CIMA BA3 Financial Accounting

Mock exam: 60 questions in 120 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **120 minutes** and answer every question without notes. Write your answers in the grid on the next page.
- Mark your answers using the answer key, then read the explanation for every question you got wrong or guessed.
- The questions cover every section of the syllabus, in proportion to the GoQualified question bank for BA3.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/cima/ba3/** times you, marks the paper and shows your weakest section.
- All questions are original GoQualified practice questions, not past exam questions.

Free from GoQualified. Questions start on page 3; the answer key and explanations follow them. Download the latest version from goqualified.co.uk/cima/ba3/.

Your answers

1 _____	13 _____	25 _____	37 _____	49 _____
2 _____	14 _____	26 _____	38 _____	50 _____
3 _____	15 _____	27 _____	39 _____	51 _____
4 _____	16 _____	28 _____	40 _____	52 _____
5 _____	17 _____	29 _____	41 _____	53 _____
6 _____	18 _____	30 _____	42 _____	54 _____
7 _____	19 _____	31 _____	43 _____	55 _____
8 _____	20 _____	32 _____	44 _____	56 _____
9 _____	21 _____	33 _____	45 _____	57 _____
10 _____	22 _____	34 _____	46 _____	58 _____
11 _____	23 _____	35 _____	47 _____	59 _____
12 _____	24 _____	36 _____	48 _____	60 _____

Questions

Question 1

The accounting concept that revenue and the costs incurred in earning that revenue should be recognised in the same accounting period is the:

A Going concern concept
B Materiality concept
C Accruals (matching) concept
D Prudence concept

Question 2

The assumption that a business will continue to operate for the foreseeable future is the:

A accruals concept
B going concern assumption
C prudence concept
D business entity concept

Question 3

Applying the same accounting treatment to similar items from one period to the next is an application of the:

A consistency concept
B prudence concept
C materiality concept
D going concern assumption

Question 4

An item is considered material if:

A It happens to be a large physical object
B Its omission or misstatement could influence users' economic decisions
C It relates specifically to a non-current asset held by the business
D It is simply recorded in the accounting journal

Question 5

The money measurement concept means that:

A all transactions must be settled in cash
B accounts must be prepared in a single currency only
C Only items measurable reliably in monetary terms are recorded
D Money must be physically counted at the year end

Question 6

In a company, who is primarily responsible for preparing financial statements that give a true and fair view?

A The external auditors
B The tax authority
C The shareholders
D The directors

Question 7

In which book of prime entry would a credit sale first be recorded?

A The cash book
B The purchases day book
C The journal
D The sales day book

Question 8

Recording the purchase of a delivery van as motor expenses rather than as a non-current asset is an example of an error of:

A Omission
B Commission
C Principle
D Original entry

Question 9

An asset costing £20,000 is depreciated at 25% per annum on the reducing balance basis. What is the depreciation charge in year 2?

A £5,000
B £3,750
C £2,500
D £10,000

Question 10

A non-current asset that cost £12,000 has accumulated depreciation of £8,000. It is sold for £5,000. What is the profit or loss on disposal?

A £7,000 loss
B £1,000 loss
C £1,000 profit
D £5,000 profit

Question 11

A company's cash book shows a balance of £2,000. There are unpresented cheques of £500 and outstanding lodgements (deposits not yet credited by the bank) of £300. What balance is shown on the bank statement?

A £2,200
B £1,800
C £2,800
D £2,000

Question 12

The sales ledger control account has an opening balance of £10,000. Credit sales were £50,000, cash received from customers was £45,000, and discounts allowed were £1,000. What is the closing balance?

A £16,000
B £14,000
C £6,000
D £15,000

Question 13

A non-current asset cost £30,000 and has accumulated depreciation of £18,000. What is its carrying amount (net book value)?

A £48,000
B £12,000
C £18,000
D £30,000

Question 14

A company issues 10,000 ordinary shares with a nominal value of £1 each at an issue price of £1.50 each. What amount is credited to the share premium account?

A £15,000
B £10,000
C £5,000
D £1,500

Question 15

A transaction that has been completely left out of the accounting records is an error of:

A commission
B omission
C principle
D original entry

Question 16

An asset costs £24,000, has a useful life of 8 years and no residual value, and is depreciated on the straight-line basis. What is the accumulated depreciation after 3 years?

A £3,000
B £15,000
C £9,000
D £24,000

Question 17

A petty cash float operates on the imprest system with an imprest amount of £150. At the period end, £42 in cash remains. How much was spent during the period?

A £150
B £42
C £108
D £192

Question 18

A direct debit has been paid by the bank but has not yet been recorded by the company. This requires:

A an adjustment to the bank statement
B an entry in the sales day book
C no action at all
D an adjustment (credit) to the cash book

Question 19

A sales invoice totals £1,200 including sales tax (VAT) at 20%. What is the sales tax element of the invoice?

A £200
B £240
C £1,000
D £20

Question 20

A bonus (scrip) issue of shares is:

A A sale of new shares to investors in exchange for cash
B An issue of new shares to existing holders at no cost, from reserves
C A loan secured against the company's own assets
D a repayment of share capital to shareholders

Question 21

A business allows a settlement (cash) discount to a credit customer who pays early. What is the double entry for the discount?

A Debit discount received, credit payables
B Debit receivables, credit discount allowed
C Debit discount allowed, credit receivables
D Debit cash, credit discount allowed

Question 22

Carriage inwards (the cost of delivering goods purchased by the business) is treated as:

A a distribution expense
B a reduction of sales
C a non-current asset
D part of the cost of purchases

Question 23

A receivables account has an opening balance of £5,000 (debit). During the period, credit sales of £30,000 were made and £28,000 was received from customers. What is the closing balance carried down?

A £3,000
B £7,000
C £63,000
D £33,000

Question 24

The main purpose of a non-current asset register is to:

A Record details of each asset and provide a control check against the ledger
B calculate the company's tax liability
C Value the company's closing inventory at the year end
D Record all of the business's credit sales transactions

Question 25

An old vehicle with a carrying amount of £3,000 is given in part-exchange for a new vehicle, with a part-exchange allowance of £4,000. What is the profit or loss on disposal of the old vehicle?

A £4,000 profit
B £1,000 profit
C £3,000 loss
D £7,000 profit

Question 26

Under IAS 38, expenditure on research (as opposed to development) should be:

A capitalised as an intangible asset
B added to the cost of inventory
C written off as an expense as it is incurred
D ignored in the financial statements

Question 27

An employer pays gross wages of £50,000 and employer's national insurance contributions of £6,000. What is the total cost of employment to the employer?

A £44,000
B £50,000
C £56,000
D £62,000

Question 28

A contra entry between the sales ledger and the purchase ledger arises when:

A A customer pays for goods entirely in cash
B A customer is also a supplier, so the two balances are offset
C A debt is written off as irrecoverable
D Goods are returned by the business to a supplier

Question 29

Under IAS 16, a revaluation that reduces an asset's value below its carrying amount, where there is no previous revaluation surplus on that asset, is:

A credited to a revaluation reserve
B charged as an expense in profit or loss
C added to the cost of the asset
D ignored until the asset is sold

Question 30

The bank statement shows a balance of £3,000. There are unpresented cheques of £800 and outstanding lodgements (deposits not yet credited) of £500. What is the balance shown in the cash book?

A £3,300
B £2,300
C £3,700
D £2,700

Question 31

A business makes a credit sale and charges sales tax. The correct double entry is:

A Debit sales with the net amount, credit receivables with the gross amount
B Debit receivables gross, credit sales net and sales tax with the tax element
C Debit receivables and sales tax, credit sales
D Debit sales tax only, credit sales with the full amount

Question 32

Replacing a worn-out engine in a delivery vehicle, significantly extending its useful life beyond the original estimate, should be treated as:

A revenue expenditure (repairs)
B A prepayment carried forward to next year
C a reduction of the asset's value
D capital expenditure, added to the asset's cost

Question 33

An asset cost £20,000 and has accumulated depreciation of £14,000. It is sold at a loss of £1,500. What were the disposal proceeds?

A £7,500
B £4,500
C £6,000
D £5,000

Question 34

Under IAS 38, development expenditure may be capitalised as an intangible asset only when:

A It has simply been incurred at some point during the year
B The company's management simply decides to capitalise the cost
C Specified criteria are met, including feasibility and probable future benefits
D It happens to relate to staff training costs

Question 35

An ordinary dividend paid to shareholders is:

A an expense in the statement of profit or loss
B a finance cost
C a distribution of profit, not an expense
D added to share capital

Question 36

A non-current asset register lists three assets with carrying amounts of £5,000, £8,000 and £12,000. What total carrying amount should the register show, and to what should it be reconciled?

A £25,000, reconciled to the nominal ledger
B £25,000, reconciled to the sales ledger
C £15,000, reconciled to the cash book
D £12,000, reconciled to the bank statement

Question 37

A customer's debt of £800 is considered irrecoverable and is to be written off. What is the correct double entry?

A Debit irrecoverable debts expense £800, credit receivables £800
B Debit receivables £800, credit irrecoverable debts expense £800
C Debit cash £800, credit receivables £800 in full
D Debit receivables £800, credit cash £800 in full

Question 38

Under IAS 2, inventory should be valued at:

A Selling price
B The lower of cost and net realisable value
C Replacement cost
D The higher of cost and net realisable value

Question 39

A company has sales of £100,000, opening inventory of £10,000, purchases of £60,000 and closing inventory of £15,000. What is the gross profit?

A £45,000
B £55,000
C £35,000
D £40,000

Question 40

A company has trade receivables of £50,000 and wishes to make a general allowance for receivables of 4%. What is the amount of the allowance?

A £2,000
B £48,000
C £500
D £200

Question 41

During a period a company purchases 100 units at £5 each followed by 100 units at £6 each, and sells 120 units. Using the LIFO (last in, first out) method, what is the value of the closing inventory?

A £480
B £440
C £400
D £600

Question 42

A company has a gross profit of £45,000 and total operating expenses of £20,000. What is the net profit?

A £25,000
B £65,000
C £45,000
D £20,000

Question 43

Which of the following is recorded as an expense in the statement of profit or loss?

A Drawings taken by the owner
B A dividend paid to shareholders
C The purchase of a non-current asset
D Depreciation of a machine

Question 44

Opening inventory is 50 units at £4 each. The business then buys 100 units at £5 each and sells 120 units. Using FIFO, what is the cost of sales?

A £480
B £550
C £600
D £500

Question 45

Total production cost for the period is £50,000. Opening work in progress was £3,000 and closing work in progress is £5,000. What is the cost of goods manufactured?

A £52,000
B £50,000
C £48,000
D £58,000

Question 46

Which of the following would appear in the statement of changes in equity?

A Dividends paid to shareholders
B Depreciation charged for the year
C Cost of sales for the period
D Carriage inwards

Question 47

Under the indirect method in IAS 7, an increase in inventory during the year is:

A added to profit before calculating cash flow
B ignored entirely in the cash flow statement
C deducted from profit when calculating cash from operations
D classified under financing activities

Question 48

Insurance paid during the year was £2,400. The opening prepayment was £300 and the closing prepayment is £400. What is the insurance expense for the year?

A £2,300
B £2,500
C £2,400
D £3,100

Question 49

Under the indirect method in IAS 7, a decrease in trade receivables during the year is:

A Deducted from profit before calculating operating cash flow
B classified under investing activities
C added to profit when calculating cash from operations
D Ignored entirely when preparing the cash flow statement

Question 50

Under IAS 7, dividends paid to shareholders are usually classified under which heading in the statement of cash flows?

A Operating activities
B Investing activities
C They are not a cash flow
D Financing activities

Question 51

The cost of goods manufactured for the period is £48,000. Opening finished goods inventory was £6,000 and closing finished goods inventory is £4,000. What is the cost of sales?

A £46,000
B £58,000
C £48,000
D £50,000

Question 52

A company has a gross profit of £80,000, distribution costs of £15,000 and administrative expenses of £25,000. What is the operating profit?

A £40,000
B £55,000
C £65,000
D £120,000

Question 53

A company has share capital of £100,000, a share premium of £20,000 and retained earnings of £55,000. What is its total equity?

A £120,000
B £175,000
C £155,000
D £75,000

Question 54

During the year, a trader's cash takings were used as follows: cash banked £20,000, expenses paid in cash £3,000. Cash in hand was £500 at the start and £700 at the end of the year. What were the total cash sales (takings)?

A £22,800
B £23,000
C £23,200
D £20,200

Question 55

A company has a gross profit of £45,000 on sales of £100,000. What is the gross profit margin?

A 55%
B 2.2%
C 222%
D 45%

Question 56

A company's current ratio is much higher than the industry average. This might indicate that the company:

A Is holding excessive inventory or cash and using resources inefficiently
B Is about to become insolvent and unable to pay debts
C Has too many current liabilities relative to assets
D Has no current assets of any kind at all

Question 57

A company has long-term debt of £200,000 and equity of £300,000. What is its gearing ratio, measured as debt ÷ (debt + equity)?

A 40%
B 66.7%
C 60%
D 150%

Question 58

A company has a net profit of £30,000 on revenue of £200,000. What is the net profit margin?

A 15%
B 6.7%
C 20%
D 30%

Question 59

A company has an operating profit of £90,000 and finance costs (interest) of £15,000. What is its interest cover?

A 6 times
B 0.17 times
C 75 times
D 1.2 times

Question 60

A company has trade payables of £12,000 and credit purchases for the year of £73,000. What is the payables payment period, to the nearest day?

A 50 days
B 60 days
C 73 days
D 30 days

Answer key

1 C	**13** B	**25** B	**37** A	**49** C
2 B	**14** C	**26** C	**38** B	**50** D
3 A	**15** B	**27** C	**39** A	**51** D
4 B	**16** C	**28** B	**40** A	**52** A
5 C	**17** C	**29** B	**41** C	**53** B
6 D	**18** D	**30** D	**42** A	**54** C
7 D	**19** A	**31** B	**43** D	**55** D
8 C	**20** B	**32** D	**44** B	**56** A
9 B	**21** C	**33** B	**45** C	**57** A
10 C	**22** D	**34** C	**46** A	**58** A
11 A	**23** B	**35** C	**47** C	**59** A
12 B	**24** A	**36** A	**48** A	**60** B

Score: count your correct answers out of 60. Then work through the explanations below.

Answers and explanations

Question 1: C Accruals (matching) concept

The accruals (matching) concept requires income and the expenses incurred in generating it to be recognised in the same period, regardless of when cash is received or paid. Going concern assumes the business will continue operating, materiality concerns whether an item is significant enough to influence decisions, and prudence concerns not overstating assets or income. Matching costs to the related revenue is the accruals concept.

Section A, Accruals concept · Ref A1b · ba3003

Question 2: B going concern assumption

The going concern assumption holds that the entity will continue in operation for the foreseeable future and has no intention or need to cease trading or curtail its activities. This justifies valuing assets at cost rather than break-up values. The accruals concept matches income and expenses to periods, prudence avoids overstating assets and income, and the business entity concept separates the owner from the business. Going concern is the assumption about continuity.

Section A, Going concern · Ref A1b · ba3027

Question 3: A consistency concept

The consistency concept requires similar items to be treated the same way in successive periods, so that the financial statements can be compared meaningfully over time. Prudence concerns not overstating assets or income, materiality concerns whether an item is significant, and going concern assumes continued operation. Consistency supports comparability — a change in policy is only made where it gives more relevant or reliable information, and is then disclosed.

Section A, Consistency concept · Ref A1b · ba3076

Question 4: B Its omission or misstatement could influence users' economic decisions

Materiality is judged by impact: an item is material if omitting or misstating it could influence the economic decisions users make on the basis of the financial statements. Materiality depends on the size or nature of the item in context, not on its physical size, the type of account, or where it is recorded. The concept allows immaterial items to be treated in the most practical way without distorting the accounts.

Section A, Materiality · Ref A1b · ba3101

Question 5: C Only items measurable reliably in monetary terms are recorded

The money measurement concept restricts the accounts to items that can be measured reliably in monetary terms, which is why valuable but unmeasurable factors such as staff morale or a skilled workforce are not recognised. It does not require all transactions to be in cash, nor is it about physically counting money or limiting to one currency. The concept defines the boundary of what financial accounting can capture.

Section A, Money measurement concept · Ref A1b · ba3102

Question 6: D The directors

The directors are responsible for preparing the financial statements and ensuring they give a true and fair view, as part of their stewardship of the company. The external auditors give an independent opinion on those statements but do not prepare them. Shareholders own the company but delegate management to the directors, and the tax authority assesses tax. Preparation and fair presentation are a directorial responsibility.

Section A, Directors' responsibility · Ref A1d · ba3103

Question 7: D The sales day book

Credit sales are first listed in the sales day book (sales journal) before being posted to the ledgers. The cash book records receipts and payments of cash, the purchases day book records credit purchases, and the journal records adjustments and items that do not fit the other books. Each category of transaction has its own book of prime entry as the first point of recording.

Section B, Books of prime entry · Ref B1a · ba3004

Question 8: C Principle

An error of principle occurs when a transaction is recorded in a fundamentally wrong type of account — here, treating capital expenditure (the van) as revenue expenditure (an expense). An error of omission leaves a transaction out entirely, an error of commission posts to the wrong account of the same type, and an error of original entry uses the wrong amount. This error would not be revealed by the trial balance, which would still balance.

Section B, Error of principle · Ref B1c · ba3007

Question 9: B £3,750

Year 1 depreciation = £20,000 × 25% = £5,000, leaving a carrying amount of £15,000. Year 2 depreciation = £15,000 × 25% = £3,750. The £5,000 figure is the year 1 charge, not year 2. Under the reducing balance method the percentage is applied to the falling carrying amount each year, so the charge decreases over time, unlike the constant straight-line charge.

Section B, Reducing balance depreciation · Ref B2a · ba3010

Question 10: C £1,000 profit

The carrying amount at disposal = cost − accumulated depreciation = £12,000 − £8,000 = £4,000. Profit on disposal = proceeds − carrying amount = £5,000 − £4,000 = £1,000 profit, because the asset sold for more than its carrying amount. Comparing the proceeds with the original cost would wrongly suggest a large loss; disposal profits and losses are always measured against the carrying amount, not the original cost. A £7,000 loss compares the proceeds with the original cost (£12,000 − £5,000), which ignores the depreciation already charged.

Section B, Disposal of a non-current asset · Ref B2a · ba3011

Question 11: A £2,200

Unpresented cheques have reduced the cash book but not yet the bank statement, so the statement is higher by £500; outstanding lodgements have increased the cash book but not yet the statement, so the statement is lower by £300. Bank statement balance = £2,000 + £500 − £300 = £2,200. The reconciliation explains the timing differences between the company's records and the bank's, which arise because items reach the two records at different times. £1,800 reverses both adjustments (£2,000 − £500 + £300), £2,800 adds both items, and £2,000 assumes the two records agree.

Section B, Bank reconciliation · Ref B3a · ba3013

Question 12: B £14,000

Closing receivables = opening balance + credit sales − cash received − discounts allowed = £10,000 + £50,000 − £45,000 − £1,000 = £14,000. Credit sales increase the amount owed by customers, while cash received and discounts allowed reduce it. £15,000 omits the discounts allowed, and £16,000 adds them instead of deducting them. £6,000 reverses every entry. The control account summarises the total of all the individual customer balances in the sales ledger.

Section B, Sales ledger control account · Ref B3b · ba3014

Question 13: B £12,000

Carrying amount = cost − accumulated depreciation = £30,000 − £18,000 = £12,000. This is the value at which the asset appears in the statement of financial position. The £48,000 figure adds the two amounts instead of subtracting, and £30,000 and £18,000 are the cost and accumulated depreciation themselves. The carrying amount represents the unexpired cost of the asset still to be charged as depreciation.

Section B, Carrying amount · Ref B2a · ba3035

Question 14: C £5,000

The share premium is the excess of the issue price over the nominal value: 10,000 shares × (£1.50 − £1.00) = £5,000. The nominal value of £10,000 (10,000 × £1) is credited to share capital, and the premium of £5,000 to the share premium account, giving total proceeds of £15,000. The £15,000 figure is the total cash received, not the premium alone. £1,500 is a tenth of the total proceeds and does not follow from the figures.

Section B, Share issue at a premium · Ref B4c · ba3040

Question 15: B omission

An error of omission occurs when a transaction is entirely left out of the books, so neither the debit nor the credit is recorded. Because both sides are missing, the trial balance still balances. An error of commission posts to the wrong account of the same type, an error of principle uses the wrong class of account, and an error of original entry records the wrong figure. Complete omission means the transaction is simply absent.

Section B, Error of omission · Ref B1c · ba3055

Question 16: C £9,000

Annual depreciation = £24,000 ÷ 8 = £3,000. After 3 years, accumulated depreciation = 3 × £3,000 = £9,000. The £3,000 figure is the single-year charge, and £15,000 is the carrying amount remaining (£24,000 − £9,000), not the accumulated depreciation. Accumulated depreciation builds up year by year and is deducted from cost to give the carrying amount.

Section B, Accumulated depreciation · Ref B2a · ba3056

Question 17: C £108

Amount spent = imprest amount − cash remaining = £150 − £42 = £108, which equals the total of the expense vouchers held in the float. The £42 figure is the cash left, and £150 is the imprest amount. Under the imprest system the float will then be reimbursed by £108 to restore it to £150, so the reimbursement equals the amount spent. £192 adds the cash remaining to the imprest amount instead of deducting it.

Section B, Petty cash spent · Ref B3b · ba3060

Question 18: D an adjustment (credit) to the cash book

A direct debit the company has not yet recorded is a genuine payment that must be entered in the cash book — credited, because it reduces the cash balance. It is not adjusted on the bank statement, which is the bank's own record, and it certainly cannot be ignored. Items the company is unaware of until it sees the bank statement (direct debits, standing orders, charges, interest) are corrected by updating the cash book.

Section B, Direct debit in bank reconciliation · Ref B3a · ba3061

Question 19: A £200

When tax is included in a gross figure, it is extracted using the tax fraction: £1,200 × 20/120 = £200 (leaving a net amount of £1,000). The £240 figure wrongly applies 20% to the gross total, which would overstate the tax, because the £1,200 already includes the tax. Extracting tax from a gross amount uses 20/120, whereas adding tax to a net amount uses 20/100.

Section B, Sales tax within a gross amount · Ref B4a · ba3062

Question 20: B An issue of new shares to existing holders at no cost, from reserves

A bonus issue gives existing shareholders additional shares at no cost, capitalising reserves (such as the share premium or retained earnings) into share capital. No cash is received by the company. It is not a sale for cash, a loan, or a return of capital. A bonus issue changes the makeup of equity — increasing share capital and reducing reserves — without altering the total equity or bringing in new funds.

Section B, Bonus issue of shares · Ref B4c · ba3063

Question 21: C Debit discount allowed, credit receivables

A discount allowed to a customer is an expense to the business: it is debited to discount allowed and credited to receivables, reducing the amount the customer still owes. Discount received relates to discounts from suppliers, which is a different transaction. The discount reduces the receivable because the customer pays less than the full invoiced amount in return for prompt settlement.

Section B, Double entry: discount allowed · Ref B1a · ba3078

Question 22: D part of the cost of purchases

Carriage inwards is the cost of bringing purchased goods into the business and is added to the cost of purchases, forming part of the cost of sales. Carriage outwards (delivering goods to customers) is the item treated as a distribution expense. Carriage inwards is not an asset or a reduction of sales. Including it in purchases reflects the full cost of acquiring the goods for resale.

Section B, Carriage inwards · Ref B1a · ba3079

Question 23: B £7,000

The receivables account is debited with the opening balance (£5,000) and credit sales (£30,000), and credited with cash received (£28,000). Closing balance = £5,000 + £30,000 − £28,000 = £7,000 debit. The £3,000 figure treats cash received as an increase and credit sales as a decrease (£5,000 + £28,000 − £30,000). Balancing an account involves totalling each side and carrying down the difference, which here is the amount still owed by customers at the period end. £63,000 adds the cash received instead of deducting it, and £33,000 omits the credit sales and adds the cash received.

Section B, Balancing a ledger account · Ref B1b · ba3081

Question 24: A Record details of each asset and provide a control check against the ledger

A non-current asset register lists each asset with details such as cost, depreciation and location, and is reconciled to the nominal ledger to provide a control check and help safeguard the assets. It is not a tax computation, an inventory valuation, or a record of sales. Differences between the register and the ledger can reveal errors, omissions or even missing assets, supporting good internal control over non-current assets.

Section B, Non-current asset register · Ref B2a · ba3084

Question 25: B £1,000 profit

The part-exchange allowance is effectively the proceeds for the old asset, so profit on disposal = allowance − carrying amount = £4,000 − £3,000 = £1,000 profit. The £4,000 figure is the allowance itself, not the profit. Disposal profit or loss is always the difference between the proceeds (here the part-exchange value) and the carrying amount, regardless of the form the proceeds take. £7,000 adds the carrying amount to the allowance instead of deducting it.

Section B, Disposal by part-exchange · Ref B2a · ba3085

Question 26: C written off as an expense as it is incurred

Under IAS 38, research expenditure must be written off as an expense as it is incurred, because at the research stage an entity cannot demonstrate that future economic benefits are probable. Development expenditure may be capitalised, but only once strict criteria are met. Research costs are not added to inventory, nor can they be ignored. The distinction between research (expensed) and development (potentially capitalised) is central to IAS 38.

Section B, Research expenditure (IAS 38) · Ref B2b · ba3086

Question 27: C £56,000

The total cost to the employer = gross wages + employer's national insurance = £50,000 + £6,000 = £56,000. Employer's national insurance is an additional cost on top of gross pay, not a deduction from it. The £50,000 figure is the gross wages alone. Employee deductions (such as income tax and the employee's own national insurance) come out of the gross pay and so do not add to the employer's total cost. £44,000 deducts the employer's national insurance instead of adding it, and £62,000 adds it twice.

Section B, Total employment cost · Ref B4b · ba3090

Question 28: B A customer is also a supplier, so the two balances are offset

A contra (set-off) entry is made when the same party is both a customer and a supplier of the business, allowing the receivable and the payable to be offset against each other so that only the net amount is settled. It is not triggered by a cash payment, a write-off, or a return of goods. The contra reduces both the sales ledger and purchase ledger balances by the offset amount.

Section B, Contra entry · Ref B1a · ba3105

Question 29: B charged as an expense in profit or loss

A revaluation decrease is charged as an expense in profit or loss to the extent it exceeds any existing surplus on the same asset. With no previous surplus, the whole decrease is expensed. A decrease is not credited to the revaluation reserve (that is for increases), not added to cost, and not deferred to disposal. The asymmetry — gains to reserve, losses to profit unless reversing a prior gain — reflects prudence.

Section B, Revaluation deficit · Ref B2a · ba3109

Question 30: D £2,700

Working from the bank statement to the cash book: outstanding lodgements have already increased the cash book (so add £500), and unpresented cheques have already reduced the cash book (so deduct £800). Cash book balance = £3,000 + £500 − £800 = £2,700. The reconciliation reverses the timing differences in the opposite direction to a cash-book-to-statement reconciliation. Both records will agree once all items have cleared. £3,300 reverses both adjustments, and £2,300 and £3,700 do not follow from the figures.

Section B, Bank statement to cash book · Ref B3a · ba3111

Question 31: B Debit receivables gross, credit sales net and sales tax with the tax element

On a credit sale with sales tax, the customer owes the full (gross) amount, so receivables are debited with the gross figure; revenue is recorded net of tax (credit sales), and the tax collected on behalf of the authority is credited to the sales tax control account. The business is merely a collector of the tax, so the tax is not income. The gross receivable splits into net sales plus the sales tax liability.

Section B, Double entry for sales tax on sales · Ref B4a · ba3113

Question 32: D capital expenditure, added to the asset's cost

Expenditure that enhances an asset beyond its original standard — here, significantly extending its useful life — is capital expenditure and is added to the asset's carrying amount. Routine servicing that merely maintains the asset would be revenue expenditure. The work is not a reduction of value or a prepayment. The test is whether the spending improves the asset's future benefits (capitalise) or simply keeps it running (expense).

Section B, Capital vs revenue: improvement · Ref B2a · ba3115

Question 33: B £4,500

Carrying amount = cost − accumulated depreciation = £20,000 − £14,000 = £6,000. A loss on disposal means proceeds were below carrying amount: proceeds = carrying amount − loss = £6,000 − £1,500 = £4,500. The £6,000 figure is the carrying amount itself. Working back from a known profit or loss to the proceeds is a common requirement, using the relationship between proceeds, carrying amount and the gain or loss. £7,500 adds the loss to the carrying amount instead of deducting it, and £5,000 does not follow from the figures.

Section B, Disposal proceeds from loss · Ref B2a · ba3133

Question 34: C Specified criteria are met, including feasibility and probable future benefits

IAS 38 permits capitalising development expenditure only when specific criteria are all met — including technical feasibility, the intention and ability to complete and use or sell the asset, how it will generate probable future economic benefits, the availability of adequate resources to complete it, and the ability to measure reliably the expenditure attributable to it during development. It is not optional once the criteria are met (capitalisation is then required), nor automatic simply because cost was incurred. Staff training can never be capitalised. Research, as distinct from development, is always expensed.

Section B, Capitalising development costs · Ref B2b · ba3134

Question 35: C a distribution of profit, not an expense

An ordinary dividend is a distribution of profit to the company's owners, not an expense, so it does not appear in the statement of profit or loss; instead it reduces retained earnings and is shown in the statement of changes in equity. Interest on debt is a finance cost (an expense), but dividends to shareholders are a return on their investment. A dividend is not added to share capital, which records the amount subscribed for shares.

Section B, Ordinary dividend · Ref B4c · ba3138

Question 36: A £25,000, reconciled to the nominal ledger

The total carrying amount = £5,000 + £8,000 + £12,000 = £25,000, and the register is reconciled to the carrying amount of non-current assets in the nominal ledger as a control check. It is not reconciled to the sales ledger, cash book or bank statement, which relate to receivables and cash. A difference between the register total and the ledger would signal an error or a missing or unrecorded asset.

Section B, Asset register total · Ref B2a · ba3140

Question 37: A Debit irrecoverable debts expense £800, credit receivables £800

Writing off an irrecoverable debt removes the asset and recognises an expense: debit irrecoverable debts expense (increasing expenses) and credit receivables (removing the amount owed). Reversing the entry would wrongly reinstate the asset, and a cash entry would imply the customer had paid, which is not the case for a write-off. The debt is removed because it is no longer expected to be recovered.

Section C, Writing off an irrecoverable debt · Ref C1b · ba3017

Question 38: B The lower of cost and net realisable value

IAS 2 requires inventory to be measured at the lower of cost and net realisable value, applying prudence so that inventory is never carried above the amount expected to be recovered from selling it. Valuing at selling price would anticipate profit before it is earned, and taking the higher of the two figures would overstate the asset. Net realisable value is the estimated selling price less the costs to complete and sell the goods.

Section C, Inventory valuation (IAS 2) · Ref C2a · ba3018

Question 39: A £45,000

Cost of sales = opening inventory + purchases − closing inventory = £10,000 + £60,000 − £15,000 = £55,000. Gross profit = sales − cost of sales = £100,000 − £55,000 = £45,000. The £55,000 figure is the cost of sales itself, not the gross profit. Closing inventory is deducted because those goods have not yet been sold, so their cost is carried forward to the next period rather than charged against this period's sales. £35,000 reverses the inventory adjustment (cost of sales £60,000 − £10,000 + £15,000 = £65,000), and £40,000 ignores both inventory figures (£100,000 − £60,000).

Section C, Gross profit calculation · Ref C3a · ba3021

Question 40: A £2,000

The allowance = receivables × allowance percentage = £50,000 × 4% = £2,000. This allowance is set against receivables in the statement of financial position, reducing them to the amount expected to be recovered (£48,000), and the charge appears as an expense. The £48,000 figure is the net receivables after the allowance, not the allowance itself. The allowance reflects prudence over amounts that may not be collected. £500 and £200 apply the wrong percentage (1% and 0.4%) instead of 4%.

Section C, Allowance for receivables · Ref C1b · ba3042

Question 41: C £400

Under LIFO, the most recent purchases are treated as sold first. The 120 units sold comprise all 100 of the £6 units and 20 of the £5 units, leaving 80 units from the first batch at £5 = £400 as closing inventory. The £480 figure is the FIFO valuation and £440 the AVCO valuation. LIFO leaves the oldest (here lower) costs in closing inventory, because the most recent costs are charged to cost of sales first. Note that IAS 2 does not permit LIFO in published financial statements; FIFO or weighted average cost must be used.

Section C, LIFO inventory valuation · Ref C2a · ba3044

Question 42: A £25,000

Net profit = gross profit − operating expenses = £45,000 − £20,000 = £25,000. Gross profit is sales less cost of sales; net profit then deducts the other operating expenses such as administration and distribution costs. The £65,000 figure adds the expenses instead of subtracting them. Net profit is the overall measure of trading performance after all operating costs.

Section C, Net profit · Ref C3a · ba3046

Question 43: D Depreciation of a machine

Depreciation is an expense in the statement of profit or loss, spreading the cost of using a non-current asset over its useful life. Drawings are a reduction of the owner's capital, not an expense; the purchase of a non-current asset is capital expenditure shown in the statement of financial position; and a dividend is a distribution of profit, not an expense. Only depreciation among these reduces reported profit as an operating cost.

Section C, Identifying an expense · Ref C3a · ba3069

Question 44: B £550

Under FIFO, the oldest units are sold first. The 120 units sold comprise the 50 opening units at £4 (£200) and 70 of the new units at £5 (£350), giving a cost of sales of £200 + £350 = £550. £480 values all 120 units at the opening £4 cost, and £600 values them all at the later £5 price. FIFO charges the earliest costs to cost of sales, leaving the most recent costs in closing inventory.

Section C, FIFO cost of sales · Ref C2a · ba3093

Question 45: C £48,000

Cost of goods manufactured = total production cost + opening work in progress − closing work in progress = £50,000 + £3,000 − £5,000 = £48,000. The increase in work in progress means some production cost relates to goods not yet completed, so it is carried forward rather than transferred. The £52,000 figure reverses the work-in-progress adjustment. Only completed production is transferred to the trading account. £58,000 adds both the opening and the closing work in progress.

Section C, Cost of goods manufactured · Ref C2b · ba3094

Question 46: A Dividends paid to shareholders

Dividends paid are a distribution to owners and so appear in the statement of changes in equity, which reconciles opening and closing equity through profit, dividends, share issues and other movements. Depreciation, cost of sales and carriage inwards are all items in the statement of profit or loss, affecting profit rather than appearing directly in the equity reconciliation. The statement of changes in equity reports movements in owners' funds.

Section C, Statement of changes in equity · Ref C3b · ba3096

Question 47: C deducted from profit when calculating cash from operations

An increase in inventory means cash has been used to buy stock that has not yet been sold, so it is deducted from profit when arriving at cash generated from operations. A decrease in inventory would be added back. Inventory movements are working-capital adjustments within operating activities, not financing items, and they cannot be ignored. The indirect method adjusts profit for non-cash items and working-capital changes to reach the cash figure.

Section C, Indirect method: inventory increase · Ref C4b · ba3098

Question 48: A £2,300

The expense = opening prepayment + cash paid − closing prepayment = £300 + £2,400 − £400 = £2,300. The opening prepayment relates to this year's cover (so it is added), while the closing prepayment relates to next year (so it is deducted). The £2,400 figure is simply the cash paid, ignoring the prepayment adjustments. Matching the expense to the period requires adjusting cash paid for amounts paid in advance at each end. £2,500 reverses both prepayment adjustments, and £3,100 adds both.

Section C, Expense with prepayments · Ref C1a · ba3116

Question 49: C added to profit when calculating cash from operations

A decrease in receivables means more cash was collected from customers than the revenue recognised, so it is added to profit when calculating cash generated from operations. An increase in receivables would instead be deducted. Receivables movements are working-capital adjustments within operating activities, not investing items, and they affect the cash figure. The indirect method converts profit to cash by adjusting for such working-capital changes.

Section C, Indirect method: decrease in receivables · Ref C4b · ba3122

Question 50: D Financing activities

Dividends paid are commonly classified under financing activities, because they are a return to the providers of equity finance. IAS 7 does permit classification under operating activities as an alternative, but financing is the usual treatment for a distribution to owners. Dividends paid are a genuine cash outflow, not excluded from the statement, and they relate to financing rather than the day-to-day operations or investment in assets.

Section C, Dividends paid in IAS 7 · Ref C4b · ba3123

Question 51: D £50,000

Cost of sales = cost of goods manufactured + opening finished goods − closing finished goods = £48,000 + £6,000 − £4,000 = £50,000. Because finished goods inventory fell, more was sold than was manufactured, so cost of sales exceeds the cost of goods manufactured. The £46,000 figure reverses the inventory adjustment. This links the manufacturing account to the trading account through the finished goods inventory movement. £58,000 adds both the opening and the closing finished goods.

Section C, Cost of sales with finished goods · Ref C2b · ba3143

Question 52: A £40,000

Operating profit = gross profit − distribution costs − administrative expenses = £80,000 − £15,000 − £25,000 = £40,000. Operating profit is the profit from trading before finance costs and tax. The £55,000 and £65,000 figures deduct only one of the two expense categories. Operating profit is a key subtotal in the statement of profit or loss, showing performance from the core operations. £120,000 adds the expenses instead of deducting them.

Section C, Operating profit · Ref C3a · ba3144

Question 53: B £175,000

Total equity = share capital + share premium + retained earnings = £100,000 + £20,000 + £55,000 = £175,000. Equity comprises the amounts contributed by shareholders (share capital and premium) plus the profits retained in the business. The £155,000 and £120,000 figures omit one of the components. Total equity represents the owners' interest in the net assets of the company. £75,000 omits the share capital.

Section C, Total equity · Ref C3b · ba3145

Question 54: C £23,200

Cash takings = cash banked + cash expenses paid + closing cash − opening cash = £20,000 + £3,000 + £700 − £500 = £23,200. The takings must cover everything paid out of cash plus the increase in the cash held. The £22,800 figure reverses the cash-in-hand movement. Reconstructing a cash account like this is a standard way to find missing sales figures in incomplete-records questions. £23,000 ignores the change in cash in hand, and £20,200 omits the expenses paid in cash.

Section C, Incomplete records: cash sales · Ref C4a · ba3146

Question 55: D 45%

Gross profit margin = gross profit ÷ sales × 100 = £45,000 ÷ £100,000 × 100 = 45%. It shows the proportion of each pound of sales remaining after the cost of sales, indicating profitability and pricing strength. The 55% figure would be the cost of sales as a percentage of sales (the complement of the margin). The margin is always expressed relative to sales revenue. 2.2% and 222% both invert the ratio (sales ÷ gross profit), with or without multiplying by 100.

Section D, Gross profit margin · Ref D1a · ba3024

Question 56: A Is holding excessive inventory or cash and using resources inefficiently

A current ratio well above the norm can signal that the company is tying up too much in inventory, receivables or idle cash rather than using those resources productively — liquidity can be excessive as well as insufficient. A very high ratio does not point to imminent insolvency (a very low ratio might), nor to an excess of current liabilities or an absence of current assets. Ratios must be interpreted in context rather than judged on a 'higher is always better' basis.

Section D, Interpreting the current ratio · Ref D1b · ba3025

Question 57: A 40%

Gearing measured as debt ÷ (debt + equity) = £200,000 ÷ (£200,000 + £300,000) = £200,000 ÷ £500,000 = 40%. This shows the proportion of the company's long-term capital that is financed by debt. The 66.7% figure is the alternative debt-to-equity measure (£200,000 ÷ £300,000), and 150% inverts it. Higher gearing means greater reliance on borrowing and higher financial risk. 60% is the equity proportion (£300,000 ÷ £500,000), not the debt proportion.

Section D, Gearing ratio · Ref D1a · ba3050

Question 58: A 15%

Net profit margin = net profit ÷ revenue × 100 = £30,000 ÷ £200,000 × 100 = 15%. It shows the proportion of each pound of sales that becomes net profit after all operating costs, indicating overall cost control and profitability. The 6.7% figure inverts the ratio. The margin is always expressed relative to revenue, allowing comparison of profitability across periods and businesses of different sizes. 30% reads the £30,000 profit as a percentage, and 20% does not follow from the figures.

Section D, Net profit margin · Ref D1a · ba3100

Question 59: A 6 times

Interest cover = operating profit ÷ finance costs = £90,000 ÷ £15,000 = 6 times. It measures how many times the profit could pay the interest charge, indicating the safety margin for debt servicing. A higher figure means lower risk of being unable to meet interest payments. The 0.17 figure inverts the ratio. Lenders watch interest cover closely as a sign of financial risk. 75 times is the difference between the two figures, not a ratio, and 1.2 times divides operating profit by profit after interest (£90,000 ÷ £75,000).

Section D, Interest cover · Ref D1a · ba3124

Question 60: B 60 days

Payables payment period = (trade payables ÷ credit purchases) × 365 = (£12,000 ÷ £73,000) × 365 = 60 days. It measures the average time the business takes to pay its suppliers. Taking longer to pay can ease cash flow but may strain supplier relationships or forfeit discounts. The period is calculated against credit purchases, and multiplying by 365 converts the ratio into days. 50, 73 and 30 days do not follow from the figures; with purchases of £73,000, each £200 of payables represents one day.

Section D, Payables payment period · Ref D1a · ba3149