SAMPLE BUSN2015 S2 2025 Mid-Term Test + Practice Questions and Answers

Question No.	Question	Answer
1	1. Which of the following statements is correct? a. Equity is defined as ‘the residual interest in the assets of the entity after deducting all its expenses’. b. Equity is increased by profit and owner contributions. c. Equity is decreased by an entity’s income. d. Equity cannot be sub-classified in the statement of financial position.	b. Equity is increased by profit and owner contributions.
2	2. Which of the following statements about income is not true? a. Income includes capital contributed by owners of the entity. b. Income can be in the form of decreases in liabilities. c. Income arises when there is control over the increase in economic benefits. d. Income results in increases in economic benefits.	a. Income includes capital contributed by owners of the entity.
3	3. In determining whether an item is material, consideration must be given to: a. its value. b. its size only. c. its nature only. d. both its size and nature.	d. both its size and nature.
4	4. The two categories of income, as specified in the Conceptual Framework, are: a. income and revenue. b. income and gains. c. revenue and gains. d. revenue and profits.	c. revenue and gains.
5	5. Prior to the finalisation of the financial statements for the year ended 30 June 2021, a company experienced a number of material events, including: I. on 15 July 2021 the directors decided to close a division of the company at an estimated cost of $920 000. II. on 18 August 2021 a court decision found the company liable to pay damages of $350 000 to a major customer who had commenced legal action in April 2020. III. an independent valuation of property conducted on 29 July 2021 revealed that the directors’ valuation included in the 30 June 2021 financial statements was overstated by $400 000. General journal entries to adjust the financial statements will be required for which of the above events? a. I, II and III. b. II only, and make a note disclosure for I and III. c. III only, and make a note disclosure for I and II. d. II and III only, and make a note disclosure for I.	d. II and III only, and make a note disclosure for I.

SECTION B

There is one problem in this section, and you are required to answer all questions in the designated space immediately following each question. (17 marks)

The accounting profit before tax of ABC Ltd for the year ended 30 June 2025 was $263,850. It included the following revenue and expense items:

Government grant	5,400
Interest revenue	16,500
Long-service leave expense	10,500
Doubtful debts expense	6,300
Depreciation expense – equipment	49,500
Rent expense	34,200
Entertainment expense	5,850

The draft statement of financial position as at 30 June 2025 included the following assets and liabilities.

	2025	2024
Cash	13,500	11,250
Accounts receivable	124,500	115,200
Allowance for doubtful debts	-7,500	-4,800
Inventories	100,650	87,450
Interest receivable	1,500	0
Prepaid rent	4,200	3,600
Equipment	330,000	330,000
Accumulated depreciation – equipment	-148,500	-99,000
Deferred tax asset	?	41,790
Accounts payable	106,800	110,400
Provision for long service leave	96,000	91,500
Deferred tax liability	?	1,080

Additional information:

- The government grant is non-taxable income.
- For tax purposes, interest revenue is taxable once it is received.
- Tax deductions for long service leave expenses are available only when the amount is paid.
- Doubtful debts are not deductible expenses for tax purposes until a debtor is actually written off as bad.
- The accounting depreciation rate for the equipment is 15% p.a., straight-line.
- The tax depreciation rate for the equipment is 10% p.a., straight-line.
- Tax deductions for rent expenses are available only when the amount is paid.
- Entertainment expenses are not deductible expenses for tax purposes.
- Amounts received from sales, including those on credit terms, are taxed at the time the sales are made.
- The company has $10,000 in tax losses carried forward from the previous year.