

Paper 1 Quiz 3

Name: _____ Class: _____

1. Mr Chan operates two separate businesses – a toy shop and a convenience store. For the sake of convenience, he just opens one set of books to record the transactions of these two businesses. He also prepares only one set of financial statements for submission to the Inland Revenue Department for profits tax assessment. In respect of the above situation, which of the following principles or concepts has been violated?
- A. Accrual concept
B. **Business entity concept**
C. Consistency principle
D. Historical cost principle
2. Jane Ma is a sole proprietor. Which of the following transactions should be recorded in the books of her business?
- (1) Paid salaries using money from her private bank account.
(2) Introduced inventory to her business which is taken from C Chau's firm.
(3) Took cash from her husband's business bank account.
(4) Paid rent for her apartment using her own money.
- A. **(1) and (2) only**
B. (1) and (3) only
C. (1), (2) and (3) only
D. (2), (3) and (4) only
3. If a firm is facing bankruptcy, the _____ is no longer applicable. The _____ should be used to value the firm's assets.
- A. accrual concept; current market value
B. current market value; going concern concept
C. going concern concept; accrual concept
D. **going concern concept; current market value**
4. Suppose the office equipment had a normal selling price of \$270,000 and was eventually sold at a 5% trade discount. The buyer returned \$5,000 office equipment (net of trade discount) to the creditor and repaid the amount during the credit period. A 3% cash discount was granted. The office equipment had a resale value of \$180,000 two years later. How much should the equipment be valued in the buyer's books after two years of purchase (ignoring depreciation)?
- A. \$180,000
B. \$242,805
C. **\$243,955**
D. \$251,500
5. The going concern concept applies when a business
- (1) will continue in operation for the foreseeable future.
(2) slightly reduces its scale of operations.
(3) is performing poorly.
(4) is facing bankruptcy
- A. (1) and (3) only
B. **(1), (2) and (3) only**
C. (2), (3) and (4) only
D. (1), (2), (3) and (4)
6. Which of the following will decrease the quick ratio, assuming that the other figures remain unchanged?
- A. A decrease in inventory
B. An increase in long-term loans
C. **A decrease in cash**
D. An increase in accounts receivable

7. ABC firm bought a fax machine on credit for \$850 on 15 Aug 2014. The firm received the fax machine on 16 Aug 2014 and settled the amount five days later. It had a market value of \$500 on 31 Dec 2014, the last day of the firm's accounting period. Straight-line method was used to calculate depreciation until its disposal. Which of the following accounting concepts are applicable to the above situation?

- (1) Consistency
- (2) Historical cost
- (3) Business entity
- (4) Accrual
- A. (1) and (2) only
- B. (2) and (3) only
- C. (3) and (4) only
- D. (1), (2) and (4) only

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8. The account balances of A Yeung's books are shown below:

	\$
Motor vehicles	163,220
Short-term loan	50,000
Trade receivables	95,200
Inventory	65,430
Bank	76,850
Cash	34,660
Buildings	126,980
Trade payables	73,440
Loan from A Yeung's relative	23,000

What is the current ratio of A Yeung?

- A. 1.86 : 1
- B. 2.20 : 1
- C. 3.70 : 1
- D. 3.84 : 1

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9. The following trial balance was extracted from the books of Peter & Co as at 31 March 2013:

Trial Balance as at 31 March 2013		
	\$	\$
Accounts receivable and accounts payable	57,500	20,530
Bank	16,600	
Capital as at 1 April 2012		105,910
Carriage inwards	1,500	
Cash	500	
Delivery vans	50,000	
Discounts	4,550	1,200
Drawings	14,880	
Inventory as at 1 April 2012	22,330	
Office furniture	12,000	
Purchases and sales	95,000	175,700
Rent and rates	6,000	
Returns	1,230	1,300
Wages and salaries	22,550	
	<u>304,640</u>	<u>304,640</u>

Inventory as at 31 March 2013 was valued at \$12,850. The return on capital employed for the year was

- A. 16.14%.
- B. 29.39%.
- C. 32.27%.
- D. 59.44%.

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10. Which of the following situations will lead to a decrease in quick ratio?
- A. Current assets increase while current liabilities remain unchanged
 - B. Inventory and current liabilities decrease
 - C. Inventory increase while total current assets and current liabilities remain unchanged
 - D. Inventory increase and current liabilities decrease
11. The net profit ratio will decrease if
- A. expenses have increased.
 - B. other revenues have decreased.
 - C. the cost of goods sold has increased while expenses have decreased.
 - D. expenses have increased while all other items have remained unchanged.
12. Susan Siu is a toy retailer. The following are the account balances for the year ended 31 December 2009: Net sales \$700,000; Purchases \$550,000; Carriage outwards \$3,000; Carriage inwards \$5,400; Closing inventory \$200,000. The opening inventory figure is missing, but it is known that the gross profit ratio in 2009 was 30%. What was the cost of goods sold for the year?
- A. \$210,000
 - B. \$340,000
 - C. \$490,000
 - D. Cannot be determined, as opening inventory is not given.

13. Study the following income statement.

Sally Tang				
Income Statement for the year ended 31 December 2014 (extracted)				
	\$	\$		\$
Sales				?
Less Returns inwards			103,220	
				?
Less Cost of goods sold:				
Opening inventory		486,024		
Add Purchases	972,311			
Carriage inwards	34,797		1,007,108	
			1,493,132	
Less Returns outwards			51,020	
			1,442,112	
Less Closing inventory			189,046	1,253,066
Gross profit				811,022

What is the gross profit ratio?

- A. 37.42%
 - B. 39.29%
 - C. 48.95%
 - D. 64.72%
14. Sunny, who maintains a good credit record, is a customer of Mary's business. For the year ended 31 December 2015, Mary sold goods for \$8000 on credit to Sunny. Sunny fully settled the debt in January 2016. According to the ____ (1) ____, Mary should record this transaction as sales for the year ____ (2) ____.
- | | |
|-----------------------------|------|
| (1) | (2) |
| A. accrual concept | 2015 |
| B. accrual concept | 2016 |
| C. going concern assumption | 2015 |
| D. going concern assumption | 2016 |
15. The going concern concept means that, when preparing accounts, a firm is assumed to continue in operational existence for the foreseeable future ____.
- A. and will not cease trading
 - B. and has no intention to liquidate
 - C. but at a level of activity significantly less than the current level of activity
 - D. and has no intention to liquidate or reduce significantly the scale of operation

16. 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%. 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

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17. Chan Kee and Yip Kee are trading firms in the same industry. Their gross profit ratios and net profit ratios for the year 2016 are shown below:

	Chan Kee	Yip Kee
Gross profit ratio	39%	45%
Net profit ratio	24%	20%

Based on the above ratios, which of the following can be concluded?

- A. Yip Kee has a higher sales amount.
 B. Yip Kee has a higher cost of goods sold.
 C. Chan Kee has a higher net profit.
 D. Chan Kee has better control over operating expenses.

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18. As at 31 December 2016, Wong's firm had the following assets and liabilities:

	\$
Non-current assets	280 000
Bank	18 000
Cash	58 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Long term bank loan	120 000

What is the quick ratio of Wong's firm for 2016?

- A. 1.16 : 1
 B. 2.77 : 1
 C. 3.59 : 1
 D. 6.02 : 1

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19. Which of the following statements about accounting ratios is/are correct?

- (1) They are used to evaluate the financial results of a business.
 (2) For the calculations of all profitability ratios, the denominator is 'Sales'.
 (3) The acid-test ratio of a firm is higher than its current ratio.

- A. (1) only
 B. (1) and (2) only
 C. (1) and (3) only
 D. (2) and (3) only

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20. King Lung Company owed Tin Tin Company \$56,000 on 1 December 2012. On 10 December 2012, Tin Tin Company sold goods costing \$80,000 at a gross profit margin of 50% to King Lung Company. On 15 December 2012, King Lung Company settled the beginning balance of the month with a cash discount of 3%. The balance of King Lung Company's account in Tin Tin Company's books as at 31 December 2012 would be:

- A. \$54,320 (credit balance)
 B. \$104,000 (debit balance)
 C. \$120,000 (credit balance)
 D. \$160,000 (debit balance)

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