



### CASE I

Kelvin and Katherine started running a wedding agency, K's Love, on 1 January 20X7. At the end of the year, Katherine prepared the financial statements.

1. To raise funds for expansion, Kelvin invited Karen to be a new partner and sent the financial statements for her reference. What function of accounting did Kelvin perform?
  - A. recording
  - B. classifying
  - C. summarising
  - D. communicating
  
2. To conceal the net loss, Kelvin adjusted the method of depreciation of office equipment in the hope of minimising the operating expenses. What accounting concept did Kelvin violate?
  - A. accrual concept
  - B. business entity concept
  - C. going concern concept
  - D. consistency concept
  
3. As a potential investor, what would Karen assess when looking at the financial statements?
  - (1) whether K's Love is worth investing
  - (2) the future performance of K's Love
  - (3) whether K's Love can finance its future plans
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
4. Which of the following **CANNOT** be provided by the financial statements of K's Love?
  - (1) staff turnover
  - (2) good relationship with customers
  - (3) experience and expertise of Kelvin and Katherine
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

## CASE 2

Tommy runs a store selling wedding cakes and chocolate. On 31 December 20X7, Tommy has prepared the financial statements as follows.

Tommy			
Income statement for the year ended 31 December, 20X7			
	\$	\$	\$
Sales			200,000
Less: Returns inwards			<u>10,000</u>
			190,000
Less: Cost of goods sold			
Opening inventory		5,000	
Add: Purchases		<u>150,000</u>	
		155,000	
Less: Returns outwards	4,000		
Closing inventory	<u>5,500</u>	<u>9,500</u>	<u>145,500</u>
Gross profit			44,500
Less: Expenses			
Rent		8,000	
Electricity and water		2,000	
Insurance		1,000	
Bank loan interest		<u>1,500</u>	<u>12,500</u>
Net profit			<u><u>32,000</u></u>

Tommy			
Statement of financial position as at 31 December, 20X7			
	\$	\$	\$
<b><u>Non-current assets</u></b>			
Equipment		100,000	
Delivery van		<u>65,000</u>	165,000
<b><u>Current assets</u></b>			
Inventory		5,500	
Trade receivables		12,000	
Cash in hand		<u>4,500</u>	
		22,000	
Less: <b><u>Current liabilities</u></b>			
Trade payables	6,800		
Bank overdraft	<u>2,500</u>	<u>9,300</u>	
Net current assets			<u>12,700</u>
			177,700
Less: <b><u>Non-current liabilities</u></b>			
Bank loan			<u>50,000</u>
			<u><u>127,700</u></u>
Financed by:			
Capital			
Balance as at 1 January, 20X7			144,200
Add: Net profits			<u>32,000</u>
			176,200
Less: Drawings			<u>48,500</u>
			<u><u>127,700</u></u>

5. What is the gross profit ratio for 20X7? (Correct to two decimal places)
- A. 16.84%
  - B. 22.25%
  - C. 23.42%
  - D. 30.58%
6. What is the net profit ratio for 20X7? (Correct to two decimal places)
- A. 16.00%
  - B. 16.84%
  - C. 21.99%
  - D. 23.42%
7. What is the current ratio for 20X7? (Correct to two decimal places)
- A. 0.42 : 1
  - B. 1.37 : 1
  - C. 1.73 : 1
  - D. 2.37 : 1
8. What is the quick ratio for 20X7? (Correct to two decimal places)
- A. 0.56 : 1
  - B. 1.08 : 1
  - C. 1.77 : 1
  - D. 2.37 : 1
9. What is the return on capital employed for 20X7? (Correct to two decimal places)
- A. 23.54%
  - B. 24.64%
  - C. 25.06%
  - D. 26.23%
10. If the return on investment has improved in 20X7, which of the following is the possible return on capital employed for 20X6?
- A. 24%
  - B. 25%
  - C. 26%
  - D. 27%

### CASE 3

William and Yuki own a furniture shop. Below is the accounting record for the month June 20X7.

Jun 1	purchase of sofa of \$9,830 from Choi by cash
Jun 6	sales of beds of \$8,640 to Dickson on credit
Jun 8	sales of chairs of \$1,000 to Katherine by cash
Jun 9	purchase of computer desks of \$5,700 for business use from Tam on credit
Jun 12	sales of shelves of \$5,330 to Choi on credit
Jun 19	sales of obsolete shop equipment of \$19,900 to John on credit
Jun 25	return of sofa of \$7,010 to Choi, with the refund made in cash immediately
Jun 28	return of shelves from Choi at the original selling price of \$1,890
Jun 29	return of computer desks of \$1,600 to Tam
Jun 30	sales of 2 coffee tables at a total invoice price of \$3,650 each to Henry on credit, with a 5% cash discount stipulated to be allowed for debt settlement within 7 days

11. What is the net sales for the month June 20X7?
  - A. \$20,380
  - B. \$40,280
  - C. \$41,170
  - D. \$42,170
  
12. What is the net purchases for the month June 20X7?
  - A. \$2,820
  - B. \$6,920
  - C. \$9,830
  - D. \$15,530
  
13. What is the closing balance of Choi for the month June 20X7, given the opening entry is Dr. \$16,890?
  - A. Dr. \$13,450
  - B. Dr. \$16,270
  - C. Dr. \$17,510
  - D. Dr. \$20,330
  
14. Concerning the transaction on Jun 30, Henry paid for one coffee table on Jul 6. The remaining balance would be settled on Jul 15. What is the total payment? (Correct to the nearest dollar)
  - A. \$6,935
  - B. \$7,117
  - C. \$7,118
  - D. \$7,300

15. The effects of the transaction on Jun 29 on the working capital and the net profit respectively should be:

	<u>Working capital</u>	<u>Net profit</u>
A.	increase	no change
B.	decrease	no change
C.	increase	decrease
D.	decrease	decrease