Multiple Choice Questions - 1

A-Level Accounting
Study the easy way

Question 1 1 mark

The owner of a sole trader business takes goods for their own use. Which are the correct accounts to use to record this transaction?

	Debit	Credit
A	Drawings	Inventory
B	Drawings	Capital
C	Drawings	Purchases
D	Purchases	Bank

Question 2 1 mark

What is the correct formula to calculate the liquid capital (acid test) ratio?

A Current Assets : Current Liabilities

B (Current Assets + Inventory) : Current Liabilities

C (Current Assets – Trade Receivables) : Current Liabilities

D (Current Assets – Inventory) : Current Liabilities

Question 3 1 mark

A business prepares its bank reconciliation statement for the month of January. You are provided with the information shown in the table below. What is the balance on the business's cash book (bank column) at the end of January?

Balance as per the bank statement	£12,582
Cheques from customers, lodged with the bank, but not yet cleared	£400
Cheques paid to suppliers, not yet cleared	£899
Bank charges for the month	£279

A £13,081

B £12,802

C £11,804

D £12,083

Question 4 1 mark

A business makes 5,600 cartons of milkshake in March. Each one will be sold for £2.50 and has a variable cost of 92p. Total fixed costs for the month are £3,150.

What is the value of the **contribution** made in March?

A £14,000

B £8,848

C £5,698

D £10,850

Question 5 1 mark

A business currently prepares its budgets using an incremental budgeting approach. The directors are considering switching to a zero-based budgeting approach. Which one of the following statements is an advantage of the zero-based budgeting approach?

A Zero-based budgeting is quicker and easier than incremental budgeting

B Zero-based budgets are simpler to calculate than incremental budgets, because all that is required is an adjustment, usually a percentage change, to be applied to last year's costs

C Zero-based budgeting ensures good communication across the business, whereas incremental budgeting doesn't

D Zero-based budgeting ensures that an item of cost is only included if it has been carefully considered and justified as being necessary

Question 6 1 mark

Paul sells 90% of his available inventory every month, for a selling price of £20 per unit. He is expecting the inventory at the start of June to be 160 units, and budgeted purchases for the next 2 months are:

June	740 units
July	760 units

What is the budgeted sales value for July?

A £16,200

B £12,000

C £15,200

D £15,300

Question 7 1 mark

Pronet Ltd had the following account balances at 31st March 2023:

	£
7.5% Debentures 2029	200,000
Mortgage	800,000
Ordinary share capital	650,000
Retained earnings	102,000
Share premium	65,000

What is the value of their gearing ratio at 31st March 2023?

A 55.0%

B 24.4%

C 30.1%

D 28.0%

Question 8 1 mark

A business's Purchases Ledger Control Account balance at the end of the accounting period did not match the total of the balances in the purchase ledger on the same date. What is a possible reason for this?

A A supplier invoice was mislaid and as a result the accounting records were not updated with this transaction

B The returns outwards total was not included in the Purchases ledger control account, although the supplier accounts were correctly updated

C A credit note from a supplier was recorded in the wrong supplier account in the Purchases ledger

D A contra entry with the Sales ledger was recorded in both the supplier account and the Purchases ledger control account

Question 9 1 mark

Which of the five fundamental ethical principles of accounting states that bias, opinion and the undue influence of others must not affect the accountant's professional judgement?

A Objectivity

B Integrity

C Confidentiality

D Professional behaviour

Question 10 1 mark

A business uses a system of absorption costing, with overheads being absorbed on a labour hours basis. You are provided with the following information:

Total budgeted overheads	£642,000
Total budgeted production volume	150,000 units
Total budgeted machine hours	120,000 hours
Total budgeted labour hours	200,000 hours

What is the pre-determined overhead absorption rate?

A £4.28 per unit

B £5.35 per machine hour

C £3.21 per labour hour

D It's not possible to calculate with the information provided

ANSWERS

Question	Answer
1	C
2	D
3	D
4	B
5	D
6	D
7	A
8	B
9	A
10	C

Explanations:

Question 1

When the owner takes goods for their own use, the goods are no longer available to be sold to customers. The value of purchases (ie goods bought with the intent of selling on to customers) therefore reduces, hence:

Credit Purchases (logic: the purchases Expense is reduced)

The debit posting is to drawings, because taking goods for own use is a form of drawings. Drawings reduces capital, and hence a debit is posted

Question 2

Make sure you know the difference between the current ratio (which compares current assets to current liabilities) and the liquid capital (or acid test) ratio (which takes inventory away from the total current assets figure before making the comparison to total liabilities)

Question 3

The usual calculation we do for the bank reconciliation statement is:

Balance as per cash book

+ Unpresented cheques

- Outstanding lodgements

= Balance as per the bank statement

Rearranging this, we get:

Balance as per the cash book = Balance as per the bank statement – unpresented cheques + outstanding lodgements

= 12,582 – 899 + 400 = £12,083

Question 4

Contribution per unit = selling price per unit – variable cost per unit = 2.50 – 0.92 = £1.58 per unit

Total contribution = number of units x contribution per unit = 5,600 x 1.58 = £8,848

Question 5

Zero-based budgeting involves building the budget from scratch, including each item only after it has been carefully considered and justified. This method is time-consuming but generally results in a more accurate budget.

Question 6

	June	July
Opening inventory (units)	160	90
+ Purchases (units)	740	760
= Units available to sell	900	850
X 90% = units sold	810	765
Closing inventory = Units available to sell – units sold	90	

July's sales = units sold in July x selling price per unit = 765 units x £20 = £15,300

Question 7

Gearing ratio = Debt / (Debt + Equity) x 100

Debt = Debenture + mortgage = 200,000 + 800,000 = £1,000,000

Equity = Ordinary share capital + retained earnings + share premium = 650,000 + 102,000 + 65,000

= £817,000

Gearing ratio = 1,000,000 / (1,000,000 + 817,000) x 100 = 55.0%

Question 8

If returns outwards is not included in the Purchases ledger control account (PLCA), the balance on this account will be incorrect. The supplier accounts were updated correctly, and therefore the calculated balances on these accounts will be correct. There is therefore a difference between the balance on the PLCA (which is incorrect) and the total of the balances in the purchases ledger (which is correct), as described in the question.

The other options presented all result in no difference:

A Both the PLCA balance and the total of the supplier account balances will be incorrect, by the same amount, as a result of the mislaid invoice. This is an error of omission

C The error is within the Purchases ledger, but the *total* of the balances on the supplier accounts will be correct

D The contra entry is recorded in both the PLCA and the appropriate supplier account, and presents no issues

Question 9

Remember that you need to know what each of the fundamental principles means, as well as knowing the threats to them, and what might be done in response.

Question 10

Overhead absorption rate = total budgeted overheads ÷ total number of the chosen absorption basis (ie labour hours)

= £642,000 ÷ 200,000 labour hours = £3.21 per labour hour

Once the overhead absorption rate has been calculated, it can be applied to the products. This is not needed in this question.