

- 7** A business sells its freehold premises to a bank and agrees to repurchase them in five years' time. The business continues to use the premises on lease from the bank. The premises remain in the balance sheet of the business.

What is the reason for this accounting treatment?

- A** the asset must be treated in the same way from year to year
- B** the commercial reality of the transaction is that the business still owns the asset
- C** the cost of the asset must be matched with the periods expected to benefit from its use
- D** the income from the sales proceeds must not be anticipated

- 8** A company excludes from its Balance Sheet machinery for which spare parts are no longer obtainable.

Which concept is being applied by the company?

- A** going concern
- B** materiality
- C** prudence
- D** substance over form

- 9** A company's financial year ends on 31 December.

At 31 December Year 1 the company carried forward a debit balance of \$36 200 on the Rent account.

During Year 2 payments made for 12 months' rent, to 31 March Year 3, were \$157 200.

What is the amount of rent to be charged against profit in the year ended 31 December Year 2?

- A** \$121 000      **B** \$154 100      **C** \$160 200      **D** \$193 400

- 10** The following errors in the accounting records have been found and corrected:

- 1 a purchase invoice for \$250 was omitted from the books of account
- 2 a sale for \$120 to X was debited to the account of Y
- 3 the sales day book was over-added by \$100

The gross profit for the year before correcting the errors was \$60 200.

What is the correct gross profit for the year?

- A** \$59 850      **B** \$59 970      **C** \$60 350      **D** \$60 550