

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 %**

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