

University Business

Name: _____ Score: _____

1. The founders pay £20,000 into Nimbus for shares. That £20,000 is
 - ☐ equity, a capital contribution, not income
 - ☐ an asset with no other effect
 - ☐ a liability to the bank
 - ☐ income of the company
2. Nimbus pays £300 of wages in cash. Which entry is right?
 - ☐ Cr Wages 300 / Cr Cash 300
 - ☐ Dr Cash 300 / Cr Wages 300
 - ☐ Dr Wages 300 / Cr Cash 300
 - ☐ Dr Wages 300 / Dr Cash 300
3. Under the accrual basis, an expense is recorded in the month the cash is paid.
 - ☐ True ☐ False
4. The income statement shows what Nimbus owns on 31 December.
 - ☐ True ☐ False
5. In year 2 Nimbus repays £5,000 of its bank loan. Where does this appear?
 - ☐ It does not appear
 - ☐ Operating
 - ☐ Financing
 - ☐ Investing
6. Cash £51,400, inventory £3,600 and prepaid rent £9,000 are current assets; current liabilities are £5,550. What is the current ratio? Give one decimal place.

7. Nimbus's head baker has an excellent local reputation, so Nimbus records the reputation as an asset.
 - ☐ True ☐ False
8. A debit entry always makes an account smaller.
 - ☐ True ☐ False

9. Rent of £12,000 is paid on 1 October for one year, and the year ends on 31 December. What does this year's account show?
- ☐ an expense of £3,000 and a prepayment asset of £9,000
 - ☐ nothing until next September
 - ☐ an expense of £9,000 and an accrual of £3,000
 - ☐ an expense of £12,000, because the cash has gone
10. Nimbus's revenue is £156,000 and its gross profit is £93,600. What is the gross profit as a percentage of revenue?

_____ %

1. equity, a capital contribution, not income

Issuing shares raises cash (an asset) and share capital (equity). Calling it income is the classic slip; funders invest, customers buy.

2. Dr Wages 300 / Cr Cash 300

Wages are an expense, which grows on the debit. Cash is an asset that falls, and a fall goes on the opposite side, the credit.

3. False

The accrual basis records an expense when the benefit is used. The payment date only decides when cash moves.

4. False

The income statement covers a period and ends in the profit for the year. What Nimbus owns on one date is in the statement of financial position.

5. Financing

Repaying the amount borrowed is money back to a funder, so it is financing. Interest on the loan is usually shown under operating.

6. 11.5

$$\frac{51\,400 + 3\,600 + 9\,000}{5\,550} = \frac{64\,000}{5\,550} \approx 11.5.$$

7. False

An asset must be controlled and come from a past event. Nimbus did not buy or build the reputation, and it cannot control it, so it is not recorded.

8. False

Debit only means the left side. A debit makes an asset or expense grow, and makes a liability, equity or income account shrink.

9. an expense of £3,000 and a prepayment asset of £9,000

Three months are used: $12\,000 \times \frac{3}{12} = 3\,000$ of expense. The other nine months stand as a prepayment asset.

10. 60 %

$$\frac{93\,600}{156\,000} = 0.60, \text{ so } 60\%. \text{ Sixty pence of every pound of sales is left after the cost of the bread.}$$