A1.

1. Which of the following is true?

A The entity concept recognizes that the transactions of a business should be recorded separately from the transactions of its owner
B The double-entry bookkeeping system should record all transactions from the perspective of the owner.
C The entity concept recognizes that the transactions of a business should be recorded together with the transactions of its owner
D The double-entry bookkeeping system should record all transactions from the perspective of the owner and the business.

2. Darwin, the owner of a fishing business, pays business expenses from his personal bank account. Which of the following is correct?

A The payment for business expenses made by Darwin should not be recorded in the accounts of the business
B The payment for business expenses should be recorded as a business expense
C The payment for business expenses should be recorded as increasing the capital account
D Both B and C are correct

3. Which of the following is true?

A The money measurement concept recognizes that in order to be able to record a business transaction, there must be a monetary value attached to it
B If an event or transaction does not have a monetary value, then it can be recorded in the double-entry bookkeeping system
C The money measurement concept requires that only cash transactions be recorded as a business transaction
D A and B and C are true

4. Darwin’s fishing business receives some favourable coverage in the local newspaper due to Darwin catching a very large fish and his photograph being taken in front of his fishing shop. He estimates this is worth $300 in terms of publicity.

A Darwin should record the $300 as sales
B Darwin should record the $300 as an asset
C Darwin should set off the $300 against his other advertising expenses
D Darwin should not record this as a business transaction

5. Which of the following statements is true?
A  The matching concept requires expenses to be matched to the revenue that they have generated, in order to arrive at the profit or loss for the year
B  It is impossible to apply the matching concept when expenses are paid in arrears.
C  The matching concept always generates an accrual or prepayment
D  The matching concept never generates an accrual or prepayment

6. Darwin estimates his monthly phone bill to be $80. Darwin’s financial year end is 31 December and he has paid his telephone bill up to the end of October. Which one of the following statements is true?

A  Darwin should record an accrual of $80
B  Darwin should record an accrual of $160
C  Darwin should record a prepayment of $80
D  Darwin should record a prepayment of $160

7. Which one of the following statements is true?

A  The historic cost concept requires transactions to be recorded in the double-entry bookkeeping system at their current cost to the business
B  The assets of the business are included at their current cost in the statement of financial position.
C  The historic cost concept requires transactions to be recorded in the double-entry bookkeeping system at their historic cost to the business
D  The assets of the business are included at their estimated replacement cost in the statement of financial position

8. Darwin bought a new set of fishing rods for his business at the start of his financial year. He expects the rods to last for 4 years. The fishing rods cost $500; Darwin estimates that at the end of the financial year they would now cost $700 to replace and that he would be able to sell them for $300. Which of the following statements is true?

A  Darwin should record as Non Current Assets the cost of the fishing rods at the replacement value of $700
B  Darwin should record as Non Current Assets the cost of the fishing rods at their historic cost of $500
C  Darwin should record as Non Current Assets the cost of the fishing rods at their estimated sales value of $300
D  Darwin should record the cost of the fishing rods as an expense in the statement of profit or loss.

9. Which one of the following statement is true?
A The going concern concept means that, when producing accounts, there is an assumption that the business will continue to operate for the foreseeable future unless there is any evidence to suggest that it will not
B The going concern concept means that, when producing accounts, there is an assumption that the business will continue to operate for 6 months
C The going concern concept means that, when producing accounts, there is an assumption that the business will not continue to operate for more than the next 12 months
D The going concern concept does not have to considered by well established businesses

10. Which one of the following statements is true?

A The prudence concept requires that when accounts are being prepared all possible income and costs should be taken into account and recorded in the double-entry bookkeeping system.
B The prudence concept requires that when accounts are being prepared, costs should never be anticipated but all possible income should be taken into account and recorded in the double-entry bookkeeping system.
C The prudence concept requires that when accounts are being prepared, income should never be anticipated but all possible costs should be taken into account and recorded in the double-entry bookkeeping system
D The prudence concept requires preparers of accounts to always take the most optimistic view of the expected outcome of future events.

11. Darwin is likely to have to pay compensation to a customer who fell overboard on one of his fishing trips and had to be rescued. Darwin has estimated that the cost of this compensation will be between $650 and $950. Which of the following is true?

A Darwin should not record the estimated compensation costs
B Darwin should recorded estimated compensation costs of $650
C Darwin should recorded estimated compensation costs of $800
D Darwin should recorded estimated compensation costs of $950

12. Which of the following statements is true?

A The consistency concept guides preparers of accounts to match expenditure to revenue that they have generated
B The consistency concept guides preparers of accounts to treat all similar items in a consistent manner and to treat them in a similar way from one year to the next.
C The consistency concept guides preparers of accounts to record all transactions from the perspective of the owner
D The consistency concept guides preparers of accounts to treat all similar items in a consistent manner but does not require them to be treated in a similar way from one year to the next.

13. Darwin has been depreciating his fishing rods on the straight line basis over 3 years but is considering depreciating some of them on a reducing balance basis over the same period. Which of the following statements is true?

A Darwin should continue to record his fishing rods on the straight line basis
B Darwin should record depreciation for some of his fishing rods a straight line basis and some on a reducing balance basis
C Darwin should not be recording depreciation
D Darwin should record his fishing rods as income

14. Darwin has paid 3 months rental in advance on his storage unit and is going to treat this as a prepayment in his financial statements. Which of the following concepts is Darwin applying?

A Historic cost concept
B Matching concept
C Consistency concept
D Going concern concept

15. Darwin has not included his own dingy in the assets of his fishing business. Which one of the following concepts is Darwin applying?

A Historic cost concept
B Going concern concept
C Entity concept
D Matching concept

Longer questions

A2  Double entry of adjusting items

The following trial balance was taken from the accounting records of Darwin’s Fishing Trips as at 31 December 2019:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Capital account at 1 January 2019</td>
<td>40,000</td>
</tr>
<tr>
<td>Drawings</td>
<td>13,000</td>
</tr>
<tr>
<td>Sales</td>
<td>38,000</td>
</tr>
<tr>
<td>Purchases(^1)</td>
<td>4,500</td>
</tr>
<tr>
<td>Salaries</td>
<td>8,000</td>
</tr>
<tr>
<td>Rent(^2)</td>
<td>6,500</td>
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<tr>
<td>Inventory at 1 December 2018</td>
<td>750</td>
</tr>
<tr>
<td>Heat and light(^3)</td>
<td>350</td>
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<tr>
<td>Boat</td>
<td>16,000</td>
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<tr>
<td>Accumulated depreciation as at 1.1.19 on boat(^4)</td>
<td>4,500</td>
</tr>
<tr>
<td>Fishing rods</td>
<td>2,500</td>
</tr>
<tr>
<td>Accumulated depreciation as at 1.1.19 on fishing rods(^5)</td>
<td>800</td>
</tr>
<tr>
<td>Advertising</td>
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<tr>
<td>Telephone expense</td>
<td>300</td>
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<tr>
<td>Trade payables</td>
<td>30,790</td>
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<tr>
<td>Trade receivables(^6)</td>
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<tr>
<td>Bank balance</td>
<td>84,050</td>
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<tr>
<td></td>
<td>84,050</td>
</tr>
</tbody>
</table>

Additional information as at 31 December 2019:

1. The inventory of bait and fishing tackle held was valued at $630
2. Rent of $500 has been paid in advance for January 2020
3. Electricity of $160 is owed for November and December 2019

4. The boat has an expected useful life of 10 years with a residual value after 10 years of $1,000. Darwin applies a straight line depreciation policy in relation to his boat. Depreciation has not yet been accounted for.

5. Darwin sold some of his old fishing rods in December for $200. The rods had cost $600 and had accumulated depreciation associated with them of at the start of the year of $450. Darwin applies a straight line depreciation policy over a four year period to his fishing rods; the rods do not have any expected residual value and Darwin does not charge depreciation on disposals in the year of the disposal. This transaction has not yet been accounted for.

6. Trade receivables include a group booking who are unlikely to pay the $200 that they owe.

7. Darwin has an outstanding compensation claim for $950 made by a dissatisfied customer and it is estimated that the claim is likely to be successful. This has not yet been recorded.

8. Darwin’s personal dingy is worth $1,900 which is not used in the business.

REQUIRED:

Prepare the adjusting journal entries for the adjusting items and state which concept you are applying in the case of each journal entry.

A3 Trial Balance
Based on the trial balance and the journal entries from A2 prepare an adjusted trial balance for the year ended 31 December 2019.

**A4 Statement of profit or loss**

Based on the adjusted trial balance from A3, prepare the statement of profit or loss for Darwin’s Fishing Trips for the year ended 31 December 2019.

**A5 Statement of Financial Position**

Based on the adjusted trial balance from A3 prepare the statement of financial position for Darwin’s Fishing Trips as at 31 December 2019.