c2

Student: ____

1. Profit = revenue + expenses
True False

2. Gross profit is the difference between sales and the cost of goods sold
True False

3. Revenue is the amount received in cash during an accounting period
True False

4. Expenses are the amount paid out in cash during an accounting period
True False

5. Depreciation is not a process of valuing assets
True False

6. Which version of profit is used as the basis for determining the amount of dividend paid to shareholders?
A. Gross profit
B. Profit after taxation
C. Profit before taxation
D. Operating profit

7. Operating profit is:
A. Sales - cost of sales + operating expenses
B. Sales + cost of sales + operating expenses
C. Sales - cost of sales - operating expenses
D. Sales + cost of sales - operating expenses

8. Profit before tax:
A. Operating profit + interest receivable - interest payable
B. Operating profit + interest receivable + interest payable
C. Operating profit - interest receivable - interest payable
D. Operating profit - tax

9. Which of the following statements is false?
A. The "equity" component of the statement of financial position is increased by the amount of profit earned during the year
B. The "equity" component of the statement of financial position is decreased by the amount of profit earned during the year
C. The "equity" component of the statement of financial position is reduced by the amount of dividend to be paid for the year
D. The "equity" component of the statement of financial position may change as the result of a revaluation of assets

10. Revenue is:
A. The amount received from borrowing
B. The amount of cash received from sales
C. The amount of cash received from sales and the disposals of fixed assets
D. The amount of sales that have been made during a period

11. If opening stock is £2,000, purchases for the year £12,000 and closing inventory £3,000, what is the cost of goods sold?
A. £13,000
B. £7,000
C. £11,000
D. £17,000

12. If opening stock is £3,000, purchases for the year £15,000 and the cost of goods sold is £14,000, what is the value of closing stock?
A. £2,000
B. £4,000
C. £3,000
D. £5,000

13. Which of the following statements is false?
A. A depreciation expense is not paid out in cash
B. Depreciation is not a process for valuing assets
C. A depreciation expense is paid out in cash
D. A provision for depreciation is a bookkeeping entry, not an allocation of cash

14. If a company buys a machine for £12,000 with an estimated useful life of 4 years and a residual value of £4,000, what is the annual depreciation charge if calculated on a straight line basis?
A. £2,000
B. £4,000
C. £1,000
D. £3,000

15. If a company purchases a machine for £60,000 and charges depreciation at 10% on a diminishing balance basis, what is the depreciation charge in the forth year?
A. £5,042
B. £4,374
C. £6,000
D. £4,860

16. Which of the following statements is correct?
A. Capital expenditure appears on the income statement, not the statement of financial position
B. Revenue expenditure appears on the income statement, not the statement of financial position
C. Revenue expenditure does not appear on the income statement
D. Capital expenditure is not associated with depreciation

17. If opening stock for the year is £8,000, closing stock £5,000 and cost of goods sold £19,000, what is the value of purchases for the year?
A. £6,000
B. £9,000
C. £16,000
D. £3,000

18. If purchases for the year are £18,250, closing stock £7,275 and cost of goods sold £17,525, what was the opening stock?
A. £6,500
B. £7,950
C. £28,550
D. £7,225

19. Which of the following statements is correct?
A. The distinction between capital expenditure and revenue expenditure is always clear
B. Sometimes the distinction between capital expenditure and revenue expenditure is not clear
C. Buying a new car is revenue expenditure
D. Statements B and C are both correct

20. Which of the following statements is correct?
A. Buying new premises is a revenue expenditure
B. Buying a new car is capital expenditure
C. The cost of using a car is a capital expenditure
D. Statements A and B are both correct

21. Which of the following are ways in which managers can manipulate the income statement in order to show a higher profit?
A. Bringing forward the recognition of sales
B. Overstate closing inventory
C. Make repairs and maintenance look like capital expenditure
D. All of the above

22. In a company's group accounts, the part of the groups profits that belongs to shareholders outside the group (for example, shareholders of a subsidiary) is known as:
A. Dividends receivable
B. Minority interest
C. Exceptional item
D. Segmental disclosure

23. The part of a company's group accounts that reports income from a small investment in another company, of which it has little influence, is known as:
A. Dividends receivable
B. Minority interest
C. Exceptional item
D. Segmental disclosure

24. If the cost of goods sold was £8,000 for goods which eventually sold for £20,000, what is the gross profit ratio?
A. 40%
B. 60%
C. 150%
D. 250%

25. If the cost of goods sold was £8,000 for goods which eventually sold for £20,000, what is mark-up?
A. 40%
B. 60%
C. 150%
D. 250%

26. A company made the following transactions last year:

A. Operating Profit is £32,000
B. Operating Profit is £19,000
C. Operating Profit is £11,000
D. Operating Profit is £27,000

27. Which of the following statements is correct? For a business that buys raw materials and manufactures a product:
A. "Revenue" or "Turnover" or "Sales" is all money that comes into the business, including items such as bank interest received.
B. "Revenue" or "Turnover" or "Sales" is money that is left over once the cost of the raw materials is taken off.
C. "Revenue" or "Turnover" or "Sales" is the money that has actually been received from people buying goods.
D. "Revenue" or "Turnover" or "Sales" is the sales value of the goods that have been sold in the financial year.

28. A company has bought, amongst other things, the following items over the last 12 months:

Which of the following statements is correct?
A. The Vehicle is Capital Expenditure. The Insurance, Stapler and Raw Materials are revenue expenditure.
B. The Vehicle and Insurance are Capital Expenditure. The Stapler and Raw Materials are revenue expenditure.
C. The Vehicle, Insurance and Stapler are all Capital Expenditure. The Raw Materials are revenue expenditure.
D. The Vehicle, Insurance and Raw Materials are all Capital Expenditure. The Stapler is revenue expenditure.

29. A company buys a new piece of machinery for £55,000 cash. It is expected to last for 8 years and will have a scrap value of £7,000 The company uses straight line depreciation
A. In the year of purchase, there is a cash movement of £55,000 and a depreciation charge and therefore a reduction in profit of £6,000.
B. In the year of purchase, there is a cash movement of £49,000 which is £55,000 paid for the machine and £6,000 depreciation charge.
C. In the year of purchase, there is a cash movement of £6,875 which is the depreciation charge.
D. In the year of purchase, there is a net cash movement of £48,125. This is the £55,000 paid for the machine and £6,875 depreciation charge.

30. A company buys 500 units of stock at a cost of £22 per unit. During the year, it sells 450 units at a price of £30 per unit. What is the "cost of goods sold" on the Income Statement?

A. £11,000
B. £9,900
C. £13,500
D. £3,600

31. A company buys in a unit at a cost of £2 per unit. The selling price is £3 per unit. Which of the following statements is correct?

A. Mark up is 67%; Margin is 150%.
B. Mark up is 150%; Margin is 67%
C. Mark-up is 50%; Margin is 33%
D. Mark-up is 33%; Margin is 50%

c2 Key

1. Profit = revenue + expenses
FALSE

Leiwy - Chapter 02 #1
Level of difficulty - Easy

2. Gross profit is the difference between sales and the cost of goods sold
TRUE

Leiwy - Chapter 02 #2
Level of difficulty - Easy

3. Revenue is the amount received in cash during an accounting period
FALSE

Leiwy - Chapter 02 #3
Level of difficulty - Easy

4. Expenses are the amount paid out in cash during an accounting period
FALSE

Leiwy - Chapter 02 #4
Level of difficulty - Easy

5. Depreciation is not a process of valuing assets
TRUE

Leiwy - Chapter 02 #5
Level of difficulty - Easy

6. Which version of profit is used as the basis for determining the amount of dividend paid to shareholders?
A. Gross profit
B. Profit after taxation
C. Profit before taxation
D. Operating profit

Leiwy - Chapter 02 #6
Level of difficulty - Medium

7. Operating profit is:
A. Sales - cost of sales + operating expenses
B. Sales + cost of sales + operating expenses
C. Sales - cost of sales - operating expenses
D. Sales + cost of sales - operating expenses

Leiwy - Chapter 02 #7
Level of difficulty - Easy

8. Profit before tax:
A. Operating profit + interest receivable - interest payable
B. Operating profit + interest receivable + interest payable
C. Operating profit - interest receivable - interest payable
D. Operating profit - tax

Leiwy - Chapter 02 #8
Level of difficulty - Medium

9. Which of the following statements is false?
A. The "equity" component of the statement of financial position is increased by the amount of profit earned during the year
B. The "equity" component of the statement of financial position is decreased by the amount of profit earned during the year
C. The "equity" component of the statement of financial position is reduced by the amount of dividend to be paid for the year
D. The "equity" component of the statement of financial position may change as the result of a revaluation of assets

Leiwy - Chapter 02 #9
Level of difficulty - Medium

10. Revenue is:
A. The amount received from borrowing
B. The amount of cash received from sales
C. The amount of cash received from sales and the disposals of fixed assets
D. The amount of sales that have been made during a period

Leiwy - Chapter 02 #10
Level of difficulty - Easy

11. If opening stock is £2,000, purchases for the year £12,000 and closing inventory £3,000, what is the cost of goods sold?
A. £13,000
B. £7,000
C. £11,000
D. £17,000

Leiwy - Chapter 02 #11
Level of difficulty - Medium

12. If opening stock is £3,000, purchases for the year £15,000 and the cost of goods sold is £14,000, what is the value of closing stock?
A. £2,000
B. £4,000
C. £3,000
D. £5,000

Leiwy - Chapter 02 #12
Level of difficulty - Medium

13. Which of the following statements is false?
A. A depreciation expense is not paid out in cash
B. Depreciation is not a process for valuing assets
C. A depreciation expense is paid out in cash
D. A provision for depreciation is a bookkeeping entry, not an allocation of cash

Leiwy - Chapter 02 #13
Level of difficulty - Easy

14. If a company buys a machine for £12,000 with an estimated useful life of 4 years and a residual value of £4,000, what is the annual depreciation charge if calculated on a straight line basis?

A. £2,000
B. £4,000
C. £1,000
D. £3,000

Leiwy - Chapter 02 #14
Level of difficulty - Medium

15. If a company purchases a machine for £60,000 and charges depreciation at 10% on a diminishing balance basis, what is the depreciation charge in the forth year?

A. £5,042
B. £4,374
C. £6,000
D. £4,860

Leiwy - Chapter 02 #15
Level of difficulty - Medium

16. Which of the following statements is correct?

A. Capital expenditure appears on the income statement, not the statement of financial position
B. Revenue expenditure appears on the income statement, not the statement of financial position
C. Revenue expenditure does not appear on the income statement
D. Capital expenditure is not associated with depreciation

Leiwy - Chapter 02 #16
Level of difficulty - Medium

17. If opening stock for the year is £8,000, closing stock £5,000 and cost of goods sold £19,000, what is the value of purchases for the year?

A. £6,000
B. £9,000
C. £16,000
D. £3,000

Leiwy - Chapter 02 #17
Level of difficutly - Hard

18. If purchases for the year are £18,250, closing stock £7,275 and cost of goods sold £17,525, what was the opening stock?
A. £6,500
B. £7,950
C. £28,550
D. £7,225

Leiwy - Chapter 02 #18
Level of difficutly - Hard

19. Which of the following statements is correct?
A. The distinction between capital expenditure and revenue expenditure is always clear
B. Sometimes the distinction between capital expenditure and revenue expenditure is not clear
C. Buying a new car is revenue expenditure
D. Statements B and C are both correct

Leiwy - Chapter 02 #19
Level of difficulty - Medium

20. Which of the following statements is correct?
A. Buying new premises is a revenue expenditure
B. Buying a new car is capital expenditure
C. The cost of using a car is a capital expenditure
D. Statements A and B are both correct

Leiwy - Chapter 02 #20
Level of difficulty - Medium

21. Which of the following are ways in which managers can manipulate the income statement in order to show a higher profit?
A. Bringing forward the recognition of sales
B. Overstate closing inventory
C. Make repairs and maintenance look like capital expenditure
D. All of the above

Leiwy - Chapter 02 #21
Level of difficulty - Easy

22. In a company's group accounts, the part of the groups profits that belongs to shareholders outside the group (for example, shareholders of a subsidiary) is known as:
A. Dividends receivable
B. Minority interest
C. Exceptional item
D. Segmental disclosure

Leiwy - Chapter 02 #22
Level of difficulty - Medium

23. The part of a company's group accounts that reports income from a small investment in another company, of which it has little influence, is known as:
A. Dividends receivable
B. Minority interest
C. Exceptional item
D. Segmental disclosure

Leiwy - Chapter 02 #23
Level of difficulty - Medium

24. If the cost of goods sold was £8,000 for goods which eventually sold for £20,000, what is the gross profit ratio?
A. 40%
B. 60%
C. 150%
D. 250%

Leiwy - Chapter 02 #24
Level of difficutly - Hard

25. If the cost of goods sold was £8,000 for goods which eventually sold for £20,000, what is mark-up?
A. 40%
B. 60%
C. 150%
D. 250%

Leiwy - Chapter 02 #25
Level of difficutly - Hard

26. A company made the following transactions last year:

A. Operating Profit is £32,000
B. Operating Profit is £19,000
C. Operating Profit is £11,000
D. Operating Profit is £27,000

Operating Profit, or "net profit", is the profit left after expenses have been paid:

Sales		*£40,000*
Cost of Sales		*(£8,000)*
GROSS PROFIT		*£32,000*
Less Expenses:		
Wages	*£12,000*	
Rent	*£6,000*	
Heat, Light & Power	*£3,000*	
Total Expenses		*(£21,000)*
Net Profit (Operating Profit)		*£11,000*

Leiwy - Chapter 02 #26
Level of difficulty - Medium

27. Which of the following statements is correct? For a business that buys raw materials and manufactures a product:
A. "Revenue" or "Turnover" or "Sales" is all money that comes into the business, including items such as bank interest received.
B. "Revenue" or "Turnover" or "Sales" is money that is left over once the cost of the raw materials is taken off.
C. "Revenue" or "Turnover" or "Sales" is the money that has actually been received from people buying goods.
D. "Revenue" or "Turnover" or "Sales" is the sales value of the goods that have been sold in the financial year.

Revenue (Turnover or Sales) is the sale of the product (or provision of the service) that is the main feature of the business. Money from other sources of income, such as bank interest received, is NOT part of "Revenue". Most businesses sell items on credit. The SALE is the important feature – not when the money is received.

Leiwy - Chapter 02 #27
Level of difficulty - Easy

28. A company has bought, amongst other things, the following items over the last 12 months:

Which of the following statements is correct?

A. The Vehicle is Capital Expenditure. The Insurance, Stapler and Raw Materials are revenue expenditure.
B. The Vehicle and Insurance are Capital Expenditure. The Stapler and Raw Materials are revenue expenditure.
C. The Vehicle, Insurance and Stapler are all Capital Expenditure. The Raw Materials are revenue expenditure.
D. The Vehicle, Insurance and Raw Materials are all Capital Expenditure. The Stapler is revenue expenditure.

Revenue Expenditure is incurred in the day to day running of the business. Capital expenditure is when a non-current asset is purchased. These items are relatively expensive, and last longer that 1 year. Hence the vehicle is Capital Expenditure. The van will sit on the Statement of Financial Position, and depreciation will be charged to the Income Statement over several years. The insurance lasts only 1 year, and so is revenue. A stapler is a relatively low cost item; even though it may last more than 12 months! And raw materials are used for generating revenue.

Leiwy - Chapter 02 #28
Level of difficulty - Easy

29. A company buys a new piece of machinery for £55,000 cash. It is expected to last for 8 years and will have a scrap value of £7,000 The company uses straight line depreciation

A. In the year of purchase, there is a cash movement of £55,000 and a depreciation charge and therefore a reduction in profit of £6,000.
B. In the year of purchase, there is a cash movement of £49,000 which is £55,000 paid for the machine and £6,000 depreciation charge.
C. In the year of purchase, there is a cash movement of £6,875 which is the depreciation charge.
D. In the year of purchase, there is a net cash movement of £48,125. This is the £55,000 paid for the machine and £6,875 depreciation charge.

Depreciation is NOT the same as cash on a year by year basis. The cost of the equipment over the 8 years is £55,000 less the scrap value of £7,000 = £48,000 Therefore the annual depreciation, on a straight line basis, is £6,000 per year. THIS is the value that affects profit. The CASHFLOW occurs when the machinery is purchased, and when it is sold.

Leiwy - Chapter 02 #29
Level of difficulty - Medium

30. A company buys 500 units of stock at a cost of £22 per unit. During the year, it sells 450 units at a price of £30 per unit. What is the "cost of goods sold" on the Income Statement?

A. £11,000
B. £9,900
C. £13,500
D. £3,600

"Cost of goods sold" must be the cost of the goods SOLD! This is due to the "accruals" or "matching" concept. Using the wrong figure will affect profit, and therefore tax! In this example – and there are several ways to calculate the correct answer – only include what was actually SOLD. Eg: 450 units x £22 = £9,900 A includes unsold units. C & D are revenue / profit calculations.

Leiwy - Chapter 02 #30
Level of difficulty - Easy

31. A company buys in a unit at a cost of £2 per unit. The selling price is £3 per unit. Which of the following statements is correct?

A. Mark up is 67%; Margin is 150%.
B. Mark up is 150%; Margin is 67%
C. Mark-up is 50%; Margin is 33%
D. Mark-up is 33%; Margin is 50%

Mark-up and Margin are often confused. Mark-UP is the amount added on to the COST. In this example, £1 is added which is 50% of the £2 cost Margin is the amount within the SELLING PRICE. In this example, the "profit" of £1 is 33% of the selling price.

Leiwy - Chapter 02 #31
Level of difficulty - Medium

c2 Summary

Category	*# of Questions*
Leiwy - Chapter 02	62
Level of difficulty - Easy	12
Level of difficulty - Medium	15
Level of difficutly - Hard	4