

## Progress Test 1

# Financial Accounting – Chapters 1 to 7

This paper is divided into three sections

Answer *all* questions in each section

Time allowed – 2½ hours Total possible 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 two fundamental qualities, or characteristics, that accounting information should possess?**

- A. Comparability and Understandability
- B. Faithful representation and Relevance
- C. Reliability and Fairness
- 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.

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**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 (X) and owner's equity (E)?**

- A.  $A = L + R + X + E$
- B.  $A = E + (R - X) + L$
- C.  $A = E - (R - X) + L$
- D.  $A = (L - E) + (R - X)$

**5. At the beginning of the financial year, a trader had an equity balance of £45,600 and by the end of the year this had risen to £53,500. During the year, he/she withdrew £18,400 in cash for his/her personal expenses and introduced his/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)

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**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 statement of financial position date) of the asset that is being depreciated.

**Which one of the following combinations concerning the above 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. A business's statement of financial position shows 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 £27million.	

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**What is the value of the inventories as shown on the statement 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

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## Section B

### Fill in the blanks

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

For each question, select the best of the four options to fill in the blanks.

- The dividend cover ratio is the inverse of the \_\_\_\_\_ ratio
    - dividend per share
    - dividend payout
    - dividend yield
    - dividend growth
  - The Z-score model uses \_\_\_\_\_ analysis to predict the likelihood of businesses falling into financial distress.
    - univariate
    - regression
    - multiple discriminate
    - trend
  - \_\_\_\_\_ is an example of a capital reserve.
    - Retained earnings
    - Share premium account
    - General reserve
    - Share capital account
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- Large businesses should provide information on any recommended dividend in the \_\_\_\_\_, which forms part of the annual report and accounts.
    - statement of financial position
    - directors' report
    - strategic report
    - notes to the accounts
  - The \_\_\_\_\_ ratio provides a guide to market confidence concerning the future prospects of a business.
    - price/earnings
    - dividend yield
    - dividend payout
    - return on ordinary shareholders' funds
  - The total of the share capital that is already in the hands of the shareholders is known as the \_\_\_\_\_ share capital.
    - allotted
    - issued
    - authorised
    - called-up
  - The law states that it is illegal under normal circumstances for shareholders to withdraw that part of their claim that is represented by \_\_\_\_\_.
    - share capital
    - share capital plus capital reserves
    - share capital plus revenue reserves
    - share capital plus total reserves
  - A \_\_\_\_\_ results in a reduction in the amount of reserves held by a company.

- A. share split
- B. rights issue of shares
- C. bonus issue of shares
- D. consolidation of shares

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9. During a period of inflation, the LIFO method of inventories valuation will lead to \_\_\_\_\_ reported profits for a period and \_\_\_\_\_ inventories values at the end of the year than the FIFO method of inventories valuation.

- A. higher higher
- B. higher lower
- C. lower higher
- D. lower lower

10. The \_\_\_\_\_ convention is designed to provide guidance concerning the recognition of expenses.

- A. duality
- B. historic cost
- C. realisation
- D. matching

## Section C

**Each question in this section is worth 20 marks (Total 40 marks)**

1. The income statement for the year ended 31 March Year 5 and the statements of financial position as at 31 March Years 4 and 5 for Methusa plc are as follows:

*Income statement for the year ended 31 March Year 5*

	£m	
	924	Revenue
	(383)	Cost of sales
£m	541	<b>Gross profit</b>
	(164)	Distribution expenses
	(376)	Administrative expenses
	165	
Other operating income	48	
<b>Operating profit</b>	213	
Interest receivable	22	
235		
(27)	Interest payable	
208	<b>Profit before taxation</b>	
(36)	Taxation	
172	<b>Profit for the year</b>	