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