# MGT388 FIRST FORMATIVE TEST - FINANCIAL ACCOUNTING

# 10 QUESTIONS (ESTIMATED TIME: 18 MINUTES)

ANSWERS

Each correct answer: 2 marks Each wrong or not given answer: 0 marks

1. Wonderpillow is the trading name used by Alan. The business has long-term liabilities of £100 000, non-current assets of £289 770 and current assets of £124 400. The total of current liabilities less current assets is £3 340. What is the total for equity?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | £286 430 | c. | £186 430 |
| b. | £193 110 | d. | £293 110 |

ANS: C

1. Which one of the following statements is correct?

Inventory turnover ratio (inventory holding period) in months is calculated as:

|  |  |
| --- | --- |
| a. | Closing inventory x 12  Cost of sales |
| b. | Cost of sales x 12  Closing inventory |
| c. | Revenue x 12  Closing inventory |
| d. | Operating profit x 12  Closing inventory |

ANS: A

1. Ben is a sole trader selling candles from a chain of 18 retail shops. Shortly after Christmas, he is comparing his business’s performance in December with that of the leading candle retailers. Recently published statistics show that the leading retailers made 26.2% gross profit and 9.8% net profit in the month.

Ben’s opening inventory was £4 200 200 and closing inventory was £1 230 400. He purchased inventory valued at £17 206 300 during December and his revenue was £26 500 000.

Based on his actual cost of sales in December, what would Ben’s revenue have been, to the nearest £, if he had achieved the same gross profit margin as that of the leading candle’s retailers?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | £27 338 888 | c. | £23 314 769 |
| b. | £15 336 260 | d. | £24 137 023 |

ANS: A

£20 176 100 x 100/100-26.2 = £27 338 889

|  |  |
| --- | --- |
| a. | £27 338 889 - correct |
| b. | £15 336 260 (£4 018 100/0.262) - incorrect |
| c. | £23 314 770 (£17 206 300/0.738) - incorrect |
| d. | £24 137 023 (£6 323 900/0.262) - incorrect |

1. Which of the following correctly expresses the accounting equation?
2. Equity + Assets = Liabilities
3. Assets = Equity + Liabilities
4. Non-current assets – Current assets + Liabilities = Equity
5. Non-current assets – Current assets - Liabilities = Equity

ANS: B

1. Beata buys a new notebook on 1 July 2014 for £1872. She does not expect it to have any residual value in four years’ time, at which point she plans to replace it. She depreciates such assets on the straight-line basis, charging depreciation for each full month of ownership. What is the carrying amount (the cost of an asset less accumulated depreciation) of the till at Beata’s year end on 31 October 2015?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | £624 | c. | £1170 |
| b. | £936 | d. | £1248 |

ANS: D

Total number of months of ownership = 4 x 12 = 48

No of months elapsed by 31 October 20X5: [1.7.X4 – 31.10.X4] = 4 months + [1.11.X4 – 31. 10.X5] = 12 months = 16 months.

Still to go: 48 – 16 = 32. carrying amount = 32/48 x £1872 = £1248

|  |  |
| --- | --- |
| a. | £624 (i.e. amount already depreciated - £1872 – 1248) - incorrect |
| b. | £936 (£1872/2) - incorrect |
| c. | £1170 (take elapsed period incorrectly as 18 months: £1872 x 48-18/48) - incorrect |
| d. | £1248 - correct |

1. Extracts from the financial statements of Downs and Wellbeck Limited for the year ended 31 December 20X3 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 20X3 |  | 20X2 |
|  | £ |  | £ |
| Inventory | 182 840 |  | 177 660 |
| Trade receivables | 152 630 |  | 149 520 |
| Cash at bank | 16 260 |  | 24 480 |
|  | 351 730 |  | 351 660 |
|  |  |  |  |
| Trade payables | (199 500) |  | (187 650) |

Which one of the following statements is correct?

|  |  |
| --- | --- |
| a. | The quick ratio has declined but the current ratio has improved between 20X2 and 20X3. |
| b. | Both the quick and current ratios have improved between 20X2 and 20X3. |
| c. | Both the quick and current ratios have declined between 20X2 and 20X3. |
| d. | The quick ratio has improved but the current ratio has declined between 20X2 and 20X3. |

ANS: C

Quick ratio 20X3:



Quick ratio 20X2:



So the ratio has declined.

Current ratio 20X3:



Current ratio 20X2:



So, the ratio has declined.

1. Which one of the following statements about audit is correct?

|  |  |
| --- | --- |
| a. | All companies in the UK require an annual audit. |
| b. | Auditors are required to determine whether the financial statements of the company present a true and fair view. |
| c. | The Partnership Act requires that partnerships should appoint an auditor. |
| d. | In practice, the HMRC expects that sole traders' financial statements should be audited. |

ANS: B

1. The regulation of listed companies in the UK is handled by which one of the following authorities?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | HMRC | c. | FCA |
| b. | SEC | d. | IASB |

ANS: C

1. Simeon runs a business as a sole trader. One of the items on the following list is the asset of his business. Which item is the business asset?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Retained Earnings | c. | Inventory of goods for resale |
| b. | Amount owing to HMRC | d. | Loan from brother |

ANS: C

1. Which one of the following is **not** an intangible asset?

|  |  |
| --- | --- |
| a. | A patent taken out on a new development in computerized typesetting. |
| b. | A machine used in the production of newspapers. |
| c. | A newspaper title. |
| d. | The brand name of a famous producer of printing machinery. |

ANS: B