

Chapter 1 – Introduction to financial accounting

1. Which of the following use accounting information?

- i. Shareholders
- ii. Banks
- iii. Employees

- a. i and ii only
- b. ii and iii only
- c. i and iii only
- d. i, ii and iii

ANSWER:

d

2. Which type of information would be of most interest to trade creditors?

- a. Dividends paid
- b. Total revenues
- c. Ability to pay debts
- d. Continuity of orders for the firm's products

ANSWER:

c

3. Which type of information would be of most interest to shareholders?

- a. Profitability
- b. Long-term financial stability
- c. Proposed expansion of the company
- d. Continuity of orders for the firm's products

ANSWER:

a

4. Which of the following statements about external company auditors is NOT true?

- a. There is substantial judgement in the audit process.
- b. External company auditors cannot credibly audit statements they have prepared.
- c. External company auditors must be independent.
- d. External company auditors provide assurance that the financial statements audited by them contain no mistakes.

ANSWER:

d

5. During 2022, a company makes credit sales of \$600 000, of which \$475 000 is collected at year-end. It pays \$175 000 in expenses and owes \$50 000 for electricity used during 2022. What would the profit be if cash accounting rather than accrual accounting was used?

- a. \$150 000
- b. \$225 000
- c. \$300 000
- d. \$375 000

ANSWER:

c

6. Which of the following statements is NOT true?

- a. Judgements made by accountants affect profit.
- b. Attempts are made to measure incomplete transactions.

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- c. The impact of transactions is recognised only when cash is received or paid.
- d. Estimates are made of certain balance sheet items.

ANSWER:

c

7. What is the net profit for 2022 given the following information?

	\$	
Cash sales		17 000
Credit sales		25 000
Cash received from accounts receivable		20 000
Wages paid		8 000
Wages owing at year-end		6 000

- a. \$28 000
- b. \$32 000
- c. \$34 000
- d. \$48 000

ANSWER:

a

8. Use the information given below to answer the following question.

	\$	
Interest received		2 000
Cash sales		10 000
Credit sales		70 000
Cash received from accounts receivable		32 000
Wages expense		18 000

What is the net profit for 2022?

- a. \$62 000
- b. \$64 000
- c. \$70 000
- d. \$104 000

ANSWER:

b

9. Given the following information, how much **revenue** would be recognised in June?

- Credit sales of \$200 000 in June, 30% to be collected in June
- Collected \$280 000 in June from customers for May sales
- Received a deposit in June from a customer for \$40 000 for work to be carried out in August.

- a. \$60 000
- b. \$200 000
- c. \$280 000
- d. \$320 000

ANSWER:

b

10. Calculate total expenses for the month of June given the following:

- Paid wages of \$60 000 in June of which \$10 000 related to work done in May
- Received an electricity bill of \$5 000 in June covering electricity charges for June. It will be paid in July.

- a. \$55 000

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- b. \$60 000
- c. \$65 000
- d. \$15 000

ANSWER:

a

11. ABC is a company that commenced business on 1 January 2022. Below are the balances in the 30 June 2022 financial statements.

	\$
Cash	1 000
Share capital	12 000
Accounts receivable	3 000
Accounts payable	4 000
Loan owed	6 000
Land	11 000
Inventory	2 000
Cost of goods sold	1 500
Wages expense	1 000
Sales	40 000

What is the balance of assets?

- a. \$9 000
- b. \$11 000
- c. \$16 000
- d. \$17 000

ANSWER:

d

12. ABC is a company that commenced business on 1 January 2022. Below are the balances in the 30 June 2022 financial statements.

	\$
Cash	3 000
Share capital	12 000
Accounts receivable	1 000
Accounts payable	2 000
Loan owed	7 000
Land	10 000
Inventory	2 000
Cost of goods sold	1 500
Wages expense	1 000
Sales	40 000

What is the balance of liabilities?

- a. \$7 000
- b. \$9 000
- c. \$15 000
- d. \$16 000

ANSWER:

b

13. Which of the following is NOT an asset?

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- a. Equipment
- b. Accounts payable
- c. Accounts receivable
- d. Inventory

ANSWER:

b

14. Which of the following is NOT an example of a liability?

- a. Provisions for employee entitlements
- b. Accounts payable
- c. Share capital
- d. Loans

ANSWER:

c

15. Which of the following statements about shareholders' equity is NOT true?

- a. Shareholders' equity is the excess of assets over liabilities.
- b. Shareholders' equity consists of two main elements: share capital and retained profits.
- c. Shareholders' equity is a residual claim of the shareholders on the assets of the organisation.
- d. Shareholders' equity is the amount shareholders will receive in dividends in the future.

ANSWER:

d

16. Which of the following statements about an income statement is TRUE?

- a. An income statement provides information on an organisation's profitability at a certain point in time.
- b. An income statement deducts liabilities from assets to determine shareholders' equity.
- c. The revenues may include contributions from owners.
- d. For revenue to be included, it is not necessary for cash to have been received.

ANSWER:

d

17. Use the information given below at 30 June 2022 to answer the following question.

	\$
Share capital	400 000
Equipment	300 000
Inventory	60 000
Accounts receivable	40 000
Accounts payable	60 000
Retained profits	160 000
Cash	20 000

What is the balance of total assets at 30 June 2022?

- a. \$400 000
- b. \$420 000
- c. \$580 000
- d. \$820 000

ANSWER:

b

18. During 2022 a company makes cash sales of \$900 000. It pays \$300 000 in expenses and owes \$90 000 for services it

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received in 2022 but are payable in 2023. It pays \$170 000 in dividends. What is the profit for 2022?

- a. \$340 000
- b. \$330 000
- c. \$510 000
- d. \$600 000

ANSWER:

c

19. Which accounting concept is involved in the requirement that financial statements contain information that is useful to those who are making decisions?

- a. Consistency
- b. Comparability
- c. Faithful representation
- d. Relevance

ANSWER:

d

20. The preparation of financial statements in a similar form to those of other companies facilitates:

- a. comparability.
- b. materiality.
- c. faithful representation.
- d. understandability.

ANSWER:

a

21. Identify the accounting concept or principle that relates to the statement in the following statement: Information should have predictive value and/or feedback value.

- a. Relevance
- b. Faithful representation
- c. Materiality
- d. Comparability

ANSWER:

a

22. A company's assets are differentiated from the owners' assets. What assumption/concept underlies this procedure?

- a. Accounting period
- b. Accounting entity
- c. Historical cost
- d. Going concern

ANSWER:

b

23. The life of a business is divided into equal periods to determine profit or loss for that period. What assumption/concept underlies this procedure?

- a. Historical cost
- b. Going concern
- c. Accounting period
- d. Accounting entity

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ANSWER:

c

24. Which of the following functions does the financial manager carry out?

- i. Determining the capital requirements of the organisation
- ii. Establishing financial controls
- iii. Cash management
- iv. Capital investment management

- a. i, ii and iii only
- b. i, ii and iv only
- c. i, iii and iv only
- d. i, ii, iii and iv

ANSWER:

d