Paper 1 Quiz 3 **Name: ____________________________** **Class: ______**

1. Referring to the business entity concept, state whether entries should be made in the books of a business.
   (1) The sole proprietor paid the rent for his private apartment with his own money.
   (2) The sole proprietor paid the rent for his private apartment with money from the business.
   (3) The sole proprietor paid the office rent for the business with money from the business.
   (4) The sole proprietor paid the office rent for the business using his own money.

	(1)	(2)	(3)	(4)
A.	No	No	Yes	Yes
B.	Yes	No	No	No
C.	No	Yes	Yes	Yes
D.	No	Yes	No	Yes

2. Mr Chan owns two businesses. He records bank account transactions of the two businesses in one set of books. This has violated the
   A. going concern concept.
   B. business entity concept.
   C. accrual concept.
   D. consistency principle.

3. A book shop is performing poorly so the owner plans to sell some assets of the book shop. All assets are valued at current market value. Half the amount received from the selling of assets was deposited into the owner's personal account and the other half was deposited into the business bank account. Which of the following accounting principles and conventions has been violated?
   A. Historical cost
   B. Business entity
   C. Consistency
   D. Going Concern

4. Which of the following statements about the going concern concept is false?
   A. A business is not expected to liquidate in the foreseeable future.
   B. Assets should be valued at historical cost.
   C. In a liquidation, the assets of the business should be valued at current market value.
   D. When a business is to be liquidated soon, its assets should be valued at historical cost.

5. A firm did not record the telephone bill for December 2013 in the telephone expense account for the year ended 31 December 2013 as it only received it in mid-January 2014. Which of the following principles or concepts has been violated?
   A. Historical cost principle
   B. Accrual concept
   C. Consistency principle
   D. Going concern concept

6. Match the accounting principles or concepts that are related to the following statement/situation:
   (1) Once a particular depreciation method has been adopted, the same method should be used year after year.
   (2) After incurring losses for the past two years, the owner decided to close the business next month.

   A. (1) going concern concept; (2) business entity concept
   B. (1) accrual concept; (2) going concern concept
   C. (1) consistency principle; (2) business entity concept
   D. (1) consistency principle; (2) going concern concept

7. Suppose a business has the same current ratio and quick ratio of 2 : 1. Which of the following conclusions is correct?
   A. The business does not appear to have sufficient liquidity.
   B. The business does not have sufficient profitability.
   C. The business might be holding excess idle cash.
   D. The business does not have inventory on hand.

8. Which of the following will increase the current ratio, assuming that all other figures remain unchanged?
   A. A decrease in accounts receivable
   B. A decrease in bank overdraft
   C. A decrease in cash
   D. A decrease in inventory

9. The liquidity and profitability ratios of Edwin's and Ceci's businesses for 2014 are calculated as follows:

	Edwin Co	*Ceci Co*
Gross profit ratio	2 : 1	3 : 1
Quick ratio	0.8 : 1	1 : 1
Return on capital employed	15.3%	12.46%

   Given that Edwin Co has the following account balances in 2014:

	Edwin Co
	$
Trade receivables	44,000
Inventory	34,000
Bank	(18,000)
Cash	10,000

   What is the current ratio of Edwin Co?
   A. 1.10 : 1
   B. 1.30 : 1
   C. 1.78 : 1
   D. 1.91 : 1

10. Given the following figures: Sales $180,000; Opening inventory $30,000; Purchases $110,000; Closing inventory $20,000. What is the gross profit ratio?
   A. 38.89%
   B. 22.22%
   C. 50%
   D. 33.33%

11. Given the following figures: Sales $311,000, returns inwards $3,000, beginning inventory $4,500, purchases $145,000, returns outwards $3,300, carriage inwards $5,000, ending inventory $5,500, commissions revenue $10,000, discounts allowed $1,000, discounts received $1,500, operating expenses $110,000. What is the gross profit ratio?

A. 51.54%

B. 51.99%

C. 52.69%

D. 53.79%

12. The following is an extracted statement of financial position of Cohen's business:

Financed by:		
Capital		?
Balance as at 1 January 2014		230,000
Add	Net profit for the year	28,100
		258,100
Less	Drawings	(36,800)

What is the return on capital employed of Cohen's business?

A. 10.89%

B. 12.22%

C. 12.45%

D. 12.70%

13. Which of the following descriptions about accounting assumptions, principles and conventions is correct?

A. Historical cost: all business transactions should be recorded in the books

B. Business entity: a sole proprietor can record his personal spending in the books of his business

C. Consistency: the accounting policies and methods cannot be changed once adopted

D. Going concern: a business will continue in operation for the foreseeable future

14. Which of the following accounting concepts cannot be applied in the situation listed to its right?

	Accounting concept	Situation
A.	Historical cost	The market price of an asset is not shown on the statement of financial position.
B.	Business entity	The vehicle used by the owner and his family is not recorded as an asset of his firm.
C.	Consistency	The same method is used to record the same type of transaction in different companies.
D.	Accrual	The expenses prepaid in the previous year have been recorded in the financial statements of the current year.

15. As at 31 December 2013, Quinton Company had current liabilities amounting to $60,000 and its current ratio was 3:1 and quick ratio was 2:1. What was the amount of its inventory on that date?

A. $60,000

B. $120,000

C. $180,000

D. $240,000

Based on the following information, answer Questions 16 and 17.

Nelson established his firm on 1 January 2014. Its sales and purchases for the year ended 31 December 2014 were $540,000 and $230,000 respectively. The gross profit ratio for 2014 was 60% while the net profit margin was 35%

16. What is the amount of inventory of the firm as at 31 December 2014?

A. $10,000

B. $12,000

C. $14,000

D. $18,000

17. What is the amount of expenses of the firm for 2014?

A. $135,000

B. $189,000

C. $216,000

D. $324,000

18. A business earns a gross profit margin of 25%. Calculate its sales amount based on the following data:

A. $69,375

B. $71,250

C. $74,000

D. $76,000

Item	$
Opening inventory	10,000
Closing inventory	4,000
Purchases	51,000
Selling expenses	1,500

19. Which of the following accounting ratios can be calculated when only the income statement is provided?

(1) net profit ratio

(2) quick ratio

(3) return on capital employed

A. (1) only

B. (2) only

C. (3) only

D. (1) and (3) only

20. Ming Kee and Chan Kee are trading firms in the same industry. Their financial information for the year 2017 is shown below:

	Ming Kee	**Chan Kee**
Current assets	$900 000	$600 000
Current ratio	6:1	2.5:1
Acid test ratio	2:1	1.5:1

Based on the above information, Ming Kee has________________________________.

(1) less current liabilities

(2) greater ability to meet short-term obligations

(3) less inventory

A. (1) and (2) only

B. (1) and (3) only

C. (2) and (3) only

D. (1), (2) and (3)