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PRACTICE QUESTIONS

CIOT - The Chartered Institute of Taxation

ACC

Principles of Accounting CBE

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for CIOT - The Chartered Institute of Taxation `ACC`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `ACC`
- the question number
- the email address on your order

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QUESTION 1 SINGLE CHOICE

On 1 March a business pays a £600 telephone bill in cash. Which of the following correctly describes the dual effect of this transaction on the accounting equation?

- **A** **Assets decrease by £600 and capital decreases by £600**
- B Assets decrease by £600 and liabilities increase by £600
- C Capital decreases by £600 and liabilities decrease by £600
- D Assets decrease by £600 and liabilities decrease by £600

ANSWER **A**

WHY Paying a telephone bill in cash reduces the cash asset by £600. As an expense, it also reduces the owner's capital (equity) by £600. This reflects the dual effect principle: every transaction has equal and opposite effects on the accounting equation.

QUESTION 2 SINGLE CHOICE

A business purchases office equipment for £3,000 on credit from a supplier. Which book of prime entry records this transaction?

- A Cash book
- **B** **Purchases day book**
- C Purchases returns day book
- D General journal

ANSWER **B**

WHY Credit purchases of goods (and, in many textbooks, assets such as office equipment bought on credit from a supplier) are recorded in the purchases day book. The cash book is used only for cash and bank transactions, the purchases returns day book records returns to suppliers, and the general journal is used for transactions that do not fit the other day books.

QUESTION 3 SINGLE CHOICE

Which of the following errors would NOT be revealed by a trial balance, even though the trial balance still totals equally?

A An amount of £450 debited to the sales account instead of £540

B The sales day book being undercast by £900

C A credit sale of £600 recorded in the sales account only, omitting the customer's account

D £1,200 posted to the debit side of the bank account instead of the credit side

ANSWER **C**

WHY Recording only one aspect of a two-sided transaction (omitting the customer's account) means that the debits and credits entered still balance, so the trial balance agrees despite an error of original entry. This is an 'error of omission of a ledger account' which is not revealed by the trial balance. The other options (transposition, undercast, and posting to the wrong side) are arithmetic-style errors that should be detectable through a careful recheck, and the last one specifically breaks the trial balance agreement.

QUESTION 4 SINGLE CHOICE

A delivery van is brought into use on 1 January. Which of the following items relating to the van should be treated as capital expenditure?

A Cost of routine engine oil change in February

B Cost of an insurance premium for the year

C Road fund licence paid annually

D Cost of fitting a refrigerated body to the van to expand its use

ANSWER **D**

WHY Capital expenditure provides a benefit beyond the current accounting period and adds to the value or utility of a non-current asset. Fitting a refrigerated body is an enhancement that materially extends the van's useful service, so it is capital expenditure. Routine maintenance, insurance and road fund licence are revenue expenditure as they do not extend useful life and provide benefit only for the current period.

QUESTION 5 SINGLE CHOICE

Which of the following would appear on a statement of financial position rather than in a statement of profit or loss?

A Discounts received

B Closing inventory

C Carriage outwards

D Rent received

ANSWER **B**

WHY Closing inventory is an asset at the reporting date and so appears on the statement of financial position (deducted from cost of sales for the period it relates to if the period has ended). Discounts received, carriage outwards and rent received are all income or expense items that flow through the statement of profit or loss.

QUESTION 6 SINGLE CHOICE

A machine cost £48,000 and is depreciated at 20% per annum on a reducing balance basis. What is the depreciation charge for the second year of use?

A £7,680

B £8,000

C £9,600

D £19,200

ANSWER **A**

WHY On the reducing balance basis, depreciation is applied to the written-down value. Year 1: £48,000 × 20% = £9,600. Written-down value: £48,000 − £9,600 = £38,400. Year 2: £38,400 × 20% = £7,680. Each year's charge is therefore different and falls over time.

QUESTION 7 SINGLE CHOICE

On a bank reconciliation, the cash book shows a debit balance of £3,500 but the bank statement shows a credit balance of £2,200 (i.e. the account is overdrawn per the bank statement). Which of the following items would fully explain the difference?

A Bank charges of £40 entered in the cash book but not yet on the statement, and unpresented cheques of £5,660 and deposits not yet credited of £1,020

B Cheques drawn of £5,660 entered in the cash book but not yet presented, and deposits of £1,020 not yet credited

C **Bank charges of £40 not yet entered in the cash book, and unpresented cheques of £5,660 and deposits not yet credited of £1,020**

D Bank charges of £40 not yet entered in the cash book, and unpresented cheques of £1,020 and deposits not yet credited of £5,660

ANSWER C

WHY A bank reconciliation must agree to the bank statement balance, so any items the business knows about but the bank does not (bank charges not yet recorded) must be adjusted. Unpresented cheques reduce the bank statement balance relative to the cash book, and deposits not yet credited increase it. Bank charges not in the cash book (–£40), unpresented cheques (–£5,660) and deposits not yet credited (+£1,020) give −£4,680. Starting from the cash book balance of £3,500 + £4,680 = £8,180, and the bank statement shows overdraft of £2,200 (i.e. −£2,200). These reconcile when the cash book is corrected for the missing bank charges.

QUESTION 8 SINGLE CHOICE

Under IAS 2 Inventories, which valuation rule must a business use for closing inventory?

- A **Lower of cost and net realisable value**
- B Lower of cost and replacement cost
- C Higher of cost and net realisable value
- D Historical cost only

ANSWER **A**

WHY IAS 2 requires inventory to be measured at the lower of cost and net realisable value (NRV). If NRV falls below cost, the inventory must be written down, and the loss is charged to cost of sales in the statement of profit or loss. The standard does not permit valuation at replacement cost or historical cost alone in this comparison.

QUESTION 9 MULTIPLE CHOICE

Which of the following are fundamental accounting concepts/principles applied when preparing financial statements? (Choose two.)

- A **Accruals**
- B Materiality only
- C **Going concern**
- D Double entry only

ANSWER **A · C**

WHY Accruals (matching expenses to the period in which they are incurred) and going concern (assuming the entity will continue to operate for the foreseeable future) are fundamental concepts in the IASB Conceptual Framework. Materiality is an important consideration but not itself a fundamental concept, and double entry is a recording technique rather than a fundamental concept.