Foundations in Accountancy

FA1

RECORDING FINANCIAL TRANSACTIONS

PRACTICE & REVISION KIT

Welcome to BPP Learning Media's Practice & Revision Kit for FA1. In this Practice & Revision Kit, which has been reviewed by the **ACCA examining team**, we:

- Include **Do you know?** Checklists to test your knowledge and understanding of topics
- Provide you with **two** mock exams including the Specimen Exam
- Provide the **ACCA's exam answers** to the Specimen Exam as an additional revision aid

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Helping you with your revision

BPP Learning Media – ACCA Approved Content Provider

As an ACCA **Approved Content Provider**, BPP Learning Media gives you the **opportunity** to use revision materials reviewed by the ACCA examining team. By incorporating the ACCA examining team's comments and suggestions regarding the depth and breadth of syllabus coverage, the BPP Learning Media Practice & Revision Kit provides excellent, **ACCA-approved** support for your revision.

These materials are reviewed by the ACCA examining team. The objective of the review is to ensure that the material properly covers the syllabus and study guide outcomes, used by the examining team in setting the exams, in the appropriate breadth and depth. The review does not ensure that every eventuality, combination or application of examinable topics is addressed by the ACCA Approved Content. Nor does the review comprise a detailed technical check of the content as the Approved Content Provider has its own quality assurance processes in place in this respect.

BPP Learning Media do everything possible to ensure the material is accurate and up to date when sending to print. In the event that any errors are found after the print date, they are uploaded to the following website: www.bpp.com/learningmedia/Errata

Selecting questions

We provide signposts to help you plan your revision.

- A full **question index**

Attempting mock exams

There are two mock exams that provide practice at coping with the pressures of the exam day. We strongly recommend that you attempt them under exam conditions. **Mock exam 1** is the Specimen Exam. **Mock exam 2** reflects the question styles and syllabus coverage of the exam.
Please note that due to the publication print dates, there may be some differences between the Exam Practice Kit version of the Specimen exam and the online version.

Using your BPP Practice & Revision Kit

Aim of this Practice & Revision Kit

To provide the practice to help you succeed in the examination for FA1 *Recording Financial Transactions.*

To pass the examination you need a thorough understanding in all areas covered by the syllabus and teaching guide.

Recommended approach

- Make sure you are able to answer questions on **everything** specified by the syllabus and teaching guide. You cannot make any assumptions about what questions may come up in your exam. The examining team aims to discourage 'question spotting'.
- Learning is an **active** process. Use the **DO YOU KNOW**? Checklists to test your knowledge and understanding of the topics covered in FA1 *Recording Financial Transactions* by filling in the blank spaces. Then check your answers against the **DID YOU KNOW**? Checklists. Do not attempt any questions if you are unable to fill in any of the blanks – go back to your **BPP Interactive Text** and revise first.
- When you are revising a topic, think about the mistakes that you know that you should avoid by writing down **POSSIBLE PITFALLS** at the end of each **DO YOU KNOW**? Checklist.
- Once you have completed the checklists successfully, you should attempt the questions on that topic. Each question is worth 2 marks and carries with it a time allocation of 2.4 minutes.
- Once you have completed all of the questions in the body of this Practice & Revision Kit, you should attempt the **MOCK EXAMS** under examination conditions. Check your answers against our answers to find out how well you did.

Passing the FA1 exam

FA1 *Recording Financial Transactions* teaches you basic bookkeeping for cash and credit transactions. There is a lot to learn, but none of it is particularly difficult and a good grasp of these topics will help you in higher-level financial accounting.

To access Foundation In Accountancy syllabuses, visit the ACCA website.

The exam

This is a computer-based exam. All questions in the exam are compulsory. This means you cannot avoid any topic, but also means that you do not need to waste time in the exam deciding which questions to attempt. There are 50 MCQs in the FA1 exam. The examining team are able to test most of the syllabus at each sitting, and that is what they aim to do. So you need to have revised right across the syllabus for this exam.

Revision

This Practice & Revision Kit has been reviewed by the FA1 examining team and contains the Specimen Exam, so if you just worked through it to the end you would be very well prepared for the exam. It is important to tackle questions under exam conditions. Allow yourself just the number of minutes shown next to the questions in the index and don't look at the answers until you have finished. Then correct your answer and go back to the Interactive Text for any topic you are really having trouble with. Try the same question again a week later – you will be surprised how much better you are getting. Doing the questions like this will really show you what you know, and will make the exam experience less worrying.

Doing the exam

If you have honestly done your revision you can pass this exam. There are certain points which you must bear in mind:

- Read the question properly.
- Don't spend more than the allotted time on each question. If you are having trouble with a question leave it and carry on. You can come back to it at the end.

Approach to examining the syllabus

FA1 is a two-hour exam.

The exam is structured as follows:

	No of marks
50 compulsory multiple choice questions of 2 marks each	100

The computer-based examination

Computer-based examinations (CBEs) are available for the Foundations In Accountancy exams. The CBE exams for the first seven modules can be taken at any time, these are referred to as 'exams on demand'. The Option exams can be sat in June and December of each year, these are referred to as 'exams on sitting'. Computer based examinations must be taken at an ACCA CBE Licensed Centre.

How do On Demand CBEs work?

- Questions are displayed on a monitor.
- Candidates enter their answer directly onto the computer.
- Candidates have two hours to complete the examination.
- Candidates are provided with a Provisional Result Notification showing their results before leaving the examination room.
- The CBE Licensed Centre uploads the results to the ACCA (as proof of the candidate's performance) within 72 hours.

How do On Sitting CBEs work?

- Candidates sitting the Option exams will receive their results approximately five weeks after the exams sitting once they have been marked by an expert.
- Candidates can check their exam status on the ACCA website by logging into myACCA.

For more information on computer-based exams, visit the ACCA website:

www.accaglobal.com/gb/en/student/exam-entry-and-administration/computer-based-exams.html

Tackling multiple choice questions

MCQs are part of all Foundations In Accountancy exams.

The MCQs in your exam contain four possible answers. You have to **choose the option that best answers the question**. The incorrect options are called distracters. There is a skill in answering MCQs quickly and correctly. By practising MCQs you can develop this skill, giving you a better chance of passing the exam.

You may wish to follow the approach outlined below, or you may prefer to adapt it.

Step 1 You may prefer to work out the answer before looking at the options, or you may prefer to look at the options at the beginning. Adopt the method that works best for you.

Step 2 Read the options and see if one matches your own answer. Be careful with numerical questions as the distracters are designed to match answers that incorporate common errors. Check that your calculation is correct. Have you followed the requirement exactly? Have you included every stage of the calculation?

Step 3 You may find that none of the options match your answer.

- Re-read the question to ensure that you understand it and are answering the requirement
- Eliminate any obviously wrong answers
- Consider which of the remaining answers is the most likely to be correct and select the option

Step 4 If you are still unsure make a note and continue to the next question.

Step 5 Revisit unanswered questions. When you come back to a question after a break you often find you are able to answer it correctly straight away. If you are still unsure have a guess. You are not penalised for incorrect answers, so **never leave a question unanswered!**

After extensive practice and revision of MCQs, you may find that you recognise a question when you sit the exam. Be aware that the detail and/or requirement may be different. If the question seems familiar read the requirement and options carefully – do not assume that it is identical.

Using your BPP products

This Practice & Revision Kit gives you the question practice and guidance you need in the exam. Our other products can also help you pass:

- **Interactive Text** introduces and explains the knowledge required for your exam
- **Passcards** provide you with clear topic summaries and exam tips

You can purchase these products by visiting https://learningmedia.bpp.com/catalog?pagename=AAT

Questions

Do you know? – INTRODUCTION TO TRANSACTION ACCOUNTING

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Interactive Text and revise first.

- Whenever property changes hands there has been a ....
- A cash transaction is one where the ....
- A credit transaction is ....
- The purpose of the accounting system is to ...., ... and .... the information contained in the documentation generated by transactions.
- A discount is a reduction in the price of goods below the amount at which those goods would normally be sold to other customers of the supplier.
  - A .... is a reduction in the amount of money demanded from a customer.
  - A .... is an optional reduction in the amount of money payable by a customer.
- Many business transactions involve sales tax.
  - .... is sales tax charged on goods and services sold by a business.
  - .... is sales tax paid on goods and services bought in by a business.

  TRY QUESTIONS 1.1 TO 1.8
- .... is the excess of income over expenditure. When expenditure exceeds income, the business is running at a ....
- A business must always be treated as a .... from its owners when preparing accounts.
- The accounting equation is that the assets and liabilities of a business must always be ....
  - Assets = (Capital introduced + retained profits – drawings) + liabilities
- Double-entry bookkeeping reflects the fact that for every debit, there is an equal .... Therefore the total value of debit entries will always be equal to the total value of credit entries.
- At any point in time a business will have assets, liabilities and capital.
  - ....are for use within a business.
  - .... are used to generate cash.
  - .... are payables of the business.

  TRY QUESTIONS 1.9 TO 1.18
- When data and software is held remotely on the computer servers of the service-provider hosting the software, it is known as ....
- Accounting packages can update ledgers simultaneously as the ledgers are........................ .
- Customer and supplier information which is stored is subject to .... legislation.

  TRY QUESTIONS 1.19 TO 1.35
- The .... is a record of unusual movements between accounts.
- An error of .... occurs when two digits in an amount are recorded the wrong way round.
- An error of .... means failing to record a transaction at all.
- An error of .... denotes a mistake which breaks the 'rules' of an accounting concept or principle, such as a posting to the wrong type of account.

Do you know? – INTRODUCTION TO TRANSACTION ACCOUNTING – CONT'D

- Posting to the correct accounts but using the wrong amount is an error of ……………..
- Posting an entry to the wrong account is an error of …………………
- The trial balance is a list of ………………
- Corrections involving equal debits and credits are made using a ………………
- Postings to the wrong account can be caused by incorrect…………

TRY QUESTIONS 1.36 TO 1.55

- *Possible pitfalls*

  Write down the mistakes you know you should avoid.

Did you know? – INTRODUCTION TO TRANSACTION ACCOUNTING

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- Whenever property changes hands there has been a **business transaction**.
- A cash transaction is one where the **buyer pays cash to the seller at the time the goods or services are transferred**.
- A credit transaction is **a sale or purchase which occurs some time earlier than money is received or paid**.
- The purpose of the accounting system is to **record**, **summarise** and **present** the information contained in the documentation generated by transactions.
- A discount is a reduction in the price of goods below the amount at which those goods would normally be sold to other customers of the supplier.
  - A **trade discount** is a reduction in the amount of money demanded from a customer.
  - A **settlement discount** is an optional reduction in the amount of money payable by a customer.
- Many business transactions involve sales tax.
  - **Output tax** is sales tax charged on goods and services sold by a business.
  - **Input tax** is sales tax paid on goods and services bought in by a business.

  TRY QUESTIONS 1.1 TO 1.8
- **Profit** is the excess of income over expenditure. When expenditure exceeds income, the business is running at a **loss**.
- A business must always be treated as a **separate entity** from its owners when preparing accounts.
- The accounting equation is that the assets and liabilities of a business must always be **equal**.
  - Assets = (Capital introduced + retained profits – drawings) + liabilities
- Double-entry bookkeeping reflects the fact that for every debit, there is an equal **credit**. Therefore the total value of debit entries will always be equal to the total value of credit entries.
- At any point in time a business will have assets, liabilities and capital.
  - **Non-current assets** are for use within a business.
  - **Current assets** are used to generate cash.
  - **Liabilities** are payables of the business.

  TRY QUESTIONS 1.9 TO 1.18
- When data and software is held remotely on the computer servers of the service-provider hosting the software, it is known as **cloud accounting**.
- Accounting packages can update ledgers simultaneously as the ledgers are **integrated**.
- Customer and supplier information which is stored is subject to **data protection** legislation.

  TRY QUESTIONS 1.19 TO 1.35
- The **journal** is a record of unusual movements between accounts.
- An error of **transposition** occurs when two digits in an amount are recorded the wrong way round.
- An error of **omission** means failing to record a transaction at all.
- An error of **principle** denotes a mistake which breaks the 'rules' of an accounting concept or principle, such as a posting to the wrong type of account.

Did you know? – INTRODUCTION TO TRANSACTION ACCOUNTING – CONT'D

- Posting to the correct accounts but using the wrong amount is an error of **original entry**.
- Posting an entry to the wrong account is an error of **commission**.
- The trial balance is a list of **account balances**.
- Corrections involving equal debits and credits are made using a **journal**.
- Postings to the wrong account can be caused by incorrect **coding**.

TRY QUESTIONS 1.36 TO 1.55

- *Possible pitfalls*
  - **Confusing cash and credit transactions**
  - **Confusing trade and settlement (or cash) discounts**
  - **Ignoring sales tax in double-entry bookkeeping**
  - **Not being able to distinguish between non-current and current assets**
  - **Not understanding the purpose and format of journals**
  - **Not knowing which accounts will normally have a debit balance (such as the trade receivables general ledger account) and which will normally have a credit balance (such as the trade payables general ledger account).**

1.1 **What is the primary function of a credit sales invoice which a customer has received from a supplier?**

- O It is a receipt for money paid
- O It is a demand for immediate payment by the supplier
- O It is a record of goods purchased by the customer
- O It is a demand for payment within an agreed time from the supplier **(2 marks)**

Approaching the answer

Use this answer plan to construct your answer if you are stuck.

Step 1	If you have never done a multiple choice question (MCQ) before, do not panic! The chances are that you will have done something similar in a magazine quiz or seen a television quiz programme in the same format (e.g. *Who Wants to be a Millionaire*). The principle is the same for these MCQs. You are given four possible answers, one is correct and the other three are wrong (distracters).
Step 2	Read the question and work out what is required. Try not to read the possible answers at this stage.
Step 3	Re-read the question and decide on your own answer.
Step 4	Read the four options and see if one matches your own answer. If yes, then select that option.
Step 5	If none of the options matches (or is close to) your answer, adopt the following method. – Re-read the question to ensure that you understand it and are answering the correct requirement – Exclude the obvious wrong answers – Consider which of the remaining answers is the most likely to be correct
Step 6	If you are still in doubt, remember that you will **not** be penalised for a wrong answer in the exam. You just will not get any marks for a wrong answer. Therefore, if you really do not know, a guess is better than leaving out a question. However, if you are guessing, do not think that as the last few answers have had option 1, 2 or 3 as the answer, the answer must be option 4! The examining team may well have decided that the correct answer to every question is option 1.

Notes

1 In this Kit, if you find that you are guessing the answers to most of the questions, then you need to go back to your Interactive Text and revise.

2 In the exam, you could leave any questions that you are having trouble with and do all the questions that you can answer fairly easily. You should then have time at the end to go back and deal with the problem questions. Remember that you have 2.4 minutes per question. If you spend 2 minutes on each question, this will leave you 20 minutes at the end to go back over troublesome questions.

1.2 **Which of the following correctly describes the function of a credit note issued by a supplier to one of its customers?**

- O A demand for payment
- O An agreed allowance which can be deducted from the next invoice payment
- O A loan available to the customer
- O A document used by the supplier to cancel part or all of a previously issued invoice **(2 marks)**

1.3 **Which of the following correctly describes the term 'debit note'?**

- O It is issued by a supplier to a customer to demand payment in full for goods supplied
- O It is issued by a customer to a supplier to request a credit note
- O It is issued by a customer when goods are delivered
- O It is issued by a customer to a supplier to cancel an invoice received **(2 marks)**

1.4 **What is a 'trade discount'?**

- O A reduction in the amount of an invoice given by the supplier if a customer pays promptly
- O A price reduction which a supplier applies to a selection of goods on special offer
- O A refund which a supplier agrees with an individual customer after an invoice has been sent at full price
- O A reduction in the invoice price by a supplier because of the terms of trade agreed with an individual customer **(2 marks)**

1.5 **Which of the following correctly explains sales tax?**

- O A tax on business profits
- O A tax levied on the sale of goods and services which is administered and collected by the government
- O A tax levied on the sale of goods and services which is administered by the government
- O A tax levied on the sale of goods and services which all businesses must pay **(2 marks)**

1.6 **What is the purpose of a remittance advice?**

- O It provides details of amounts being paid
- O It identifies goods that have been received by the business
- O It identifies goods that have been despatched by the business
- O It provides details of cheques to be issued **(2 marks)**

1.7 The accounts assistant of a business makes the following entries in the accounting records:

Dr	Office premises	$500,000	
Cr	Trade payables general ledger account		$500,000

These entries record which of the following business transactions?

- O The business has taken out a bank loan to refurbish the head office
- O The business has paid an outstanding invoice for repairs to office premises
- O The business has purchased a non-current asset on credit
- O The business has purchased a non-current asset for cash **(2 marks)**

1.8 Xero Co purchases goods with a list price of $100,000 subject to a 5% trade discount. Xero Co is allowed a 2.5% settlement discount for payment within 30 days from invoice date.

Assuming the discount is taken, how much will Xero Co pay? (Ignore sales tax.)

- O $92,625
- O $102,375
- O $97,500
- O $95,000 **(2 marks)**

1.9 Charlie Co starts a business with $50,000 cash, buying inventory $10,000 from cash and paying business expenses of $1,000. Inventory is purchased on credit for $5,000.

Following these transactions, what is the capital of Charlie Co's business?

- O $39,000
- O $49,000
- O $50,000
- O $54,000

(2 marks)

1.10 A business receives an accountant's bill for $500.

Which of the following statements correctly shows the effect upon the accounting equation of the business, assuming the bill is unpaid?

- O Assets decrease, liabilities increase
- O Capital decreases, liabilities increase
- O Capital increases, liabilities decrease
- O Assets decrease, capital decreases

(2 marks)

1.11 **Which of the following statements concerning a debit entry is correct?**

- O It records a decrease in assets
- O It records a business expense
- O It records a sale
- O It records an increase in the liabilities of a business

(2 marks)

1.12 **Which of the following statements concerning credit entries is correct?**

- O Credit entries record decreases in capital or liabilities
- O Credit entries record increases in assets
- O Credit entries record increases in profits
- O Credit entries record increases in expenses

(2 marks)

1.13 **Which of the following correctly records the repayment of a loan of $10,000 plus outstanding interest $500?**

- O Assets – $10,500, Capital – $10,500
- O Assets + $10,500, Liabilities + $10,500
- O Assets – $10,500, Liabilities – $10,000, Expenses + $500
- O Assets – $10,500, Liabilities – $10,500

(2 marks)

1.14 **What is the most appropriate definition for a trade receivable?**

- O A person owing money to the business in return for goods supplied
- O A person to whom the business owes money in return for goods supplied
- O A person to whom the business owes money which was lent to finance the trading operations of the business
- O A person who has purchased goods from the business

(2 marks)

1.15 **Which of the following is an example of an item of an expense charged to profit or loss?**

- O Insurance of goods in transit to customers
- O Import duties charged on a new non-current asset for the business
- O Delivery and installation costs of a new non-current asset
- O A new delivery van

(2 marks)

1.16 A business buys a machine for $500 and pays machinery insurance $50, payment is made at the same time as the transaction.

Which of the following shows the correct double entry for this transaction?

- O Debit machinery $550, credit bank general ledger account $550
- O Debit bank general ledger account $550, credit machinery $550
- O Debit machinery $500, credit bank general ledger account $550, debit insurance $50
- O Debit bank general ledger account $550, credit machinery $500, credit insurance $50

(2 marks)

1.17 **Which ONE of the following can the accounting equation be rewritten as?**

- O Assets + profit – drawings – liabilities = closing capital
- O Assets – liabilities – drawings = opening capital + profit
- O Assets – liabilities – opening capital + drawings = profit
- O Assets – profit – drawings = closing capital – liabilities **(2 marks)**

1.18 **Which TWO of the following are advantages of using a cloud accounting system?**

1 Third parties such as external accountants or payroll administrators can be given access to certain modules to perform their service

2 Cloud accounting systems are not cost effective

3 The need for hard copy backups of documents increases

4 Cloud accounting allows for a single, accurate source of truth for all users

- O 1 and 2
- O 2 and 4
- O 1 and 4
- O 2 and 3 **(2 marks)**

1.19 **What is the double entry to record credit purchases in the general ledger?**

- O Debit purchases, Credit bank general ledger account
- O Debit trade payables general ledger account, Credit purchases
- O Debit bank general ledger account, Credit purchases
- O Debit purchases, Credit trade payables general ledger account **(2 marks)**

1.20 Yax Co keeps a trade receivables general ledger account as part of its accounting system. Invoices totalling $5,000 are raised in March, an irrecoverable debt of $100 is written off and $3,000 is received from credit customers.

Which of the following entries correctly record these transactions?

- O Debit trade receivables general ledger account $5,000, credit sales $5,000, debit bank general ledger account $3,000, credit irrecoverable debts $100, credit trade receivables general ledger account $3,000
- O Debit trade receivables general ledger account $5,000, credit sales $5,000, debit bank general ledger account $3,000, credit trade receivables general ledger account $3,100, debit irrecoverable debts $100
- O Debit sales $5,000, credit trade receivables general ledger account $5,000, debit bank general ledger account $3,000, debit irrecoverable debts $100, credit trade receivables general ledger account $3,100
- O Debit trade receivables general ledger account $5,000, credit sales $5,000, debit bank general ledger account $3,000, credit trade receivables general ledger account $3,000

(2 marks)

1.21 In the receivables ledger of Xetel Co, the account of Yox Co has a credit balance of $5,000.

Which of the following is a plausible explanation for this?

- O Yox Co has been sent an invoice for $5,000
- O Yox Co has supplied goods to Xetel Co and these have been correctly recorded by Xetel Co
- O Yox Co has paid Xetel Co $5,000 twice in error
- O Yox Co has an overdue balance of $5,000 owing to Xetel Co **(2 marks)**

1.22 **What reports can be generated from a receivables ledger on a computerised system?**

(i) Statement of account

(ii) List of customer accounts

(iii) Customer mailing lists

(iv) Age analysis of receivables

- O (ii) and (iii) only
- O (i), (ii) and (iii) only
- O (i), (iii) and (iv) only
- O (i), (ii), (iii) and (iv) **(2 marks)**

1.23 Wakko Co, a company that is registered for sales tax, sells goods $1,200 plus $240 sales tax and purchases goods costing $200 plus sales tax $40. Assume that these are the only transactions in the sales tax period and that input tax is fully recoverable.

How much sales tax is due/payable to/from the government?

- O Payable $200
- O Recoverable $200
- O Payable $240
- O Payable $280 **(2 marks)**

1.24 **Which of the following statements is correct?**

- O Output tax charged to a customer is debited to the sales tax account.
- O A machine is purchased for $200 plus sales tax $40. The machinery account is debited with $200 and the sales tax account debited with $40. The sales tax is irrecoverable.
- O If the sales tax account has a debit balance at the end of the sales tax quarter, the balance is recoverable from the government.
- O The sales figure in the statement of profit or loss of a sales tax registered business includes sales tax. **(2 marks)**

1.25 Peter makes sales in the quarter of $42,000 including sales tax at 20%. His total purchases net of sales tax is $9,600.

How much tax should he pay the government?

- O $5,080
- O $5,000
- O $5,400
- O $6,480 **(2 marks)**

1.26 **Which of the following methods would NOT reduce data entry errors at input stage of a computerised system?**

- O Properly trained and experienced staff
- O Automatic data entry such as scanning
- O Using tick boxes or drop-down lists
- O Using illegible documents

(2 marks)

1.27 A machine (cost $5,000) is bought on credit. Subsequently, $1,000 of the debt is paid by cheque.

Which of the following correctly records the transactions?

- O Debit Trade payables general ledger account $5,000, credit Machine $5,000. Debit Bank general ledger account $1,000, credit Trade payables general ledger account $1,000
- O Debit Trade payables general ledger account $5,000, credit Machine $5,000. Debit Trade payables general ledger account $1,000, credit Bank general ledger account $1,000
- O Debit Machine $5,000, credit Trade payables general ledger account $5,000. Debit Bank general ledger account $1,000, credit Trade payables general ledger account $1,000
- O Debit Machine $5,000, credit Trade payables general ledger account $5,000. Debit Trade payables general ledger account $1,000, credit Bank general ledger account $1,000

(2 marks)

1.28 **What is the correct entry to record discounts received in the general ledger?**

- O Debited to discount received and credited to purchases
- O Credited to purchases and debited to bank general ledger account
- O Credited to discount received and debited to trade payables general ledger account
- O Credited to bank general ledger account and debited to purchases **(2 marks)**

1.29 Miranda sells goods for $1,000 plus 20% sales tax to customer for cash.

Which of the following correctly records the transaction?

- O Credit sales $1,000, credit sales tax account $200, debit trade receivables general ledger account $1,200
- O Credit sales $1,000, debit bank $1,000
- O Credit sales $1,000, credit sales tax account $200, Debit bank $1,200
- O Debit bank $1,200, Credit trade receivables general ledger account $1,200

(2 marks)

1.30 Petra runs a business which is registered for sales tax. She purchases some stationery from a supplier on credit for $150 inclusive of sales tax at 20%.

Which of the following correctly records the transaction?

- O Cr trade payables $180, Dr expenses $180
- O Cr trade payables $180, Dr expenses $150, Dr sales tax $30
- O Cr trade payables $150, Dr expenses $150
- O Cr trade payables $150, Dr expenses $125, Dr sales tax $25

(2 marks)

1.31 **Information from which of the following documents can be found in the receivables ledger?**

- O Purchase invoices
- O Quotation
- O Sales invoices
- O Credit notes received

(2 marks)

1.32 **Which statement describes the impact of a customer purchasing goods on credit?**

- O Profit for the year increased, trade receivables general ledger account balance increased
- O Profit for the year decreased, trade receivables general ledger account balance increased
- O Profit for the year increased, trade receivables general ledger account balance decreased
- O Profit for the year increased, trade payables general ledger account balance decreased

(2 marks)

1.33 **Which of the following should appear on the credit side of a suppliers account in the payables ledger?**

- O Payments made
- O Cash received
- O Discounts received
- O Purchase invoices received **(2 marks)**

1.34 The following entries appear in a bank account in March.

	$
Payments by customers	15,000
Rents received	250
Insurance paid	150
Drawings	700
Capital paid	2,000

The balance at 1 March was $2,000 (debit).

What was the closing balance at 31 March?

- O $14,400
- O $18,400
- O $15,800
- O $10,400 **(2 marks)**

1.35 **Which of the following statements concerning journal entries is correct?**

- O All journal entries are made for routine transactions and as such need not be authorised
- O Journal entries are used exclusively for the correction of errors
- O The journal is a ledger account in the accounting system of a business
- O All journal entries must have a narrative explanation **(2 marks)**

1.36 **What is a trial balance?**

- O A list of ledger balances extracted from customer accounts
- O A list of ledger balances extracted from the general ledger which helps to ensure that the accounting system has been accurate
- O An accounting document which a business must prepare
- O A list of all the transactions which have occurred in a period taken from ledger accounts **(2 marks)**

1.37 **Which of the following statements is correct?**

- O The balance on a bank loan account will appear in the debit column of a trial balance
- O Sales returns will appear in the credit column of a trial balance
- O Loan interest paid will appear in the debit column of a trial balance
- O Purchase returns will appear in the debit column of a trial balance **(2 marks)**

1.38 **What opening balance should be included in the following period's trial balance for plant and machinery - cost at 1 April 20X4?**

Bob's Co's plant and machinery cost account at 31 March 20X4 is as follows

PLANT AND MACHINERY - COST

	$		$
Balance b/d	**150,500**	**Disposal**	**85,000**
Additions	**120,950**	**Balance c/d**	**186,450**
	271,450		**271,450**

- O $271,450 DEBIT
- O $271,450 CREDIT
- O $186,450 CREDIT
- O $186,450 DEBIT **(2 marks)**

1.39 **The following balances have been taken from the trial balance of Cardo Co.**

What is the trial balance total on the debit side?

	$
Rent paid	1,800
Capital	15,000
Purchases	10,000
Sales	12,000
Wages	5,000
Sundry expenses	1,000
Bank (positive balance)	9,200

- O $26,000
- O $29,000
- O $42,000
- O $27,000 **(2 marks)**

1.40 **Which of the following is an example of an error of commission?**

- O A receipt of $25 from J. Gee entered in G. Jay's account
- O A purchase of cleaning materials recorded as debit bank general ledger account $50, credit cleaning materials $50
- O An invoice for $1,300 is lost and not recorded at all
- O An invoice for $2,500 sales is posted as $2,050 **(2 marks)**

1.41 **Which of the following is an example of an error of transposition?**

- O Purchase of insurance for a machine of $100 recorded as debit machine $100, credit bank general ledger account $100?
- O A purchase of $550 on credit not being recorded
- O Wages being recorded as debit bank general ledger account $250, credit wages $250
- O An asset purchase $750 being recorded as debit: asset - additions $570, credit: bank general ledger account $570

(2 marks)

1.42 **Which of these would be an error of principle?**

- O Plant and machinery purchased was credited to an asset account
- O Plant and machinery purchased was debited to the purchases account
- O Plant and machinery purchased was debited to the equipment account
- O Plant and machinery purchased was debited to the correct account but with the wrong amount

(2 marks)

1.43 **A suspense account shows a credit balance of $130. What could this be due to?**

- O Omitting a sales invoice of $130
- O Cash received of $130 was correctly recorded in the bank but as the accounts assistant did not know what it was for they recorded the other side in the suspense account
- O Failing to write off an irrecoverable debt of $130
- O Recording an electricity bill paid of $65 by debiting the bank general ledger account and crediting the electricity account

(2 marks)

1.44 **What type of information is regulated by data protection legislation?**

- O Information about individuals
- O Master files
- O Archived business ledgers
- O Business accounts

(2 marks)

1.45 **Which of the following are advantages of computerised accounting packages compared with a manual system?**

(i) A large amount of data can be processed very quickly

(ii) A computer is capable of handling and processing large volumes of data accurately

(iii) Data can be analysed rapidly to information used by management e.g. trial balance or financial statements

(iv) Cost and time of initial set up and training of personnel

- O (i) only
- O (i) and (ii) only
- O (i), (ii) and (iii) only
- O (i), (ii), (iii) and (iv)

(2 marks)

1.46 **Which of the following statements in relation to computerised data entry is/are true?**

1 Automatic data entry such as scanning avoids transcription errors.

2 Computerisation avoids data entry errors caused by malicious intent on the part of staff.

	Statement 1	*Statement 2*
O	Correct	Correct
O	Correct	Incorrect
O	Incorrect	Correct
O	Incorrect	Incorrect

(2 marks)

1.47 **What is the term for a computer program that deals with one particular part of a business accounting system?**

- O Package
- O Suite
- O Module
- O Software

(2 marks)

1.48 **Which of the following statements in relation to data protection is true?**

- ○ The use of passwords will help an entity achieve compliance with data protection requirements, as passwords can help to prevent company information being used for purposes other than for which it was requested and disclosed
- ○ A business should encrypt personal information when it is being sent electronically within the business, in order to prevent it from being accessed by unauthorised parties
- ○ Data protection legislation provides data subjects with the right to access personal information, but it does not provide the right to have such information erased
- ○ Compliance with data protection legislation is required for a business to be compliant with the ACCA *Code of Ethics and Conduct* **(2 marks)**

1.49 **Which of the following defines an asset according to the *Conceptual Framework*?**

- ○ A present economic resource, which is a right that has the potential to produce economic benefits, owned by an entity as a result of past events
- ○ A present economic resource over which an entity has legal rights. An economic resource is a right that has the potential to produce economic benefits
- ○ A present economic resource controlled by an entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits
- ○ A present economic resource to which the entity has a future commitment as a result of past events. An economic resource is a right that has the potential to produce economic benefits

(2 marks)

1.50 **Which of the following would meet the definition of a liability?**

- ○ ABC Co is a manufacturing business which needs a licence to produce its goods. Their current licence is due to expire in 6 months' time and will cost $70,000 to renew
- ○ DEF Co is planning to acquire new machinery and has been quoted a price of $400,000
- ○ HIJ Co has estimated that the tax charge on its profits for the year just ended is $80,000
- ○ KLM Co has suffered trading losses in recent months and the management are discussing whether they may need to make 5 staff redundant at a cost of $30,000 per staff member

(2 marks)

1.51 **Which of the following defines a liability according to the *Conceptual Framework***

- ○ A present obligation of the entity to transfer an economic resource as a result of past events.
- ○ A possible obligation of the entity to transfer an economic resource as a result of past events.
- ○ A present obligation of the entity to transfer cash as a result of past events.
- ○ A possible obligation of the entity to transfer cash as a result of past events.

(2 marks)

1.52 **The *Conceptual Framework* defines what as "increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims"?**

- ○ Sales
- ○ Cash
- ○ Income
- ○ Revenue

(2 marks)

1.53 **Which of the following defines expenses according to the *Conceptual Framework*?**

- O Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.
- O decreases in assets, or increases in liabilities, that result in decreases in equity, including than those relating to distributions to holders of equity claims.
- O decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
- O the residual interest in the assets of the entity after deducting all its liabilities.

(2 marks)

1.54 **Which of the following appears in the statement of profit or loss and other comprehensive income for the year ended 31 December 20X6?**

- O $2,500 being the cost of goods purchased in December 20X6 and sold in January 20X7
- O $18,000 being the cost of a new van purchased in June 20X6 and used to deliver goods to customers
- O $12,000 of cash the owners used to pay their personal rent bill
- O $5,000 cost to repair a machine that broke down in the year

(2 marks)

1.55 **Which of the following items appear in a statement of financial position?**

- O Rental income received
- O Sales tax owed to the tax authorities
- O Wages expense
- O Interest paid on a bank loan

(2 marks)

(2 marks per question = 110 marks)

Do you know? – RECORDING AND ACCOUNTING FOR BANK TRANSACTIONS

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Interactive Text and revise first.

- A .... shows which invoices a payment covers.
- A receipt is a document given by the seller to the .... when goods change hands in exchange for ....
- Payment for goods sold can be made by ...., ... or .... Other types of payment by customers include banker's draft, ... order and......... debit.
- Internet payments are made using .... cards and .... cards or by ....

  TRY QUESTIONS 2.1 TO 2.4
- Clearing is the mechanism for obtaining .... for cheques.
- Security procedures when banking cash should include .... the time of the visit to the bank, varying the .... taking the money there, sending more than one person and using a .... firm.

  TRY QUESTIONS 2.5 TO 2.9
- .... help to identify which receipts and payments have not cleared the bank statement but are included in the bank general ledger account.

  TRY QUESTIONS 2.10 TO 2.14
- Controls over payments will include .... of the payment, cheque requisition forms and .... documents.
- An .... is used to reimburse employees' expenses.
- Payment can be made in the same ways that the business receives monies for goods sold. Of particular importance are cheques and ....

  TRY QUESTIONS 2.15 TO 2.22
- When recording payments, a computerised system will split payments between sales tax, payments to suppliers, expenses, discounts ...., cash purchases and petty cash.

  TRY QUESTIONS 2.23 TO 2.27
- Petty cash should be used for .... items of expense.
- Petty cash must be kept secure and all payments must be properly ....
- An .... system has a maximum amount of money in petty cash, usually enough to cover payments for about one month.
- Petty cash transactions are recorded and analysed in the .... record.

  TRY QUESTIONS 2.28 TO 2.35
- A .... compares the balance per the bank general ledger account in the business records to the balance held by the bank.
- Any errors or .... found should be adjusted in the accounting system.
- The corrected balance in the accounting system should be reconciled to the balance on the bank statement by taking account of .... differences.

  TRY QUESTIONS 2.36 TO 2.44
- *Possible pitfalls*

  Write down the mistakes you know you should avoid.