

Test Bank for Accounting A smart approach 4th Carey

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.

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***b.** Purchase of a motor van.

Feedback: A motor van is capital expenditure.

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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.

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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.

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d. All goods held in inventory.

Feedback: This will only include purchases that remain unsold.

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