S4 Business, Accounting and Financial Studies Practice Paper: Accounting Cycle and Double Entry, Ledgers and Trial Balance, Adjusting Entries, Financial Statements, Ratio Analysis, Inventory Valuation and Depreciation (100 marks)

S4 | Business, Accounting and Financial Studies | Time: 75 minutes | Total: 100 marks | 24 questions

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Section A The Accounting Cycle and Double Entry

Part A: 4 marks each, 16 marks in total.

1. A business has total assets of $850,000 and total liabilities of $310,000 at the year end. Using the accounting equation, calculate its capital and state the equation. [4]

2. State which two types of account are increased by a debit entry and which two types of account are increased by a credit entry in double entry bookkeeping. [4]

3. A business buys office equipment for $48,000 cash. Write the journal entry required and explain the effect of this transaction on the accounting equation. [4]

4. List the five main steps of the accounting cycle and state where the trial balance fits in that cycle. [4]

Section B Ledgers, Journals and the Trial Balance

Part B: 4 marks each, 16 marks in total.

5. The following balances are extracted: cash $120,000 (Dr), inventory $95,000 (Dr), equipment $210,000 (Dr), trade receivables $68,000 (Dr), rent expense $45,000 (Dr), trade payables $88,000 (Cr), bank loan $150,000 (Cr) and capital $300,000 (Cr). Calculate the debit and credit totals of the trial balance. [4]

6. Does a balanced trial balance prove that the books are completely correct? Give two types of error that can still exist when the trial balance balances. [4]

7. A business wrongly records $6,000 of repair parts purchased as office equipment. Identify the type of error and state whether the trial balance will still balance. [4]

8. A business paid rent of $5,400 but recorded only $4,500 in the rent expense account; the cash account was correctly recorded. Write the journal entry needed to correct the error. [4]

Section C Adjusting Entries: Accruals, Prepayments and Depreciation

Part C: 4 marks each, 16 marks in total.

9. The December electricity bill of $8,000 is still unpaid at the year end. Write the adjusting entry and explain its effect on the financial statements. [4]

10. A business paid insurance of $24,000 on 1 October for twelve months; the year end is 31 December. Calculate the prepaid insurance at the year end and write the adjusting entry. [4]

11. A machine costs $180,000 with an estimated residual value of $20,000 and a useful life of 8 years. Calculate the annual depreciation using the straight-line method and write the depreciation entry for the first year. [4]

12. Equipment costs $200,000 and is depreciated at 25% per annum on the reducing balance method. Calculate the depreciation for the first and second years and the net book value at the end of the second year. [4]

Section D Preparing Financial Statements

Part D: 4 marks each, 16 marks in total.

13. Sales $620,000 with sales returns $20,000; opening inventory $45,000, purchases $380,000, purchase returns $5,000 and closing inventory $60,000. Calculate the cost of sales and the gross profit. [4]

14. Using the previous result, gross profit is $240,000 and operating expenses total $150,000. Calculate the net profit and state which equity item it is transferred to. [4]

15. At the year end: non-current assets $500,000, current assets $260,000, non-current liabilities $180,000 and current liabilities $130,000. Calculate total assets, total liabilities and capital. [4]

16. Why must accruals and prepayments be adjusted before the financial statements are prepared? Explain with reference to the accrual basis. [4]

Section E Ratio Analysis

Part E: 4 marks each, 16 marks in total.

17. Net sales are $600,000 and gross profit is $240,000. Calculate the gross profit ratio and state the formula. [4]

18. Net sales are $600,000 and net profit is $90,000. Calculate the net profit ratio and explain how it relates to the gross profit ratio. [4]

19. Current assets are $260,000 including inventory of $60,000, and current liabilities are $130,000. Calculate the current ratio and the quick ratio, correct to two decimal places. [4]

20. Net profit is $90,000 and capital employed (total assets less total liabilities) is $450,000. Calculate the return on capital employed and explain whether a rise in this ratio is always good news. [4]

Section F Inventory Valuation and Depreciation Methods

Part F: 5 marks each, 20 marks in total.

21. Inventory purchases: 100 units at $10 each, 200 units at $12 each and 150 units at $14 each; 300 units were sold during the period. Using FIFO, calculate the cost of sales and the closing inventory. [5]

22. Using the same data (450 units costing $5,500 in total), calculate the weighted average unit cost, the cost of sales and the closing inventory, correct to two decimal places. [5]

23. Equipment costs $120,000 with a four year life and no residual value. Calculate the first two years of depreciation under the straight-line method and under the reducing balance method at 40% per annum, and state the net book value at the end of year two under the reducing balance method. [5]

24. Does depreciation mean the market value of the asset has fallen? Explain the purpose of depreciation, why accumulated depreciation is deducted from cost, and compare the early life expense under the straight-line and reducing balance methods. [5]
