past net profits/losses minus dividends declared.
- B. Retained profits indicates the total profits earned by a company since its inception.
- C. If a company does not pay a dividend, it cannot decrease.
- D. Retained profits is the current year's profit less dividends paid.

ANS: A PTS: 1 TOP: The income statement

26. Gross profit is the difference between:

- A. sales revenue and operating expenses.
- B. sales revenue and cost of goods sold.
- C. operating profit before tax and income tax expense.
- D. sales and sales returns.

ANS: B PTS: 1 TOP: The income statement

27. Use the information given below (as at 30 June 2019) to answer the following question.

	\$
Share capital	200 000
Equipment	150 000
Inventory	30 000
Accounts receivable	20 000
Accounts payable	30 000
Retained profits	80 000
Cash	10 000

Assume no dividends were declared during the year. If the balance of retained profits at the start of the year was \$50 000, what was the profit for the year?

- A. \$30 000
- B. \$50 000
- C. \$80 000
- D. None of the above

ANS: A PTS: 1 TOP: Connecting balance sheets and income statements

28. During 2019, Beta Ltd incurred expenses of \$25 000 and earned a net profit of \$5 000. Retained profits at 1 January 2019 stood at \$7 000, and dividends declared and paid totalled \$3 000. What were the revenues of Beta Ltd during 2019?

- A. \$20 000
- B. \$25 000
- C. \$30 000
- D. \$33 000

ANS: C PTS: 1 TOP: The income statement

29. During 2019, Beta Ltd incurred expenses of \$30 000 and earned a net profit of \$5 000. Retained profits at 1 January 2019 stood at \$7 000 and dividends declared and paid totalled \$3 000. What was the balance of Beta Ltd's retained profits at 31 December 2019?

- A. \$3 000
- B. \$5 000
- C. \$9 000
- D. \$15 000

ANS: C PTS: 1 TOP: Connecting balance sheets and income statements

30. During the year ended 30 June 2019, March Ltd earned revenues of \$1 200 and incurred expenses of \$800. Retained profits at 1 July 2018 were \$700, and at 30 June 2019, \$850. What was the dividend declared by March Ltd during the year?
- A. \$150
 - B. \$250
 - C. \$550
 - D. None of the above

ANS: B PTS: 1 TOP: Connecting balance sheets and income statements

31. During the year, Grasso Ltd sold 2000 items at \$30 each. The cost price of the items was \$22 each. Operating expenses totalled \$7 000 and income tax expense was \$5 000. What was the gross profit of Grasso Ltd for the year?
- A. \$9 000
 - B. \$16 000
 - C. \$49 000
 - D. None of the above

ANS: B PTS: 1 TOP: The income statement

32. During the year, Grasso Ltd sold 2000 items at \$30 each. The cost price of the items was \$22 each. Operating expenses totalled \$7 000 and income tax expense was \$5 000. What was the operating profit before tax of Grasso Ltd for the year?
- A. \$4 000
 - B. \$9 000
 - C. \$16 000
 - D. None of the above

ANS: B PTS: 1 TOP: The income statement