

WEB QUESTIONS



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Chapter 1 The accounting environment

R1.1

Indicate whether each of the following statements is **true** or **false**.

- a In its earliest form, accounting performed a management function.
 - b Management is accountable to owners and certain outside parties.
 - c The following are all specialist areas of accounting: taxation, auditing, budgeting, cost accounting.
 - d There are many groups interested in accounting information, including trade unions, government departments and environmentalists.
 - e E-business is one of the technological trends that will have a marked influence on the way organisations conduct their business.
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R1.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question.

- a Accountability refers to:
 - i being held responsible to another authority for actions carried out
 - ii keeping a record of all money that has gone out of an organisation
 - iii the communication of information to various parties
 - iv the form that communication takes, for example, graphs.
 - b Creditors are interested in accounting information because:
 - i they wish to keep a close watch on the business's financial stability
 - ii they wish to decide whether or not they will receive their money
 - iii they wish to decide whether to extend credit facilities
 - iv all of the above.
 - c Which of the following statements is incorrect?
 - i Accounting is a discipline or body of knowledge.
 - ii Accounting will stop businesses from failing.
 - iii Accounting provides information to interested parties.
 - iv Accounting records, processes, reports and interprets information.
 - d Which of the following factors will influence the future development of accounting?
 - i legal factors
 - ii technological change
 - iii social expectations
 - iv all of the above.
 - e Which of the following types of business organisations usually have limited liability for debts?
 - i sole trader
 - ii partnerships
 - iii public companies
 - iv all of the above.
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R1.3

For each of the following questions, find the missing word or phrase.

- a Accounting is a _____ or body of knowledge.
- b Accounting provides _____ to interested parties.
- c Interested parties use this accounting information to make _____.
- d Accounting information is generally expressed in _____ terms.
- e Accounting provides information by recording, _____, reporting and _____ business transactions and events.

R1.4

For each clue, find the correct term in the anagram of jumbled letters.

Anagram	Clue
a linicnfaa	The type of accounting that results in the presentation of reports to outsiders.
b remigaaaln	The type of accounting that aids in internal planning and controlling.
c nmgaamneet	All employees are accountable to these people.
d eoissrtvn	This group of people decides whether the return on funds that management is earning is adequate.
e santddsar	Pronouncements by professional associations on good accounting practices and procedures.

Chapter 2 Foundations of accounting

R2.1

Indicate whether each of the following statements is **true** or **false**.

- a Assets are items of value owned/controlled by a business.
- b The concept of owner's equity occurs because the accounting entity assumption regards the business as being the same as the owner.
- c Owner's equity is the amount of the owner's investment in the business.
- d The accounting equation $A = L + OE$ is the relationship between the total assets, liabilities and owner's equity for any business.
- e The right-hand side of a ledger account is called the debit side.
- f Asset accounts have a debit nature.
- g A trial balance is a list of ledger account balances prepared on a particular date.
- h If a trial balance 'balances', it means the ledger is correct.
- i Revenue accounts have a debit nature.
- j One of the advantages of a columnar ledger format is that there is an automatic running balance after every transaction.

R2.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question.

- a Which of the following statements is incorrect?
 - i The accounting equation is $A = L + OE$.
 - ii The chart of accounts lists all assets, liabilities, owner's equity, revenue and expense accounts.
 - iii A journal provides a record of transactions in date order.
 - iv Trial balances do not include revenues and expenses.
- b In relation to a Balance Sheet, which of the following statements is incorrect?
 - i Assets are listed on the debit side of the Balance Sheet.
 - ii Revenues and expenses are not listed in the Balance Sheet.
 - iii A Balance Sheet is the relationship between total assets, total liabilities and total owner's equity.
 - iv A Balance Sheet lists all assets, liabilities and owner's equity at a particular point in time.

- c Increases to accounts are recorded on:
- i the debit side
 - ii the same side as the nature of the account
 - iii the credit side
 - iv the opposite side to the nature of the account.
- d Double entry means:
- i for every transaction, two accounts are affected
 - ii for every transaction, one debit and one credit is recorded
 - iii two entries are made in every account
 - iv for every transaction, total debits equal total credits.
- e Which of the following errors is disclosed by the trial balance?
- i entries made to the wrong side of each account
 - ii transactions omitted entirely or put in twice
 - iii a transaction posted to only one account
 - iv entries made in the wrong accounts but on the correct side
- f The following are a set of transactions for the business of G Havers. There are no balances in the accounts at 1 September.

Sept 1	Sold services for cash \$1000.
4	Purchased consumable supplies for cash \$300.
19	Paid wages \$500.
23	Sold services on credit for \$5000 to M Mahoney.
24	Paid wages \$500.
30	Received \$250 in cash for commission.

The total of the trial balance at 30 September is:

- i \$7550
 - ii \$6300
 - iii \$6000
 - iv \$7300
- g You are given the following trial balance (for a month) of Brown Brothers at 30 June:

Trial Balance as at 30 June			
Account number	Account	Debit \$	Credit \$
1102	Service fees		10 000
2201	Supplies expense	2 000	
2301	Advertising	500	
2421	Wages and salaries	1 000	
3103	Cash at bank	13 000	
3104.1	M Walker	3 500	
5101	Capital		10 000
		\$20 000	\$20 000

What is the profit for the month?

- i \$20 000
- ii \$10 000
- iii \$6500
- iv \$13 000

- h** The following are a set of transactions for the business of G Iavocella. There are no balances in accounts at 1 May.

May	1	Owner introduced \$4000 cash and furniture worth \$14 000 into the business.
	2	Purchased \$10 000 worth of goods for cash.
	3	Sold goods for \$6500 cash.
	5	Paid wages \$9000.
	13	Sold goods on credit \$15 000.
	15	Received \$4000 interest.
	25	Paid \$500 for supplies.
	31	Paid wages \$9000.

What is the balance of the cash at bank account at 31 May?

- | | | | |
|-----------|-----------------|------------|-----------------|
| i | \$14 000 debit | iii | \$10 000 debit |
| ii | \$10 000 credit | iv | \$14 000 credit |
- i** Which of the following transactions does not involve a revenue account?
- i** performed services of \$10 000, \$4000 on credit for P Smith and \$6000 cash
 - ii** purchased \$5000 worth of furniture for cash and \$3000 of goods for cash
 - iii** received commission of \$7000 and interest of \$550
 - iv** sold \$2000 of goods for cash and a motor vehicle costing \$16 000 for \$16 000.
- j** The following are a set of transactions for the business of M Christensen. There are no balances in accounts at 1 August.

Aug	1	Owner introduced \$5000 cash into the business.
	4	Purchased inventories \$12 000 from J Scanlan.
	6	Paid wages \$5000.
	19	Performed services for J Scanlan for \$2000 cash.
	23	Purchased \$14 000 motor vehicle from J Scanlan.
	31	Paid \$5000 to J Scanlan.
		Performed services for J Scanlan for \$8000.

What is the balance of J Scanlan's account on 31 August?

- | | | | |
|-----------|-----------------|------------|-----------------|
| i | \$13 000 credit | iii | \$33 000 credit |
| ii | \$11 000 credit | iv | \$41 000 credit |

Chapter 3 The accounting process to the trial balance

R3.1

Indicate whether each of the following statements is **true** or **false**.

- a** The GST Credits Received account records the GST collected on sales.
- b** The Sales Returns and Allowances account is credited as it will effectively reduce the revenue earned from sales.
- c** No GST applies to fees charged for services.
- d** If GST has been collected on credit sales, a GST adjustment must be made if a sales return or allowance occurs.
- e** Corrections of errors should be made in the General journal.

R3.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question.

- a** The Cost of Goods Sold account is:
- i** an asset
 - ii** a liability
 - iii** a revenue
 - iv** an expense.
- b** The GST Credits Received account is debited because it is:
- i** an expense which is decreasing
 - ii** a negative liability which is increasing
 - iii** a revenue which is increasing
 - iv** an asset which is decreasing.
- c** If credit purchases are returned, the Inventories account is credited because it is:
- i** an expense which is decreasing
 - ii** a liability which is increasing
 - iii** a revenue which is increasing
 - iv** an asset which is decreasing.
- d** L Law sent an adjustment note to N Nay for sales returns of \$330, including GST. Nay will be credited with this amount, but which of the following statements is correct to record the debit side of the entry to record the selling price element of this transaction?
- i** Sales Returns and Allowances \$300, and GST Credit Received \$30
 - ii** Sales Returns and Allowances \$330
 - iii** Sales Returns and Allowances \$300, and GST Collected \$30
 - iv** Sales Returns and Allowances \$300, and Cost of Goods Sold \$30.
- e** L Law sold a vehicle which cost \$16 000 to K Slater for \$16 000. L Law made an entry in the General journal as if this was a sale of inventories for \$16 000. It should have been recorded as the sale of an asset. An entry is now passed in the General journal to correct the error. Which of the following statements is correct?
- i** K Slater will be debited for \$16 000 and Motor Vehicle will be credited for \$16 000.
 - ii** Sales will be debited for \$16 000 and K Slater will be credited for \$16 000.
 - iii** K Slater will be debited for \$16 000 and Sales will be credited for \$16 000.
 - iv** Sales will be debited for \$16 000 and Motor Vehicle will be credited for \$16 000.

R3.3

From the following list of terms, select the one you consider most appropriately matches each of the statements or definitions given below (not all terms are defined):

- tax invoice
 - external auditor
 - sales returns
 - narration
 - internal auditor
 - drawings
 - non-current assets
- a** The term given to the withdrawal of assets from the business by the owner for personal use.
- b** The explanation provided for each entry in the General journal.
- c** A person who checks on the accuracy of accounts and reports to shareholders.
- d** A person who checks on the accuracy of accounts and reports to management.
- e** Assets purchased with the intention of keeping them in the business for a long period of time.

R3.4

For each clue, find the correct term in the anagram of jumbled letters.

	Anagram	Clue
a	tsg lcecoldet	The name of the account credited to record GST on sales.
b	dustajment tneo	The source document which supplies information for the Purchases Returns and Allowances account.
c	sooilf	The cross-referencing from the journal to the ledger and the ledger to the journal.
d	nsveirtoien	The name of the account credited when goods are withdrawn from the business by the owner.
e	axt ncioiev	The source document which supplies information for purchases.

Chapter 4 End of period reports—preparation, analysis and interpretation

R4.1

Indicate whether each of the following statements is **true** or **false**.

- a Accrued expenses are expenses that have been paid in the current accounting year.
- b Unearned revenues are a liability.
- c Reversing entries need to be made for some balance day adjustments.
- d When revenue is shown in the records it is called 'realising the revenue'.
- e When deciding which accounting period expenses belong to, the important criterion is when the expenses are paid in cash.
- f A Trading account is not used in service industries.
- g The net profit ratio helps to measure the earning capacity of the entity.

R4.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question.

- a For a trading concern, revenue is recognised when:
 - i cash is received
 - ii goods are delivered
 - iii the product is manufactured
 - iv an order is received.
- b Accrued revenues are:
 - i revenues earned but not received
 - ii revenues owing by the firm
 - iii revenues received but not earned
 - iv revenues listed in the income statement.
- c Prepaid expenses are:
 - i an asset
 - ii a liability
 - iii a revenue
 - iv an expense.

- d** The Income Statement:
- i** forms part of the double-entry procedure
 - ii** is prepared in the ledger
 - iii** can be prepared only at the end of the accounting year
 - iv** is a report.
- e** You are given the following information concerning the insurance policies in force for Frank Traders:
- An annual premium of \$6000 for the fire policy on the buildings is due on 1 February. The policy has been paid.
 - The annual premium for the policy for damage to inventories while they are in transit is \$48 000. It is paid on the first of every month for the previous month's insurance.
 - The comprehensive insurance policy for delivery vehicles is \$21 000 per annum due on 31 May every year.
 - The comprehensive insurance policy for other motor vehicles is \$12 000 per annum due on 1 July every year. The policy has not been paid at 30 June.
- The total insurance expense for this year ended 30 June is:
- i** \$87 000
 - ii** \$64 250
 - iii** \$74 000
 - iv** \$70 000.
- f** The following information relates to rent revenue:
- Rent received in advance at 30 June is \$1000.
 - Rent received in cash during the year is \$15 000.
 - Accrued rent at 30 June is \$2000.
- The rent revenue for the year ended 30 June 2005 is:
- i** \$15 000
 - ii** \$16 000
 - iii** \$17 000
 - iv** \$18 000.
- g** The following information relates to wages and salaries expense:
- Accrued wages at 30 June 2004 are \$5000.
 - Accrued wages at 30 June 2005 are \$7000.
 - Wages paid during 2005 are \$16 000.
- The wages and salaries expense for the year ended 30 June 2005 is:
- i** \$18 000
 - ii** \$16 000
 - iii** \$23 000
 - iv** \$14 000
- h** If sales for the year were \$500 000, sales returns were \$25 000, cost of goods sold \$200 000, and all other expenses totalled \$180 000, the net profit ratio would be:
- i** 2 per cent
 - ii** 19 per cent
 - iii** 20 per cent
 - iv** 1.9 per cent.

R4.3

For each of the following sentences, find the missing word(s).

- a** The _____ divides the life of the business into arbitrary time periods.
- b** Balance Sheets can be presented in either _____ or _____ form.
- c** _____ principle states that profit for the period is obtained by matching revenue for the period with expenses incurred in earning that revenue.
- d** Sales returns is closed off to the _____ account at the end of the year.

- e At the end of the accounting year, drawings are entered on the _____ side of the Capital account.
- f A net loss is made if the revenues for the period are _____ than the expenses for the period.

R4.4

This interpretation exercise will assist your interpretation and problem-solving skills.

List the journal entries that would have resulted in the following account appearing in the ledger:

Profit and Loss					
June 30	Trading	1 000	June 30	Interest Revenue	50
	Wages and Salaries	100		Commission Revenue	100
	Telephone	150		Capital	1 180
	Sundry Expenses	80			
		<u>\$1 330</u>			<u>\$1 330</u>

R4.5

This *Who or what am I?* activity will aid your questioning and deduction skills.

Step 1

Prepare a series of cards or labels that can be attached to each person's back by sticky tape or pins so the person cannot tell who or what they are. Each card should contain a word or a name relevant to this chapter. Brainstorm a big list of these words for your teacher to write on the board. Your teacher could then secretly choose one for each of you, which he or she could write on the cards. If you wish to make it a little more difficult, have your teacher decide on these words without your help and write them on cards before the lesson starts. Then you won't know which words or names are being used, only that they are relevant to this chapter.

Step 2

All the students should then mill around the room, asking questions to discover their identity. Every time they meet another person, they should ask a question about what they are. If they receive a 'yes' answer, they may ask another question. If they receive a 'no' answer, the other person asks a question. After they both have received a 'no' answer, they must move on to another person for their next series of questions. After each question, they should summarise what they have found out about themselves so far.

Questions can only be answered 'yes' or 'no'. So you can't say, 'What kind of a thing am I?' You could say, 'Am I a concept?', 'Am I a person?', 'Am I associated with ...?'; 'Am I an advantage of ...?' and so on, trying to get closer and closer to your identity.

Once you discover your identity, pin the card on the front, and continue milling, answering other people's questions. Towards the end, give hints to allow others to guess who or what they are.

Step 3

Have a general discussion about the topic to clarify any misunderstandings of the terms used, and to work out what were the best types of questions to ask so that you perform better next time you do this activity.

Variation

Select three class members to sit at the front of the room. Attach their 'identity' to the top of their heads (so everyone else can see who they are). Have the three ask questions of the class in turn. They can keep asking while they get 'yes' answers. After a 'no', the next one of the three has a turn. The winner is the first to guess his or her identity.

Chapter 5 Computers in accounting

R5.1

Indicate whether each of the following statements is **true** or **false**:

- a The hardware for a complete computer system is comprised of the computer and various input and output devices.
 - b Windows VISTA is a form of application software.
 - c The introduction of the GST has prompted many businesses to purchase an accounting package.
 - d Automatic postings do not occur in accounting packages.
 - e Specialised journals are as important in a computer system as they are in a manual system.
 - f A chart of accounts forms the whole basis of entry into an accounting package.
 - g The financial statements produced using an accounting package are the same as the output from a manual system.
 - h Formatting allows the user to change the appearance of a spreadsheet.
 - i Worksheets should be documented to enable the user to become familiar with the workings of a particular model.
 - j Cross-checks/proofs can be built into all worksheets.
-

R5.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question.

- a Which of the following is not a general classification of software?
 - i system
 - ii development
 - iii accounting
 - iv application.
- b Common features of an accounting package include:
 - i separate module for cash
 - ii flexible chart of accounts
 - iii easy access to all the accounts for all users
 - iv limited transfer of data to other applications.
- c What are the major differences between manual and computer accounting?
 - i Journals are very important in computer accounting.
 - ii A chart of accounts can be used in computer accounting but it is vital in manual accounting.
 - iii The sequence of processing is the same in manual and computer accounting.
 - iv Every entry must be posted in manual accounting but automatic postings can occur in computer accounting.
- d A typical report generated from a General ledger accounting package would be:
 - i payroll register
 - ii inventory listing
 - iii statements of account
 - iv Income Statement.
- e Which of the following is not a basic element that can be entered into a cell of a spreadsheet?
 - i template

- ii formula
 - iii label
 - iv number.
- f A relative copying into column D of the formula = C5 + C6 in cell C7 would be:
- i D7 is = C5 + C6
 - ii C7 is = D5 + D6
 - iii D7 is = D5 + D6
 - iv none of the above.
- g In relation to spreadsheets, which of the following is not true:
- i all items in the input/assumptions area are locked/protected so data cannot be erased
 - ii the round function should be used in all calculations that involve percentages
 - iii changing figures in the input area can check that formulas are working properly
 - iv if the round function is not used, figures in a column may not add up correctly.
- h In a spreadsheet, accuracy is vital as decisions are made based on the output. Which of the following would not result in accurate output?
- i the use of proofs
 - ii protecting cells
 - iii saving the worksheet at a meaningful starting position
 - iv the use of the round function.
- i Spreadsheets can be used for:
- i customer records
 - ii sales forecasting
 - iii inter-office communications
 - iv moving paragraphs in a letter.
- j Graphics can be used to show:
- i a list of figures in a vertical line
 - ii 'what if' situations
 - iii a pictorial representation of figures
 - iv a list of employees stored on the computer.

R5.3

Load a spreadsheet program into the computer.

- a Use the arrow keys to move to the following positions:
- B5
 - F5
 - F8
 - G3
 - A3
 - A1
- b Use the GOTO command to move to the following positions:
- A10
 - B134
 - Y97
 - AC54
 - A1
- c Enter the following labels into the coordinates given:
- A1 SPREADSHEET tutorial 2
 - A2 your name
- d Enter the following numbers into the coordinates given:

B4 6
C4 10
D4 24

e Enter the following formulas into the coordinates given:

A6 B4+C4
A7 C4-B4
A8 B4*C4
A9 D4/C4
A10 C4^3
A11 (D4+B4)/C4
A13 SUM(A6:A11)
A14 AVERAGE(A6:A11)
A15 COUNT(A6:A11)
A16 MIN(A6:A11)
A17 ROUND(A9,0)
A18 IF(C4<B4,A7,A8)
A19 IF(OR(B4<C4,D4<C4),A9,A10)
A20 IF(AND(B4<C4,D4<C4),A9,A10)

f Change C4 to 2. What is the resultant change to cell A18?

g Change the following column widths:

Column	Width
A	26
B	12
C	34
D	10

h Justify columns A, B and C to the right.

i Justify cells A1 and A2 to the left.

j i Format cell A13 to three decimal places.

ii Format cell A14 to whole dollars.

k Save the worksheet under the name of TUT2.

l Print the worksheet.

m Print the worksheet showing formulas.

R5.4

a Enter the following into the coordinates given and then justify the row to the right:

A1 SALESPERSON
B1 SALES
C1 BONUS

b Format column C (from row 1 down to row 20) to five decimal places.

c Enter the following into the coordinates given:

A3 T JONES
B3 1002.96
C3 =B3*.035 (a bonus of 3.5 per cent)
A4 R WALLIS
B4 104.14
C4 =B4*.035
C6 =SUM(C3:C4)

Note the resultant calculation up to five decimal places in column C and that the addition is correct.

- d Format column C (from row 1 down to row 20) to two decimal places.
- e Correct the errors.
- f Save as BONUS.
- g Change the structure of the worksheet so that the bonus rate is in an input/assumptions area and unprotected with a different colour; and the output is in a report area with each salesperson's name and sales unprotected and in a different colour. Turn on global protection.
- h Save as BONUS2.

Chapter 6 Accounting for cash

R6.1

Indicate whether each of the following statements is **true** or **false**:

- a The cash register provides two pieces of information—a cash register docket and a cash register summary.
- b The bank column in the Cash Receipts journal shows the total amount received on a single day.
- c The bank column in the Cash Payments journal shows the total paid on a single day.
- d The total entered in the bank column of the Cash Receipts journal will agree with the total of the bank deposit slip.
- e The bank on which a cheque is drawn is called the payee.
- f Whenever money is deposited by the business, a credit entry in its records corresponds to a debit entry in the bank's records.
- g If the final balance of the bank statement is credit, it indicates that the business owes the bank money.
- h If an error is found to exist in the bank's records, an adjustment may be made in the business's Cash Receipts or Cash Payments journal.
- i A deposit that has not yet been processed by the bank must be entered into the business's Cash Receipts journal.
- j If the bank charges the business fees, the bank makes a credit entry in the bank statement.
- k Deposits made directly to the bank by parties who owe the business money are already entered in the business's Cash Receipts journal.

R6.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a The type of transactions recorded in a Cash Receipts journal are:
 - i all sales of inventories on credit
 - ii all outgoings of cash from the business
 - iii all cash received from any source
 - iv all purchases of inventories on credit.
- b The type of transactions recorded in a Cash Payments journal are:
 - i purchases of inventories on credit
 - ii outgoings of cash from the business
 - iii purchases of assets on credit
 - iv sales of inventories for cash.

The following data relates to questions c and d.

Jan	1	Sold goods for \$4400 cash.
	2	Sold goods for \$8800 to J Green.
	6	Received rent of \$1100 cash.
	19	Received \$500 from O Everrit in payment of December sales.
	24	Received rent of \$1650 cash.
	29	Performed services on credit for K Johnson \$660.
	31	Performed services for \$1100 cash.
		Sold a motor vehicle to Krow Brothers for \$17 600 on credit.

You are given the above transactions for S Creighton. S Creighton uses a columnar Cash Receipts journal for recording sales of goods, services performed and receipts of rent separately. All sales include GST where applicable.

- c** The total of the Cash at Bank column is:
- i** \$8750
 - ii** \$8100
 - iii** \$16 100
 - iv** \$4000.
- d** The total of the Sales column is:
- i** \$10 800
 - ii** \$4000
 - iii** \$20 000
 - iv** \$4500.
- e** If the final balance in the bank statement is \$3500 Dr, unpresented cheques equal \$200 and outstanding deposits total \$400, the final balance in the business's bank account is:
- i** \$3700 Dr
 - ii** \$3700 Cr
 - iii** \$3300 Cr
 - iv** \$3300 Dr.
- f** If the final balance in the bank statement is \$3900 Cr, unpresented cheques equal \$500 and outstanding deposits total \$900, the final balance in the business's bank account is:
- i** \$4300 Dr
 - ii** \$4300 Cr
 - iii** \$3500 Cr
 - iv** \$3500 Dr.
- g** If the final balance in the bank reconciliation statement is \$5600 Dr, the opening balance in the bank account is \$2100 Dr, the amount of payments during the month is \$22 400 and the amount of outstanding deposits is \$300, the amount of receipts during the month is:
- i** \$25 900
 - ii** \$14 700
 - iii** \$18 900
 - iv** \$14 400.

R6.3

Complete the following statements:

- a** A _____ gives a summary of each sale made and a total of all sales made that day.
- b** The purpose of the bank reconciliation is to show that agreement exists between the _____ cash records and the _____ records.

- c A cheque that has been drawn but not yet presented to the bank for payment is called an _____ cheque.
- d To make cheques safer, they should be crossed _____.
- e Whenever a business draws a cheque, a _____ entry is made by the bank.

Chapter 7 Accounting for accounts receivable and accounts payable

R7.1

Indicate whether each of the following statements is **true** or **false**:

- a Accounts payable will include amounts owing and payable in the next accounting period.
- b The use of specialised journals allows for easier posting to the ledger.
- c When posting from a specialised journal, debit does not always equal credit.
- d The Purchases journal records all purchases.
- e The use of control accounts and subsidiary ledgers results in errors not being easily detected.
- f The double-entry system is applied in each subsidiary ledger.
- g The total of the Sales journal must be posted twice—once to the General ledger and once to the subsidiary ledger.
- h If the trial balance in the General ledger is correct then the subsidiary ledgers must be correct.
- i If proper matching of revenues and expenses is to occur, an allowance must be made at the end of the accounting period for accounts receivable who will not pay their debts.
- j When a General journal entry involves Accounts Receivable or Accounts Payable Control accounts, the entry must also be posted to the subsidiary ledger.

R7.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Rather than selling goods for cash, many firms decide to have their own credit department and give credit to their customers. A firm may provide credit because:
 - i profitability may increase
 - ii competition may force them
 - iii sales may increase
 - iv all of the above.
- b Which statement is correct about the Sales journal?
 - i The source document used for preparation is the adjustment note.
 - ii The GST Credits Received account is credited.
 - iii Accounts receivable are credited.
 - iv Individual amounts have to be posted to individual accounts receivable.
- c Which statement is incorrect about the Purchases journal?
 - i The source document used for preparation is the tax invoice.
 - ii The GST Collections account is debited.
 - iii Purchases are recorded in the inventories account.
 - iv Accounts payable are credited.
- d The total of the Cost of Goods Sold and Inventories column in the Cash Receipts Journal is posted to the:
 - i debit side of the Cost of Goods Sold account and credit side of the Inventories account
 - ii credit side of the Inventories account
 - iii credit side of the Cost of Goods Sold account
 - iv credit side of the Cost of Goods Sold account and debit side of the Inventories account.
- e L Law charged B Clive \$1000 interest on an overdue account. L Law made an entry in the Cash Receipts journal which credited B Clive for \$1000. An entry is now recorded in the General journal to correct this.

Which of the following statements is correct?

- i** B Clive will be debited with \$1000 and interest revenue will be credited with \$1000
 - ii** B Clive will be debited with \$1000 and Cash at Bank will be credited with \$1000
 - iii** B Clive will be debited with \$2000, Cash at Bank will be credited with \$1000 and interest revenue will be credited with \$1000
 - iv** B Clive will be debited with \$1000, interest revenue will be debited with \$1000 and Cash at Bank will be credited with \$2000.
- f** At the end of the accounting period, the Bad and Doubtful Debts account is:
- i** reduced by any previous provision for doubtful debts and any balance is closed to the Profit and Loss account
 - ii** offset against the Provision for Doubtful Debts account
 - iii** closed to the credit side of the Profit and Loss account
 - iv** subtracted from the Accounts Receivable Control account in the Balance Sheet.
- g** Which of the following is not an acceptable method of correctly calculating the amount of doubtful debts for the period?
- i** a percentage of net sales
 - ii** a percentage of the end-of-period accounts receivable balance
 - iii** ageing the accounts receivable and determining the most unlikely debts that will be paid
 - iv** using last year's provision for doubtful debts.
- h** Adams and Sons has the following balances at 30 June:
- Accounts Receivable Control \$500 000
 - Provision for Doubtful Debts \$10 000.
- Estimated doubtful debts (balance day adjustment) for the current period are to be 3.5% of the accounts receivable balance. What should the balance of the provision for doubtful debts be?
- i** \$10 000
 - ii** \$17 500
 - iii** \$7500
 - iv** \$350.
- i** A firm had a provision for doubtful debts of \$5600 at the end of the last period. During the period, \$73 000 worth of bad debts (no GST) had been written off. At the end of the period, estimated doubtful debts are \$4700. What is the expense for bad and doubtful debts for the period?
- i** \$72 100
 - ii** \$73 900
 - iii** \$73 000
 - iv** \$77 700.
- j** If a bad debt is recovered in a period other than that in which the debt was written off, then the account affected is:
- i** Bad and Doubtful Debts
 - ii** Provision for Doubtful Debts
 - iii** Bad Debts Recovered
 - iv** Sales.

R7.3

From the following list of terms, select the one you consider the most appropriate match for each of the statements or definitions given below:

Accounts Payable ledger	Bad debts
General ledger	Schedule of accounts payable
Schedule of accounts receivable	Statement of account
Doubtful debts	Ageing of accounts receivable
Accounts Receivable ledger	Provision for doubtful debts
Subsidiary ledger	Bad debts recovered

- a Sent to accounts receivable and lists the transactions that have occurred during the month with that person.
- b Ledger containing a group of accounts of a like nature which have been removed from the General ledger.
- c Where all the accounts receivable or debtors' accounts are kept.
- d Where all the accounts payable or creditor's accounts are kept.
- e Ledger from which the trial balance is taken because debits should equal credits.
- f List of individual account balances obtained from the Accounts Receivable ledger.
- g Account used to record the amount of the accounts receivable balance that is doubtful.
- h Expense involved where accounts receivable fail to pay their debts.
- i Estimated amount of current revenue from accounts receivable that will not be collected this accounting period.
- j Shows the people who have had outstanding accounts for periods of one, two, three, or over three months.

R7.4

Complete the following statements:

- a If the payment period is relatively long, accounts receivable would be considered long-term debts and grouped together as _____.
- b All customers who apply for credit must be thoroughly investigated for their _____.
- c The use of _____ accounts and _____ ledgers is considered desirable where there are a large number of accounts of a similar nature.
- d The total of the Sales journal is posted Dr to _____ account and Cr to _____ account.
- e The total of the Purchases journal is posted Dr to _____ account and Cr to _____ account.
- f If accounts receivable fail to pay their account on time, _____ can be charged.
- g The control account–subsidiary ledger technique eliminates unnecessarily detailed information from the _____.
- h The provision for doubtful debts is classified as a _____.
- i An _____ occurs whenever the balance of the Provision for Doubtful Debts account is less than the bad debts that occurred.
- j The Bad Debts Recovered account is closed off to the _____ side of the Profit and Loss account.

Chapter 8 Accounting for inventories

R8.1

Indicate whether each of the following statements is **true** or **false**:

- a Inventories are items of value held for sale in the ordinary course of business.
- b The perpetual inventory system is usually adopted by businesses that want to keep a continuous record of the cost price of all inventories bought and sold.
- c Some businesses do not adopt the perpetual inventory system because it is more costly to operate than the periodic inventory system.
- d The purpose of the Cost of Goods Sold account is to show all cost price transactions that affect inventories and to keep an up-to-date balance of inventories on hand.
- e The generally accepted rule for valuing inventories is the 'lower of cost and net realisable value'.

R8.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Another name for inventories is:
- i depreciation
 - ii stock
 - iii amortisation
 - iv services.
- b An important advantage that the perpetual inventory system has over the periodic inventory system is that:
- i it reduces time and effort in recording entries dealing with inventories
 - ii it allows a physical stocktake to be carried out each month
 - iii it increases control over inventories because the business knows the value of inventories that should be on hand at any point of time
 - iv it hides the value of lost, stolen or spoiled goods in the cost of goods sold figure.
- c The following information relates to the inventory transactions of a firm:

Opening inventories	2 000 units @ \$5	\$10 000
Purchases Feb 7	7 000 units @ \$6	\$42 000
Purchases Feb 27	5 000 units @ \$7	\$35 000
Sales Feb 28	10 000 units @ \$10	\$100 000

Assuming a FIFO costing method, what is the cost of goods sold for the month?

- i \$28 000
 - ii \$65 000
 - iii \$77 000
 - iv \$59 000.
- d Inventories should be valued at:
- i cost
 - ii the lower of cost and net realisable value
 - iii the lower of cost and market value
 - iv the lower of cost and replacement value.
- e Calculate the net realisable value for the following inventory item.

Normal selling price	\$100
Cost of purchase	\$54
Selling cost	\$2
Freight outwards	\$10

- i \$34
- ii \$88
- iii \$90
- iv \$98.

R8.3

From the following list of terms, select the one you consider the most appropriate match for each of the statements or definitions given below:

Periodic inventory system	Perpetual inventory system
Tax invoice	LIFO
Actual cost	Inventories
Lower of cost and net realisable value	Weighted average cost
Non-current assets	Stocktaking
FIFO	Order form

- a Items held for sale in the ordinary course of business.
- b A document that generally accompanies inventories sold to provide the customer with a record of goods received and their prices.
- c The inventory system that requires a continuous record to be kept of the cost price of each inventory item sold.
- d A method of arriving at the cost price of inventories that is unacceptable to the accountancy profession and the ATO because it does not generally follow the flow of inventories and it generally reduces profit and taxation.
- e The generally accepted rule for valuing inventories on hand.

R8.4

Complete the following statements:

- a Inventories are items held for sale in the ordinary course of business. Other names for inventories are goods, merchandise or _____.
- b Two systems or methods are adopted by businesses to account for inventories: the periodic inventory system and the perpetual inventory system. Businesses that find it impossible to keep a record of the cost price of all inventories sold adopt the _____ inventory system.
- c Businesses that can keep a record of the cost price of all inventories sold generally prefer to use the perpetual inventory system because they can determine what inventories should be on hand, and can compare this with the actual amount on hand as revealed by a stocktake. This allows much greater _____ over the asset inventories.
- d One of the major problems in using the perpetual inventory system is trying to determine a cost price for all inventories sold. Several versions of cost price or methods of determining it can be used—actual, FIFO, LIFO, standard and _____.
- e The perpetual inventory system requires a continuous record to be kept of the cost price of each inventory item sold. This detailed information is usually kept on a _____ card.

Chapter 9 Accounting for non-current assets

R9.1

Indicate whether each of the following statements is **true** or **false**:

- a Expenditure for property or services to be consumed during the current accounting period is referred to as revenue expenditure.
- b Motor vehicle registration and insurance is a capital expenditure.
- c If revenue expenditure is incorrectly capitalised, then the period's profits will be understated.
- d Installation costs of a non-current asset are a revenue expense.
- e The charging of depreciation is only a book entry and does not result in a pool of cash being available to replace the asset.
- f The estimated residual value of the asset need not be known if the straight line instalment method of depreciation is being used.
- g A gain on disposal of a non-current asset is classified as an expense in the Income Statement.

- h A business cannot depreciate its non-current assets at a rate greater than that allowed by the taxation authorities.
- i The diminishing balance method of depreciation should be used where the service rendered by the non-current asset is greatest in the early years of its life.
- j The historical cost method of accounting for non-current assets gives rise to the concept of depreciation as a cost allocation process.

R9.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a If capital expenditure is incorrectly recorded as a revenue expenditure, the result will be:
 - i an understatement of the period's profits
 - ii an overstatement of the period's profits
 - iii an understatement of the assets
 - iv both i and iii.
- b The using up of physical quantities of natural resources would be referred to as:
 - i depreciation
 - ii amortisation
 - iii depletion
 - iv cost allocation.
- c The method of depreciation that allocates a uniform portion of the cost of a non-current asset less any residual value to each accounting period is the:
 - i diminishing value method
 - ii sum of the digits method
 - iii straight line method
 - iv units of use method.
- d Using the straight line method of depreciation, the depreciation for the first year for a motor vehicle that cost \$13 750 (including GST), with an estimated life four years and a residual value of \$4000, would be:
 - i \$2125
 - ii \$2437.50
 - iii \$3125
 - iv \$3437.50.
- e The balance of the accumulated depreciation account represents:
 - i a non-current liability
 - ii a cash fund accumulated to replace worn out or obsolete non-current assets
 - iii an expired cost of the non-current assets purchased in previous accounting periods
 - iv an operating expense of the business.
- f Using the straight line method of depreciation, the depreciation allowed for year 3 on machinery that cost \$44 000 (including GST) and was installed at a cost of \$5500 (including GST), with an estimated life of five years and residual value of \$2000, would be:
 - i \$7600
 - ii \$8600
 - iii \$9000
 - iv \$7000.
- g Using the diminishing balance method of depreciation, the depreciation for year 2 on a piece of office equipment that cost \$16 500 (including GST), with an estimated residual value of \$1000 and a depreciation rate of 20 per cent, would be:
 - i \$2800
 - ii \$3000
 - iii \$2400
 - iv \$2440.

- h** A machine that cost \$22 000 four years ago (including GST) and was installed at a cost of \$2200 (including GST), with an estimated residual value of \$2000 and life expectancy of five years, was sold for \$4950 (including GST). If the straight line method of depreciation had been used, the gain or loss on disposal of the machine would be:
- i** \$1100 loss
 - ii** \$500 gain
 - iii** \$100 gain
 - iv** \$1050 loss.
- i** Office equipment purchased three years ago for \$11 000 (including GST), installed at a cost of \$440 (including GST) and having an estimated residual value of \$1000, was sold for \$1100 (including GST). If a depreciation rate of 25 per cent on the diminishing balance had been used, the gain or loss on disposal would be:
- i** \$1600 loss
 - ii** \$1500 loss
 - iii** \$3387 loss
 - iv** \$2887 loss.

R9.3

From the following list of terms, select the one you consider the most appropriate match for each of the statements or definitions given below:

Diminishing balance method	Amortisation
Straight line method	Property, plant and equipment register
Residual value	Accelerated depreciation methods
Capital expenditure	Depletion
Depreciation	Matching principle

- a** Expenditure resulting in the acquisition of an asset whose life will extend over more than one accounting period.
- b** Important part of the internal control over property, plant and equipment assets.
- c** Refers to the writing off of the cost of a non-current asset, such as machinery, over the period of its useful life.
- d** Refers to the gradual writing off of the cost of an asset, such as a patent, through the passing of time.
- e** The method of depreciation where each accounting period is allocated a uniform portion of the cost of the asset less any residual value.
- f** The method of depreciation where a uniform rate is applied in each period to the cost of the asset reduced by any accumulated depreciation.
- g** The anticipated worth to the business of the asset at the end of its useful life.
- h** Methods of depreciation which result in a greater amount of depreciation being written off during the early life of assets.
- i** States that expenses incurred in earning revenue must be matched against the revenue for that period.

Chapter 10 Internal controls

R10.1

Indicate whether each of the following statements is **true** or **false**:

- a Physical controls relate to access to the computer system including the use of passwords.
 - b Separation of duties means the separation of authorisation, recording and custodianship.
 - c 'Comparing what is actually there with what should be there' relates to the adequate records principle of internal control.
 - d All cash payments should be made by cheque or EFT except when amounts are small enough to be paid through a petty cash fund.
 - e For EFT transactions, the receipt of a bank statement each month is adequate for recording purposes.
 - f The use of control accounts and subsidiary ledgers results in errors not being easily detected.
 - g Any person who handles the physical assets of cash or inventories should not have access to the accounts receivable records.
 - h Stocktaking is a major internal control over inventories.
 - i The reorder point is the quantity of inventories to be ordered.
 - j The property, plant and equipment register shows the location of each asset.
-

R10.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Which of the following is not a general aim of internal control?
 - i check the accuracy and reliability of accounting data
 - ii promote employee morale
 - iii encourage operational efficiency
 - iv safeguard the assets of the business.
- b A physical count of all inventories on hand is carried out at the end of every year. Which of the following internal control principles is in force?
 - i separation of duties
 - ii reliable personnel
 - iii verification
 - iv responsibility.
- c Before a cash refund can be given, the documentation must be signed by the customer and also the manager of the store. Which of the following internal control principles is in force?
 - i responsibility
 - ii authorisation
 - iii separation of duties
 - iv verification.
- d Any cancellation of source documents must be signed, the reason for cancellation noted and the document retained. Which of the following internal control principles is in force?
 - i serialisation of documents
 - ii verification
 - iii responsibility
 - iv separation of duties.
- e The accounting system is designed so that, if a query arises, there is one individual who can be contacted. Which of the internal control principles is in force?
 - i reliable personnel

- ii authorisation
 - iii separation of duties
 - iv responsibility.
- f Which of the following internal controls is not an accounting control?
 - i separation of duties
 - ii product control
 - iii verification
 - iv authorisation.
- g The amount of the reimbursement cheque drawn and given to the petty cashier is equal to:
 - i the amount remaining in the fund
 - ii the amount spent from the fund
 - iii the original amount of the fund
 - iv none of the above.
- h Assume that a petty cash fund has an imprest amount of \$75. If during the month the amounts paid are for stationery \$12, purchases \$23 and sundries \$19, then the amount of money in the fund after reimbursement is:
 - i \$21
 - ii \$54
 - iii \$35
 - iv \$75.
- i Which of the following is not a control over accounts receivable?
 - i sending a statement of account
 - ii preparing an ageing of accounts receivable report
 - iii ensuring prompt payment for our business's purchases in order to obtain discounts
 - iv determining credit worthiness
- j When goods are delivered they must be accompanied by:
 - i a purchase order
 - ii a despatch docket
 - iii a tax invoice
 - iv an adjustment note.

Chapter 11 Electronic business

R11.1

Indicate whether each of the following statements is **true** or **false**:

- a E-business involves the use of information and communication technologies.
- b The Internet and the World Wide Web are the same thing.
- c Google is a search engine.
- d The main problems with B2C electronic business revolve around privacy and the security of credit card numbers.
- e Virtual private networks are involved in the B2B model.
- f Accounting controls are the same in electronic business as in traditional business.
- g Crackers are hackers with malicious intent.
- h Data leakage refers to the unauthorised changing of data.
- i WebTrust is a major security organisation.
- j Internet banking by people paying bills using their credit cards is a B2B transaction.

R11.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Which of the following is not a major benefit of electronic business?
 - i Setup costs are cheap.
 - ii Ordered goods can be delivered faster to customers.
 - iii Marketing costs are lower.
 - iv There is seven day, 24-hour trading.
- b Which of the following statements is true?
 - i A wide area network is located in a city.
 - ii An extranet allows access by users to the data of individual businesses.
 - iii Transmission Control Protocol/Internet Protocol (TCP/IP) is the basic protocol of the Internet.
 - iv Web addresses can only be accessed by a domain name.
- c The acronym PAIN is used for electronic business transactions. Which of the following is a false statement?
 - i Private relates to the communication being secret and confidential.
 - ii Authenticity relates to both parties knowing who they are dealing with.
 - iii Integrity relates to the communication being capable of being modified.
 - iv Non-repudiation relates to the originator not being able to claim later that he or she did not send the message.
- d What is the greatest risk involved in B2C transactions?
 - i unauthorised use of credit cards
 - ii privacy
 - iii security
 - iv all of the above
- e Which of the following is the most important control in e-business?
 - i physical controls
 - ii UPS
 - iii reliable and responsible personnel
 - iv password protection
- f Which of the following statements about WebTrust is correct?
 - i WebTrust is a profitable business that assures users that the site has adequate insurance and can therefore be trusted.
 - ii WebTrust is mainly concerned with the security implications of e-business.
 - iii WebTrust was initiated by CPA Australia to assure users that the site is Australian and should therefore be promoted wherever possible.
 - iv WebTrust assures users of the integrity of the site in relation to transactions.

Chapter 12 Financial reports

R12.1

Indicate whether each of the following statements is **true** or **false**:

- a The historical cost assumption is used in all situations.
- b Classification of revenue and expenses is useful to allow comparisons with different time periods and other organisations.
- c General and administrative expenses include all expenses incurred in running the office and other general expenses.
- d The profit-determining accounts in the ledger are classified.
- e When revenue is shown in the records, it is called 'realising the revenue'.
- f The important criterion in deciding which accounting period expenses belong to is when they are paid in cash.
- g The Trading account is not used in service industries.
- h Assets are classified as current and non-current.

- i Accrued expenses are expenses that have been paid in the current accounting year.
- j Unearned revenues are a liability.
- k Working capital is the net amount of liquid funds the firm will have available to meet its commitments in the next accounting year.
- l Reversing entries need to be made for some balance day adjustments.
- m In the accounting cycle, balance day adjustments are recorded before closing entries.
- n Accrued revenues increase the revenue for the period.
- o Revenues received in advance are amounts received in one accounting period but earned in another.
- p An adjustment for depreciation is necessary so that the cost of the asset is allocated over the periods in which it helps earn revenue.
- q All adjustments have to be reversed at the beginning of the next accounting period.

R12.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a For a trading concern, revenue is recognised when:
 - i cash is received
 - ii goods are delivered
 - iii the product is manufactured
 - iv an order is received.
- b Accrued revenues are:
 - i revenues earned but not received
 - ii revenues owing by the firm
 - iii revenues received but not earned
 - iv revenues listed in the Statement of Financial Performance.
- c Prepaid expenses are:
 - i an asset
 - ii a liability
 - iii a revenue
 - iv an expense.
- d Which of the following is not a finance expense?
 - i discount expense
 - ii insurance
 - iii interest on loans paid
 - iv bad and doubtful debts
- e The Income Statement:
 - i forms part of the double entry procedure
 - ii is prepared in the ledger
 - iii is not classified
 - iv is a report.

The following information relates to parts *f* and *g*.

You are given the following trial balance of Smith Brothers at 30 April 2008:

Trial Balance as at 30 April 2008		
Account	Debit	Credit
	\$	\$
Bank Charges	400	
Sales		10 000
Cost of Goods Sold	8 000	
Capital		20 000
Interest Revenue		1 000
Cash at Bank		4 000
Loan due 1 Nov 2008	13 000	
Commission Revenue		10 800
Inventories	5 000	
Sales Returns	450	
Accounts Payable		5 000
Buildings	13 950	
Land	10 000	
	\$50 800	\$50 800

Additional information

- Prepaid expenses are \$500.
- Unearned revenue is \$5000.
- Accrued expenses are \$1000.
- Accrued revenue is \$600.

f The total assets at 30 April 2008 are:

- i** \$52 050
- ii** \$48 050
- iii** \$43 050
- iv** \$28 950.

g The working capital at 30 April 2008 is:

- i** \$6300
- ii** \$4100
- iii** \$6800
- iv** \$(1700).

h You are given the following information concerning the insurance policies in force for Frank Traders:

- The annual premium of \$6000 for a new fire policy on the buildings is due on 1 February. The policy has been paid.
- The premium for a policy for damage to inventories while they are in transit is \$48 000 per annum. It is paid on the first of every month for the current month's insurance.
- The comprehensive insurance policy for delivery vehicles is \$21 000 per annum due on 31 May every year.
- The comprehensive insurance policy for motor vehicles is \$12 000 per annum due on 1 July every year. The policy has not been paid at 30 June.

The total insurance expense for this year ended 30 June is:

- i \$86 000
- ii \$83 500
- iii \$75 000
- iv \$71 500.

i The following information relates to rent revenue:

- Rent received in advance at 30 June 2007 is \$1000.
- Rent received in cash during the year is \$15 000.
- Accrued rent at 30 June 2008 is \$2000.

The rent revenue for the year ended 30 June 2008 is:

- i \$15 000
- ii \$16 000
- iii \$17 000
- iv \$18 000.

j The following information relates to wages expense:

- Accrued wages at 30 June 2007 are \$5000.
- Accrued wages at 30 June 2008 are \$7000.
- Wages paid during the year are \$16 000.

The wages expense for the year ended 30 June 2008 is:

- i \$18 000
- ii \$16 000
- iii \$23 000
- iv \$14 000.

k Balance day adjustments:

- i enable a proper matching of revenues and expenses
- ii occur at the end of an accounting period
- iii enable a more accurate profit figure to be calculated
- iv all of the above.

l Accrued expenses:

- i decrease the amount of expense for the period
- ii are classified as a current asset
- iii are classified as a current liability
- iv are expenses which have been paid in the current period but which will be incurred in a future period.

m Under the perpetual inventory system, a balance day adjustment is generally required:

- i to use opening inventories in the calculation of gross profit
- ii to account for inventory shortages
- iii to enable inventories to be used in the calculation of cost of goods sold
- iv none of the above.

n Adjustments which account for amounts which have been earned in the current period but have not yet been received are known as:

- i accrued expenses
- ii accrued revenues
- iii prepaid expenses
- iv revenues received in advance.

o Reversing entries are required for:

- i accrued revenues
- ii inventories
- iii provision for doubtful debts
- iv accumulated depreciation.

- p** If balance day is Wednesday 30 June, calculate the amount of accrued wages if pay day is each Friday and the weekly wages bill (five day week) is \$20 000:
- i** \$8000
 - ii** \$12 000
 - iii** \$16 000
 - iv** \$20 000.
- q** Calculate the amount of depreciation for the first accounting period on a motor vehicle that was recorded on 30 September at \$18 000 and has an expected residual value of \$5000 after four years. Depreciation is calculated at 25 per cent diminishing balance and balance date is 30 June.
- i** \$2438
 - ii** \$3250
 - iii** \$3375
 - iv** \$4500.
- r** From the following information, calculate the amount that will appear in the Bad and Doubtful Debts account at 30 June:
- Bad debts during the period are \$45 000.
 - The accounts receivable balance at 30 June is \$300 000.
 - Provision for doubtful debts at the start of the period is \$3500.
 - Desirable provision for this period is 1 per cent of accounts receivable.
- i** \$44 500
 - ii** \$45 500
 - iii** \$45 000
 - iv** \$46 000.
- s** Calculate the amount of net profit from the following figures:
- i** \$14 000
 - ii** \$16 000
 - iii** \$20 000
 - iv** \$38 000.

Sales	\$120 000
Cost of goods sold	82 000
Rent revenue	3 000
Telephone	1 000
Bad debts recovered	2 000
Wages	18 000
Depreciation on equipment	4 000

R12.3

For each of the following questions give the missing details in the space provided.

- a** The _____ divides the life of the business into arbitrary time periods.
- b** A common classification of expenses is: Selling and distribution expenses; General and administrative expenses; and _____ expenses.
- c** _____ assets lack physical substance but are often a business's most valuable assets.
- d** _____ liabilities are those for which the period of indebtedness is longer than one accounting period.
- e** Balance Sheets can be presented in either _____ or _____ form.
- f** The _____ principle states that profit for the period is obtained by matching revenue for the period with expenses incurred in earning that revenue.

- g The Inventory Adjustment account (for inventory shortfalls or gains) is closed off to the _____ account at the end of the year.
- h At the end of the accounting year, drawings are entered on the _____ side of the Capital account.
- i The Sales account is closed off to the _____ side of the Trading account.
- j A net loss is made if the revenues for the period are _____ than the expenses for the period.

R12.4

From the following list of terms, select the one you consider the most appropriate match for each of the statements or definitions given below:

Accrued revenues	Cost of goods sold
Revenues received in advance	Accrued expense
Cash Receipts journal	Cash Payments journal
Inventories	Doubtful debts
Trading	Worksheet
Purchases journal	Sales journal
Reversing entry	Balance day adjustment
Gross profit	Depreciation
Prepaid expenses	Net profit
Profit and loss	Adjusted trial balance
General journal	Invoice
Closing entry	Cheque duplicate
Income	Cash register summary

- a A source document for entry into the Cash Receipts journal.
- b The purchase of non-current assets on credit are recorded in this journal.
- c The sale of inventories on credit are recorded in this journal.
- d The account where gross profit is calculated.
- e The estimated amount of accounts receivable that are unlikely to be received in the next accounting period.
- f An amount that is incurred in the current period but not yet paid.
- g An amount which is paid in one period but will be incurred in the next period
- h The profit earned from the sale of goods.
- i An adjustment that enables the matching process to be more accurate for the current period.
- j Amounts that have been earned in the current period but have not yet been received.
- k A statement showing the calculation of net profit.

Chapter 13 Cash Flow Statement

R13.1

Indicate whether each of the following statements is **true** or **false**:

- a Another name for a Cash Flow Statement is a cash budget.
- b Owners' contributions of capital are an external source of funds.
- c A cash flow only results when some external entity is involved in a transaction.
- d In preparing a Cash Flow Statement, the basic aim is to convert to figures prepared on an accrual basis.
- e A Cash Flow Statement is usually prepared by comparing the information in two successive Income Statements .
- f The gross method of reporting cash flows must be used.

- g A comparative statement is only required in the first year of operation.
- h Cash at bank cannot decrease when an enterprise makes a large profit.
- i A Cash Flow Statement helps show how large capital expenditure projects have been financed.
- j Financing and investing activities should be matched so that long-term finance is used for long-term projects.

R13.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a The Cash Flow Statement is designed to:
 - i determine the net profit
 - ii show how profits are distributed
 - iii show inflows and outflows of cash
 - iv show the financial position of the business.
- b A Cash Flow Statement helps to:
 - i clarify information shown in the other financial statements
 - ii assist management in understanding changes in financial cash position
 - iii highlight significant operating, financing and investing activities
 - iv all of the above.
- c The definition of cash includes:
 - i borrowings payable on demand
 - ii total resources
 - iii accounts receivable
 - iv working capital.
- d An example of an inflow of cash is:
 - i a net loss
 - ii proceeds from disposal of non-current assets
 - iii an increase in assets
 - iv drawings or dividends.
- e An example of an outflow of cash is:
 - i capital contributions by owners
 - ii repayments of borrowings
 - iii receipts from sales
 - iv loan from finance company.
- f If the Land account has decreased by \$20 000, and there are no other accounts payable, it could be assumed that:
 - i the decrease in the asset represents an outflow of cash
 - ii land has been purchased for cash
 - iii the decrease in the asset represents an inflow of cash
 - iv land has been purchased on credit.
- g An example of a book entry which does not cause any movement in cash would be:
 - i an increase in accumulated depreciation
 - ii the repayment of an accounts payable
 - iii the contribution of new capital by an owner
 - iv the proceeds from the sale of a non-current asset.
- h If the Income Statement shows cash sales of \$408 000 and operating expenses of \$360 000 (including depreciation of \$50 000), net cash provided by operating activities would be:
 - i (\$2000)
 - ii \$408 000
 - iii \$98 000
 - iv \$48 000.

- i Ideally, cash flows should be arranged so that:
 - i day-to-day operations are financed by short-term financial arrangements
 - ii large projects are financed by short-term financial arrangements
 - iii short-term finance such as bank overdrafts are used to repay mortgages
 - iv day-to-day operations are financed by long-term financial arrangements.

R13.3

This dominoes game would normally be played by groups of three or four players.

- Two sets of domino cards should be cut up for distribution to each group. They can be photocopied, pasted on light card and laminated if required.
- The 48 dominoes are distributed by a dealer, an even number to each player in the group, leaving about eight or ten in a central pool, face down.
- The object of the game is to link the dominoes together to form a continuous chain. This may be snaked around the table.
- The player to the left of the dealer should start the game by placing any domino face up on the table. Other players follow in order around the group, adding one domino to either end of the chain by matching questions and answers, terms and definitions and so on.
- If a player cannot play, that player must take a domino from the central pool.
- The winner is the first person to play all their dominoes, or who has the least dominoes left when no further plays are possible.

1 The main purpose of a Cash Flow Statement	a receipts from customers for sales and fees for service	2 'Cash' is defined as	a receipts from customers for sales and fees for service
1 The main purpose of a Cash Flow Statement	b interpret (usually in a report)	2 'Cash' is defined as	b interpret (usually in a report)
3 The main inflow from operating activities is usually	c adding together cash provided by/used in operating, investing and financing activities	4 An example of an outflow for financing activities is	c adding together cash provided by/used in operating, investing and financing activities
3 The main inflow from operating activities is usually	d to highlight the material operating, financing and investing activities for a period	4 An example of an outflow for financing activities is	d to highlight the material operating, financing and investing activities for a period
5 Examples of cash flows that must be highlighted by showing separately in the statement	e <ul style="list-style-type: none"> • generate cash flows • meet commitments • fund changes • obtain finance 	6 Net increase or decrease in cash held (at end of statement) is determined by	e <ul style="list-style-type: none"> • generate cash flows • meet commitments • fund changes • obtain finance
5 Examples of cash flows that must be highlighted by showing separately in the statement	f Cash on hand and/or cash equivalents	6 Net increase or decrease in cash held (at end of statement) is determined by	f Cash on hand and/or cash equivalents

7 One of the notes added at the end of the Cash Flow Statement.	g retained earnings	8 To convey in words the meaning of information continued in a statement	g retained earnings
7 One of the notes added at the end of the Cash Flow Statement.	h accounts payable	8 To convey in words the meaning of information continued in a statement	h accounts payable
9 Information in the Cash Flow Statement helps assess the ability of the business to	i <ul style="list-style-type: none"> • interest received • dividends received • interest paid <div style="text-align: right;">dividends/drawings paid</div>	10 A long-term, internal source of finance	i <ul style="list-style-type: none"> • interest received • dividends received • interest paid <div style="text-align: right;">dividends/drawings paid</div>
9 Information in the Cash Flow Statement helps assess the ability of the business to	j recommendations	10 A long-term, internal source of finance	j recommendations
11 A short-term external source of finance	k repayments of borrowings	12 Suggestions contained in a report, concerning possible courses of action	k repayments of borrowings
11 A short-term external source of finance	l Reconciliation of net cash provided by operating activities to net profit	12 Suggestions contained in a report, concerning possible courses of action	l Reconciliation of net cash provided by operating activities to net profit

R13.5 Hypothesising, inquiry, research

Topic

Cash flows.

Objectives

To investigate whether cash flows vary with general levels of economic activity.

Hypothesis

In times of recession, most businesses will have negative cash flows in all areas—operations, investing and financing—while in boom times, most businesses will have positive cash flows.

Data

Data gathering and evaluation would be best carried out in pairs or small groups (although it could be done individually). You will need to discuss how to test this hypothesis. You will have to decide which recent years can be classified as recession years and which as boom periods.

Perhaps you could survey different types of firms in the local area to determine cash flows. You could examine published annual reports and determine what happened to their cash flows in various years.

Testing

The above data can then be used to test the hypothesis, to verify it, or suggest that it is false and may need adaptation. You might be able to set out the data collected in graphical or tabular form to enable you to draw conclusions.

Conclusions

Can the hypothesis be confirmed and generalisations drawn? Or is it rejected and further investigation needed?

Presentation

A chart prepared by the group summarising the inquiry process and the findings may be an appropriate presentation method. A more detailed written report could also be prepared by each individual to communicate his or her interpretation.

CASH FLOWS								
TYPE OF BUSINESS ACTIVITY	RECESSION YEARS				BOOM YEARS			
	Opr	Inv	Fin	Total	Opr	Inv	Fin	Total
Primary, e.g. graziers								
Secondary, e.g. factory								
Tertiary, e.g. service								

Chapter 14 Analysis and interpretation of financial statements

R14.1

Indicate whether each of the following statements is **true** or **false**:

- a The main assumption which limits the usefulness of accounting reports is the accounting entity assumption.
- b During times of changing prices, profit is distorted because some expenses are stated in terms of out-of-date dollars.
- c The quick ratio is current assets to current liabilities.
- d The rate of return on owner's equity ratio is sometimes called the debt ratio.
- e The ratios that relate to the Cash Flow Statement relate to cash sufficiency and cash efficiency

R14.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a The adoption of the accounting period assumption leads to a degree of estimate and subjective opinion being included in reports through items such as:
 - i mortgages
 - ii investments
 - iii depreciation
 - iv cash at bank.
- b Accountants use three main types of analysis of financial reports:
 - i ratios, percentages and comparison
 - ii horizontal, vertical and trend
 - iii ratios, trend and comparison
 - iv comparison, horizontal and vertical.
- c One example of a financial ratio which measures earning capacity of a business is the:
 - i net profit ratio
 - ii current ratio
 - iii equity ratio
 - iv turnover of inventories.

- d If cost of goods sold is \$374 400, sales are \$800 000, and sales returns are \$80 000, the gross profit ratio is:
- i 52 per cent
 - ii 50 per cent
 - iii 43.2 per cent
 - iv 48 per cent.
- e If owner's equity was \$500 000 at the beginning of the period and \$700 000 at the end of the period, and net profit for the period was \$50 000, the rate of return on owner's equity during the period was:
- i 8.33 per cent
 - ii 10 per cent
 - iii 7.14 per cent
 - iv 12 per cent.
- f If a business has the following assets and liabilities:

Assets		Liabilities	
Cash at bank	\$80 000	Accounts payable	\$340 000
Inventories	120 000	Accrued expenses	20 000
Accounts receivable	320 000	Mortgage	100 000
Motor vehicles	180 000	Debentures (5 years)	50 000

the quick asset ratio is:

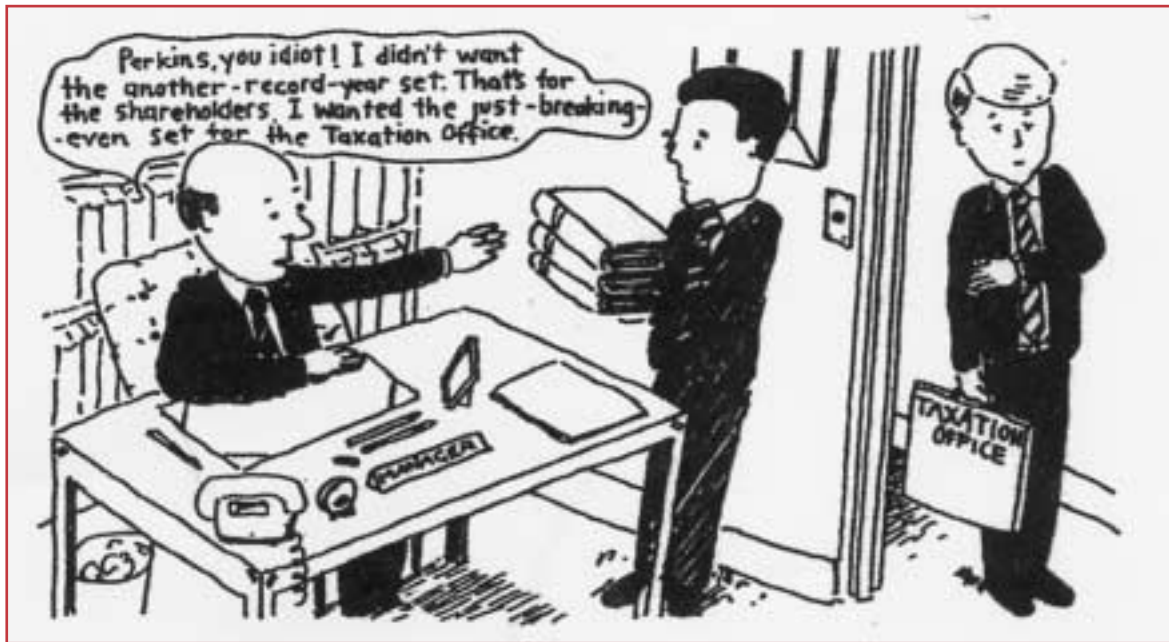
- i 1.44 : 1
 - ii 1.27 : 1
 - iii 1.11 : 1
 - iv 0.89 : 1.
- g If the equity ratio for a business is 43 per cent, the debt ratio is:
- i 4.3 per cent
 - ii 34 per cent
 - iii 43 per cent
 - iv 57 per cent.

R14.3

These sentences review the main points covered in this chapter. Complete the blank spaces in the question:

- a The usefulness of conventional accounting reports is limited by the adoption of certain assumptions: the accounting period assumption, and the _____ assumption.
- b Accounting reports must be analysed and interpreted using various percentages and _____ to enable managers and owners to gain more from them.
- c These percentages and ratios give measures of: earning capacity, _____, and management effectiveness.
- d Such measures can be of even more use if changes and _____ over a number of periods can be seen.
- e A further useful comparison is with _____.

R14.4



The above cartoon implies that accountants have great latitude in the final figures they can produce from a set of records. To what extent is this true?

Chapter 15 Managerial decision-making

R15.1

Indicate whether each of the following statements is **true** or **false**:

- a Period costs are the total costs of producing a product.
- b A section of a business should be closed down if it is making a loss.
- c If the break-even point has been reached then the total profit made is found by multiplying total sales in units by total selling price.
- d In deciding whether to make or buy a product or service, fixed costs are not relevant to the decision.
- e Total profit is equal to total selling price less total contribution margin.

R15.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Which of the following statements is false?
 - i Break-even point is the point where total costs are exactly equal to revenue received.
 - ii The contribution margin from each unit of sales is available to cover total fixed costs.
 - iii Variable costs vary directly with changes in the level of sales.
 - iv Net profit is found by taking from sales the cost of production and the total period costs.
- b Wun Sun Emporium has fixed costs of \$250 000 per month, a selling price of \$10 per unit and variable costs of \$6 per unit. Which of the following statements is correct?
 - i The break-even point is 25 000 units.
 - ii The sales required to make a profit of \$200 000 are 110 500 units.
 - iii At a break-even point of 62 500 units the contribution margin is \$6 per unit.
 - iv The sales required to make a profit of \$100 000 are 87 500 units.

- c The cost of producing a product is found by adding together the costs of:
 - i direct labour, indirect labour and factory overhead
 - ii direct materials, indirect materials and direct labour
 - iii direct materials, direct labour and factory overhead
 - iv indirect materials, indirect labour and factory overhead.
- d Which of the following statements is correct?
 - i Factory supplies are part of the cost of direct materials.
 - ii Supervisory salaries are part of the cost of direct labour.
 - iii Advertising expenses are product expenses.
 - iv The cost of direct labour is part of the cost of producing a product.
- e Which of the following statements is true?
 - i Contribution margin per unit = Selling price per unit – Variable costs per unit.
 - ii Cost–volume–profit analysis can only be used to determine the break-even level.
 - iii Variable costs vary with the level of sales.
 - iv In deciding whether to close down or continue a department the profit or loss each department is making is the determinant.

Chapter 16 Budgeting

R16.1

Indicate whether each of the following statements is **true** or **false**:

- a For maximum benefit, budgets should always be prepared without the knowledge or input of those affected.
- b A capital budget could set out all the property, plant and equipment needs for the next 10 years.
- c Budgets are an important form of control, as they provide targets for employees to work towards.
- d Figures for a cash budget are based solely on past experiences.
- e A business that makes good profits will always have enough cash to meet its commitments.

R16.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a The preparation of a cash budget facilitates:
 - i the revelation of periods when the business has excess funds
 - ii the revelation of any weaknesses in the business's debt collection policy
 - iii control over business expenditures
 - iv all of the above.
- b Which of the following items does not appear as a payment in a cash budget?
 - i payments of wages
 - ii payments of creditors
 - iii depreciation on furniture
 - iv cash purchase of vehicles.
- c During September, there were \$240 000 credit sales. The business usually receives 80 per cent of their debts in the first month after sale. How much cash is received in October from the credit sales in September?
 - i \$240 000
 - ii \$48 000
 - iii \$192 000
 - iv \$190 080.
- d Accounts receivable cause a number of problems in the construction of a cash budget, one of which is:
 - i discounts for prompt payment are not taken into account

- ii they always strive to pay their debts within the specified time
 - iii there is a time lag between the transaction and the receipt of cash
 - iv bad debts are not taken into account.
- e The timing of when cash is received and paid and the resultant cash balance is crucial in the survival of a business, because:
- i with accrual accounting, balance day adjustments ensure that profits are different from cash
 - ii with loans, interest and cash repayments are affected at the same time and to the same extent
 - iii with the purchase of non-current assets, depreciation and the cash payment are brought to account at the same time and to the same extent
 - iv with accrual accounting, the purchase of inventories on credit results in a cash payment and an increase in inventories at the same time and to the same extent.

R16.3

Complete the following statements:

- a A _____ is an estimation of planned events expressed in quantitative terms.
- b The budget is an important management tool and helps to control the business by aiding _____, _____, and _____.
- c The GST is usually one-_____ of the gross amount of a transaction, and its effect is delayed until _____ is made, one month after the transaction.
- d The time lag in the payment of the GST will generally necessitate the preparation of an extra _____ or schedule for estimated cash payments to the _____ for GST.
- e The preparation of a cash budget is an absolute necessity to a business's _____.

Chapter 17 Understanding company reports

R17.1

Indicate whether each of the following statements is **true** or **false**:

- a Any legal action against the company is taken against the owners of the company.
- b 'Limited' generally indicates that the liability of the shareholder to the company is limited to the agreed purchase price of the shares.
- c If a dividend is not paid on ordinary shares this financial period then the shareholders must be paid double the dividend next financial period.
- d Many companies have large amounts of cash because they have large amounts of reserves.
- e Retained profits represent part of shareholders' equity.

R17.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Under corporate legislation the shareholders of a limited company are liable to the extent of:
 - i all the company debts
 - ii the total assets of the company
 - iii the market value of their shares
 - iv the amount unpaid on their shares up to the full issue price.
- b Debentures may be issued by:
 - i public companies
 - ii private companies
 - iii both public and private companies
 - iv any business organisation which issues a prospectus.
- c Which of the following statements relating to a no-liability company is not true?
 - i It must engage solely in mining activities.

- ii It must have the words 'No Liability' or 'NL' at the end of its name.
 - iii There is no liability on the part of shareholders to pay calls on shares.
 - iv Shareholders are personally liable for the debts of the company.
- d Which of the following statements is correct?
- i Preference shareholders are entitled to a dividend every year.
 - ii Directors fees and audit fees appear in the retained profits account.
 - iii Interim dividends declared and paid during the year do not appear in the Balance Sheet
 - iv The balance of the retained profits account does not appear in the Balance Sheet.
- e On 1 August 2004, a company issues 200 000 shares payable 50c on application, 50c on allotment, 50c on first call on 1 April 2005 and 50c on second call due on 30 September 2005. All amounts owing have been paid. Which of the following statements is true? On 30 June 2005:
- i the balance of the paid up capital is \$400 000
 - ii the balance in the cash trust account is \$300 000
 - iii the balance in the first call account is \$50 000
 - iv the total value of shareholders' equity is \$300 000.

Chapter 18 Personal financing and investing

R18.1

Indicate whether each of the following statements is **true** or **false**:

- a It is wise to start with a time period no shorter than one year when preparing a short-term budget.
- b Savings for future investments should be no more than 10 per cent of income.
- c Failure to pay the balance of a credit card on the due date will result in interest being charged from the date the statement was issued.
- d The all-in-one account is a feature of the discounted variable home loan.
- e Equity is the difference between the value of the home and the outstanding balance of the home loan.
- f Lender's mortgage insurance protects the borrower against repossession of the home if loan payments are not met.
- g When repayments are not taken into account in the calculation of interest, the actual rate of interest charged is called the effective rate.
- h An aggressive investor will hold a large percentage of international shares in an investment portfolio.
- i An independent financial planner charges a fee for services rendered rather than commissions from the investments recommended.
- j Interest charged on bank overdrafts is generally higher than interest on credit cards.

R18.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a Home loans for owner-occupiers are available with many features. Which of the following are not generally applicable to owner-occupier loans?
 - i use of offset account
 - ii redraw facility
 - iii term greater than 30 years
 - iv fixed interest rate.
- b Over the long term, the highest return on investment has generally been earned in:
 - i cash
 - ii shares
 - iii property

- iv balance funds.
- c Negative gearing means:
 - i making a capital loss on the investment
 - ii borrowing for investment and making a significant profit each year
 - iii making a capital gain on the investment
 - iv borrowing for investment but making a loss which can be claimed as a tax deduction.
- d The future value of \$10 000 invested for three years at 6 per cent per annum, compounded half-yearly, is:
 - i \$11 910
 - ii \$14 185
 - iii \$10 927
 - iv \$11 941.
- e The future value of a half-yearly investment of \$6000 for four years at 8 per cent per annum, compounded half-yearly, is:
 - i \$25 479
 - ii \$55 285.20
 - iii \$27 036.60
 - iv \$63 819.60.

R18.3

Complete the following statements:

- a In the personal cash budget, payments should be divided into _____ and _____ payments.
- b _____ may be used by people to find the best home loan available.
- c Borrowing to invest is called _____.
- d A _____ may be used to borrow to invest in shares or managed funds.
- e Tax paid by the company on behalf of the investor is called _____.
- f The flat rate of interest uses _____ and _____ are not included in the interest calculation.
- g An investor has the choice of either direct investment or _____ investment.
- h _____ is the gross return on an investment less any expenses of the investment.
- i Net return on the investment divided by the cost of the investment is called _____.
- j The _____ is the actual interest rate being charged if repayments of each period are taken into account in the interest calculation.

Chapter 19 Accounting for grazing enterprises

R19.1

Indicate whether each of the following statements is **true** or **false**:

- a Grazing enterprises are also sometimes known as pastoral enterprises.
- b The problem of accounting for the dual roles performed by a grazier comes about because the grazier may raise crops as well as animals.
- c One of the main books of account kept by the grazier is a station diary.
- d A Rations book records all the feed purchased for supply to livestock during the year.
- e Stores are items other than livestock issued for consumption on the property by employees, contractors or the owner.
- f An agistment account may be either a revenue account or an expense account.
- g On a property that raises both sheep and cattle, only one Livestock Working account would be necessary.
- h A Livestock Working account may act as both an asset account and a profit-determining account.
- i The balance of the Livestock account shows the inventories of livestock on hand at the end of the period.
- j The accounting standard AASB141, applies to sheep and cattle.

R19.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question.

- a Books of record for a grazier would include:
 - i a Natural Increase book
 - ii a General journal
 - iii a Livestock Purchases journal
 - iv a Cash Payments journal.
- b In a Livestock Working account, natural increase and deaths:
 - i are not recorded at all
 - ii are recorded as values only
 - iii are recorded as numbers only
 - iv are recorded as numbers and values.
- c Under the historical cost assumption, livestock inventory is usually valued at:
 - i market value
 - ii selling price
 - iii cost price
 - iv none of the above.
- d The profit or loss determined in a Livestock Working account is similar to:
 - i the net profit for a trading enterprise
 - ii the gross profit for a trading enterprise
 - iii the inventory balance for a trading enterprise
 - iv the cost of sales for a trading enterprise.
- e An Income Statement prepared using the enterprise concept means preparing the statement:
 - i for the business as a whole
 - ii on a cash basis
 - iii both on a cost basis and at the owner's estimate of market value
 - iv by separating out the results of each major activity.

Chapter 20 Accounting for mining enterprises

R20.1

Indicate whether each of the following statements is **true** or **false**:

- a Mining enterprises can be established as a sole trader.
- b Limited liability companies are the same as no-liability companies.
- c The *Corporations Act* provides that shares in a no-liability company on which calls are unpaid are automatically forfeited.
- d The first stage of mine development is generally exploration.
- e All development expenditures, no matter when incurred, are written off to the Mine Development account.
- f All general expenditures, no matter when incurred, are written off to the Mine Working account.
- g The Mine Working account is amortised over the estimated life of the mine.
- h Ore-handling records showing details of mining, treatment and movement of ore are a necessary record for costing purposes.
- i Royalties are payments by the owners of mineral rights to mining enterprises to allow the use of land for mining.
- j All mining companies are required to restore the land mined.

R20.2

From the **multiple choice** alternatives listed below, choose the one that you think most fully and correctly answers the question:

- a** Before it reaches the stage of production, a mine will usually have to go through the following sequential stages:
- i** exploration; construction; evaluation; development, production
 - ii** evaluation, exploration, construction, development, production
 - iii** evaluation, development, exploration; construction, production
 - iv** exploration, evaluation, development, construction, production.
- b** Development and pre-production expenditures are capitalised by transferring them to a:
- i** Profit and Loss Account
 - ii** Movable Equipment Account
 - iii** Mine Account
 - iv** Mine Working Account.
- c** In a mining enterprise, a Mine Working account takes the place of a normal:
- i** Trading Account
 - ii** Profit and Loss Account
 - iii** Accumulated Depreciation Account
 - iv** Retained Profits Account.
- d** Short-workings occur when:
- i** the minimum royalty falls short of royalties calculated in the normal manner
 - ii** royalties calculated in the normal manner fall short of the minimum royalty
 - iii** the minimum royalty is exactly equal to royalties calculated in the normal manner
 - iv** the amount of ore in a mine falls short of that expected when the purchase consideration was paid.
- e** In relation to restoration costs:
- i** These need not be accounted for.
 - ii** All mining companies must account for restoration costs.
 - iii** A provision is raised if costs are imposed by contractual obligations or by legislation.
 - iv** Contingent liabilities are never disclosed.