

# NATS EXAM 2014

**Time allowed:** 3 Hours

**Marks:** 100

ALL 40 questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the invigilator.



## **PART A (40 Marks)**

**Each multiple choice question is worth 2 marks.**

1. Which of the following in the Balance sheet of a business shows the owner how well his business is doing?
  - (a) Debtors
  - (b) Drawings
  - (c) Net profit
  - (d) Working capital
  
2. The owner's capital is regarded as a liability. What accounting principle is being applied?
  - (a) Business entity
  - (b) Consistency
  - (c) Matching
  - (d) Realisation
  
3. Which of the following is correct.
  - A. Profit does not alter capital
  - B. Profit reduces capital
  - C. Capital can only come from profit
  - D. Profit increases capital
  
4. Money received from a customer must be recorded in the debtor's account and the bank account. What accounting principle is being applied?
  - (a) Business entity
  - (b) Duality
  - (c) Matching
  - (d) Money measurement
  
5. The descending order in which current assets should be shown in the balance sheet is
  - A. Inventory, account receivable, bank, cash
  - B. Cash, bank, account receivable, inventory
  - C. account receivable, inventory, bank, cash
  - D. Inventory, account receivable, cash, bank
  
6. Given figures showing; Revenue N\$8200, opening inventory N\$1300, closing inventory N\$900, purchases N\$6400, carriage inwards N\$200, the cost of goods sold figure is
  - A. N\$6800
  - B. N\$6200
  - C. N\$7000
  - D. Another figure

7. Given a purchases invoice showing five items of N\$80 each, less trade discount of 25% and cash discount of 5%, if paid within the credit period, your cheque would be made out for  
 A. N\$285                      B. N\$280                      C. N\$260                      D. None of these
8. An allowance for doubtful debt is created  
 A. When debtors become bankrupt  
 B. When debtors cease to be in business  
 C. To provide for possible bad debts  
 D. To write off bad debts
9. A cheque paid by you, but not yet passed through the banking system is  
 A. A standing order  
 B. A dishonoured cheque  
 C. A credit transfer  
 D. An unpresented cheque

10. A cheque for N\$96 to Brown was entered into his account as N\$69. When the trial balance was prepared the difference was entered into a suspense account. Which entries are required to correct this error?

	Account to be debited		Account to be credited	
(a)	Brown	N\$27	Suspense	N\$27
(b)	Brown	N\$54	Suspense	N\$27
(c)	Brown	N\$69	Suspense	N\$69
(d)	Brown	N\$96	Suspense	N\$96

11. The totals of a trial balance are:  
 Debit N\$46 800      Credit N\$39 700

The following errors have been discovered:

- 1      Rent received, N\$3 550, has been included as a debit balance.
- 2      Cash received from K Greener in settlement of a debt of N\$2 000 has been credited to B Greener.

What will the corrected trial balance totals be?

- (a) N\$38 150      (b)    N\$41 250      (c)    N\$43 250      (d)    N\$45 250

12. What is the purpose of preparing a bank reconciliation statement?  
 (a) To check that all expenses have been paid  
 (b) To check on the amount owed by debtors  
 (c) To explain the difference between the bank statement balance and cash book balance  
 (d) To see by how much the bank balance has increased
13. In a bakery business, which is a current asset?

- A. Motor vehicle
- B. Oven
- C. Shelving
- D. Sock of flour

14. The following information about a business is provided.

Sales	N\$75 000
Cost of sales	N\$60 000
Opening stock	N\$6 000
Closing stock	N\$9 000

What is the rate of stock turnover?

- (a) 4 times    (b) 5 times (c) 8 times (d) 10 times

15. Legal costs incurred in the purchase of a business property have been entered in the Legal Expenses account.

What is the effect of this on the final accounts of the business?

	Profit and Loss account	Balance Sheet
(a)	Net profit is overstated.	Assets are overstated.
(b)	Net profit is overstated.	Assets are understated.
(c)	Net profit is understated.	Assets are overstated.
(d)	Net profit is understated.	Assets are understated.

16. Where the cost of sales should be entered in the final accounts of a partnership?

- A. Appropriation account
- B. Balance sheet
- C. Profit and loss account
- D. Trading account

17. Which error affects the balancing of a trial balance?

- A. An addition error in the sales account
- B. Crediting a purchases to B. Shore's account instead of A. Shaw's account.
- C. Failing to enter a sales invoice in the books.
- D. Posting the purchase of machine to the debit side of the purchases account.

18. In a partnership accounts, which item appears in both the Profit and Loss Appropriation Account and in the partners' current accounts?

- (a) Current account balances
- (b) Drawings
- (c) Interest on drawings
- (d) Interest on loans

19. In the manufacturing account we calculated

- A. The production costs paid in the year

- B. The total cost of goods produced
- C. The production cost of goods completed in the period
- D. The gross profit on goods sold

20. A trader does not keep proper accounting records. Her capital at the end of the financial year is higher than at the start. She has not introduced any further capital during the year.

What does this show?

- (a) A net loss has been made during the year.
- (b) Annual drawings are greater than the net profit.
- (c) Assets less liabilities have reduced during the year.
- (d) Net profit is greater than annual drawings.

**PART B (60 Marks)**

**Each multiple choice question is worth 3 marks.**

21. A firm bought equipment for N\$3200. It is to be depreciated at a rate of 25% using the reducing balance method. What would be the remaining book value after two years?

- A. N\$1600
- B. N\$2400
- C. N\$1800
- D. Some other figure

22. X's journal shows the following entry.

	Dr	Cr
	N\$	N\$
John Brown	300	
Brown John Ltd		300
Correction of error		

Both John Brown and Brown John are X's debtors.

What error has been corrected?

- (a) Goods bought from Brown John Ltd were wrongly credited to John Brown.
- (b) Goods bought from John Brown were wrongly credited to Brown John Ltd.
- (c) Goods sold to Brown John Ltd were wrongly debited to John Brown.
- (d) Goods sold to John Brown were wrongly debited to Brown John Ltd.

23. On 1 January 2012 a business owed N\$500 for the rent for December 2011. During 2012, the business paid rent of N\$80 000 including N\$1000 as rent for 2013. According to the matching principle, how much was the rent for 2012?

- A. N\$78 500
- B. N\$80 000

- C. N\$80 500
- D. N\$81 500

24. A vehicle cost N\$30 000. The vehicle was later sold for N\$9 000 and the net profit on disposal was N\$1 500.

What was the accumulated depreciation of the vehicle on disposal?

- (a) N\$7 500
- (b) N\$9 000
- (c) N\$21 000
- (d) 22 500

25. Money received from a customer must be recorded in the debtor's account and the bank account. What accounting principle is being applied?

- A. Business entity
- B. Duality
- C. Matching
- D. Money measurement

26. A manufacturing company has the following balances at its year end.

Closing stock of raw materials	N\$24 500
Direct manufacturing wages	N\$162 800
Purchases of raw materials	N\$85 200
Supervisor's wages	N\$44 000
Opening stock of raw materials	N\$27 800

What is the prime cost for the year?

- (a) N\$244 700
- (b) N\$248 000
- (c) N\$251 300
- (d) N\$295 300

27. A business makes sales with a gross profit margin of 30%. At 1 April 2013, the stock was valued at N\$2 600, and at 31 March 2014 at N\$3 800. During the year the sales totaled N\$80 800.

What was the value of purchases during the year?

- (a) N\$56 560
- (b) N\$57 760
- (c) N\$60 360
- (d) N\$63 354

28. The following information relates to a business on 31 January 2014.

Bank account balance in cash book	N\$1 600 Dr
Unpresented cheques	N\$ 680
Amount not yet credited by bank	N\$ 560

What is the balance on the bank statement at 31 January 2014?

- A. N\$360
- B. N\$1 480
- C. N\$1 720
- D. N\$2 840

29. For which purpose can a share premium account legally be used?

- (a) To make a right issue

- (b) To pay an ordinary dividend
- (c) To repay debentures
- (d) To write off preliminary expenses

30. Lyne had sales of N\$400 000. Her expenses were N\$100 000 and her Net profit was N\$60 000. What was the gross profit as a percentage of Sales?
- A. 40%
  - B. 60%
  - C. 75%
  - D. 85%

31. The table shows the fair value of net assets for a business.

Intangibles other than goodwill	N\$65 000
Tangibles non-current assets	N\$160 000
Net current liabilities	(N\$25 000)

The existing book value of goodwill is N\$40 000. The assets are acquired by a company for N\$215 000.

What is the value of goodwill arising on acquisition in the purchaser's book?

	Goodwill	N\$
(a)	Positive	15 000
(b)	Negative	15 000
(c)	Negative	25 000
(d)	Positive	80 00

32. The following items appeared in the balance sheet at year end.

	N\$
Fixed assets	100 000
Inventory	50 000
Trade receivables	40 000
Cash at bank	20 000
Trade payables	10 000

What is the quick (acid test) ratio?

- (a) 21:1      (b) N\$11:1      (c) 6:1      (d) 2:1

33. A firm has the following assets and liabilities

	N\$
Non- current assets	30 000
Current assets	4 000
Current liabilities	2 000
Long- term Loan	12 000

What is the current ratio?

- A. 2.0 : 1
- B. 2.4 : 1
- C. 3.0 : 1
- D. 5.0 : 1

34. The data shows the budget of a small manufacturing company.

Sales in units	6 000	12 000
	N\$	N\$
Direct materials	18 000	36 000
Direct labour	6 000	12 000
Production overheads	33 000	45 000
Administrative overheads	27 000	27 000

The units are sold for N\$12 each?

What is the break even point in units?

- (a) 4 500      (b) 6 750      (c) 8 000      (d) 9 000

35. Four businesses are of a similar size and sell similar products. Which business is most efficient at keeping its overhead expenses to a minimum?

	Gross profit / sales %	Net profit / sales%
A	40	23
B	45	30
C	55	37
D	65	46

36. The interest on the mortgage bond must be calculated at 15% per annum. The mortgage bond account appears in the books as follows:

Mortgage Bond							
2013				2013			
Oct 31	Bank		10 000	April 1	Balance	b/d	30 000

Interest on mortgage bond for the year ended 31 March 2014 is:

- (a) N\$3 000      (b) N\$4 500      (c) N\$3 875      (d) N\$1 500

37. "A business will continue to trade in the foreseeable future". Which accounting concept is this describing?

- A. Business entity  
B. Consistency  
C. Going concern  
D. Matching

38. A firm has 2 kinds of inventory. The cost and net realisable value (NRV) of each are as follows:

	Cost	NRV
Category 1	N\$40 000	N\$32 000
Category 2	N\$18 000	N\$22 000

The figure to be included in the firm's balance sheet, in respect of inventory is:

- (a) N\$58 000      (b) N\$54 000      (c) N\$62 000      (d) N\$50 000

39. The best method of departmental accounts is

- A. To allocate expenses in proportion to sales



- B. To charge against each department its controllable costs.
  - C. To allocate purchases
  - D. To charge against each department its uncontrollable costs.
40. Pandu Trades has total trade receivables of N\$650 400 at the end of the most recent year. It is considered that N\$22 200 of the trade receivables will not pay and a further 2% of the remainder are doubtful. The provision for doubtful debts at the beginning of the year was N\$12 500. Which of the following will represent the net amount of debtors to be shown on the balance sheet at the end of the year?
- (a) N\$627 695
  - (b) N\$615 636
  - (c) N\$628 136
  - (d) N4603 136

*... The End of question paper ...*