**3. Practise question solutions**

1. Calculate gross profit from the following information.

Opening stock- £5,000, Purchases-£25,000, Sales-£42,000, Closing stock- £6,000

* 1. £18,000
  2. £6,000
  3. £17,000
  4. £11,000

ANSWER: A

1. Which among the following is the definition of ‘Asset’ according to IASB Conceptual framework?
   1. Gross inflow of economic benefits arising from ordinary operating activities of an entity.
   2. A present obligation of the entity to transfer an economic resource as a result of past events
   3. A present economic resource legally owned by the entity as a result of past events
   4. A present economic resource controlled by the entity as a result of past events

ANSWER: D

1. ................................... is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
   1. Fair value
   2. Fulfilment value
   3. Current cost
   4. Historical cost

ANSWER: A

1. Which one of the following journal entries is required to record goods taken from inventory by the owner of a business?
   1. Debit Drawings, Credit Purchases
   2. Debit Sales, Credit Drawings
   3. Debit Drawings, Credit Inventory
   4. Debit Purchases, Credit Drawings

ANSWER: A

1. Which among the following entries can be used to record transfer of laptop worth £1,000 from owner’s home to the business?
   1. Debit Office equipment £1,000, credit capital £1,000
   2. Debit purchases £1,000, credit capital £1,000
   3. Debit capital £1,000, credit office equipment £1,000
   4. Debit Office equipment £1,000, credit cash £1,000

ANSWER: A

1. A Company’s trade receivables account on 31st March 2017 is given below:

TRADE RECEIVABLES ACCOUNT

£  £

Balance b/d 12,000 Bank 15,000

Sales 28,000 Discount 2,000

Balance c/d ?

Which of the following balance will appear in the trial balance on 1st April 2017?

* 1. £23,000 DR
  2. £40,000 DR
  3. £23,000 CR
  4. £17,000 CR

ANSWER: A

1. Which of the following statements are TRUE of limited liability companies?

(1) The shareholders of a limited liability company are exposed to debt and liabilities limited to the amount paid for their shares unless they have given personal guarantees.

(2) Financial statements must be produced on a periodic basis.

(3) A company continues to exist regardless of the identity of its owners.

* 1. 1 and 2 only
  2. 1 and 3 only
  3. 2 and 3 only
  4. 1, 2 and 3

ANSWER: D

1. Which one of the following statements is NOT true about non-current assets?
   1. Not specifically purchased for resale
   2. Goods that last for period less than 1 year
   3. Used in production/distribution of goods
   4. Material amount

ANSWER: B

1. Which among the following entries can be used to record purchases of office stationery for cash of £250?
   1. Debit purchases £250, credit payables £250
   2. Debit purchases £250, credit cash £250
   3. Debit cash £250, credit stationery £250
   4. Debit Stationery £250, credit cash £250

ANSWER: D

1. What will be the operating expenses to be shown in statement of profit or loss account if operating expenses paid was £2,200, prepaid operating expenses at the beginning of the year was £300 and prepaid operating expenses at the end of the year was £400?
   1. £2,300
   2. £2,900
   3. £1,500
   4. £2,100

ANSWER: D