**Chapter 2: Introduction to the Statement of Profit or Loss**

**Test Bank**

**Type: multiple choice question**

**Title:** Chapter 02 Question 01

**1)** Kate sells candles at £5 each and each one costs her £2. During June she bought 300 candles and sold 220 candles. Her expenses amounted to £130 for the month. Kate’s profit for June was:

**a.** £930.

**Feedback:** Profit = (220 x £5) - (220 x £2) - £130 = 530

**Page reference:** 19 and 20

**b.** £660.

**Feedback:** Profit = (220 x £5) - (220 x £2) - £130 = 530

**Page reference:** 19 and 20

**c.** £770.

**Feedback:** Profit = (220 x £5) - (220 x £2) - £130 = 530

**Page reference:** 19 and 20

\***d.** £530.

**Feedback:** Profit = (220 x £5) - (220 x £2)- £130 = 530

**Page reference:** 19 and 20

**Type: multiple choice question**

**Title:** Chapter 2 Question 02

**2)** Which of the following statements regarding trade receivables is NOT true?

**a.** Trade receivables owe money to the business.

**Feedback:** Trade receivables do owe money to the business.

**Page reference:** 21

\***b.** Trade receivables have supplied goods to the business.

**Feedback:** Trade receivables supply goods to the business.

**Page reference:** 21

**c.** Trade receivables are customers of the business who owe for the goods they have received.

**Feedback:** Trade receivables are customers who owe for goods received.

**Page reference:** 21

**d.** Trade receivables are treated as current assets.

**Feedback:** Trade receivables are short-term assets of the business.

**Page reference:** 21

**Type: multiple choice question**

**Title:** Chapter 02 Question 03

**3)** Shirley has made the following predictions for her business for the first six months of trading to 30 June:

Sales in Jan, Feb and March = £30,000 per month.

Sales in Apr, May and June = £45,000 per month.

Sales will be on one month’s credit.

The trade receivables figure as of 30 June will be:

**a.** £NIL

**Feedback:** Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.

**Page reference:** 21

**b.** £30,000.

**Feedback:** Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.

**Page reference:** 21

\***c.** £45,000.

**Feedback:** Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.

**Page reference:** 21

**d.** £90,000.

**Feedback:** Trade receivables at the end of June will be the sales made in June, for which the cash has not yet been received.

**Page reference:** 21

**Type: multiple choice question**

**Title:** Chapter 02 Question 04

**4)** Which of the following payments is capital expenditure?

**a.** Money put into the business by the owner.

**Feedback:** This is treated as capital introduced into the business but is NOT capital expenditure.

**Page reference:** 26

\***b.** Purchase of a motor van.

**Feedback:** A motor van is capital expenditure.

**Page reference:** 26

**c.** Cost of servicing the motor van.

**Feedback:** The cost of servicing a van is revenue expenditure.

**Page reference:** 26

**d.** Cost of hiring a motor van.

**Feedback:** The cost of hiring a van is revenue expenditure.

**Page reference:** 26

**Type: multiple choice question**

**Title:** Chapter 02 Question 5

**5)** Which of the following is not a revenue expense?

**\*a.** Drawings

**Feedback:** Drawings are money taken out of the business by the owner and are NOT a revenue expense.

**Page reference:** 23, 26

**b.** Rent and rates.

**Feedback:** Rent and rates are a revenue expense.

**Page reference:** 26

**c.** Salaries.

**Feedback:** Salaries are a revenue expense.

**Page reference:** 26

**d.** Advertising.

**Feedback:** Advertising is a revenue expense.

**Page reference:** 26

**Type: multiple choice question**

**Title:** Chapter 02 Question 06

**6)** Which of the following is prepared to determine a business's net profit or net loss for the year?

**a.** A trial balance.

**Feedback:** A trial balance shows all the account balances but does not show the net profit/loss for the year.

**Page reference:** 24

**b.** A statement of financial position.

**Feedback:** A statement of financial position shows the assets and liabilities and capital of the business.

**Page reference:** 27

**c.** A statement of cash flows.

**Feedback:** A statement of cash flows looks at the cash flows for the period.

**Page reference:** 27

\***d.** A statement of profit or loss.

**Feedback:** A statement of profit or loss shows the net profit or loss for the year.

**Page reference:** 27

**Type: multiple choice question**

**Title:** Chapter 02 Question 07

**7)** During the year ended 31 December, the business made sales of £35,000 and purchases of £20,000. Inventory at the beginning of the year was valued at £6,000 and, at 31 December, inventory was valued at £3,500. The gross profit for the year was:

**a.** £17,500.

**Feedback:** Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500

**Page reference:** 28–9

**b.** £24,500.

**Feedback:** Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500

**Page reference:** 28–9

\***c.** £12,500.

**Feedback:** Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500

**Page reference:** 28–9

**d.** £5,500.

**Feedback:** Gross profit = 35,000 - (6000 + 20,000 - 3500) = 12,500

**Page reference:** 28–9

**Type: multiple choice question**

**Title:** Chapter 02 Question 08

**8)** Ben started trading on 1 January. His trial balance at 31 December, the end of his first year of trading is given below.

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
|  | £ | £ |
| Opening capital  |  | 26,000 |
| Turnover |  | 95,000 |
| Purchases | 64,000 |  |
| Rent  | 6,000 |  |
| Motor van  | 18,000 |  |
| Drawings | 10,000 |  |
| Other expenses  | 27,000 |  |
| Bank overdraft  |  | 4,000 |
| Total | **125,000**  | **125,000** |

If the closing inventory at 31 December was £5,000 and depreciation is to be ignored, which one of the following is true?

**a.** The gross profit will be £31,500 and the net profit will be £25,000.

**Feedback:** Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 +27) = 3

**Page reference:** 27–9

**b.** The gross profit will be £36,000 and the net profit will be £9,000.

**Feedback:** Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 + 27) = 3

**Page reference:** 27–9

**c.** The gross profit will be £31,000 and the net profit will be £3,000.

**Feedback:** Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 + 27) = 3

**Page reference:** 27–9

\***d.** The gross profit will be £36,000 and the net profit will be £3,000.

**Feedback:** Gross profit is 95 - (64 - 5) = 36, net profit is 36 – (6 + 27) = 3

**Page reference:** 27–9

**Type: multiple choice question**

**Title:** Chapter 02 Question 09

**9)** If the purchase of shop fitting for £25,000 is included in the cost of sales, then:

**a.** Gross profit ONLY will be understated by £25,000.

**Feedback:** Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.

**Page reference:** 28–9 ,31

**b.** Gross profit ONLY will be overstated by £25,000.

**Feedback:** Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.

**Page reference:** 28–9 ,31

**c.** Net profit ONLY will be understated by £25,000.

**Feedback:** Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.

**Page reference:** 28–9 ,31

\***d.** Both gross profit and net profit will be understated by £25,000.

**Feedback:** Gross profit and net profit are affected. They are understated as costs included in arriving at these figures are higher than they should be.

**Page reference:** 28–9 ,31

**Type: multiple choice question**

**Title:** Chapter 02 Question 10

**10)** In accounting what is meant by the term ‘purchases’?

**a.** All items bought.

**Feedback:** Items bought will include all revenue and capital expenses.

**Page reference:** 20

**b.** All good purchased and paid for.

**Feedback:** All good purchased and paid for will exclude items bought but not yet paid for.

**Page reference:** 20

\***c.** All good bought for re-sale.

**Feedback:** Purchases are all good bought for re-sale.

**Page reference:** 20

**d.** All goods held in inventory.

**Feedback:** This will only include purchases that remain unsold.

**Page reference:** 20