

- 1 A book-keeper enters a sales order in the sales journal.

Which accounting concept is **not** being applied?

- A matching
- B prudence
- C realisation
- D substance over form

- 2 A company purchased a new machine costing \$110 000 with an estimated life of 10 years. The machine was considered to have a residual value of \$10 000.

The company uses the straight-line method of depreciation and provides depreciation in full in the year of purchase and sale.

The machine was sold for \$20 000 at the end of its life.

Which statement is correct?

- A The annual depreciation charges have been overstated by \$1000.
- B The choice of the depreciation method has no effect on the annual profits of the company.
- C The company can replace the machine from accumulated depreciation charges over its life.
- D The effect of depreciation had been to reduce profits by a total of \$110 000 over the life of the asset.

- 3 A new business has several costs relating to its building.

Which costs are classified as revenue expenditure?

- 1 cost of an extension to the factory
- 2 legal fees on purchase of land
- 3 repairs to the warehouse roof

- A 1 and 2 B 1 only C 2 and 3 D 3 only

- 4 Opening inventory is found to be overstated by \$8000 and closing inventory is overstated by \$6500.

What is the effect of the **correction** of these errors on profit for the year?

- A decrease of \$1500
- B decrease of \$14 500
- C increase of \$1500
- D increase of \$14 500