

- 5 Accountants prefer the commercial reality of a transaction to a strictly legal approach.

Which accounting principle is being applied?

- A consistency
- B materiality
- C prudence
- D substance over form

- 6 There is great uncertainty about the continuance of a business. This has caused the proprietor to make a large reduction in the valuation of the year-end inventory.

Which accounting principle does this illustrate?

- A going concern
- B matching
- C materiality
- D substance over form

- 7 The cash book of a business shows a credit balance of \$12 500 at 30 June. Bank charges of \$2000 have not yet been entered in the cash book.

A cheque for \$20 000 received from a debtor, and a cheque for \$3000 paid to a creditor have been entered in the cash book, but have not yet been shown on the bank statement.

What is the balance shown on the bank statement at 30 June?

- A \$2500 credit
- B \$2500 debit
- C \$31 500 credit
- D \$31 500 debit

- 8 Closing inventory has been overvalued.

What is the effect on the financial statements?

	net current assets	profit from operations
A	overstated	overstated
B	overstated	understated
C	understated	overstated
D	understated	understated