**1** A business values its inventory at the lower of cost and net realisable value.

Which accounting concept is being applied?

**A** business entity

**B** duality

**C** matching

**D** prudence

**2** On 1 May, Tom sold an old motor vehicle with a net book value of $10 000 to Arnold for $12 000. Arnold paid $7500 by cheque and agreed to pay the balance by instalments.

What was the net effect of these transactions on **Arnold**'s accounting equation on 1 May?

| | assets $ | liabilities $ | owner's equity /capital $ |
|---|---|---|---|
| **A** | increase 2500 | increase 2500 | no effect |
| **B** | increase 2500 | increase 4500 | decrease 2000 |
| **C** | increase 4500 | increase 2500 | increase 2000 |
| **D** | increase 4500 | increase 4500 | no effect |

**3** Which item is **not** included as part of the capital cost of a new machine?

**A** cost of delivering the machine to the factory

**B** cost of installing the new machine

**C** interest on a loan used to buy the machine

**D** invoice price of the machine

**4** Why does a business charge depreciation on its non-current assets?

**A** to retain profits for the replacement of worn out assets

**B** to show the correct value of the asset in the statement of financial position

**C** to show when an asset needs replacing

**D** to spread the cost of the assets over their useful lives