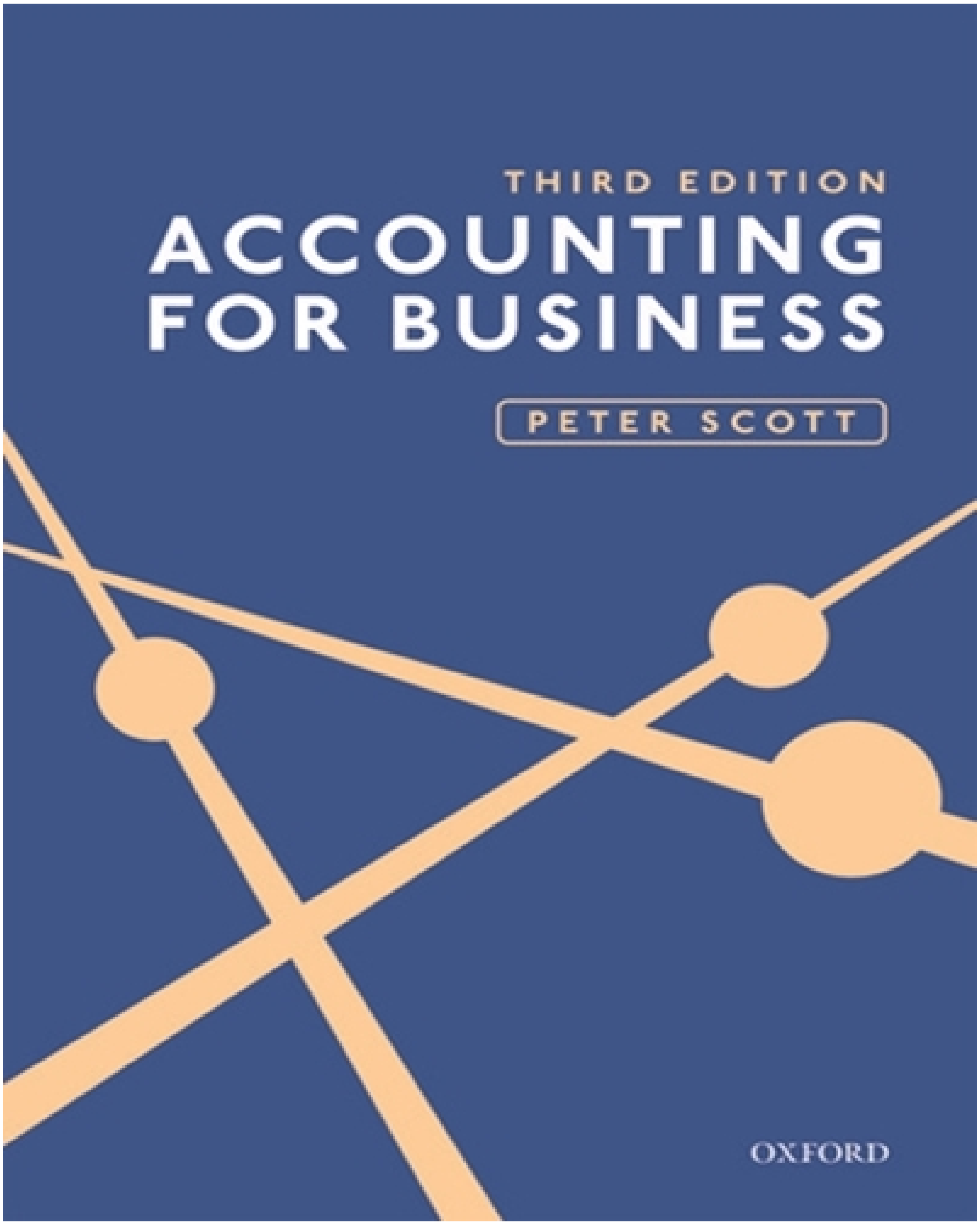
Test Bank for Accounting for Business 3rd Edition by Scott



Test Bank

Correct answers are marked with an asterisk (*).

Topic: Asset definition

Type: multiple choice question
Title: Chapter 02 - Question 01
01) Which one of the following statements is the IASB's definition of an asset?
a. A right that has the potential to produce economic benefits.
Feedback: This is the IASB's definition of an economic resource, not the IASB's definition of an asset.
Page reference: 32-35
b. A present obligation of the entity to transfer an economic resource as a result of past events.
Feedback: This is the IASB's definition of a liability not the IASB's definition of an asset.
Page reference: 32-35, 40-43
*__c.__ A present economic resource controlled by the entity as a result of past events.
Feedback: Well done. You have correctly identified the IASB's definition of an asset.
Page reference: 32-35
d. A present economic resource that has the potential to produce economic benefits.
Feedback: The IASB defines an asset as "a present economic resource **controlled by the entity as a result of past events**." An economic resource is defined as "a right that has the potential to produce economic benefits". While the IASB definition of an asset includes the words "a present economic resource", it does not include the words "that has the potential to produce economic benefits". The essential asset defining elements of control and of a past event are missing from this statement.
Page reference: 32-35

Type: multiple choice question
Title: Chapter 02 - Question 02
02) The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines an asset as:
a. A resource not purchased for resale in the normal course of business, held for long-term use in the business to produce goods or services.
Feedback: This is a description of non-current assets, not the IASB Conceptual Framework definition of an asset.
Page reference: 32-35, 36-38
b. A present obligation of the entity to transfer an economic resource as a result of past events.
Feedback: This is the IASB Conceptual Framework definition of a liability, not the IASB Conceptual Framework definition of an asset.
Page reference: 32-35, 40-43
c. A short term resource that is constantly changing.
Feedback: This is a description of current assets, not the IASB Conceptual Framework definition of an asset.
Page reference: 32-35, 38-39
*__d.__ A present economic resource controlled by the entity as a result of past events.
Feedback: Well done. You have correctly remembered and identified the IASB Conceptual Framework definition of an asset.
Page reference: 32-35

Type: multiple choice question
Title: Chapter 02 - Question 03
03) Which one of the following statements most accurately describes an asset?
a. Something an entity owes, the value of which can be faithfully represented.

Feedback: Certainly, the value of an asset must be capable of faithful representation before it can be recognized on the statement of financial position. However, something that is **owed** by a business is a liability, not an asset.
Page reference: 32-35, 40-43
b. Something an entity owes which will result in the transfer of cash.
Feedback: Assets represent rights that have the potential to produce economic benefits.: this means that cash will be received by the entity rather than being transferred from the entity. Where there is a transfer of cash, this indicates a liability not an asset. Something that is owed by a business is a liability not an asset.
Page reference: 32-35, 40-43
*__c.__ Something an entity controls which it uses to generate cash.
Feedback: The IASB defines an asset as "a present economic resource controlled by the entity as a result of past events" and goes on to define an economic resource as "a right that has the potential to produce economic benefits". An asset is therefore something controlled by the organization (owned or leased) which is used to generate cash (economic benefits), so this is a good description of an asset.
Page reference: 32-35
d. Something an entity owns for long term use within its business.
Feedback: This statement describes only non-current (long term) assets which are used within a business. Assets can be both current (short term assets) and non-current, so this is only a partial description of the total class of assets.
Page reference: 32-35, 36-38

Type: multiple response question
Title: Chapter 02 - Question 04
04) An asset can be recognised in an entity's statement of financial position when: Please select all that apply.
Feedback: The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines an asset as "a present economic resource controlled by the entity as a result of past events." An economic resource is a right that has the potential to produce economic benefits." ". Therefore, an asset can be recognised when there is a past event giving rise to an economic resource controlled by the entity and when profit (economic benefits) will be generated by that resource. The resource should generate economic benefits rather than resulting in a transfer of an economic resource. Where there is a transfer of an economic resource, this represents a liability, a present obligation of the entity to transfer an economic resource as a result of past events. In addition, the IASB *Conceptual Framework* only allows entities to recognise assets when their bvalue can be measured in such a way that a faithful representation is achieved.
Page reference: 32-35, 40-43
***a.** A past event gives rise to an economic resource controlled by the entity.
*__b.__ The value of the resource can be measured in such a way that a faithful representation is achieved.
c. The resource will give rise to a transfer of economic resources.
*__d.__ Profit will be generated by the resource.

Type: multiple choice question
Title: Chapter 02 - Question 05
05) The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines an asset as "a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.". In addition, the IASB *Cocneptual Framework* only allows entities to recognise assets when their value can be measured in such a way that a faithful representation is achieved. In which **one** of the following situations would a manufacturing company **not** recognise an asset on its statement of financial position?
a. A new piece of plant and equipment is purchased for use in the production process.
Feedback: To find the situation in which an asset cannot be recognised on the statement of financial position, use the different parts of the asset definition to decide whether an asset can

be recognised or not. Is there a present economic resource controlled by the company as a result of past events? Yes: the purchase of the plant and equipment gives the company control of this resource. Is there potential to produce economic benefits (profit and cash) for the company from this resource? Yes: the new plant and equipment will be used to produce goods that can be sold at a price higher than their cost, resulting in both cash inflows and profits. Can the value of the resource be measured in such a way that a faithful representation is achieved? Yes: the cost of the plant and equipment is the purchase price from the supplier. In this case, all the conditions for recognising an asset have been met so this is not the correct answer.
Page reference: 32-35
b. Raw materials for use in production are bought by the company.
Feedback: To find the situation in which an asset cannot be recognised on the statement of financial position, use the different parts of the asset definition to decide whether an asset can be recognised or not. Is there a present economic resource controlled by the company as a result of past events? Yes: the raw materials have been bought by the company which gives the company control of those raw materials. Is there potential to produce economic benefits (profit and cash) for the company from this resource? Yes: the raw materials will be used to produce goods which will be sold at a price higher than their cost, resulting in both cash inflows and profits. Can the value of the resource be measured in such a way that a faithful representation is achieved? Yes: the cost of the raw materials is the purchase price from the supplier. In this case, all the conditions for recognising an asset have been met so this is not the correct answer.
Page reference: 32-35
*__c.__ A trade receivable that owes money to the company goes into liquidation with no likelihood that it will be able to pay what is owed.
Feedback: To find the situation in which an asset cannot be recognised on the statement of financial position, use the different parts of the asset definition to decide whether an asset can be recognised or not. Is there a present economic resource controlled by the company as a result of past events? Yes: goods were sold to a customer giving rise to the trade receivable which the company controls. Is there potential to produce economic benefits (profit and cash) from this resurce? No: no cash will be generated from this trade receivable and the failure of the trade receivable to pay what is owed will result in a loss not a profit . Can the value of the asset be measured in such a way that a faithful representation sis achieved? Yes: the trade receivable would have been valued at the selling price of the goods. In this case no asset can be recognised as the trade receivable does not satisfy all the criteria for recognising an asset so this is the correct answer.
Page reference: 32-35
d. Cash that is not required to finance day to day trading operations is invested in a bank account paying a fixed rate of interest for a fixed term of three years.
Feedback: To find the situation in which an asset cannot be recognised on the statement of financial position, use the different parts of the asset definition to decide whether an asset can be recognised or not. Is there a present economic resource controlled by the company as a result of past events? Yes: the investment in the bank account is the past event and the bank will acknowledge receipt of the money paid in so the company controls the investment. Is there potential to produce economic benefits (profit and cash) for the company from this resource? Yes: the investment will generate interest and a repayment of the amount invested in three years' time resulting in both cash inflows and profits. Can the value of the asset be measured in such a way that a faithful representation is achieved? Yes: the original amount invested in the bank account. In this case, all the conditions for recognising an asset have been met so this is not the correct answer.
Page reference: 32-35

Type: true-false
Title: Chapter 02 - Question 06
06) The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines an asset as "a present obligation of the entity to transfer an economic resource as a result of past events."

a. True
Feedback: This is the IASB's definition of a liability, not the IASB's definition of an asset. The IASB defines an asset as "a present economic resource controlled by the entity as a result of past events".
Page reference: 32-35, 40-43
*__b.__ False
Feedback: You have correctly identified that this is not the IASB's definition of an asset. This is the IASB's definition of a liability. The IASB defines an asset as "a present economic resource controlled by the entity as a result of past events".
Page reference: 32-35, 40-43

Type: multiple choice question
Title: Chapter 02 - Question 07
07) PhonesForUs has a stock of old smart phones bought three years ago from a supplier. The phones have been counted up and it has been found that there are 100 of them. These phones originally cost £50 each three years ago. However, no one has bought one of these phones in the past 18 months and much newer models with much greater levels of features and connectivity have rendered these phones out of date. The accountant has decided that the phones can no longer be recognised as an asset in the statement of financial position of PhonesForUs. What is the reason for the accountant's decision?
a. The cost of the phones cannot be measured in such a way that a faithful representation is achieved.
Feedback: This cannot be the reason for the accountant's decision as the cost of the mobile phones can be measured to achieve a faithful representation of their cost: 100 phones x £50 each = £5,000 total cost.
Page reference: 32-35
*__b.__ There is no potential to produce economic benefits for the entity.
Feedback: As the old smart phones have not been selling for the past 18 months and newer and more desirable models are now available to consumers, it is most unlikely that any more of these old smart phones will be sold. Therefore, there is no potential to produce economic benefits for PhonesForUs in the form of cash and profits so these old smart phones can no longer be recognized as an asset on the statement of financial position.
Page reference: 32-35
c. There is no past event giving rise to the asset.
Feedback: This cannot be the reason for the accountant's decision as the old smart phones were purchased from a supplier three years ago. This purchase was the past event that originally gave rise to the asset in the business.
Page reference: 32-35
d. The smart phones are not controlled by PhonesForUs
Feedback: This cannot be the reason for the accountant's decision. The original purchase of the old smart phones from the supplier transferred ownership (and thus control) of these smart phones to PhonesForUs.
Page reference: 32-35

Topic: Liability definition

Type: multiple choice question
Title: Chapter 02 - Question 08
08) Which one of the following statements is the IASB's definition of a liability?
a. A present economic resource controlled by the entity as a result of past events.
Feedback: This is the IASB's definition of an asset, not the IASB's definition of a liability. A liability is "a present obligation of the entity to transfer an economic resource as a result of past events."
Page reference: 32-35, 40-43
b. A right that has the potential to produce economic benefits.

Feedback: This is the IASB's definition of an economic resource, not the IASB's definition of a liability. The IASB defines a liability as "a present obligation of the entity to transfer an economic resource as a result of past events."
Page reference: 32-35, 40-43
c. A present obligation of the entity as a result of past events.
Feedback: This is part of the IASB's definition of a liability, but this statement misses out a key part of the definition which is "the present obligation of the entity *to transfer an economic resource* as a result of past events."
Page reference: 40-43
*__d.__ A present obligation of the entity to transfer an economic resource as a result of past events.
Feedback: This is the IASB's definition of a liability.
Page reference: 40-43

Type: true-false
Title: Chapter 02 - Question 09
09) Liabilities can only be recognised in the statement of financial position if their value can be measured in such a way that a faithful representation is achieved.
***a.** True
Feedback: Both assets and liabilities can only be recognized in the statement of financial position if their value can be measured in such a way that a faithful representation is achieved. While the IASB allows entities to estimate the monetary value of assets and liabilities if a completely accurate valuation is not available, when the possible range of values for an asset or liability is so wide or when measurement is based on very subjective measures, then the completeness, neutrality and freedom from error required for a faithful representation cannot be achieved and no asset or liability is recognized in the statement of financial position.
Page reference: 34, 41
b. False
Feedback: Both assets and liabilities can only be recognized in the statement of financial position if their value can be measured in such a way that a faithful representation is achieved. While the IASB allows entities to estimate the monetary value of assets and liabilities if a completely accurate valuation is not available, when the possible range of values for an asset or liability is so wide or when measurement is based on very subjective measures, then the completeness, neutrality and freedom from error required for a faithful representation cannot be achieved and no asset or liability is recognized in the statement of financial position.
Page reference: 34,41

Type: multiple choice question
Title: Chapter 02 - Question 10
10) A liability can be described as:
a. Something an entity owes, the value of which just needs to be estimated.
Feedback: A liability is something that is owed by an organization. However, the IASB requires the value of liabilities to be measured in such a way that they are faithfully represented in the statement of financial position. The value of liabilities can be estimated when no completely accurate valuation is available. However, where the possible range of estimated values for a liability (as well as for assets) is so wide or when measurement is based on very subjective measures, then the completeness, neutrality and freedom from error required for a faithful representation cannot be achieved and no liability (or asset) is recognized in the statement of financial position. Therefore, it is not true to describe a liability as something an entity owes, the value of which just needs to be estimated.
Page reference: 40-43
*__b.__ Something an entity owes which will result in the payment of cash by the entity.
Feedback: The IASB defines a liability as "a present obligation of the entity to transfer an economic resource as a result of past events." Since the economic resource almost always

transferred (paid) to settle a liability is cash, this is the correct description of what a liability represents.
Page reference: 40-43
c. Something an entity controls which it uses to generate cash.
Feedback: This is the description of an asset, something owned or leased (both of which confer control, the right to use the economic resource within an organisation) by an entity that results in the potential to produce economic benefits (cash). A liability is something owed by an entity which will result in the transfer of cash (cash = an economic resource).
Page reference: 32-35, 40-43
d. Something an entity owns for long term use within its business.
Feedback: This statement describes non-current (long term) assets and is not a description of a liability.
Page reference: 36-38, 40-43

Type: multiple response question
Title: Chapter 02 - Question 11
11) A liability can be recognised in an entity's statement of financial position when: Please select all that apply.
Feedback: The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines a liability as "a present obligation of the entity to transfer an economic resource as a result of past events". Therefore, a liability can be recognised when there is a past event giving rise to an obligation and when there is expected to be a transfer of an economic resource. A contractual or legal claim against an entity means that there has been a past event that will give rise to a transfer of an economic resource. However, when an obligation can be avoided no liability is recognised.
Page reference: 40-43
***a.** There is a present obligation as a result of past events.
b. There is an expectation that the obligation can be avoided.
***c.** There is a contractual or legal claim against the entity.
***d.** There is expected to be a transfer of an economic resource.

Type: multiple choice question
Title: Chapter 02 - Question 12
12) In which **one** of the following circumstances would an organization **not** recognise a liability on its statement of financial position?
***a.** When the obligation cannot be measured, in such a way that a faithful representation is achieved.
Feedback: The International Accounting Standards Board requires obligations to be measured in such a way that a faithful representation of their value is presented on the statement of financial position. When such a faithful representation cannot be made, then a liability cannot be recognised on the statement of financial position.
Page reference: 40-43
b. When the obligation cannot be avoided.
Feedback: When an obligation cannot be avoided, a liability must be recognised on the statement of financial position. When an obligation can be avoided, then no liability can be recognized. An obligation that cannot be avoided is unavoidable, so a liability must be recognised.
Page reference: 40-43
c. When the entity has an obligation at the statement of financial position date.
Feedback: When an obligation exists at the statement of financial position date (a present obligation), then a liability must be recognised on the statement of financial position. For an obligation to exist at the statement of financial position date there must have been a past event giving rise to the obligation, which will require recognition as a liability on the statement of financial position.
Page reference: 40-43
d. When a transfer of an economic resource will take place.

Feedback: Liabilities are recognized when there is a present obligation to transfer an economic resource as a result of past events (International Accounting Standards Board, *Conceptual Framework for Financial Reporting*). Therefore, when a transfer of an economic resource will take place, a liability will be recognized in the statement of financial position.
Page reference: 40-43

Topic: Asset classification

Type: multiple choice question
Title: Chapter 02 - Question 13
13) Which one of the following would be recognized as a non-current asset in the statement of financial position of a mining company?
***a.** A licence to mine land for minerals.
Feedback: A licence to mine land for minerals is an economic resource with the potential to produce economic benefits (sales and cash) over periods of more than one financial year, so this licence would be recognized as a non-current asset in the statement of financial position of a mining company.
Page reference: 36-38, 40
b. A pile of ore ready for shipment.
Feedback: Ore ready for shipment would be classified as inventory, a current asset that will be turned into cash (economic benefits) within the next 12 months, so this is not a non-current asset of the company.
Page reference: 36-40
c. A loan to the mining company which is due for repayment in 10 years' time.
Feedback: A loan to the mining company which is due for repayment in 10 years' time is non-current but it is a non-current liability rather than a non-current asset. Liabilities are obligations of the company to transfer economic resources rather than resources which have the potential to produce economic benefits. Assets are present economic resources. Economic resources are rights which have the potential to produce economic benefits. Non-current assets are rights which have the potential to produce these benefits over periods of more than one year.
Page reference: 36-40, 43-45
d. Money owed by the mining company's customers.
Feedback: Money owed by the mining company's customers would be classified as an asset. The company has an economic resource, a right which has the potential to produce economic benefits in the form of a cash payment from their customers. However, this money owed would be classified as a receivable, a current rather than a non-current asset as the economic benefits of this asset will be realized within the next 12 months and not over accounting periods exceeding one year.
Page reference: 36-40

Type: multiple choice question
Title: Chapter 02 - Question 14
14) Which **one** of the following would **not** be recognized as a non-current asset in the statement of financial position of a professional football club?
a. The contracts of players purchased from other football clubs.
Feedback: In order to recognize an asset, there must be a present economic resource controlled by the entity as a result of past events (International Accounting Standards Board, *Conceptual Framework for Financial Reporting*). In addition, the IASB only allows the recognition of an asset when the value of that asset can be measured in such a way that a faithful representation is achieved. Here there is a resource (the players), controlled by the entity (players are contracted to play exclusively for the club) as a result of a past event (the purchase of the contracts), the public will pay money to watch these players and the team (= the potential to produce economic benefits) and the cost of the contracts can be measured by

reference to the cash paid to acquire the contracts (= faithful representation). Therefore, these contracts can be recognised as an asset in the statement of financial position as all the criteria for asset recognition have been met.
Page reference: 32-35
b. Grass cutting machinery purchased during the year.
Feedback: In order to recognize an asset, there must be a present economic resource controlled by the entity as a result of past events (International Accounting Standards Board, *Conceptual Framework for Financial Reporting*). In addition, the IASB only allows the recognition of an asset when the value of that asset can be measured in such a way that a faithful representation is achieved. Here there is a resource (grass cutting machinery), controlled by the entity (it is owned by the club) as a result of a past event (the purchase of the machinery), used to prepare the pitch for matches (= the potential to produce economic benefits) and the cost of the machinery can be measured by reference to the cash paid to acquire it (= faithful representation). Therefore, the grass cutting machinery can be recognised as an asset in the statement of financial position as all the criteria for asset recognition have been met.
Page reference: 32-35
c. The stadium owned by the football club.
Feedback: In order to recognize an asset, there must be a present economic resource controlled by the entity as a result of past events (International Accounting Standards Board, *Conceptual Framework for Financial Reporting*). In addition, the IASB only allows the recognition of an asset when the value of that asset can be measured in such a way that a faithful representation is achieved. Here there is a resource (the stadium), controlled by the entity (owned by the football club) as a result of a past event (the purchase of the stadium), used to host matches (= the potential to produce economic benefits) and the cost of the stadium can be measured by reference to the amounts paid to acquire it. Therefore, the stadium can be recognised as an asset in the statement of financial position as all the criteria for asset recognition have been met.
Page reference: 32-35
*__d.__ The contracts of players who joined the club after successfully completing their apprenticeship with the club.
Feedback: In order to recognize an asset, there must be a present economic resource controlled by the entity as a result of past events (International Accounting Standards Board, *Conceptual Framework for Financial Reporting*). In addition, the IASB only allows the recognition of an asset when the value of that asset can be measured in such a way that a faithful representation is achieved. Here there is a resource (the players), controlled by the entity (players are contracted to play exclusively for the club) as a result of a past event (the signing by the players of their contracts), the public will pay money to watch these players and the team (= the potential to produce economic benefits) but the value of the contracts cannot be measured in such a way that a faithful representation is achieved (valuations will be too subjective). Therefore, these contracts cannot be recognised as assets in the statement of financial position as all the criteria for asset recognition have not been met.
Page reference: 32-35

Type: multiple choice question
Title: Chapter 02 - Question 15
15) Which **one** of the following would **not** be recognized as inventory on the statement of financial position of a house building company?
a. Roof tiles on a building site.
Feedback: Roof tiles would be classified as inventory, a store of materials to be used in the production of houses.
Page reference: 38-40
b. Timber beams for roofing.
Feedback: Timber beams would be classified as inventory, a store of materials to be used in the production of houses.
Page reference: 38-40
*__c.__ Equipment hire paid in advance.

Feedback: Equipment hire paid in advance is a prepayment of future expenditure so this would be classified as a trade and other receivable and not as inventory.
Page reference: 38-40
d. A finished house sold subject to contract.
Feedback: A finished house sold subject to contract might look like a receivable. However, as no contract for sale has yet been signed, a house sold subject to contract would continue to be recognised as inventory, part of the stock of houses ready for sale. When an asset is sold subject to contract, the buyer can still change their mind and not go ahead with the purchase. Therefore, houses sold subject to contract remain part of inventory until such time as the signing of a contract commits the buyer to pay an agreed sum of money for the house. At this point, the seller can recognise a sale of the house and a receivable due from the purchaser.
Page reference: 38-40

Type: multiple response question
Title: Chapter 02 - Question 16
16) Which of the following would be classified as intangible non-current assets in the statement of financial position of a publisher? Please select all that apply.
Feedback: Non-current assets fall into three categories on the statement of financial position: intangible assets (assets which have no physical existence), property, plant and equipment (assets with a physical existence) and investments. Intangible assets embody legal rights over intellectual property, which are used to generate cash and profit. Therefore, publishing rights, trademarks and licences would be classified as intangible assets as they have no physical existence but they are present economic resources controlled by the publishing company as a result of past events and they are rights that have the potential to produce economic benefits. A shareholding in another company, while it has no physical existence, does not embody intellectual property rights and would be classified as an investment in the statement of financial position.
Page reference: 36-38
***a.** Publishing rights.
b. A shareholding in another company.
*__c.__ Trademarks.
*__d.__ Licences.

Type: multiple response question
Title: Chapter 02 - Question 17
17) Why can an entity not recognise its workforce as an asset on its statement of financial position? Please select all that apply.
Feedback: The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines an asset as "a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits." In the case of the workforce, there is a past event giving rise to an asset: each member of the workforce was appointed in the past by the entity and signed a contract at that time agreeing to work for the entity. Similarly, the efforts of the workforce have the potential to produce economic benefits for the entity in the form of cash, profit and an improved reputation. However, an entity does not control its workforce as each member of staff is free to resign whenever they want to. Likewise, the monetary value of a workforce cannot be measured in such a way that a faithful representation is achieved: the monetary value of the workforce is a highly subjective judgement not an objective valuation.
Page reference: 32-35
***a.** The entity does not control its workforce.
b. There is no past event giving rise to an asset.
c. There is no potential to produce economic from the workforce.
*__d.__ The value of the workforce cannot be measured in such a way that a faithful representation is achieved.

Topic: Liability classification

Type: multiple choice question
Title: Chapter 02 - Question 18
18) Which one of the following would be classified as a current liability in a building company with a financial year end date of 30 September 2019?
a. A loan used to acquire the building firm's head office. This loan is repayable in full on 30 June 2028.
Feedback: While the loan is a liability (a present obligation to transfer an economic resource as a result of past events) this is not a current liability but a non-current liability. As the loan is not due for repayment until 30 June 2028, the settlement of this liability will take place after more than 12 months, so this is a non-current not a currentliability.
Page reference: 43-45
b. A trade receivable from a customer for work completed during the year.
Feedback: A trade receivable is a current asset not a current liability.
Page reference: 38-40
***c.** An amount owed to a brick manufacturer for bricks supplied during September 2019.
Feedback: An amount owed to a brick manufacturer for bricks supplied during September 2019 is a current liability: the brick manufacturer will expect the building company to pay for their bricks within the normal trading terms applying to this transaction and this liability will be settled within the next 12 months (the brick manufacturer will not want to wait for payment for a lengthy period of time), so this is a current liability, a trade payable.
Page reference: 43-45
d. The share capital of the company.
Feedback: The share capital of the company is part of equity and is not a liability of the building company.
Page reference: 47-48

Type: multiple response question
Title: Chapter 02 - Question 19
19) On 30 September 2019, the last day of the company's financial year, Billdit Limited orders 500 timber roof beams from its supplier at a cost of £50 per beam, the timber roof beams to be delivered on 7 October 2019. Why can Billdit Limited not recognise a trade payable liability for these timber roof beams on its statement of financial position at 30 September 2019? Please select all that apply.
Feedback: The IASB's *Conceptual Framework* defines a liability as "a present obligation of the entity to transfer an economic resource as a result of past events". The IASB Conceptual Framework also requires the monetary value of all assets and liabilities to be measured in such a way that they are faithfully represented on the statement of financial position. An order does not create an obligation as orders can be cancelled, so the obligation is avoidable. There is no past event giving rise to an obligation at 30 September 2019 as no goods have been delivered and accepted by Billdit Limited. Only when goods have been delivered and accepted does an obligation, and hence a liability, arise. At the statement of financial position date there is thus no obligation so no trade payable liability can be recognized at the year-end on the statement of financial position. If a liability could be recognized, it would be measureable and faithfully presented at £25,000 (500 timber roof beams x £50 each).
Page reference: 36-38
a. The liability is not measureable in such a way that a faithful representation is achieved.
***b.** There is no past event giving rise to an obligation.
***c.** The obligation is avoidable.
***d.** There is no present obligation at the statement of financial position date.

Type: multiple response question
Title: Chapter 02 - Question 20

20) Which of the following would be recognised as trade and other payables in the statement of financial position of a book publishing company? Please select all that apply.
Feedback: Liabilities can only be recognised when there is expected to be a transfer of an economic resource. As a result, the amounts due from a bookseller will not be a current liability as there is expected to be an inflow not an outflow of economic benefits. As this amount is due to the book publishing company this is an asset not a liability. Therefore, the amount due from the bookseller will appear under trade and other receivables not trade and other payables. The other three items all involve transfers of economic resources (cash) but only two of them will be classified as trade and other payables. The amounts due to HM Revenue and Customs for taxes due on profits will appear under the heading current tax liabilities not under trade and other payables. Paper and royalties are both trading expenses of book publishers so the amounts due to a paper supplier and to authors for royalties on books sold will both be classified under trade and other payables.
Page reference: 38-40, 43-45
***a.** Amounts due to a paper supplier.
b. Amounts due from a bookseller.
*__c.__ Amounts due to authors for royalties on books sold.
d. Amounts due to HM Revenue and Customs for taxes due on profits.

Topic: The accounting equation

Type: multiple choice question
Title: Chapter 02 - Question 21
21) Farook Limited has current assets of £68,420, current liabilities of £50,328, non-current liabilities of £102,000 and equity of £202,359. Using the accounting equation, calculate the figure for non-current assets.
a. £18,389
Feedback: You have added together the current assets and current and non-current liabilities and then deducted equity. As non-current assets + current assets – total liabilities = equity, then non-current assets = equity + total liabilities – current assets.
Page reference: 46
b. £118,451
Feedback: You have deducted current and non-current liabilities from current assets and then added equity. As non-current assets + current assets – total liabilities = equity, then non-current assets = equity + total liabilities – current assets.
Page reference: 46
*__c.__ £286,267
Feedback: You have correctly used the accounting equation to give you the right answer: as non-current assets + current assets – total liabilities = equity, so non-current assets = equity + total liabilities – current assets.
Page reference: 46
d. £423,107
Feedback: You have just added all the figures together. As non-current assets + current assets – total liabilities = equity, then non-current assets = equity + total liabilities – current assets.
Page reference: 46

Type: multiple choice question
Title: Chapter 02 - Question 22
22) Gurbinder Limited has non-current assets of £250,000, current assets of £142,000, current liabilities of £125,000 and equity of £150,000. Using the accounting equation, calculate the figure for non-current liabilities.
a. £667,000
Feedback: You have just added all the figures together. Using the accounting equation will give you the right answer: as total assets – current liabilities – non-current liabilities = equity, so non-current liabilities = total assets – equity – current liabilities.

Page reference: 46
b. £383,000
Feedback: You have incorrectly deducted current assets from non-current assets and added both current liabilities and equity. Using the accounting equation will give you the right answer: as total assets – current liabilities – non-current liabilities = equity, so non-current liabilities = total assets – equity – current liabilities.
Page reference: 46
c. £367,000
Feedback: You have correctly added current and non-current assets and correctly deducted equity but you have then incorrectly added current liabilities when they should have been deducted. Using the accounting equation will give you the right answer: as total assets – current liabilities – non-current liabilities = equity, so non-current liabilities = total assets – equity – current liabilities.
Page reference: 46
*__d.__ £117,000
Feedback: You have correctly used the accounting equation to give you the right answer: total assets – current liabilities – non-current liabilities = equity, so non-current liabilities = total assets – equity – current liabilities.
Page reference: 46

Type: multiple choice question
Title: Chapter 02 - Question 23
23) Harriet Limited has non-current assets of £425,000, current liabilities of £142,000 and equity of £391,000. Harriet Limited has no non-current liabilities. Using the accounting equation, calculate the figure for current assets.
***a.** £108,000
Feedback: You have used the accounting equation to calculate the correct answer: non-current assets + current assets – total liabilities = equity, so current assets = equity + current liabilities – non-current assets.
Page reference: 46
b. £176,000
Feedback: You have incorrectly added current liabilities to non-current assets and then deducted equity. You should have used the accounting equation to give you the right answer: non-current assets + current assets – total liabilities = equity, so current assets = equity + current liabilities – non-current assets.
Page reference: 46
c. £674,000
Feedback: You have correctly deducted current liabilities from non-current assets but then incorrectly added equity. Use the accounting equation to calculate the right answer: non-current assets + current assets – total liabilities = equity, so current assets = equity + current liabilities – non-current assets.
Page reference: 46
d. £958,000
Feedback: You have just added all the figures together. Use the accounting equation to calculate the correct answer: non-current assets + current assets – total liabilities = equity, so current assets = equity + current liabilities – non-current assets.
Page reference: 46

Title: Chapter 02 - Question 24
24) Nishi Limited has non-current assets of £622,481, non-current liabilities of £235,148, current assets of £359,727 and equity of £327,138. Using the accounting equation, calculate the figure for current liabilities.
a. £170,764
Feedback: You have added non-current assets and non-current liabilities and deducted current assets and equity to arrive at this answer. Use the accounting equation to calculate the correct answer: non-current assets + current assets – current liabilities – non-current

liabilities = equity, so non-current assets + current assets – non-current liabilities – equity = current liabilities.
Page reference: 46
***b.** £419,922
Feedback: You have used the accounting equation to calculate the correct answer: non-current assets + current assets – current liabilities – non-current liabilities = equity, so non-current assets + current assets – non-current liabilities – equity = current liabilities.
Page reference: 46
c. £890,218
Feedback: You have added non-current assets, current assets and non-current liabilities and deducted equity to arrive at this answer. Use the accounting equation to calculate the correct answer: non-current assets + current assets – current liabilities – non-current liabilities = equity, so non-current assets + current assets – non-current liabilities – equity = current liabilities.
Page reference: 46
d. £1,074,198
Feedback: You have added non-current assets, current assets and equity and deducted non-current liabilities to arrive at this answer. Use the accounting equation to calculate the correct answer: non-current assets + current assets – current liabilities – non-current liabilities = equity, so non-current assets + current assets – non-current liabilities – equity = current liabilities.
Page reference: 46

Topic: SoFP calculation of current and non-current asset totals

Type: multiple choice question
Title: Chapter 02 - Question 25
25) Roisin runs a small retail business from a shop in the town centre. At the end of her financial year, she has the following assets and liabilities: taxation repayable: £890, inventory: £25,450, cash in the cash register: £1,750, bank balance (overdrawn): £10,250. What is the total of Roisin's current assets?
a. £27,200
Feedback: Current assets are made up of inventory, receivables and cash. Roisin has inventory of £25,450 and cash in the cash register of £1,750, a total of £27,200. But does she have any receivables? Yes. The £890 taxation repayable is a receivable as it is money due to the business from an outside party. Adding this receivable to the inventory and the cash in the cash register gives a total for current assets of £28,090. You have correctly recognized that the overdrawn bank balance is a current liability and not a current asset. An overdraft means money is owed to the bank and is not cash held at the bank as an asset for use in the business.
Page reference: 38-40, 43-45, 50-53
***b.** £28,090
Feedback: You have correctly recognised all the current assets in the question. £25,450 (inventory) + £890 (taxation repayable, a receivable as it is money due to the business from an outside party) + £1,750 (cash in the cash register) = £28,090. You have correctly recognized that the overdrawn bank balance is a current liability and not a current asset. An overdraft means that money is owed to the bank and is not cash held at the bank as an asset for use in the business.
Page reference: 38-40, 43-45, 50-53
c. £37,450
Feedback: Current assets are made up of inventory, receivables and cash. Roisin has inventory of £25,450 and cash in the cash register of £1,750, a total of £27,200. But does she have any receivables? Yes. The £890 taxation repayable is a receivable as it is money due to

the business from an outside party. Adding this receivable to the inventory and the cash in the cash register gives total current assets of £28,090. Your answer has ignored this receivable and you have incorrectly added the overdrawn bank balance to current assets. An overdrawn bank balance is a current liability, not a current asset, as money is owed to the bank and is not cash held at the bank as an asset for use in the business.
Page reference: 38-40, 43-45, 50-53
d. £38,340
Feedback: Current assets are made up of inventory, receivables and cash. Roisin has inventory of £25,450 and cash in the cash register of £1,750, a total of £27,200. But does she have any receivables? Yes. You have correctly recognized that the £890 taxation repayable is a receivable as it is money due to the business from an outside party. Adding this receivable to the inventory and the cash in the cash register gives total current assets of £28,090. However, while you correctly recognized the taxation repayable as an asset, you have incorrectly added the overdrawn bank balance to current assets. An overdrawn bank balance is a current liability, not a current asset, as money is owed to the bank and is not cash held at the bank as an asset for use in the business.
Page reference: 38-40, 43-45, 50-53

Type: multiple choice question
Title: Chapter 02 - Question 26
26) Patrick runs an engineering business. At the financial year end he has the following account balances: prepayments: £7,500, trade payables: £52,600, inventory: £74,100, long term loan: £250,000, property, plant and equipment: £325,400, trade receivables: £46,300, bank balance (asset): £22,000, taxation payable: £10,700. Patrick's total assets are:
a. £149,900
Feedback: This is the total of the current assets: £7,500 (prepayments) + £74,100 (inventory) + £46,300 (trade receivables) + £22,000 (bank balance: this is an asset, not an overdraft which would be a liability) = £149,900. However, to calculate total assets, the figure for property, plant and equipment (£325,400) needs to be added to current assets to give total assets of £475,300.
Page reference: 36-40, 43-45, 50-53
b. £162,000
Feedback: This is the figure for net assets (total assets – total liabilities) not the figure for total assets. You have added £7,500 (prepayments) + £74,100 (inventory) + £325,400 (property, plant and equipment) + £46,300 (trade receivables) + £22,000 (bank balance: this is an asset not an overdraft which would be a liability) = £475,300 total assets. £475,300 (total assets) – £52,600 (trade payables) – £250,000 (long term loan) – £10,700 (taxation payable) = £162,000. However, the question asked for Patrick's total assets and not his net assets.
Page reference: 36-40, 43-45, 50-53
c. £467,800
Feedback: You have added £74,100 (inventory), £325,400 (property, plant and equipment), £46,300 (trade receivables) and £22,000 (bank balance: this is an asset not an overdraft which would be a liability) to arrive at your figure of £467,800. However, this is not the total assets figure, as prepayments (amounts paid in advance for services that have yet to be provided) are also an asset. Adding the figure for prepayments (£7,500) to your answer of £467,800 gives the correct total assets figure of £475,300.
Page reference: 36-40, 43-45, 50-53
***d.** £475,300
Feedback: Well done. You have correctly identified all the asset figures and added them up correctly to arrive at the right answer for total assets. £7,500 (prepayments) + £74,100 (inventory) + £325,400 (property, plant and equipment) + £46,300 (trade receivables) + £22,000 (bank balance: this is an asset not an overdraft which would be a liability) = £475,300 (total assets).
Page reference: 36-40, 43-45, 50-53

Type: multiple choice question
Title: Chapter 02 - Question 27

27) Gina has the following assets at her financial year end: cash at the bank: £15,000, trademarks: £25,000, trade receivables: £52,000, patents: £10,000, inventory: £35,000, property, plant and equipment: £225,000, a long term shareholding in Tina plc: £48,000. Gina's total non-current assets are:
a. £260,000
Feedback: Non-current assets are made up of intangible non-current assets, property, plant and equipment and long term investments. Gina has two intangible non-current assets, the trademarks (£25,000) and the patents (£10,000). She has property, plant and equipment of £225,000. The investment in Tina plc (£48,000) is also classified as a non-current asset as it is held for long term use within the business. Your answer has correctly identified the two intangible non-current assets and the property, plant and equipment but has not added in the long term investment.
Page reference: 36-40, 50-53
b. £273,000
Feedback: Non-current assets are made up of intangible non-current assets, property, plant and equipment and long term investments. Gina has two intangible non-current assets, the trademarks (£25,000) and the patents (£10,000). She has property, plant and equipment of £225,000. The investment in Tina plc (£48,000) is also classified as a non-current asset as it is held for long term use within the business. Your answer has correctly identified the property, plant and equipment and the investment as non-current assets but has not added in the two intangible non-current assets. Patents and trademarks are long term assets held for long term use within businesses to produce goods and services, so they qualify for inclusion in non-current assets.
Page reference: 36-40, 50-53
*__c.__ £308,000
Feedback: You have correctly identified all the non-current assets in the question and remembered that non-current assets are made up of intangible non-current assets, property, plant and equipment and long term investments. Gina has two intangible non-current assets, the trademarks (£25,000) and the patents (£10,000). She has property, plant and equipment of £225,000. The investment in Tina plc (£48,000) is also classified as a non-current asset as it is held for long term use within the business.
Page reference: 36-40, 50-53
d. £410,000
Feedback: This would be the correct answer if the question had asked for total assets. However, the question asked for total non-current assets which are made up of intangible non-current assets, property, plant and equipment and long term investments. Gina has two intangible non-current assets, the trademarks (£25,000) and the patents (£10,000). She has property, plant and equipment of £225,000. The investment in Tina plc (£48,000) is also classified as a non-current asset as it is held for long term use within the business.
Page reference: 36-40, 50-53

Topic: SoFP calculation of current and non-current liability totals

Type: multiple choice question
Title: Chapter 02 - Question 28
28) At her financial year end of 31 December 2019, Haylie has trade and other receivables of £78,400, current taxation payable of £22,350 and trade and other payables of £56,250. Haylie also has bank borrowings totalling £500,000. These bank borrowings are repayable by equal annual instalments over the next five years starting with the first repayment of £100,000 on 30 December 2020. What figure will Haylie record in her statement of financial position at 31 December 2019 for current liabilities?
a. £157,000

Feedback: You have correctly identified that current taxation payable (£22,350) and trade and other payables (£56,250) are current liabilities (amounts due for payment within 12 months of the statement of financial position date of 31 December 2019). However, you have not recognised that trade and other receivables (£78,400) represent an asset, not a liability, and you have incorrectly added these to current taxation and trade and other payables to arrive at this answer. In addition, the first repayment of the bank borrowings (£100,000) due on 30 December 2020 is also a current liability as it is due for payment within 12 months of the statement of financial position date: this amount should thus have been included in your figure for current liabilities at 31 December 2019.
Page reference: 38-40, 43-45, 50-53
***b.** £178,600
Feedback: You have correctly identified that current liabilities at 31 December 2019 are made up of current taxation payable (£22,350), trade and other payables (£56,250) and the first repayment of the bank borrowings (£100,000). You have also realized that trade and other receivables are an asset, not a liability, and that the remaining £400,000 of bank borrowings are a non-current liability (due more than 12 months after the statement of financial position date) not a current liability.
Page reference: 38-40, 43-45, 50-53
c. £257,000
Feedback: You have correctly identified that current liabilities at 31 December 2019 are made up of current taxation payable (£22,350), trade and other payables (£56,250) and the first repayment of the bank borrowings (£100,000), all amounts due for payment within 12 months of the statement of financial position date. You have also realized that the remaining £400,000 of bank borrowings are a non-current liability (due more than 12 months after the statement of financial position date) not a current liability. However, you have not recognised that trade and other receivables (£78,400) represent an asset not a liability and you have incorrectly added this to the other current liabilities identified to arrive at this answer.
Page reference: 38-40, 43-45, 50-53
d. £578,600
Feedback: You have correctly identified that current liabilities at 31 December 2019 are made up of current taxation payable (£22,350) and trade and other payables (£56,250). You have also realized that trade and other receivables are an asset, not a liability, and you have correctly excluded these from your answer. However, you have not distinguished between the bank borrowings due for repayment within the next 12 months (= a current liability) and the bank borrowings due for repayment after more than 12 months (= a non-current liability). As £100,000 is due for repayment on 30 December 2020, this date is within 12 months of the year end date (31 December 2019) and so should be included in the figure for current liabilities. The remaining £400,000 (£500,000 total borrowings – £100,000 allocated to current liabilities) is due for repayment more than 12 months after the year end date and will be allocated to non-current liabilities.
Page reference: 38-40, 43-45, 50-53

Type: multiple choice question
Title: Chapter 02 - Question 29
29) At 31 October 2019, her statement of financial position date, Suad has trade and other payables of £18,475, taxation recoverable of £1,250, cash in hand of £745 and a bank overdraft of £12,225. What are Suad's current liabilities at 31 October 2019?
***a.** £30,700
Feedback: You have correctly identified that Suad has two current liabilities: the trade and other payables (£18,475) and the bank overdraft (£12,225) giving total current liabilities of £30,700. You have also correctly recognised that the taxation recoverable is a current asset, money due to Suad rather than something Suad owes, and that cash is also a current asset with no effect upon current liabilities.
Page reference: 38-40, 43-45, 50-53
b. £31,205
Feedback: You have correctly identified that Suad has current liabilities in the trade and other payables (£18,475) and the bank overdraft (£12,225). However, you have treated the

taxation recoverable as a current liability when it is actually a current asset, money due to Suad rather than something Suad owes to another party. You have also incorrectly deducted cash from the current liabilities. Cash is a current asset and will be shown as cash and will not be deducted from current liabilities.
Page reference: 38-40, 43-45, 50-53
c. £31,950
Feedback: You have correctly identified that Suad has current liabilities in the trade and other payables (£18,475) and the bank overdraft (£12,225). However, you have treated the taxation recoverable as a current liability when it is a current asset, money due to Suad rather than something Suad owes to another party. You have correctly recognized that cash is a current asset and will be shown in current assets with no effect upon current liabilities.
Page reference: 38-40, 43-45, 50-53
d. £32,695
Feedback: You have correctly identified that Suad has current liabilities in the trade and other payables (£18,475) and the bank overdraft (£12,225). However, you have treated the taxation recoverable as a current liability when it is a current asset, money due to Suad rather than something Suad owes to another party. You have also treated the cash as a current liability when it is a current asset. Both the cash and the taxation recoverable will be shown as cash and trade and other receivables in current assets and they will not form any part of or have any effect upon current liabilities.
Page reference: 38-40, 43-45, 50-53

Type: multiple choice question
Title: Chapter 02 - Question 30
30) Shamsa Limited has the following balances at 30 June 2019, the company's year end:

trade and other payables: £47,450
taxation payable: £17,275
bank loan: £360,000

The bank loan is repayable over 5 years by equal monthly instalments. The first loan repayment is due on 28 August 2019 and each subsequent repayment will be on the 28th of each month until the loan is repaid. What figures will Shamsa Limited show for current and non-current liabilities at 30 June 2019?
a. Current liabilities: £64,725, non-current liabilities: £360,000
Feedback: You have correctly added together trade and other payables (£47,450) and taxation payable (£17,275) as current liabilities, but you should also have added in the bank loan repayments that are due within 12 months of the statement of financial position date. The loan is repayable monthly over 5 years. There are thus 60 monthly repayments (5 years x 12 months in each year) of £6,000 (£360,000 ÷ 60 months) each. Between 28 August 2019 (the date of the first repayment) and 30 June 2020, the next statement of financial position date, there will be 11 repayments of £6,000 each, a total of £66,000 (11 x £6,000). Current liabilities are therefore £47,450 + £17,275 + £66,000 = £130,725. Non-current liabilities are £294,000, the bank borrowings that are not included in current liabilities (£360,000 total borrowings – £66,000 in current liabilities).
Page reference: 43-45, 50-53
b. Current liabilities: £113,450, non-current liabilities: £294,000
Feedback: You have correctly added together trade and other payables (£47,450) and the bank loan repayments that are due within 12 months of the statement of financial position date. However, you should have added in the taxation payable as this is also a current liability at 30 June 2019. Current liabilities are therefore £47,450 + £17,275 + £66,000 = £130,725. Your non-current liabilities figure of £294,000 (£360,000 total borrowings – £66,000 of repayments due within the next 12 months) is correct.
Page reference: 43-45, 50-53
***c.** Current liabilities: £130,725, non-current liabilities: £294,000
Feedback: You have correctly added together trade and other payables (£47,450) and taxation payable (£17,275) as current liabilities, and added in the correct number (11) of bank

loan repayments that are due within the 12 months following the statement of financial position date.
Page reference: 43-45, 50-53
d. Current liabilities: £136,725, non-current liabilities: £288,000
Feedback: You have correctly added together trade and other payables (£47,450) and taxation payable (£17,275) as current liabilities and you have also added in 12 monthly instalments on the bank loan. However between 28 August 2019 (the date of the first repayment) and 30 June 2020, the next statement of financial position date, there will be only 11, not 12, repayments of £6,000 each, a total of £66,000 (11 x £6,000). Current liabilities are therefore £47,450 + £17,275 + £66,000 = £130,725. Non-current liabilities are £294,000, the bank borrowings that are not included in current liabilities (£360,000 total borrowings – £66,000 in current liabilities).
Page reference: 43-45, 50-53

Topic: SoFP calculation of equity

Type: multiple choice question
Title: Chapter 02 - Question 31
31) The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* defines equity as:
a. The residual interest in the assets of the entity after adding all its liabilities.
Feedback: The accounting equation tells us that Assets – Liabilities = Equity. Equity is thus the residual interest in the assets of an entity after deducting (not adding) all its liabilities. This answer reads Assets + Liabilities = Equity.
Page reference: 46, 47
b. The residual interest in the liabilities of the entity after adding all its assets.
Feedback: The accounting equation tells us that Assets – Liabilities = Equity. Equity is thus the residual interest in the assets (not the liabilities) of an entity after deducting all of its liabilities. This answer reads Liabilities + Assets = Equity.
Page reference: 46, 47
c. The residual interest in the assets of the entity.
Feedback: The accounting equation tells us that Assets – Liabilities = Equity. Equity is thus the residual interest in the assets of an entity after deducting all of its liabilities. This answer reads Assets = Equity. This would only be true in the extremely unlikely event that an entity had no liabilities.
Page reference: 46, 47
***d.** The residual interest in the assets of the entity after deducting all its liabilities.
Feedback: You have correctly remembered the accounting equation which tells us that Assets – Liabilities = Equity.
Page reference: 46, 47

Type: multiple choice question
Title: Chapter 02 - Question 32
32) The equity of an unincorporated business that makes a profit in the financial year is calculated as:
a. Capital at the start of the year + capital introduced + profit for the year + drawings.
Feedback: Capital at the start of the year represents the owner's financial interest in the business up to the end of the previous financial year. Capital introduced and profit for the year both increase the owner's financial interest in the business. Drawings reduce (not increase) the owner's financial interest in the business as part of that financial interest has now been repaid through the amounts withdrawn from the business. Therefore, the correct answer is capital at the start of the year + capital introduced + profit for the year – drawings.
Page reference: 49-50

***b.** Capital at the start of the year + capital introduced + profit for the year – drawings.
Feedback: Well done. You have correctly remembered how to calculate the equity of an unincorporated business that makes a profit in the financial year.
Page reference: 49-50
c. Capital at the start of the year + capital introduced – profit for the year – drawings.
Feedback: Capital at the start of the year represents the owner's financial interest in the business up to the end of the previous financial year. Capital introduced and profit for the year both increase the owner's financial interest in the business. You have correctly remembered that drawings reduce the owner's financial interest in the business as part of that financial interest has now been repaid through the amounts withdrawn from the business. Therefore, the correct answer is capital at the start of the year + capital introduced + profit for the year – drawings.
Page reference: 49-50
d. Capital at the start of the year + capital introduced – profit for the year + drawings.
Feedback: Capital at the start of the year represents the owner's financial interest in the business up to the end of the previous financial year. Capital introduced and profit for the year both increase (not decrease) the owner's financial interest in the business. Drawings reduce (not increase) the owner's financial interest in the business as part of that financial interest has now been repaid through the amounts withdrawn from the business. Therefore, the correct answer is capital at the start of the year + capital introduced + profit for the year – drawings.
Page reference: 49-50

Type: multiple choice question
Title: Chapter 02 - Question 33
33) Alpaca Limited has the following balances at 31 December 2019: share capital of £25,000, share premium of £50,000, retained earnings at 1 January 2019 of £225,000 and a retained loss for the year to 31 December 2019 of £70,000. What is the total equity of Alpaca Limited at 31 December 2019?
a. £180,000
Feedback: You have added together the share capital and retained earnings at the start of the year and then deducted the loss for the year, but you have omitted to add in the share premium which is also part of equity for limited liability companies.
Page reference: 47-48
***b.** £230,000
Feedback: You have correctly added together the share capital, the share premium and the retained earnings at the start of the year and then deducted the loss for the year to determine the total equity of Alpaca Limited at 31 December 2019.
Page reference: 47-48
c. £300,000
Feedback: You have added together the share capital, the share premium and the retained earnings at the start of the year but you have then failed to deduct the loss for the year to determine the total equity of Alpaca Limited at 31 December 2019.
Page reference: 47-48
d. £370,000
Feedback: You have added together the share capital, the share premium and the retained earnings at the start of the year, but then you have then added, rather than deducted, the loss for the year. A retained loss during an accounting period is a reduction in equity not an increase.
Page reference: 47-48

Type: multiple choice question
Title: Chapter 02 - Question 34
34) Parminder, a sole trader, makes a profit of £25,600 in the year ended 30 June 2019. Her capital account balance at 1 July 2018 was £76,750 and she withdrew £55,200 from the business during the year for her own expenses. What is the balance on Parminder's capital account at 30 June 2019?

***a.** £47,150
Feedback: You have correctly added together the opening balance on the capital account at 1 July 2018 of £76,750 and the profit for the year of £25,600 and then deducted the drawings of £55,200 to determine the capital accounting balance at 30 June 2019 of £47,150.
Page reference: 49-50
b. £76,750
Feedback: You have just taken the capital account balance at 1 July 2018. To determine the capital account balance at 30 June 2019, you should have added together the opening balance on the capital account at 1 July 2018 of £76,750 and the profit for the year of £25,600 and then deducted the drawings of £55,200 to give the capital account balance at 30 June 2019 of £47,150.
Page reference: 49-50
c. £102,350
Feedback: You have correctly added together the opening balance on the capital account at 1 July 2018 of £76,750 and the profit for the year but you have not deducted the drawings during the year of £55,200 to determine the capital account balance at 30 June 2019 of £47,150.
Page reference: 49-50
d. £157,550
Feedback: You have added together the balance on the capital account at 1 July 2018 of £76,750, the profit for the year of £25,600 and the drawings of £55,200. However, the balance on the capital account at 30 June 2019 is calculated by adding the balance at 1 July 2018 to the profit for the year and deducting drawings during the year. This calculation will give you a balance on the capital account at 30 June 2019 of £47,150.
Page reference: 49-50

Type: multiple choice question
Title: Chapter 02 - Question 35
35) Foromin Limited has share capital of £20,000, share premium of £50,000 and retained earnings at the start of the financial year (1 July 2018) of £150,000. During the year ended 30 June 2019, Foromin Limited makes a profit of £60,000 from which a dividend of £40,000 is paid to shareholders. What is the total equity of Foromin Limited at 30 June 2019?
a. £220,000
Feedback: £20,000 (share capital) + £50,000 (share premium) + £150,000 (retained earnings) give total equity at 1 July 2018, the start of the financial year, of £220,000. As the question asks for the total equity at 30 June 2019 (the end of the financial year, not the beginning) £60,000 (the profit for the year to 30 June 2019) should be added to, and the dividend paid to shareholders during the year of £40,000 should be deducted from, retained earnings. Dividends are a distribution of profit to shareholders and so do not represent earnings retained at the end of the financial year. Adding the net £20,000 (£60,000 profit for the year – £40,000 dividend distributed and not retained) retained earnings for the year to the equity at the start of the year gives a total equity figure of £240,000 (£220,000 + £60,000 – £40,000) at 30 June 2019. Your answer shows the equity at the start not at the end of the financial year.
Page reference: 47-48
***b.** £240,000
Feedback: You have correctly added £20,000 (share capital), £50,000 (share premium), £150,000 (retained earnings at the start of the year), £60,000 (profit for the year (= retained earnings for the year) to 30 June 2019) and deducted the dividend paid to shareholders during the year of £40,000 (= profits **not** retained during the year) to arrive at the total equity figure of £240,000 at 30 June 2019.
Page reference: 47-48
c. £280,000
Feedback: You have correctly added £20,000 (share capital), £50,000 (share premium), £150,000 (retained earnings at the start of the year) and £60,000 (profit for the year (= retained earnings for the year) to 30 June 2019) but you should then have deducted the dividend paid to shareholders during the year of £40,000 (= profits **not** retained during the

year) to arrive at the total equity figure of £240,000 at 30 June 2019. Dividends are a distribution of profit to shareholders and so do not represent retained earnings at the end of the financial year.
Page reference: 47-48
d. £320,000
Feedback: You have correctly added £20,000 (share capital), £50,000 (share premium), £150,000 (retained earnings at the start of the year) and £60,000 (profit for the year (= retained earnings for the year) to 30 June 2019) but you should then have deducted (not added) the dividend paid to shareholders during the year of £40,000 (= profits **not** retained during the year) to arrive at the total equity figure of £240,000 at 30 June 2019. Dividends are a distribution of profit to shareholders and so do not represent retained earnings at the end of the financial year.
Page reference: 47-48

Type: multiple choice question
Title: Chapter 02 - Question 36
36) Bubbles Limited has share capital of £16,000, share premium of £25,000 and retained earnings at 1 May 2018 of £75,000. During the financial year ended 30 April 2019, Bubbles Limited made a loss of £22,000 and paid a dividend of £9,000 to the shareholders. What is the total equity of Bubbles Limited at 30 April 2019?
***a.** £85,000
Feedback: You have correctly added £16,000 (share capital), £25,000 (share premium), £75,000 (retained earnings at the start of the financial year), deducted the £22,000 loss for the year to 30 April 2019 and deducted the dividend paid to shareholders during the year of £9,000 (a dividend paid = profits **not** retained during the year) to arrive at the total equity figure of £85,000 at 30 April 2019
Page reference: 47-48
b. £94,000
Feedback: You have correctly added £16,000 (share capital), £25,000 (share premium), £75,000 (retained earnings at the start of the financial year) and deducted the £22,000 loss for the year to 30 April 2019) to arrive at your answer of £94,000. However, the dividend paid during the year of £9,000 also has to be deducted from this equity figure. As dividends are earnings **not** retained within the business, they are deducted from the retained earnings figure to reflect their distribution to the shareholders and their non-retention within the business.
Page reference: 47-48
c. £103,000
Feedback: You have correctly added £16,000 (share capital), £25,000 (share premium), £75,000 (retained earnings at the start of the year) and deducted the £22,000 loss for the year to 30 April 2019). However, you have then added when you should have deducted the dividend paid to shareholders during the year. As dividends are earnings **not** retained within the business, they are deducted from the retained earnings figure to reflect their distribution to the shareholders and their non-retention within the business.
Page reference: 47-48
d. £129,000
Feedback: You have correctly added £16,000 (share capital), £25,000 (share premium), £75,000 (retained earnings at the start of the year) and deducted the £9,000 dividend paid to shareholders during the year. However, you have added the £22,000 loss for the year instead of deducting this figure from retained earnings. Profits are added to retained earnings (and thus to total equity), whereas losses are deducted from retained earnings resulting in a reduction in total equity.
Page reference: 47-48

Topic: What the statement of financial position does and does not show

Type: multiple choice question
Title: Chapter 02 - Question 37
37) Which one of the following does the statement of financial position show?
a. All the assets and liabilities of an organization.
Feedback: The statement of financial position does not show all the assets and liabilities of an organization. Assets such as goodwill, employees' skills and knowledge, brands and traditions are not shown while all the liabilities of the organization for environmental damage and claims for harm caused by an entity's products and activities will not be known at each year end.
Page reference: 56-57
***b.** All the financially measurable resources and obligations of an organization.
Feedback: The statement of financial position just shows the financially measurable resources (assets) and the financially measurable obligations (liabilities) of an organization. To qualify for recognition on the statement of financial position, both assets and liabilities must be capable of being measured in such a way that a faithful representation is achieved.
Page reference: 55
c. The market value of an organization.
Feedback: The statement of financial position does not show the market value of an organization. The market value of an organization is determined by what an outside buyer would be willing to pay for not only all the known monetary assets and liabilities on the statement of financial position but also for all the unrecognized assets that an organization controls and all the unknown liabilities that it has incurred.
Page reference: 56-57
d. All the assets and liabilities of an organization at their current market values.
Feedback: Most assets and liabilities are valued in the statement of financial position at their historical cost rather than at their current market value. All investments are valued at their current market value in the statement of financial position along with certain other assets such as land and buildings, but the majority of assets and liabilities are valued at their historical cost and not their current market value. Thus the statement of financial position does not show all the assets and liabilities of an organization at their current market values.
Page reference: 54-55, 56-57

Type: multiple choice question
Title: Chapter 02 - Question 38
38) Which one of the following statements is **not** correct?
a. The statement of financial position does not show all the assets and all the liabilities of an organization.
Feedback: This statement is true. The statement of financial position does not show the most valuable assets of an organization, the employees, their knowledge and skills or the goodwill and brands an organization has built up over time. Similarly, there may be liabilities for damage caused to the environment or to consumers as a result of product liability legislation, claims for damages or breaches of contract, none of which have come to light by the end of the accounting period: as a result, they will not be reflected in the statement of financial position at the accounting period end.
Page reference: 56-57
***b.** The statement of financial position shows the market value of an organization
Feedback: You have correctly identified that this statement is not correct. The market value of any organization is determined by the amount a third party would be willing to pay not only for all the known assets and liabilities but also for the unrecognized assets less the unrecorded liabilities of the organization. The amount that an outside party would be willing to pay will change on a daily basis as more information comes to light about hidden liabilities or the true value of the assets is determined or as the economy moves from a boom to a recession or vice versa.

Page reference: 56-57
c. The statement of financial position shows the resources and commitments of an organization in money terms at the end of each accounting period.
Feedback: This statement is correct. The resources of an organization are the assets of that organization presented in money terms. Similarly, the commitments of an organization are the liabilities, the monetary amounts owed to parties outside the organization. Note that this statement does not say **all** the resources or **all** the commitments: this would be incorrect as the statement of financial position does not show all the assets or all the liabilities of the organization as the monetary value of certain resources cannot be faithfully represented and not all the liabilities of an organization might have come to light by the period end date.
Page reference: 56-57
d. The statement of financial position shows the financial situation of an organization at the end of each accounting period.
Feedback: This statement is correct. As a summary of assets and liabilities at a particular point in time, the statement of financial position does present the financial situation of an organization at the end of each accounting period.
Page reference: 55

Topic: Recording the effect of transactions on the assets, liabilities and equity in the statement of financial position

Type: multiple choice question
Title: Chapter 02 - Question 39
39) A business buys a new computer system for £20,000 and agrees to pay the £20,000 to the supplier of the system in 30 days' time. What is the double entry in the statement of financial position to reflect this transaction?
a. Increase current assets by £20,000, increase current liabilities by £20,000.
Feedback: A new computer system is a non-current rather than a current asset, an asset that would be expected to be used within the business for more than one year. On the other hand, as the liability is due for payment within 30 days, this is a current liability as it is due for payment within the next 12 months.
Page reference: 58-61
b. Increase current assets by £20,000, increase non-current liabilities by £20,000.
Feedback: A new computer system is a non-current rather than a current asset, an asset that would be expected to be used within the business for more than one year. As the liability of £20,000 is due for payment within 30 days, this is a current liability as it is due for payment within the next 12 months. Non-current liabilities would be due for payment after more than 12 months.
Page reference: 58-61
c. Increase non-current assets by £20,000, increase non-current liabilities by £20,000.
Feedback: You are right that the new computer system is a non-current asset, an asset that would be expected to be used within the business for more than one year. However, as the liability of £20,000 is due for payment within 30 days, this is a current liability as it is due for payment within the next 12 months. Non-current liabilities would be due for payment after more than 12 months and this is not the case here.
Page reference: 58-61
***d.** Increase non-current assets by £20,000, increase current liabilities by £20,000.
Feedback: The new computer system is a non-current asset, an asset that will be used within the business for more than one year. As the liability of £20,000 is due for payment within 30 days, this is a current liability as it is due for payment within the next 12 months.
Page reference: 58-61

Type: multiple choice question

Title: Chapter 02 - Question 40
40) Beta Limited buys £30,000 of inventory on credit terms. What is the correct double entry to reflect this transaction?
a. Increase inventory £30,000, decrease trade payables £30,000
Feedback: You are right that buying the inventory will increase the amount of inventory in the company. However, as the company now owes more money to its suppliers for the goods supplied, this transaction will also increase trade payables rather than decreasing them.
Page reference: 58-61
*__b.__ Increase inventory £30,000, increase trade payables £30,000
Feedback: Buying the inventory will increase the amount of inventory in the company and, as the company now owes more money to its suppliers for the goods supplied, this transaction will also increase trade payables.
Page reference: 58-61
c. Decrease inventory £30,000, decrease trade payables £30,000
Feedback: Buying inventory will increase, rather than reduce, the amount of inventory in the company and, as the company now owes more money to its suppliers for the goods supplied, this transaction will also increase trade payables and not decrease them.
Page reference: 58-61
d. Decrease inventory £30,000, increase trade payables £30,000
Feedback: Buying the inventory will increase the amount of inventory in the company rather than decreasing it. However, you are right that, as the company now owes more money to its suppliers for the goods supplied, this transaction will increase trade payables.
Page reference: 58-61

Type: multiple choice question
Title: Chapter 02 - Question 41
41) Jaswant Limited receives a payment of £15,000 from a trade receivable for goods supplied a month ago. The company's accountant pays this £15,000 into the company's bank account. Jaswant Limited currently has an overdraft at the bank of £50,000 before this receipt of £15,000 is paid in. What is the correct double entry to reflect this transaction?
a. Increase trade receivables £15,000, increase bank overdraft £15,000.
Feedback: As the trade receivable has paid the money due, this receipt must decrease the trade receivables and not increase them. The money paid into the bank will decrease rather than increase the overdraft as the money paid in will mean that less money is now owed to the bank.
Page reference: 58-61
b. Increase trade receivables £15,000, decrease bank overdraft £15,000.
Feedback: As the trade receivable has paid the money due, this receipt must decrease the trade receivables and not increase them. You are right that the money paid into the bank will decrease the overdraft as the money paid in will mean that less money is now owed to the bank.
Page reference: 58-61
*__c.__ Decrease trade receivables £15,000, decrease bank overdraft £15,000.
Feedback: As the trade receivable has paid the money due, this receipt must decrease the trade receivables while the money paid into the bank will reduce the overdraft as less money is now owed to the bank.
Page reference: 58-61
d. Decrease trade receivables £15,000, increase bank overdraft £15,000.
Feedback: You are right that the payment of the trade receivable will decrease trade receivables. However, the money paid into the bank will decrease rather than increase the overdraft as the money paid in will mean that less money is now owed to the bank.
Page reference: 58-61

Type: multiple choice question
Title: Chapter 02 - Question 42

42) Maria makes a payment of £25,000 to a trade payable from her bank account. Prior to this payment, Maria's bank account showed a positive balance of £45,000. Which one of the following options represents the correct entries to reflect this payment?
a. Increase trade payables £25,000, decrease bank account £25,000.
Feedback: As Maria has paid money that she owes to an outside party, trade payables will decrease and not increase. You are right that as money has been paid out of the bank, the bank account will decrease. The bank balance was positive (and so an asset on Maria's statement of financial position) so a payment out of the bank reduces the cash asset.
Page reference: 58-61
b. Decrease trade payables £25,000, increase bank account £25,000.
Feedback: As Maria has paid money that she owes to an outside party, you are right that trade payables will decrease. However, as money has been paid out of the bank, the bank account will also decrease. The bank balance was positive (and so an asset on Maria's statement of financial position) so a payment out of the bank reduces the cash asset. The bank account would only increase if cash had been paid into and not out of the bank.
Page reference: 58-61
c. Increase trade payables £25,000, increase bank account £25,000.
Feedback: As Maria has paid money that she owes to an outside party, trade payables will decrease and not increase. Similarly, as money has been paid out of the bank, the bank account will also decrease. The bank balance was positive (an asset on Maria's statement of financial position) so a payment out of the bank reduces the cash asset. The bank account would only increase if cash had been paid into and not out of the bank.
Page reference: 58-61
*__d.__ Decrease trade payables £25,000, decrease bank account £25,000.
Feedback: As Maria has paid money that she owes to an outside party, you are right that trade payables will decrease. You are also right that as money has been paid out of the bank, the bank account will also decrease. The bank balance was positive (and so an asset on Maria's statement of financial position) so a payment out of the bank reduces the cash asset.
Page reference: 58-61

Type: multiple choice question
Title: Chapter 02 - Question 43
43) Josh's trade receivables stand at £322,000 and he has a bank overdraft of £17,000 (a liability). A trade receivable pays the £22,000 owed and Josh pays this £22,000 into his bank account. What are the balances on trade receivables and the bank account after this receipt of cash?
*__a.__ Trade payables £300,000, Bank account £5,000 asset.
Feedback: Trade receivables reduce by £22,000 so the balance on the trade receivables account is now £322,000 – £22,000 = £300,000. The £22,000 is paid into the bank and clears the £17,000 overdraft to leave a positive balance of £5,000: – £17,000 + £22,000 = + £5,000. The bank overdraft was a liability but this liability has now been cleared to leave a bank account asset of £5,000.
Page reference: 58-61
b. Trade payables £344,000, Bank account £5,000 asset.
Feedback: Trade receivables will reduce by £22,000 as money that is owed has been paid thereby reducing the trade receivables and increasing the cash. Therefore, the balance on the trade receivables account is now £322,000 – £22,000 = £300,000. Trade receivables would only increase if a new sale had been made to a customer on credit. You are right that the £22,000 paid into the bank clears the £17,000 overdraft to leave a positive balance of £5,000: – £17,000 + £22,000 = + £5,000. The bank overdraft was a liability but this liability has now been cleared to leave a bank account asset of £5,000.
Page reference: 58-61
c. Trade payables £300,000, Bank account £39,000 overdraft.
Feedback: You are right that trade receivables reduce by £22,000 so the balance on the trade receivables account is now £322,000 – £22,000 = £300,000. The £22,000 paid into the bank will clear the £17,000 overdraft to leave a positive balance of £5,000: – £17,000 + £22,000 = + £5,000. The bank overdraft was a liability but this liability has now been reduced

to zero by the first £17,000 that has been paid in. The remaining £5,000 (£22,000 – £17,000 = £5,000) now leaves the bank account as an asset of £5,000. You have added a liability (£17,000) and positive cash (£22,000) to produce a higher overdraft balance of £39,000. However, you should have taken the negative balance of £17,000 and added the positive cash of £22,000 to give a net positive balance of £5,000.
Page reference: 58-61
d. Trade payables £344,000, Bank account £39,000 overdraft.
Feedback: Trade receivables will reduce by £22,000 as money that is owed has been paid thereby reducing the trade receivables and increasing the cash. Therefore, the balance on the trade receivables account is now £322,000 – £22,000 = £300,000. Trade receivables would only increase if a new sale had been made to a customer on credit. The £22,000 paid into the bank will clear the £17,000 overdraft to leave a positive balance of £5,000: – £17,000 + £22,000 = + £5,000. The bank overdraft was a liability but this liability has now been reduced to zero by the first £17,000 that has been paid in. The remaining £5,000 (£22,000 – £17,000 = £5,000) now leaves the bank account as an asset of £5,000. You have added a liability (£17,000) and positive cash (£22,000) to produce a higher overdraft balance of £39,000. However, you should have taken the negative balance of £17,000 and added the positive cash of £22,000 to give a net positive balance of £5,000.
Page reference: 58-61

Topic: Chapter wide questions

Type: multiple choice question
Title: Chapter 02 - Question 44
44) Which **one** of the following statements is **not** true?
a. Intangible assets have no material substance.
Feedback: This statement is true. Intangible assets are so called because they cannot be touched as they have no material substance. They comprise of intellectual property such as rights to use inventions or copyrights with which to generate economic benefits for entities.
Page reference: 37
b. Current assets are short term assets which are constantly changing in a constantly repeating trading cycle.
Feedback: This statement is true. Current assets are assets such as inventory, receivables and cash whose potential to produce economic benefits will be used up within the next 12 months, if not sooner. This is in contrast to non-current assets whose potential to produce economic benefits will be spread over several years. Current assets are constantly changing as inventory is sold and turned into receivables which then pay what is owed in cash which is used to pay current liabilities so that more inventory can be bought from suppliers to turn into receivables or cash and so on in a constantly repeating trading cycle.
Page reference: 38-40
*__c.__ Control over economic resources is gained solely through ownership of those economic resources.
Feedback: This statement is not true. The International Accounting Standards Board's *Conceptual Framework for Financial Reporting* states that 'an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it' (IASB *Conceptual Framework*, paragraph 4.20). A resource is controlled if it is owned or leased (rented) by an organization which can enforce its legal rights over that resource. Control is therefore established if an entity can legally prevent anyone else from using that resource and obtaining the economic benefits from it. When an asset is leased by an entity, the entity can legally prevent anyone else from using that leased resource. Ownership is thus not the only way in which to gain control of a resource: resources leased by an entity can also be recognized as assets provided they meet all the asset recognition criteria. .
Page reference: 32

d. Liabilities are contractual or legal claims against an entity.
Feedback: This statement is true. Liabilities are “a present obligation of the entity to transfer an economic resource as a result of past events.” A contractual or legal claim will arise from past events such as signing a contract or taking delivery of goods to be paid for at a later date. In this way, they give rise to an obligation that will require the transfer of economic resources (cash or other assets) to settle the liability.
Page reference: 40-43

Type: multiple choice question
Title: Chapter 02 - Question 45
45) Which **one** of the following statements is **not** true?
a. If an entity can avoid transferring cash or other economic resources then there is no obligation and no liability exists.
Feedback: This statement is true. The International Accounting Standards Board’s *Conceptual Framework for Financial Reporting* defines a liability as “a present obligation of the entity to transfer an economic resource as a result of past events”. If an entity can avoid transferring cash or other economic benefits then there is no obligation and so no liability exists.
Page reference: 41
*__b.__ Total assets = equity – total liabilities.
Feedback: This statement is not true. The accounting equation states that total assets – total liabilities = equity. Rearranging the equation given in the question will result in total assets + total liabilities = equity, but this is not the accounting equation.
Page reference: 46
c. Borrowings can appear as both a current and a non-current liability in an entity’s statement of financial position.
Feedback: This statement is true. While borrowings tend to be a long term liability that is repayable in several years’ time, eventually those borrowings will become due for repayment within 12 months of the statement of financial position date. Many borrowings are repayable by instalments rather than all at once with the final instalment becoming due several years into the future, so whatever amount is due for repayment within the next 12 months will be classified as a current liability whereas whatever is due for repayment after more than 12 months of the statement of financial position date will be recorded as a non-current liability.
Page reference: 43-45
d. The International Accounting Standards Board defines equity as “the residual interest in the assets of the entity after deducting all its liabilities”.
Feedback: This statement is true. The IASB definition merely confirms the accounting equation which states that assets – liabilities = equity, the assets that are left after all the liabilities have been taken away.
Page reference: 46-47

Type: multiple choice question
Title: Chapter 02 - Question 46
46) Which **one** of the following statements is **not** true?
a. The statement of financial position shows the financial situation of an entity on the last day of its accounting year.
Feedback: This statement is true.
Page reference: 55
b. Current liabilities + non-current liabilities = total liabilities.
Feedback: This statement is true.
Page reference: 44
c. The statement of financial position does not show all the assets of the organization.
Feedback: This statement is true.
Page reference: 56-57
*__d.__ The International Accounting Standards Board defines equity as “the residual interest in the assets of the entity after adding all its liabilities.”

Feedback: The correct IASB definition of equity is "the residual interest in the assets of the entity after **deducting** all its liabilities." This is in line with the accounting equation which states that assets – liabilities = equity
Page reference: 46-47

Type: multiple choice question
Title: Chapter 02 - Question 47
47) Which one of the following statements is true?
a. A resource is controlled by an entity when anyone can use that resource.
Feedback: This statement is not true. An entity only controls a resource when it can legally prevent everyone else from using that resource. Only when an entity has exclusive power over a resource is it controlled by the entity. The IASB *Conceptual Framework for Financial Reporting* states that 'an entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it' (IASB *Conceptual Framework*, paragraph 4.20). Control is established if an entity can legally prevent anyone else from using that resource and obtaining the economic benefits that flow from it.
Page reference: 32
***b.** Valuing assets and liabilities in the statement of financial position at their original cost is referred to as the historic cost convention.
Feedback: This statement is true.
Page reference: 54
c. The event giving rise to an obligation does not need to have taken place by the statement of financial position date for an entity to recognize a liability.
Feedback: This statement is not true. The IASB defines a liability as "a present obligation of the entity to transfer an economic resource as a result of past events." If the event giving rise to the obligation has not taken place by the statement of financial position date, then no liability can be recognized on the statement of financial position. This is to prevent entities recognizing any liability that they think they might incur in the future. If such recognition of future liabilities were allowed, then the information presented in the statement of financial position would be subjective and unreliable and it would most certainly not be faithfully represented. Objective proof of the existence of a liability at the statement is required in order to recognize that liability at the year end date.
Page reference: 40-43
d. The statement of financial position shows the market value of an entity.
Feedback: This statement is not true. The market value of an entity is dependent upon what an outside party would be willing to pay to acquire the entity. This valuation changes on a day to day basis as new information comes to light about the organization and its future earning capacity. The statement of financial position just shows the financially measureable assets and the financially measureable liabilities of an entity at the financial year end.
Page reference: 56-57

Type: multiple response question
Title: Chapter 02 - Question 48
48) Which of the following statements are true? Please select all that apply.
Feedback: The statement of financial position does show the financially measurable resources (assets) and financially measurable obligations (liabilities) of a business in money terms. The amount shown for called up share capital under equity is the number of shares in issue x the par value (= face value) of each share. The IASB defines a liability as "a present obligation of the entity to **transfer** an economic resource as a result of past events". The distinction between non-current and current assets does come down to time: non-current assets are used long term within an entity whereas current assets are short term assets which are constantly changing in line with the trading cycle.
Page reference: 55, 47, 41, 40
***a.** The statement of financial position shows the financially measurable resources (assets) and financially measurable obligations (liabilities) of a business in money terms.

***b.** Called up share capital is the number of shares issued multiplied by the par value of each share.
c. The IASB defines a liability as "a present obligation of the entity to receive an economic resource as a result of past events."
***d.** The distinction between non-current and current assets comes down to one of time.

Type: multiple choice question
Title: Chapter 02 - Question 49
49) Which **one** of the following statements about assets is **not** true?
***a.** Non-current assets are those assets that are purchased for resale in the normal course of business and are acquired with the intention of reselling them immediately or in the near future.
Feedback: This statement is not true. Non-current assets are those assets that are **not** purchased for resale in the normal course of business and are **not** acquired with the intention of reselling them immediately or in the near future. Current assets such as inventory would be an example of an asset purchased for resale in the normal course of business and which would be acquired with the intention of selling it immediately or in the near future.
Page reference: 36
b. Non-current assets are made up of intangible assets, property, plant and equipment and investments.
Feedback: This statement is true. Non-current assets fall into three categories: intangible assets, those assets which cannot be touched as they involve intellectual property rights; property, plant and equipment, those assets acquired for long term use in the business which have a physical existence; and investments, long term holdings in the share capital or other financial assets of other organizations.
Page reference: 36-38
c. Entities are now allowed to value different classes of assets either at cost or at fair value.
Feedback: This statement is true. Over the years, the accounting standard setting bodies have relaxed the requirement to record assets and liabilities at their historic cost. Asset classes (all the assets in a particular class, such as property) can now be recorded at fair value instead of at historic cost. However, the option to record assets at their historic cost still remains, so there is a choice of valuation at either cost or fair value.
Page reference: 54-55
d. The IASB has laid down the rule that an asset can only be recognized in the statement of financial position when the value of that asset can be measured in such a way that a faithful representation is achieved.
Feedback: This statement is true. The monetary value of both assets and liabilities must be measurable in such a way that a faithful representation is achieved. **Page reference:** 34-35

Type: multiple response question
Title: Chapter 02 - Question 50
50) Which of the following statements are true? Please select all that apply.
Feedback: An asset does represent a store of economic benefits which entities can use to generate cash and profit for the business. Non-current assets are held for long-term, not short-term, use within a business to produce goods or services. These non-current assets will be used within the business for several years, not just for one year, so they are long- and not short-term assets (short term assets would be used up within 12 months of the year end date). The IASB definition of assets is correct. The accounting equation states that total assets – total liabilities = equity. Rearranging this equation by adding total liabilities to both sides gives total assets = total liabilities + equity so this is an alternative (and completely correct) presentation of the accounting equation.
Page reference: 32, 33, 36, 46
***a.** An asset represents a store of future economic benefits, the ability to use the asset to generate cash and profit for a business.
b. Non-current assets are held for short-term use within a business to produce goods or services.

*__c.__ The IASB defines an asset as “a present economic resource controlled by the entity as a result of past events.”
*__d.__ Total assets = total liabilities + equity.

Question 1

Outlaws plc produces bakery products which it sells to supermarkets. The company has the following balances in its books at 31 October 2019:

	Assets and Expenses	Income, Liabilities and Capital
	£000	£000
Buildings: cost	6,000	
Buildings: accumulated depreciation at 1 November 2018		1,200
Purchases	8,000	
Trade payables		1,500
Bank balance		500
Trade receivables	2,500	
Machinery: cost	7,000	
Machinery: accumulated depreciation at 1 November 2018		2,000
Administration expenses	1,250	
Distribution and selling costs	2,000	
Retained earnings at 1 November 2018		5,335
Bank loan (due for repayment 31 October 2028)		2,500
Sales		15,500
Audit and accountancy fees	75	
Insurance paid	60	
Share capital		1,000
Inventory at 1 November 2018	800	
Production wages and salaries	1,600	

Sales returns	250	
	29,535	29,535

Further information relevant to the preparation of the statement of profit or loss and the statement of financial position for the year ended 31 October 2019:

1. Depreciation is to be provided on non-current assets as follows:
   - Buildings: 2% straight line on cost charged to administration expenses
   - Machinery: 20% reducing balance charged to cost of sales.
2. Insurance paid is for the 15 months ended 31 January 2020.
3. The interest rate on the bank loan is 5%. No interest on the bank loan has been paid during the year ended 31 October 2019.
4. An accrual for production wages of £64,000 is to be made.
5. The directors of Outlaws plc wish to create an allowance for receivables of 4% of year end trade receivable balances. There was no allowance for receivables at 1 November 2018.
6. Closing inventory at 31 October 2019 was valued at £650,000.
7. After totalling up the sales to each customer during the year ended 31 October 2019, Outlaws plc found that they owed their customers £180,000 in quantity discounts for the year.
8. The accounts assistant at Outlaws plc estimates that the tax charge on the profit for the year ended 31 October 2019 will be £108,000.

Required:
Prepare the statement of profit or loss for the year ended 31 October 2019 and the statement of financial position at that date for Outlaws plc in a format suitable for publication in accordance with International Financial Reporting Standards.

Total: 20 marks

Question 2

(a) Define the following terms:

1. Assets (3 marks)
2. Liabilities (3 marks)
3. Equity (2 marks)

(b) Bears Limited has the following queries relating to the assets and liabilities on its statement of financial position for the year ended 31 December 2019:

I. The company has developed a branded perfume. The directors would like to recognize this brand as an asset on the company's statement of financial position but they are unsure of the monetary value that they should give to the brand. The sales of the branded perfume over the past year were £1,500,000 and the directors expect the sales to rise by £500,000 each year for the foreseeable future.

Required:
Draft notes for a meeting with the directors to explain whether the brand can be recognized as a non-current asset on the company's statement of financial position or not.

(6 marks)

II. Bears Limited's non-current assets require major repairs. The directors have not yet taken the decision to undertake these repairs and the total cost of the repairs has not yet been determined. The directors would like to recognize a liability for these repairs on the company's statement of financial position but they are not sure they can do so as they do not have an exact figure for the cost of the repairs.

Required:
Draft notes for a meeting with the directors to explain whether the repairs can be recognized as a liability on the company's statement of financial position or not.

(6 marks)

Total: 20 marks

Question 3

The following balances were extracted from the books of Dynamos Limited at 31 December 2019:

	Assets and Expenses	Income, Liabilities and Capital
	£	£
Sales		900,000
Purchases of goods	720,000	
Inventory at 1 January 2019	92,450	
Administration expenses	22,000	
Discounts received from suppliers		6,200
Repairs and renewals	5,000	
Rent paid	15,000	
Fixtures and fittings cost	40,000	
Depreciation of fixtures and fittings at 1 January 2019		16,000
Trade receivables	123,200	
Trade payables		115,600
Bank balance	35,400	
Loan		150,000
Share capital		10,000
Retained earnings at 1 January 2019		78,750
Equipment at cost	250,000	
Equipment depreciation at 1 January 2019		50,000
Sales returns	6,000	

Insurance paid	17,500	
	1,326,550	1,326,550

Further information relevant to the preparation of the statement of profit or loss and the statement of financial position for the year ended 31 December 2019:

1. Closing inventory at 31 December 2019 was counted and valued at £108,420.
2. The interest rate on the loan is 6%. No interest has been paid during the year. The loan is due for repayment in 10 equal annual instalments commencing on 31 October 2020.
3. Depreciation is to be provided on non-current assets as follows:
    - Fixtures and fittings: 20% straight line
    - Equipment: 20% reducing balance.
4. Rent is paid in advance. The rent for the 12 months to 31 December 2019 on the company's premises was £12,000.
5. The annual insurance cost is £20,000.

Required:
Using the list of balances and the information provided above, answer the following questions. All questions carry equal marks.

1 Cost of sales for the year ended 31 December 2019 is:

a £697,830

b £704,030

c £710,230

d £729,770

2 The total depreciation charge on non-current assets for the year ended 31 December 2019 is:

a £44,800

b £48,000

c £54,800

d £58,000

3 Gross profit for the year ended 31 December 2019 is:

a £189,970

b £195,970

c £196,170

d £202,170

4 Total expenses excluding the depreciation charge for the year for the year ended 31 December 2019 are:

a £59,000

b £68,000

c £68,500

d £69,000

5 The carrying amount of non-current assets at 31 December 2019 is:

a £290,000

b £242,000

c £224,000

d £176,000

6 The total current assets figure at 31 December 2019 is:

a £251,050

b £267,020

c £269,520

d £270,020

7 The figure for current liabilities at 31 December 2019 is:

a £115,600

b £127,100

c £142,100

d £265,600

8 The figure for total equity at 31 December 2019 is:

a £10,000

b £88,750

c £158,920

d £168,920

9 Total liabilities at 31 December 2019 are:

a £277,100

b £292,100

c £302,130

d £446,020

10 The figure for total accruals at 31 December 2019 is:

a £11,500

b £12,000

c £14,500

d £26,500

Total: 20 marks

Question 4

Maria has been trading for a year. She runs the university bookshop on campus. She provides you with the following list of transactions through her bank account for the financial year ended 31 July 2019:

	Cash Received	Cash Paid
	£	£
Cash paid in by Maria	25,000	
Purchase of fixtures and fittings for the shop		12,000
Advertising		1,250
Computer system		8,000
Cash receipts from sales	550,000	
Cash paid to book suppliers		290,000
Cash refunds for books returned		5,500
Cash paid to shop assistants		61,800
Electricity bills paid		4,650
Shop rent		33,000
Cash withdrawn by Maria		36,000
Cash receipts from credit customers	42,000	
Stationery and postage		13,000
Business rates		9,100
Bank charges		1,100
Insurance		10,800
Balance in the bank at 31 July 2019		130,800
	617,000	617,000

Maria provides you with the following additional information:

1. At 31 July 2019, Maria owed £3,000 for rent.
2. The business rates paid cover the period 1 August 2018 to 30 September 2019.
3. Accrued electricity charges at 31 July 2019 totalled up to £280.
4. At 31 July 2019, Maria owed her book suppliers £65,000 for books supplied while her suppliers owed her £7,500 for bulk discounts on books purchased during the year.
5. Maria had counted up the books in the stock room at 31 July 2019 and valued them at a cost of £55,000.
6. Maria's credit customers owed her £5,250 at 31 July 2019. Maria tells you that one customer who owes £750 is unlikely to pay due to personal bankruptcy. All the other credit customers are expected to pay what is owed in full.
7. Maria owes her shop assistants one week's wages of £1,200.
8. Bank charges accrued at 31 July 2019 amounted to £150.
9. The insurance paid covers the period 1 August 2018 to 31 October 2019.
10. Maria has agreed to pay you £600 for preparing her accounts and business tax return for the year ended 31 July 2019.
11. Maria has decided to depreciate her fixtures and fittings at the rate of 25% straight line while her computers will be depreciated on the reducing balance basis at the rate of 40% per annum.

Required:
Prepare Maria's statement of profit or loss for the year ended 31 July 2019 together with the statement of financial position at that date.

Total: 25 marks

Question 5

Foxes Limited has the following balances in its books of account at 30 June 2019

	Assets and Expenses	Income, Liabilities and capital
	£000	£000
Share capital		1,000
Revenue		20,360
Motor vehicles: cost	950	
Motor vehicles: accumulated depreciation at 1 July 2018		350
Administration expenses	1,861	
Purchases	10,429	
Trade receivables	5,600	
Trade payables		3,879
Long term loan		5,000
Inventory at 1 July 2018	2,626	
Distribution and selling costs	2,579	
Interest paid	200	
Equipment: cost	5,500	
Equipment: accumulated depreciation at 1 July 2018		1,250
Cash at bank	765	
Retained earnings at 1 July 2018		1,101
Production wages	2,430	
	32,940	32,940

The following information is also relevant:

1. Inventory was counted at 30 June 2019 and was valued at a cost to the business of £1,950,000.
2. No depreciation has yet been provided on non-current assets for the year ended 30 June 2019. Motor vehicles are depreciated at the rate of 25% reducing balance. Depreciation on motor vehicles is to be charged to distribution and selling expenses. Equipment is depreciated at the rate of 20% straight line. Depreciation on equipment is to be charged to cost of sales.

3. The long term loan carries in interest rate of 8%. The interest paid in the list of balances above represents the interest paid on the loan for the 6 months to 31 December 2018. The loan is repayable by 10 equal annual instalments commencing on 31 March 2020.
4. Foxes Limited owed their accountants £25,000 at 30 June 2019. This expense has not been taken into account in the list of balances above. It is Foxes' policy to charge accounting costs to administration expenses.
5. On 2 July 2019, Foxes Limited received a letter from the administrator of Hens Limited, a credit customer. The letter stated that Hens Limited was now in liquidation and that there were insufficient funds from which to pay any of the £50,000 that Hens owed to Foxes Limited.
6. The taxation charge for the year is to be based on the profit before tax figure. Taxation is charged at the rate of 20% of profit before tax.

Required:
Prepare the statement of profit or loss and statement of financial position for Foxes Limited in a format suitable for publication in accordance with International Financial Reporting Standards.

Total: 20 marks

Question 6

Sadia has been managing her gym business for a year. On 1 November 2018 she opened a business bank account and paid in £50,000 of her own money. The bank provided her with a 5 year loan of £50,000 which was paid into this account on the same day. The loan carries an interest rate of 5% and is repayable in full on 31 October 2023. The following transactions took place during the financial year ended 31 October 2019:

1. Cash received from gym memberships totalled up to £240,000. Of this £240,000 received, £12,000 relates to membership subscriptions for the financial year ended 31 October 2020.
2. Cash received from non-member daily visitors to the gym during the year was £30,000.
3. Sadia paid rent on the gym of £24,000 and local business taxes of £13,000. Rent paid was for the 10 months November 2018 to August 2019 while the local business taxes paid covered the amounts payable for the 13 months to 30 November 2019.
4. The gym has a bar serving, snacks, light meals and drinks. Cash received from bar sales in the year to 31 October 2019 totalled up to £60,000.
5. Sadia's purchases of food and drink for sale at the bar added up to a total of £26,000 for the year. At 31 October 2019, Sadia still owed her food and drink suppliers £3,750. At 31 October 2019, Sadia counted up and valued the drinks and food left in the bar at that date. This inventory had a cost of £2,200.
6. Sadia employed various members of staff during the year, paying them a total of £51,000. At 31 October 2019, Sadia still owed her staff £1,000 in wages and salaries for services provided in the last week of the financial year.
7. Heating and lighting bills paid from the start of November 2018 to the end of August 2019 totalled up to £7,500. Sadia estimates that a further £1,500 of heating and lighting was used during September and October 2019 which has not yet been paid for.
8. Sadia paid £200,000 to acquire equipment for her gym at the start of November 2018. Sadia estimates that this gym equipment will have a useful life of 4 years and will have a resale value of £40,000 at the end of those 4 years.
9. In addition, Sadia paid equipment rentals of £40,000 throughout the year to hire additional equipment for use in the gym. These equipment rentals covered the cost of equipment hire for the period 1 November 2018 to 31 January 2020.
10. Sadia paid £12,000 for 12 months business insurance on 1 November 2018.
11. Water costs for the gym for the year totalled up to £18,000. At 31 October 2019, Sadia still owed her water suppliers £1,600.
12. Sadia withdrew £2,000 each month from the business bank account for her own personal expenditure.

13. Cleaning and maintenance costs paid during the year were £3,800. There were no cleaning or maintenance costs due for payment or paid in advance at 31 October 2019.
14. Interest on the bank loan for the year was paid on 31 October 2019.
15. Bank charges for the first 11 months of the financial year deducted from Sadia's bank account were £880. Sadia's bank manager has informed her that the bank charges for October 2019 will be £75 and these will be deducted from her bank account during November 2019.

All cash received during the year was paid into the business bank account and all amounts paid during the year were paid out of the business bank account.

Required

i. Prepare Sadia's bank account for the year ended 31 October 2019.

(10 marks)

ii. Prepare a statement of profit or loss for Sadia's gym business for the financial year ended 31 October 2019 together with a statement of financial position at that date.

(20 marks)

Total: 30 marks

Question 7

Katya owns a sports equipment retail business. At 1 July 2018, Katya had the following assets and liabilities:

	£
Amounts owed to suppliers of sports equipment	24,375
Inventory of sports equipment for resale	28,722
Shop fittings: cost	60,000
Shop fittings: accumulated depreciation	24,000
Accrued wages due to employees	870
Cash in the bank	22,488
Prepaid rent on the shop	1,900

Required:

Calculate the balance on Katya's capital account at 1 July 2018.

(4 marks)

Katya presents you with the following summary of transactions made through her bank account for the year ended 30 June 2019:

	£
Amounts paid to suppliers of sports equipment (including the £24,375 owed to suppliers at 1 July 2018)	289,640
Amounts paid to employees for wages (including the £870 owed to employees at 1 July 2018)	44,320
Amounts paid for rent on the shop	23,500
Cash received from sales	428,790
Cash withdrawn by Katya for her own personal use	27,000
Cash paid for heating and lighting	7,200
Insurance paid for the 12 months to 30 June 2019	6,000
Cash paid for local business taxes	12,000
Bank charges deducted from Katya's bank account	955
Property repairs paid	1,447
Cash received from credit customers	12,600
Water costs paid	1,300

Required:
Calculate the balance on Katya's bank account at 30 June 2019.

(7 marks)

Katya provides you with the following additional information:

- In the past, Katya has always made sales for cash. However, during the financial year ended 30 June 2019, she allowed certain customers to trade with her on credit terms. Credit sales to customers during the year totalled up to £20,800. Katya expects all her credit customers will pay the amounts that are owed and she does not anticipate that any of them will become irrecoverable debts.
- At 30 June 2019, Katya counted up and valued her inventory of goods for resale. The cost of these goods was £32,142.
- At 30 June 2019, Katya owed her suppliers of sports equipment £31,295.
- The shop fittings have a useful economic life of 5 years.
- Rent prepaid at 30 June 2019 was £2,100.
- Employees were owed £920 at 30 June 2019.
- Bank charges accrued at 30 June 2019 were £65.
- There were no other accrued or prepaid expenses at 30 June 2019.

Required:
Prepare a statement of profit or loss for Katya's sports equipment retail business for the financial year ended 30 June 2019 together with a statement of financial position at that date.

(19 marks)

Total: 30 marks

Question 8

The following balances were extracted from the books of Sabres Limited at 30 September 2019:

	Assets and Expenses	Income, Liabilities and Capital
	£	£
Sales		872,690
Purchases of goods	660,745	
Inventory at 1 October 2018	54,300	
Administration expenses	15,000	
Allowance for receivables at 1 October 2018		3,000
Discounts allowed to customers	4,540	
Repairs and renewals	3,295	
Rent paid	12,000	
Fixtures and fittings cost	35,000	
Depreciation of fixtures and fittings at 1 October 2018		14,000
Trade receivables	95,960	
Trade payables		81,520
Bank balance		12,630
Loan		75,000
Share capital		10,000
Retained earnings at 1 October 2018		11,750
Equipment at cost	280,000	
Equipment depreciation at 1 October 2018		98,000
Sales returns	5,250	
Insurance paid	12,500	
	1,178,590	1,178,590

Further information relevant to the preparation of the statement of profit or loss and the statement of financial position for the year ended 30 September 2019:

1. Closing inventory at 30 September 2019 was counted and valued at £62,680.
2. The interest rate on the loan is 5%. No interest has been paid during the year. The loan is due for repayment in 5 equal annual instalments commencing on 31 August 2020.
3. Depreciation is to be provided on non-current assets as follows:
    - Fixtures and fittings: 25% straight line
    - Equipment: 35% reducing balance.
4. Rent is paid one month in advance. The rent for the 12 months to 30 September 2019 on the company's premises was £11,400.
5. The annual insurance cost is £13,500.
6. At 30 September 2019 there was a known irrecoverable debt of £960. The directors wish to adjust the allowance for receivables to 3% of trade receivables at 30 September 2019.

Required:
Prepare a statement of profit or loss for Sabres Limited for the financial year ended 30 September 2019 together with a statement of financial position at that date.

Total: 22 marks