

Level 3 Certificate in Bookkeeping and Accounting (RQF)  
Study Text Book Model Answers

**Lesson 2 – Introduction to Financial Statements**

**Question 2.1**

Which **one** of the following statements best describes the purpose of the balance sheet?

	✓
<b>A periodic listing of all balances in the double entry bookkeeping system to prove the arithmetic accuracy of the system</b>	
<b>An account credited with income earned by a business in a period of trading and debited with the costs and expenses of the business in the same period, to calculate whether a business has operated at a profit or a loss in the period</b>	
<b>A listing of the balances on the asset, liability and capital accounts of a business to show the financial position of the business as at a particular point in time</b>	✓

**Question 2.2**

Which **one** of the following account balances would be used in the preparation of the trading account section of the trading and profit and loss account?

	✓
<b>Advertising</b>	
<b>Fixtures and fittings (cost)</b>	
<b>Sales</b>	✓

### Question 2.3

Which **one** of the following account balances would be used in the preparation of the profit and loss account section of the trading and profit and loss account?

	✓
<b>Vehicle expenses</b>	✓
<b>Purchases</b>	
<b>Bank</b>	

### Question 2.4

Which **one** of the following account balances would be used in the preparation of a balance sheet?

	✓
<b>Wages and salaries</b>	
<b>Bank loan</b>	✓
<b>Rent received</b>	

### Question 2.5

Which **one** of the following account balances would be used in the preparation of a balance sheet?

	✓
<b>Premises (cost)</b>	✓
<b>Heat and light</b>	
<b>Business rates</b>	

### Question 2.6

Green Grass Garden Centre has a financial year which ends on 31 March.

Which **one** of the following headings should be used when preparing the trading and profit and loss account of the business at the year-end 31 March 201Y?

	✓
<b>Green Grass Garden Centre Trading and Profit and Loss Account at 31 March 201Y</b>	
<b>Green Grass Garden Centre Trading and Profit and Loss Account for the year ending 31 March 201Y</b>	
<b>Green Grass Garden Centre Trading and Profit and Loss Account for the year ended 31 March 201Y</b>	✓

### Question 2.7

Auto Spares has a financial year which ends on 30 June.

Which **one** of the following headings should be used when preparing the balance sheet of the business at the year-end 30 June 201Y?

	✓
<b>Auto Spares Balance Sheet at 30 June 201Y</b>	✓
<b>Auto Spares Balance Sheet for the year ending 30 June 201Y</b>	
<b>Auto Spares Balance Sheet for the year ended 30 June 201Y</b>	

### Question 2.8

Which **one** of the following account balances would be listed under the heading of 'fixed assets' on a balance sheet?

	✓
<b>Sales returns</b>	
<b>Vehicles (cost)</b>	✓
<b>Rent received</b>	

### Question 2.9

Which **one** of the following account balances would be listed under the heading of 'long term liabilities' on a balance sheet?

	✓
<b>Purchase returns</b>	
<b>Bank</b>	
<b>Bank loan (5 years)</b>	✓

### Question 2.10

Which **one** of the following account balances would be listed under the heading of 'current liabilities' on a balance sheet?

	✓
<b>Bank overdraft</b>	✓
<b>Cash on hand</b>	
<b>Fixtures and fittings (cost)</b>	

### Question 2.11

Which **one** of the following account balances would be listed under the heading of 'current assets' on a balance sheet?

	✓
<b>Drawings</b>	
<b>Trade creditors</b>	
<b>Trade debtors</b>	✓

### Question 2.12

Indicate for **each** of the statements below whether the statement is true or false:

<b>Statement</b>	<b>True</b> ✓	<b>False</b> ✓
<b>In preparing a trading and profit and loss account revenue incomes are credited to the account and revenue costs and expenses are debited to the account. If incomes exceed costs and expenses the business has made a profit</b>	✓	
<b>Net profit is a credit balance</b>	✓	
<b>Net profit is deducted from the owners capital as it reduces the claim of the owner on the assets of the business</b>		✓
<b>A business buys and sells office furniture, its gross profit is calculated in the trading section of its trading and profit and loss account</b>	✓	