

Nature and cost of non-current assets: questions

- 1 Identify which four of the following list would usually be classed as non-current assets of a business

	Non-current asset ("X")
Administration wages	
Computer equipment	
Fixtures and fittings	
Inventory	
Investment in subsidiary company	
Land	
Mortgage	
Motor expenses	
Trade receivables	
VAT repayable	

- 2 What is the difference between an intangible asset and a tangible asset?
(select one answer)

	Non-current asset ("X")
An intangible asset has a physical present whilst a tangible asset does not	
An intangible asset does not have a physical presence whilst a tangible asset does	
An intangible asset cannot be separated from the business whilst a tangible asset can	
There is no material different between a tangible and an intangible asset	

- 3 Identify which of the following assets would be classed as current and which would be classed as non-current

Asset	Current asset ("X")	Non-current asset ("X")
Buildings		
Cash at bank		
Customer balances		
Inventory of raw materials		
Plant and machinery		
Ships		

- 4 A small engineering firm is planning to buy a new plasma cutter to enable large pieces of steel to be cut into different shapes. The plasma cutter will cost £150,000, a very large sum for the business and will be paid for using £30,000 from the business' bank account plus a bank loan.

Who, amongst the following people, would be the appropriate person to authorise the purchase of this asset?

Person	Select ("X")
The bank employee in charge of granting the loan used to pay for the plasma cutter	
The production manager	
The owner of the business	
The staff member who will operate the plasma cutter	

- 5 A large firm of solicitors plans to replace one of the partner's laptops. The replacement will cost £2,000 and has an expected useful life of 3 years.
- Recently, the firm has struggled to pay its bills on time due to a downturn in business and is therefore managing its cash very carefully
- Which of the following funding methods would be an appropriate way of funding the laptop?

Method	Select ("X")
A bank loan to be repaid over a five year period. Interest would be charged at 9% per year	
A bank transfer from the business' current bank account	
The firm's credit card. Any unpaid balances are charged interest at a rate of 35% per year	
A three year hire purchase agreement with monthly payments of £100 per month	

- 6 A firm of accountants has purchased six calculators for its staff at a cost of £45. When posting this amount in its general ledger the firm has recorded the cost as an expense rather than capitalising it (i.e. recording it as a non-current asset) even though the calculators are expected to be used for a number of years.
- This is an application of which of the following accounting principles or concepts?

Method	Select ("X")
The accruals concept	
Consistency	
Materiality	
Going concern	

- 7 A VAT registered business has purchased a machine for use in its manufacturing process. When purchasing the machine the business incurred the following costs:

List price of the machine	£63,900
Agreed discount	£2,500
Delivery costs	£500
Three year servicing package	£1,750
VAT	£13,730

At what amount should the cost of the machine be recorded at in the business' books? £

- 8 A business that is unregistered for VAT has purchased a van and in doing so incurred the following costs

Net purchase price	£28,750
Vehicle tax for the year	£1,300
Van insurance	£960
VAT on the purchase	£5,750

What is the amount that should be recorded in the Motor Vehicles cost account in respect of this van? £

- 9 A VAT registered business has purchased a piece of equipment for use in its Research department and in doing so has paid the following costs. What amount should be recorded as the cost of the equipment in its Equipment at Cost account?

Purchase price	£26,400
Customs duty paid on the importation of the equipment	£430
Delivery costs	£395
Costs of installing the equipment	£75
VAT on the above costs	£5,374

What amount should be recorded as the cost of the equipment in its Equipment at Cost account? £

- 10 A business has purchased a second hand boiler for use in its factory. The following costs were incurred.

Purchase price	£4,200
Parts replaced to enable the boiler to work	£265
One year servicing contract	£490
Gas safety check prior to the boiler's use	£75

At what value should the cost of the boiler be recorded?

£

- 11 A VAT registered business has a policy of capitalising all items of property, plant and equipment that cost £500 or more and treating any that cost less than this amount as expenses. Last month, the business purchased the items listed below. Identify which should be capitalised.

Item	Capitalise ("X")
An office desk which cost £540 including VAT	
A set of eight chairs for the business' boardroom which cost £3,200 plus VAT	
A piece of machinery that cost £485 plus VAT plus installation fees of £50 plus VAT	
A computer which cost £725	

- 12 A VAT registered business has incurred the following costs in purchasing a machine:

Net	£25,460
VAT	£5,092
Gross	£30,552

The machine was paid for using money from its current bank account.

Complete the following journal to record the machine's purchase

Account	Debit (£)	Credit (£)
Purchase of machine		

Complete the account column from the following picklist

- Bank
- Gross
- Machine at cost
- Net
- VAT

- 13 A business has purchased a car for £15,695. The car was paid for using a bank loan of £12,000 with the balance being paid using a transfer from the business' current bank account.

Complete the following journal to record the car's purchase.

Account	Debit (£)	Credit (£)
Purchase of car		

Complete the account column from the following picklist

- Bank
- Bank loan
- Cash
- Gross price
- Motor expenses
- Motor vehicles at cost
- Net price

- 14 A business has purchased a piece of equipment for £22,000. The business paid for the equipment as follows:
- i) A bank payment for 20% of the price
 - ii) A hire purchase agreement to cover the remainder of the cost

a) Complete the following journal to record the bank payment

Account	Debit (£)	Credit (£)
Bank payment re equipment		

b) Complete the following journal to record the hire purchase funding

Account	Debit (£)	Credit (£)
Hire purchase agreement re equipment purchase		

- 15 A business has purchased a piece of land for £642,580 including all costs. The land was paid for using a payment made from its bank account for £272,400 with the balance paid for using a bank loan. Complete the ledger accounts below to record the purchase.

Bank account			
	Dr (£)		Cr (£)
Balance b/d	345,858		

Bank loan account			
	Dr (£)		Cr (£)

Land at cost account			
	Dr (£)		Cr (£)
Balance b/d	1,688,585		