**Accounting and finance for non-specialists (10th edition)**

**Progress Test 1 Chapters 1 to 6**

**This paper is divided into three sections**

**Answer *all* questions in each section**

**Time allowed – 21/2 hours Maximum marks – 80**

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**Section A – Multiple choice questions**

**Each question in this section is worth 2 marks (Total 20 marks)**

*For each question select the best one of the four options available*

**1.** What are the four key qualities, or characteristics, that accounting information should possess?

**A** Reliability and consistency

**B** Relevance and faithful representation

**C** Comparability and understandability

**D** Consistency and prudence

**2.** Consider the following two statements concerning the differences between financial and management accounting:

* 1. Management accounting reports are often prepared for a specific purpose whereas financial accounting reports usually serve a general purpose.
  2. Management accounting reports place less emphasis on objective, verifiable evidence than financial accounting reports.

Which one of the following combinations (true/false) relating to the above statements is correct?

**Statement**

**1 2**

**A**  True True

**B**  True False

**C**  False True

**D**  False False

**3.** Enhancement of which one of the following factors is the assumed objective of a business?

**A** Sales revenue

**B** Profit

**C** Owners’ wealth

**D** Return on capital employed

**4.** Which one of the following equations correctly expresses the relationship between assets (A), liabilities (L), revenues (R), expenses (E) and equity?

**A** A = L + R + E + equity

**B** A = equity + (R − E) + L

**C** A = equity − (R − E) + L

**D** A = (L − equity) + (R − E)

**5.** At the beginning of the financial year, a trader had equity of £45,600 and by the end of the year this had risen to £53,500. During the year, she withdrew £18,400 in cash for her personal expenses and introduced her car into the business, which was valued at £7,300.

What was the profit or loss for the financial year?

**A** £3,200 (loss)

**B** £7,900 (profit)

**C** £19,000 (profit)

**D** £26,300 (profit)

**6.** Consider the following statements concerning depreciation:

1. The reducing-balance method of depreciation results in higher charges to the income statement than the straight-line method of depreciation over the life of the asset.
2. The purpose of depreciation is to derive the current market value (at each statements of financial position date) of the asset that is being depreciated.

Which one of the following combinations concerning the statements (true or false) is correct?

**Statement**

**1 2**

**A**  True True

**B**  True False

**C**  False True

**D**  False False

**7.** An electrician buys a pair of pliers that has an expected life of four years. The pliers, which cost £8, are charged as an expense in the income statement for the period in which they were purchased.

Which accounting convention does this treatment reflect?

**A** Going concern

**B** Historic cost

**C** Duality

**D** Materiality

**8.** Which body is responsible for setting accounting standards for large listed UK businesses?

**A** The London Stock Exchange

**B** The Government

**C** The International Accounting Standards Board

**D** The Accounting Standards Committee

**9.** The statements of financial position of a business show the following relationships:

Current ratio 3.0 times

Acid-test ratio 2.5 times

Current assets to non-current assets 1:2

The total assets of the business are £27 million.

What is the value of the inventories as shown on the statements of financial position?

**A** £1.50m

**B** £3.00m

**C** £3.25m

**D** £4.50m

**10.** If a business is overtrading, which one of the following are you more likely to see?

**A** A higher-than-normal current ratio

**B** A higher-than-normal average settlement period for trade receivables

**C** A higher-than-normal average settlement period for trade payables

**D** A lower-than-normal gearing ratio