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## PAPER F3

FINANCIAL  
ACCOUNTING  
(INTERNATIONAL)

FOR EXAMS IN 2010



# ACCA

## PAPER F3

### FINANCIAL ACCOUNTING (INTERNATIONAL STREAM)

**In this January 2010 new edition**

- We discuss the **best strategies** for revising and taking your ACCA exams
- We show you how to be well prepared for the **2010 exams**
- We give you **lots of great guidance** on tackling questions
- We show you how you can **build your own exams**
- We provide you with **three** mock exams including the **Pilot paper**
- We provide the **ACCA examiner's answers** as well as our own to the Pilot Paper as an additional revision aid

Our **i-Pass** product also supports this paper.

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FOR EXAMS IN 2010

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# Question index

The headings in this checklist/index indicate the main topics of questions, but questions often cover several different topics.

Questions set under the old syllabus *Preparing Financial Statements* (PFS) paper are included because their style and content are similar to those that appear in the Paper F3 exam. The questions have been amended to reflect the current exam format.

Multiple choice questions	Marks	Time	Page number	
		allocation Mins	Question	Answer
<b>Part A: Accounting concepts</b>				
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<b>Part C: Non-current assets</b>				
6 Preparation question: Rifon (PFS 12/03)	–	–	9	118
7 Tangible non-current assets	17	23	10	119
8 Intangible non-current assets	10	13	12	119
<b>Part D: Adjustments to accounts</b>				
9 Preparation question: XY ledger accounts	–	–	14	120
10 Preparation question: Kate's Coffee House	–	–	14	121
11 Preparation question: Irrecoverable debts	–	–	15	122
12 Adjustments to accounts	20	27	15	123
<b>Part E: Control accounts</b>				
13 Preparation question: Scimitar	–	–	17	124
14 Control accounts	20	27	18	125
<b>Part F: Bank reconciliations</b>				
15 Preparation question: Cain	–	–	21	126
16 Preparation question: George	–	–	22	127
17 Bank reconciliations	19	25	22	127
<b>Part G: Errors</b>				
18 Preparation question: Choctaw (PFS 6/05)	–	–	25	128
19 Journal entries and suspense accounts I	16	22	26	129
20 Journal entries and suspense accounts II	18	24	28	130

	Marks	Time allocation Mins	Page number	
			Question	Answer

### Part H: Incomplete records

21 Preparation question: Altese (PFS 6/03)	–	–	30	130
22 Incomplete records	18	24	31	131

### Part I: Partnerships

23 Preparation question: PDQ & Co	–	–	33	132
24 Preparation question: Leon and Mark (PFS 6/06)	–	–	34	133
25 Partnerships	24	32	34	133

### Part J: Company financial statements

26 Preparation question: bonus issue	–	–	38	135
27 Preparation question: rights issue	–	–	38	135
28 Preparation question: Shuswap (PFS 6/05)	–	–	39	136
29 Company financial statements I	17	23	40	137
30 Company financial statements II	18	24	42	138
31 Events after the reporting period	8	11	45	138

### Part K: Statements of cash flows

32 Preparation question: Sioux (PFS 6/05)	–	–	46	139
33 Statements of cash flows	16	22	47	140

### Part L: Mixed banks

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35 Mixed bank II (PFS Pilot Paper)	40	53	53	142
36 Mixed bank III (PFS 6/05)	40	53	58	144
37 Mixed bank IV (PFS 12/05)	40	53	63	146
38 Mixed bank V (PFS 6/06)	38	51	69	148
39 Mixed bank VI (PFS 12/06)	38	51	75	150
40 Mixed bank VII (PFS 6/07)	44	59	80	152
41 Mixed bank VIII (FA 12/07, FA 6/08)	11	15	86	154
42 Mixed bank IX (FA 12/08, FA 6/09)	12	16	88	156

### Objective test questions

43 Accounting principles and regulation	11	15	93	161
44 Preparing financial accounts	36	50	94	161
45 Accounting conventions and standards	24	32	100	165
46 Final accounts and statements of cash flows	24	32	104	170

### Mock exam 1 – Paper-based exam

### Mock exam 2 - Computer-based exam

### Mock exam 3 - (Pilot paper)

# Using your BPP Learning Media Practice and Revision Kit

## Tackling revision and the exam

You can significantly improve your chances of passing by tackling revision and the exam in the right ways. Our advice is based on feedback from ACCA examiners.

We focus on Paper F3; we discuss revising the syllabus, how to approach different types of question and ways of obtaining easy marks

## Selecting questions

We provide a full **question index** to help you plan your revision

## Making the most of question practice

At BPP Learning Media we realise that you need more than just questions and simple answers to get the most from your question practice. We include workings and explanations to show you how we arrived at the right answer and why the wrong answers were incorrect.

## Attempting mock exams

There are three mock exams that provide practice at coping with the pressures of the exam day. We strongly recommend that you attempt them under exam conditions. **Mock exam 1** reflects the question styles and syllabus coverage of the paper-based exam. **Mock exam 2** reflects what you will see in a computer-based exam. **Mock exam 3** is the Pilot paper. To help you get the most out of doing these exams, we provide help with each answer. The examiner's answers to the Pilot paper are included at the back of the kit.

## Using your BPP Learning Media products

This Kit gives you the question practice and guidance you need in the exam. Our other products can also help you pass:

- **Learning to Learn Accountancy** gives further valuable advice on revision
- **Passcards** provide you with clear topic summaries and exam tips
- **Success CDs** help you revise on the move
- **i-Pass CDs** offer tests of knowledge against the clock

You can purchase these products by visiting [www.bpp.com/mybpp](http://www.bpp.com/mybpp).

You can view demonstrations of i-Learn and i-Pass products by visiting [www.bpp.com/acca/study-materials/#ilearn](http://www.bpp.com/acca/study-materials/#ilearn). Scroll down the page until you find the sections for i-Learn and i-Pass and click on the appropriate 'View demo' button.

# Passing F3

## General exam support from BPP Learning Media

BPP Learning Media is committed to giving you the best possible support in your quest for exam success. With this in mind, we have produced **guidance** on how to revise and techniques you can apply to **improve your chances of passing** the exam. This guidance can be found on the BPP Learning Media web site at the following link:

[www.bpp.com/acca/examtips/Revising-for-ACCA-exams.doc](http://www.bpp.com/acca/examtips/Revising-for-ACCA-exams.doc)

A paper copy of this guidance is available by e-mailing [learningmedia@bpp.com](mailto:learningmedia@bpp.com)

## Revising F3

### Topics to revise

The examiner will test **every area of the syllabus** so you must revise **all topics**. Selective revision will limit the number of questions that you can answer and reduce your chance of passing.

Although the Paper F3 exam does not require you to submit written workings, it is still essential that you **practise the steps** involved in different techniques. If you are familiar with these steps, you will be more confident about tackling any question on the topic.

But do not spend too long on any one topic – it will probably only feature in a few questions.

### Question practice - paper based or computer based?

You may take Paper F3 as a **paper based** exam or a **computer based** exam. It is very much a personal choice which one you choose – however your final revision should be tailored towards your choice of exam. You can find general details about computer based exams on page x.

The **computer based** exam contains a **mixture of multiple choice and objective test questions**, whilst the **paper based** exam contains **only multiple choice questions**. Before you decide on the mode of exam you might prefer, it is a good idea to have a look at multiple choice and objective test question banks in this kit to get a feel for the different styles of questions you might be faced with.

**Mock Exam 1** and **Mock Exam 3** (the Pilot paper) are paper based (multiple choice questions only), **Mock Exam 2** contains the style of questions you might face in a computer based exam (even though it is on paper!).

#### (i) Paper based exams

If you choose the paper based route, your revision must include the following:

- Read 'Tackling multiple choice questions' on page viii
- Attempt all the multiple choice and objective test questions in this kit (you can never get enough question practice!)
- Do Mock Exam 1 and Mock Exam 3 (the Pilot paper) under exam conditions
- If time allows, do Mock Exam 2 for additional question practice.

#### (ii) Computer based exams

If you decide to take the exam on computer, you must include the following in your revision plan:

- Read 'Tackling multiple choice questions' on page viii and 'Tackling objective test questions' on page ix
- Attempt all the multiple choice and objective test questions in this kit
- Do **Mock Exam 2** in this kit **under exam conditions**
- **If time allows**, do Mock Exam 1 for additional question practice.



# Tackling multiple choice questions

The MCQs in your exam will contain four or five possible answers. You have to **choose the option that best answers the question**. The three or four incorrect options are called distracters. There is a skill in answering MCQs quickly and correctly. By practising MCQs you can develop this skill, giving yourself a better chance of passing the exam.

You may wish to follow the approach outlined below, or you may prefer to adapt it.

- Step 1** Skim read all the MCQs and identify which appear to be the easier questions.
- Step 2** Work out **how long** you should allocate to each MCQ bearing in mind the number of marks available. Remember that the examiner will not expect you to spend an equal amount of time on each MCQ; some can be answered instantly but others will take time to work out.
- Step 3** Attempt each question – **starting with the easier questions** identified in Step 1. Read the question thoroughly. You may prefer to work out the answer before looking at the options, or you may prefer to look at the options at the beginning. Adopt the method that works best for you.
- You may find that you recognise a question when you sit the exam. Be aware that the detail and/or requirement may be different. If the question seems familiar, read the requirement and options carefully – do not assume that it is identical.
- Step 4** Read the options and see if one matches your own answer. Be careful with numerical questions, as the distracters are designed to match answers that incorporate **common errors**. Check that your calculation is correct. Have you followed the requirement exactly? Have you included every stage of the calculation?
- Step 5** You may find that none of the options matches your answer.
- **Re-read the question** to ensure that you understand it and are answering the requirement
  - **Eliminate any obviously wrong answers**
  - **Consider which of the remaining answers** is the most likely to be correct and select that option
- Step 6** If you are still unsure, **continue to the next question**. Likewise if you are nowhere near working out which option is correct after a couple of minutes, leave the question and come back to it later. Make a note of any questions for which you have submitted answers, but you need to return to later. The computer will list any questions for which you have not submitted answers.
- Step 7** Revisit unanswered questions and other questions you're uncertain about. When you come back to a question after a break, you often find you can answer it correctly straightaway. If you are still unsure, have a guess. You are not penalised for incorrect answers, so **never leave a question unanswered!**

# Tackling objective test questions

## What is an objective test question?

An objective test (OT) question is made up of some form of **stimulus**, usually a question, and a **requirement** to do something.

- **MCQs.** Read through the information on page viii about MCQs and how to tackle them.
- **True or false.** You will be asked if a statement is true or false.
- **Data entry.** This type of OT requires you to provide figures such as the answer to a calculation, words to fill in a blank, single word answers to questions, or to identify numbers and words to complete a format.
- **Interpretation.** You may be asked to interpret or analyse graphical data.
- **Multiple response.** These questions provide you with a number of options and you have to identify those that fulfil certain criteria.
- **Listing.** You may be asked to list items in rank order.
- **Matching.** This OT question format could ask you to classify particular costs into one of a range of cost classifications provided, to match descriptions of variances with one of a number of variances listed, and so on.

## OT questions in your exam

If you are sitting your exam on computer your exam will contain different types of OT questions. It is not certain how many questions in your exam will be MCQs and how many will be other types of OT, nor what types of OT you will encounter in your exam. For maximum preparation, attempt all the different types of OT questions in this kit.

## Dealing with OT questions

Again you may wish to follow the approach we suggest, or you may be prepared to adapt it.

- Step 1** Work out **how long** you should allocate to each OT, taking into account the marks allocated to it. Remember that you will not be expected to spend an equal amount of time on each one; some can be answered instantly but others will take time to work out.
- Step 2** **Attempt each question.** Read the question thoroughly, and note in particular what the question says about the **format** of your answer and whether there are any **restrictions** placed on it.
- Step 3** Read any options you are given and select which ones are appropriate. Check that your calculations are correct. Have you followed the requirement exactly? Have you included every stage of the calculation?
- Step 4** You may find that you are unsure of the answer.
- Re-read the question to ensure that you understand it and are answering the requirement
  - Eliminate any obviously wrong options if you are given a number of options from which to choose
- Step 5** If you are still unsure, **continue to the next question.** The computer will list any questions for which you have not submitted answers.
- Step 6** Revisit unanswered questions and other questions you are uncertain about. When you come back to a question after a break you often find you are able to answer it correctly straight away. If you are still unsure have a guess. You are not penalised for incorrect answers, so **never leave a question unanswered!**

# Exam information

## Format of the exam

	<i>Number of marks</i>
<b>Paper-based exam (2 hours)</b>	
40 2-mark MCQs	80
10 1-mark MCQs	<u>10</u>
	<u>90</u>
<b>Computer based exam (2 hours)</b>	
50 OTQs (40 2-mark questions and 10 1-mark questions)	<u>90</u>

The pass mark for both papers is 50%.

## The computer based examination

In 2002, ACCA introduced computer based examinations (CBE) (in addition to the conventional paper based examinations).

Computer based examinations must be taken at ACCA Approved Computer Examination Centres. A full list of approved centres can be found on the ACCA website using the following link:

<http://www.accaglobal.com/students/exams/cbes/preparing>

### How does CBE work?

- Questions are displayed on a monitor and candidates enter their answers directly onto the computer
- When the candidate has completed their examination (two hours are allowed), the computer automatically marks the file containing the candidate's answers
- Candidates are provided with a certificate showing their results before leaving the examination room
- The CBE Licensed Centre uploads the results to ACCA (as proof of the candidate's performance).

### Benefits

- **Flexibility** as a CBE and resits can be sat at any time, with no restrictions on number of sittings.
- **Instant feedback** as the computer displays the results at the end of the CBE
- Results are notified to ACCA **within 48 hours**
- **Extended closing date periods** (see the ACCA website for further information).

# Multiple choice questions



# 1 Preparation question:

## Accounting concepts (PFS December 2005)

State four accounting concepts, and explain how each one contributes to fair presentation in the financial statements.

### 2 Accounting concepts I

24 mins

- 
- 1 Which one of the following statements is true of the historical cost convention?
- A It fails to take account of changing price levels over time
  - B It records only past transactions
  - C It values all assets at their cost to the business, without any adjustment for depreciation
  - D It has been replaced in accounting records by a system of current cost accounting
- (2 marks)**
- 
- 2 Which one of the following is the *main* aim of accounting?
- A To maintain ledger accounts for every asset and liability
  - B To provide financial information to users of such information
  - C To produce a trial balance
  - D To record every financial transaction individually
- (2 marks)**
- 
- 3 Which accounting concept or convention which, in times of rising prices, tends to understate asset values and overstate profits?
- A The going concern concept
  - B The prudence concept
  - C The realisation concept
  - D The historical cost convention
- (2 marks)**
- 
- 4 Which accounting concept which requires assets to be valued at their net book value, rather than their 'break-up' value?
- A The materiality concept
  - B The going concern concept
  - C The historical cost convention
  - D The business entity convention
- (2 marks)**
- 
- 5 Which one of the following can the accounting equation can be rewritten as?
- A Assets plus profit less drawings less liabilities equals closing capital
  - B Assets less liabilities less drawings equals opening capital plus profit
  - C Assets less liabilities less opening capital plus drawings equals profit
- (1 mark)**
- 
- 6 Which accounting concept should be considered if the owner of a business takes goods from inventory for his own personal use?
- A The prudence concept
  - B The capitalisation concept
  - C The money measurement concept
  - D The separate entity concept
- (2 marks)**
- 
- 7 Assets are usually valued under which basis?
- A Replacement cost
  - B Historical cost
  - C Net realisable value
- (1 mark)**
-

- 8 Sales revenue should be recognised when goods and services have been supplied; costs are incurred when goods and services have been received.  
Which accounting concept governs the above?
- A The prudence concept
  - B The materiality concept
  - C The accruals concept
  - D The dual aspect concept
- (2 marks)**
- 
- 9 Which accounting concept requires that foreseen losses should be anticipated and taken into account immediately?
- A The consistency concept
  - B The accruals concept
  - C The prudence concept
  - D The going concern concept
- (2 marks)**
- 
- 10 A sale should be recognised when the goods or services have been provided and the invoice sent out, rather than when the sale is agreed. Which accounting concept does this illustrate?
- A The realisation concept
  - B The consistency concept
  - C The going concern concept
  - D The materiality concept
- (2 marks)**
- 
- (Total = 18 marks)**

### 3 Accounting concepts II

**20 mins**

- 1 Listed below are some characteristics of financial information.
- 1 Neutrality
  - 2 Prudence
  - 3 Completeness
  - 4 Timeliness
- Which of these characteristics contribute to reliability, according to the IASB's Framework for the Preparation and Presentation of Financial Statements?
- A 1, 2 and 3 only
  - B 1, 2 and 4 only
  - C 1, 3 and 4 only
  - D 2, 3 and 4 only
- (2 marks)**
- 
- 2 Which of the following statements about accounting concepts are correct?
- 1 The money measurement concept is that only items capable of being measured in monetary terms can be recognised in financial statements.
  - 2 The prudence concept means that understating of assets and overstating of liabilities is desirable in preparing financial statements.
  - 3 The historical cost concept is that assets are initially recognised at their transaction cost.
  - 4 The substance over form convention is that, whenever legally possible, the economic substance of a transaction should be reflected in financial statements rather than simply its legal form.
- A 1, 2 and 3
  - B 1, 2 and 4
  - C 1, 3 and 4
  - D 2, 3 and 4
- (2 marks)**
-

- 3 Listed below are some comments on accounting concepts.
- 1 In achieving a balance between relevance and reliability, the most important consideration is satisfying as far as possible the economic decision-making needs of users.
  - 2 Materiality means that only items having a physical existence may be recognised as assets.
  - 3 The substance over form convention means that the legal form of a transaction must always be shown in financial statements, even if this differs from the commercial effect.
- Which, if any, of these comments is correct, according to the IASB's Framework for the Preparation and Presentation of Financial Statements?
- A 1 only  
B 2 only  
C 3 only  
D None of them **(2 marks)**
- 
- 4 Which of the following explanations of the prudence concept most closely follows that in the IASB's Framework for the Preparation and Presentation of Financial Statements?
- A The application of a degree of caution in exercising judgement under conditions of uncertainty  
B Revenue and profits are not recognised until realised, and provision is made for all known liabilities  
C All legislation and accounting standards have been complied with **(1 mark)**
- 
- 5 In times of rising prices, what effect does the use of the historical cost concept have on a company's asset values and profit?
- A Asset values and profit both understated  
B Asset values and profit both overstated  
C Asset values understated and profit overstated  
D Asset values overstated and profit understated **(2 marks)**
- 
- 6 Which of the following statements about accounting concepts and policies is/are correct?
- 1 The effect of a change to an accounting policy should be disclosed as an extraordinary item if material.
  - 2 Information in financial statements should be presented so as to be understood by users with a reasonable knowledge of business and accounting.
  - 3 Companies should create hidden reserves to strengthen their financial position.
  - 4 Consistency of treatment of items from one period to the next is essential to enhance comparability between companies, and must therefore take precedence over other accounting concepts such as prudence.
- A 1 and 4  
B 2 and 3  
C 3 and 4  
D 2 only **(2 marks)**
- 
- 7 Which of the following most closely describes the meaning of prudence, as the term is defined in the IASB's Framework for the Preparation and Presentation of Financial Statements?
- A Ensuring that accounting records and financial statements are free from material error.  
B The use of a degree of caution in making estimates required under conditions of uncertainty.  
C Understating assets and gains and overstating liabilities and losses.  
D Ensuring that financial statements comply with all accounting standards and legal requirements **(2 marks)**
-



- 8 Which, if any, of the following statements about accounting concepts and the characteristics of financial information are correct?
- 1 The concept of substance over form means that the legal form of a transaction must be reflected in financial statements, regardless of the economic substance.
  - 2 The historical cost concept means that only items capable of being measured in monetary terms can be recognised in financial statements.
  - 3 It may sometimes be necessary to exclude information that is relevant and reliable from financial statements because it is too difficult for some users to understand.
- A 1 and 2 only  
 B 2 and 3 only  
 C 1 and 3 only  
 D None of these statements are correct

(2 marks)

(Total = 15 marks)

## 4 Preparation question: Sampi

Sampi is a manufacturer of garden furniture. The company has consistently used FIFO (first in, first out) in valuing inventory, but it is interested to know the effect on its inventory valuation of using weighted average cost instead of FIFO.

At 28 February 20X8 the company had a inventory of 4,000 standard plastic tables, and has computed its value on each basis as:

	<i>Unit cost</i>	<i>Total value</i>
	\$	\$
<i>Basis</i>		
FIFO	16	64,000
Weighted average	13	52,000

During March 20X8 the movements on the inventory of tables were as follows.

Received from factory:

	<i>Number of units</i>	<i>Production cost per unit</i>
		\$
<i>Date</i>		
8 March	3,800	15
22 March	6,000	18

Sales:

	<i>Number of units</i>
<i>Date</i>	
12 March	5,000
18 March	2,000
24 March	3,000
28 March	2,000

On a FIFO basis the inventory at 31 March 20X8 was \$32,400.

*Required*

Compute what the value of the inventory at 31 March 20X8 would be using weighted average cost.

(In arriving at the total inventory values you should make calculations to two decimal places (where necessary) and deal with each inventory movement in date order.)

## 5 Inventories

22 mins

- 1 A fire on 30 September 20X2 destroyed some of a company's inventory and its inventory records.

The following information is available:

	\$
Inventory 1 September 20X2	318,000
Sales for September 20X2	612,000
Purchases for September 20X2	412,000
Inventory in good condition at 30 September 20X2	214,000

Standard gross profit percentage on sales is 25%

Based on this information, what is the value of the inventory lost?

- A \$96,000
- B \$271,000
- C \$26,400
- D \$57,000

(2 marks)

- 2 Which of the following costs may be included when arriving at the cost of finished goods inventory for inclusion in the financial statements of a manufacturing company?

- 1 Carriage inwards
- 2 Carriage outwards
- 3 Depreciation of factory plant
- 4 Finished goods storage costs
- 5 Factory supervisors' wages

- A 1 and 5 only
- B 2, 4 and 5 only
- C 1, 3 and 5 only
- D 1, 2, 3 and 4 only

(2 marks)

- 3 The closing inventory at cost of a company at 31 January 20X3 amounted to \$284,700.

The following items were included at cost in the total:

- 1 400 coats, which had cost \$80 each and normally sold for \$150 each. Owing to a defect in manufacture, they were all sold after the reporting date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.
- 2 800 skirts, which had cost \$20 each. These too were found to be defective. Remedial work in February 20X3 cost \$5 per skirt, and selling expenses for the batch totalled \$800. They were sold for \$28 each.

What should the inventory value be according to IAS 2 Inventories after considering the above items?

- A \$281,200
- B \$282,800
- C \$329,200
- D None of these

(2 marks)

- 4 A company values its inventory using the first in, first out (FIFO) method. At 1 May 20X2 the company had 700 engines in inventory, valued at \$190 each.

During the year ended 30 April 20X3 the following transactions took place:

20X2

- 1 July Purchased 500 engines at \$220 each
- 1 November Sold 400 engines for \$160,000

20X3

1 February Purchased 300 engines at \$230 each  
15 April Sold 250 engines for \$125,000

What is the value of the company's closing inventory of engines at 30 April 20X3?

- A \$188,500
- B \$195,500
- C \$166,000
- D None of these figures

(2 marks)

- 5 Which of the following statements about the valuation of inventory are correct, according to IAS 2 Inventories?

- 1 Inventory items are normally to be valued at the higher of cost and net realisable value.
- 2 The cost of goods manufactured by an entity will include materials and labour only. Overhead costs cannot be included.
- 3 LIFO (last in, first out) cannot be used to value inventory.
- 4 Selling price less estimated profit margin may be used to arrive at cost if this gives a reasonable approximation to actual cost.

- A 1, 3 and 4 only
- B 1 and 2 only
- C 3 and 4 only

(1 mark)

- 6 A company with an accounting date of 31 October carried out a physical check of inventory on 4 November 20X3, leading to an inventory value at cost at this date of \$483,700.

Between 1 November 20X3 and 4 November 20X3 the following transactions took place:

- 1 Goods costing \$38,400 were received from suppliers.
- 2 Goods that had cost \$14,800 were sold for \$20,000.
- 3 A customer returned, in good condition, some goods which had been sold to him in October for \$600 and which had cost \$400.
- 4 The company returned goods that had cost \$1,800 in October to the supplier, and received a credit note for them.

What figure should appear in the company's financial statements at 31 October 20X3 for closing inventory, based on this information?

- A \$458,700
- B \$505,900
- C \$508,700
- D \$461,500

(2 marks)

- 7 In preparing its financial statements for the current year, a company's closing inventory was understated by \$300,000.

What will be the effect of this error if it remains uncorrected?

- A The current year's profit will be overstated and next year's profit will be understated
- B The current year's profit will be understated but there will be no effect on next year's profit
- C The current year's profit will be understated and next year's profit will be overstated
- D The current year's profit will be overstated but there will be no effect on next year's profit

(2 marks)

- 8 At 30 September 20X3 the closing inventory of a company amounted to \$386,400.  
The following items were included in this total at cost:
- 1 1,000 items which had cost \$18 each. These items were all sold in October 20X3 for \$15 each, with selling expenses of \$800.
  - 2 Five items which had been in inventory since 1973, when they were purchased for \$100 each, sold in October 20X3 for \$1,000 each, net of selling expenses.
- What figure should appear in the company's statement of financial position at 30 September 20X3 for inventory?
- |   |           |                  |
|---|-----------|------------------|
| A | \$382,600 |                  |
| B | \$384,200 |                  |
| C | \$387,100 |                  |
| D | \$400,600 | <b>(2 marks)</b> |
- 
- 9 According to IAS 2 Inventories, which of the following costs should be included in valuing the inventories of a manufacturing company?
- 1 Carriage inwards
  - 2 Carriage outwards
  - 3 Depreciation of factory plant
  - 4 General administrative overheads
- |   |                 |                 |
|---|-----------------|-----------------|
| A | 1, 2 and 4 only |                 |
| B | 2 and 3 only    |                 |
| C | 1 and 3 only    | <b>(1 mark)</b> |

**(Total = 16 marks)**

## 6 Preparation question: Riffon (PFS December 2003)

The accounting records of Riffon, a limited liability company included the following balances at 30 June 20X2:

	\$'000
Office buildings – cost	1,600
– accumulated depreciation (10 years at 2% per year)	320
Plant and machinery – cost (all purchased in 20X0 or later)	840
– accumulated depreciation	
– (straight line basis at 25% per year)	306

During the year ended 30 June 20X3 the following events occurred:

*20X2*

- 1 July It was decided to revalue the office building to \$2,000,000, with no change to the estimate of its remaining useful life.
- 1 October New plant costing \$200,000 was purchased.

*20X3*

- 1 April Plant which had cost \$240,000 and with accumulated depreciation at 30 June 20X2 of \$180,000 was sold for \$70,000.

It is the company's policy to charge a full year's depreciation on plant in the year of acquisition and none in the year of sale.

*Required*

Prepare the following ledger accounts to record the above balances and events:

- (a) Office building: cost/valuation  
accumulated depreciation  
revaluation reserve
- (b) Plant and machinery: cost  
accumulated depreciation  
disposal

---

## 7 Tangible non-current assets

**23 mins**

- 1 What is the purpose of charging depreciation in accounts?
- A To allocate the cost less residual value of a non-current asset over the accounting periods expected to benefit from its use
- B To ensure that funds are available for the eventual replacement of the asset
- C To reduce the cost of the asset in the statement of financial position to its estimated market value
- (1 mark)**
- 
- 2 Your firm bought a machine for \$5,000 on 1 January 20X1, which had an expected useful life of four years and an expected residual value of \$1,000; the asset was to be depreciated on the straight-line basis. The firm's policy is to charge depreciation in the year of disposal. On 31 December 20X3, the machine was sold for \$1,600.
- What amount should be entered in the 20X3 statement of comprehensive income for profit or loss on disposal?
- A Profit of \$600
- B Loss of \$600
- C Profit of \$350
- D Loss of \$400
- (2 marks)**
- 
- 3 An asset register showed a net book value of \$67,460. A non-current asset costing \$15,000 had been sold for \$4,000, making a loss on disposal of \$1,250. No entries had been made in the asset register for this disposal.
- What is the correct balance on the asset register?
- A \$42,710
- B \$51,210
- C \$53,710
- D \$62,210
- (2 marks)**
- 
- 4 An organisation's asset register shows a net book value of \$145,600. The non-current asset account in the nominal ledger shows a net book value of \$135,600. The difference could be due to a disposed asset not having been deducted from the asset register. Which one of the following could represent that asset?
- A Asset with disposal proceeds of \$15,000 and a profit on disposal of \$5,000
- B Asset with disposal proceeds of \$15,000 and a net book value of \$5,000
- C Asset with disposal proceeds of \$15,000 and a loss on disposal of \$5,000
- D Asset with disposal proceeds of \$5,000 and a net book value of \$5,000
- (2 marks)**
- 
- 5 Which one of the following would occur if the purchase of computer stationary was debited to the computer equipment at cost account?
- A An overstatement of profit and an overstatement of non-current assets
- B An understatement of profit and an overstatement of non-current assets
- C An overstatement of profit and an understatement of non-current assets
- (1 mark)**
-

- 6 A company's plant and machinery ledger account for the year ended 30 September 20X2 was as follows:

PLANT AND MACHINERY – COST					
\$			\$		
<i>20X1</i>			<i>20X2</i>		
1 Oct	Balance	381,200	1 Jun	Disposal account – cost of asset sold	36,000
1 Dec	Cash – addition	<u>18,000</u>	30 Sep	Balance	<u>363,200</u>
		<u>399,200</u>			<u>399,200</u>

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in years of purchase and sale.

What is the depreciation charge for the year ended 30 September 20X2?

- A \$74,440
- B \$84,040
- C \$72,640
- D \$76,840

**(2 marks)**

- 7 A company bought a property in Chelsea four years ago on 1 January for \$ 170,000. Since then property prices have risen substantially and the property has been revalued at \$210,000.

The property was estimated as having a useful life of 20 years when it was purchased. What is the amount transferred to the revaluation reserve?

- A \$210,000
- B \$136,000
- C \$74,000
- D \$34,000

**(2 marks)**

- 8 A business purchased a motor car on 1 July 20X3 for \$20,000. It is to be depreciated at 20 per cent per year on the straight line basis, assuming a residual value at the end of five years of \$4,000, with a proportionate depreciation charge in the year of purchase.

The \$20,000 cost was correctly entered in the cash book but posted to the debit of the motor vehicles repairs account.

How will the business profit for the year ended 31 December 20X3 be affected by the error?

- A Understated by \$18,400
- B Understated by \$16,800
- C Overstated by \$18,400

**(1 mark)**

- 9 A company's policy as regards depreciation of its plant and machinery is to charge depreciation at 20 per cent per year on cost, with proportional depreciation for items purchased or sold during a year.

The company's plant and machinery at cost account for the year ended 30 September 20X3 is shown below:

PLANT AND MACHINERY – COST					
\$			\$		
<i>20X2</i>			<i>20X3</i>		
1 Oct	Balance (all plant purchased after 20W9)	200,000	30 Jun	Transfer disposal account	40,000
			30 Sep	Balance	210,000
<i>20X3</i>					
1 Apr	Cash-purchase of plant	<u>50,000</u>			
		<u>250,000</u>			<u>250,000</u>

What should be the depreciation charge for plant and machinery (excluding any profit or loss on the disposal) for the year ended 30 September 20X3?

- A \$43,000
- B \$51,000
- C \$42,000
- D \$45,000

(2 marks)

- 10 The plant and machinery at cost account of a business for the year ended 30 June 20X4 was as follows:

PLANT AND MACHINERY – COST							
			\$				\$
<i>20X3</i>				<i>20X3</i>			
1 Jul	Balance		240,000	30 Sep	Transfer disposal account		60,000
<i>20X4</i>				<i>20X4</i>			
1 Jan	Cash – purchase of plant		<u>160,000</u>	30 Jun	Balance		<u>340,000</u>
			<u>400,000</u>				<u>400,000</u>

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 30 June 20X4?

- A \$68,000
- B \$64,000
- C \$61,000
- D \$55,000

(2 marks)

(Total = 17 marks)

## 8 Intangible non-current assets

13 mins

- 1 Which of the following statements about research and development expenditure are correct?

- 1 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.
- 2 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.
- 3 Development expenditure recognised as an asset must be amortised over a period not exceeding five years.

- A 1, 2 and 3
- B 1 and 2 only
- C 1 and 3 only
- D 2 and 3 only

(2 marks)

- 2 Which of the following statements about research and development expenditure are correct according to IAS 38 *Intangible Assets*?

- 1 If certain conditions are met, an entity may decide to capitalise development expenditure.
- 2 Research expenditure, other than capital expenditure on research facilities, must be written off as incurred.
- 3 Capitalised development expenditure must be amortised over a period not exceeding 5 years.
- 4 Capitalised development expenditure must be disclosed in the statement of financial position under intangible non-current assets.

- A 1, 2 and 4 only
- B 1 and 3 only
- C 2 and 4 only
- D 3 and 4 only

(2 marks)

- 3 Which of the following statements concerning the accounting treatment of research and development expenditure are true, according to IAS 38 *Intangible Assets*?
- 1 Development costs recognised as an asset must be amortised over a period not exceeding five years.
  - 2 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.
  - 3 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.
  - 4 Development projects must be reviewed at each reporting date, and expenditure on any project no longer qualifying for capitalisation must be amortised through the statement of comprehensive income over a period not exceeding five years.
- A 1 and 4  
B 2 and 4  
C 2 and 3  
D 1 and 3
- (2 marks)**
- 

- 4 IAS 38 *Intangible Assets* governs the accounting treatment of expenditure on research and development. The following statements about the provisions of IAS 38 may or may not be correct.
- 1 Capitalised development expenditure must be amortised over a period not exceeding five years.
  - 2 If all the conditions specified in IAS 38 are met, development expenditure may be capitalised if the directors decide to do so.
  - 3 Capitalised development costs are shown in the statement of financial position under the heading of non-current assets.
  - 4 Amortisation of capitalised development expenditure will appear as an item in a company's statement of changes in equity.
- Which of these four statements are in fact correct?
- A 3 only  
B 2 and 3  
C 1 and 4  
D 1 and 3
- (2 marks)**
- 

- 5 Which of the following statements about goodwill are correct?
- 1 Goodwill is included in tangible non-current assets on the statement of financial position.
  - 2 Internally generated goodwill may not be capitalised.
  - 3 Goodwill is always shown on the face of a company's statement of comprehensive income.
  - 4 Purchased goodwill is the difference between the cost of acquiring a company and the fair value of its identifiable net assets.
- A 1 and 3 only  
B 2 and 3 only  
C 1 and 4 only  
D 2 and 4 only
- (2 marks)**
- 

**(Total = 10 marks)**

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## 9 Preparation question: XY ledger accounts

At 1 October 20X5, the following balances were brought forward in the ledger accounts of XY:

	<i>Debit</i>	<i>Credit</i>
	\$	\$
Rent payable account	1,000	
Electricity account		800
Interest receivable account	300	
Allowance for receivables account		4,800

You are told the following.

- (a) Rent is payable quarterly in advance on the last day of November, February, May and August, at the rate of \$6,000 per annum.
- (b) Electricity is paid as follows.
- |                  |   |
|------------------|---|
| 5 November 20X5  | \$1,000 (for the period to 31 October 20X5) |
| 10 February 20X6 | \$1,300 (for the period to 31 January 20X6) |
| 8 May 20X6       | \$1,500 (for the period to 30 April 20X6)   |
| 7 August 20X6    | \$1,100 (for the period to 31 July 20X6)    |

At 30 September 20X6, the electricity meter shows that \$900 has been consumed since the last bill was received.

- (c) Interest was received during the year as follows.
- |                |   |
|----------------|---|
| 2 October 20X5 | \$250 (for the six months to 30 September 20X5) |
| 3 April 20X6   | \$600 (for the six months to 31 March 20X6)     |

You estimate that interest of \$300 is accrued at 30 September 20X6.

- (d) At 30 September 20X6, the balance of receivables amounts to \$125,000. The allowance for receivables is to be amended to 5% of receivables.

### *Required*

Write up the following ledger accounts.

- (a) Rent payable  
 (b) Electricity  
 (c) Interest receivable  
 (d) Allowance for receivables

and bring down the balances at 30 September 20X6.

## 10 Preparation question: Kate's Coffee House

Included in the statement of financial position of Kate's Coffee House at 30 June 20X0 were the following:

	\$
Prepayment account (insurance)	450
Accrual account (electricity)	80

The following invoices were received and paid during the year to 30 June 20X1

<i>Date paid</i>		\$
5.9.X0	Electricity (quarter to 31 August 20X0)	309
8.12.X0	Electricity (quarter to 30 November 20X0)	320
2.1.X1	Insurance (year to 31 December 20X1)	1,000
7.3.X1	Electricity (quarter to 28 February 20X1)	340
6.6.X1	Electricity (quarter to 31 May 20X1)	321

*Required*

Calculate the electricity and insurance expenses for the year ended 30 June 20X1.

## 11 Preparation question: Irrecoverable debts

Trade receivables at 31.12.20X5 were \$76,000. You are told that:

- (a) An irrecoverable debt of \$3,000 is to be written off;
- (b) Specific allowances of \$700 and \$2,300 are to be made against two doubtful debts;
- (c) A general allowance of 6% is to be maintained. The opening balance on the allowance account is \$4,000.
- (d) A debt of \$1,500, which was written off as irrecoverable in 20X4, has now been paid in full.

*Required*

Show how the items above would be recorded in the ledger accounts.

## 12 Adjustments to accounts

**27 mins**

- 1 A company receives rent from a large number of properties. The total received in the year ended 31 October 20X2 was \$481,200.

The following were the amounts of rent in advance and in arrears at 31 October 20X1 and 20X2:

	<i>31 October 20X1</i>	<i>31 October 20X2</i>
	\$	\$
Rent received in advance	28,700	31,200
Rent in arrears (all subsequently received)	21,200	18,400

What amount of rental income should appear in the company's statement of comprehensive income for the year ended 31 October 20X2?

- A \$486,500
- B \$460,900
- C \$501,500
- D \$475,900

**(2 marks)**

- 2 A company receives rent for subletting part of its office block.

Rent, receivable quarterly in advance, is received as follows:

<i>Date of receipt</i>	<i>Period covered</i>	\$
1 October 20X1	3 months to 31 December 20X1	7,500
30 December 20X1	3 months to 31 March 20X2	7,500
4 April 20X2	3 months to 30 June 20X2	9,000
1 July 20X2	3 months to 30 September 20X2	9,000
1 October 20X2	3 months to 31 December 20X2	9,000

What figures, based on these receipts, should appear in the company's financial statements for the year ended 30 November 20X2?

	<i>Statement of comprehensive income</i>	<i>Statement of financial position</i>
A	\$34,000 Debit	Rent in arrears (Dr) \$3,000
B	\$34,500 Credit	Rent received in advance (Cr) \$6,000
C	\$34,000 Credit	Rent received in advance (Cr) \$3,000
D	\$34,000 Credit	Rent in arrears (Dr) \$3,000

**(2 marks)**

- 3 A company pays rent quarterly in arrears on 1 January, 1 April, 1 July and 1 October each year. The rent was increased from \$90,000 per year to \$120,000 per year as from 1 October 20X2.

What rent expense and accrual should be included in the company's financial statements for the year ended 31 January 20X3?

	<i>Rent expense</i>	<i>Accrual</i>	
	\$	\$	
A	100,000	20,000	
B	100,000	10,000	
C	97,500	10,000	
D	97,500	20,000	<b>(2 marks)</b>

- 4 At 31 March 20X2 a company had oil in hand to be used for heating costing \$8,200 and an unpaid heating oil bill for \$3,600.
- At 31 March 20X3 the heating oil in hand was \$9,300 and there was an outstanding heating oil bill of \$3,200. Payments made for heating oil during the year ended 31 March 20X3 totalled \$34,600.
- Based on these figures, what amount should appear in the company's statement of comprehensive income for heating oil for the year?
- |   |          |                  |
|---|----------|------------------|
| A | \$23,900 |                  |
| B | \$36,100 |                  |
| C | \$45,300 |                  |
| D | \$33,100 | <b>(2 marks)</b> |

- 5 At 31 December 20X2 a company's receivables totalled \$400,000 and an allowance for receivables of \$50,000 had been brought forward from the year ended 31 December 20X1.
- It was decided to write off debts totalling \$38,000 and to adjust the allowance for receivables to 10% of the receivables.
- What charge for irrecoverable debts and receivables allowance should appear in the company's statement of comprehensive income for the year ended 31 December 20X2?
- |   |          |                  |
|---|----------|------------------|
| A | \$74,200 |                  |
| B | \$51,800 |                  |
| C | \$28,000 |                  |
| D | \$24,200 | <b>(2 marks)</b> |

- 6 At 1 July 20X2 the receivables allowance of Q was \$18,000.
- During the year ended 30 June 20X3 debts totaling \$14,600 were written off. It was decided that the receivables allowance should be \$16,000 as at 30 June 20X3.
- What amount should appear in Q's statement of comprehensive income for irrecoverable debts and receivables allowance for the year ended 30 June 20X3?
- |   |          |                  |
|---|----------|------------------|
| A | \$12,600 |                  |
| B | \$16,600 |                  |
| C | \$48,600 |                  |
| D | \$30,600 | <b>(2 marks)</b> |

- 7 A company has sublet part of its offices and in the year ended 30 November 20X3 the rent receivable was:
- |                    |                   |
|--------------------|-------------------|
| Until 30 June 20X3 | \$8,400 per year  |
| From 1 July 20X3   | \$12,000 per year |
- Rent was paid quarterly in advance on 1 January, April, July, and October each year.
- What amounts should appear in the company's financial statements for the year ended 30 November 20X3?
- |   | <i>Rent receivable</i> | <i>Statement of financial position</i> |                  |
|---|------------------------|--|------------------|
| A | \$9,900                | \$2,000 in sundry payables             |                  |
| B | \$9,900                | \$1,000 in sundry payables             |                  |
| C | \$10,200               | \$1,000 in sundry payables             |                  |
| D | \$9,900                | \$2,000 in sundry receivables          | <b>(2 marks)</b> |

- 8 At 30 September 20X2 a company's allowance for receivables amounted to \$38,000, which was five per cent of the receivables at that date.

At 30 September 20X3 receivables totalled \$868,500. It was decided to write off \$28,500 of debts as irrecoverable and to keep the allowance for receivables at five per cent of receivables.

What should be the charge in the statement of comprehensive income for the year ended 30 September 20X3 for irrecoverable debts and allowance for receivables?

- A \$42,000
- B \$33,925
- C \$70,500
- D \$32,500

(2 marks)

- 9 At 1 July 20X3 a limited liability company had an allowance for receivables of \$83,000.

During the year ended 30 June 20X4 debts totalling \$146,000 were written off. At 30 June 20X4 it was decided that a receivables allowance of \$218,000 was required.

What figure should appear in the company's statement of comprehensive income for the year ended 30 June 20X4 for irrecoverable debts and receivables allowance?

- A \$155,000
- B \$364,000
- C \$281,000
- D \$11,000

(2 marks)

- 10 A business compiling its financial statements for the year to 31 July each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was increased from \$60,000 per year to \$72,000 per year as from 1 October 20X3.

What figure should appear for rent expense in the business statement of comprehensive income for the year ended 31 July 20X4?

- A \$69,000
- B \$62,000
- C \$70,000
- D \$63,000

(2 marks)

(Total = 20 marks)

### 13 Preparation question: Scimitar

Scimitar Co, proves the accuracy of its receivables and payables ledgers by preparing monthly control accounts. At 1 September 20X7 the following balances existed in the company's accounting records, and the control accounts agreed:

	<i>Debit</i>	<i>Credit</i>
	\$	\$
Receivables ledger control account	188,360	2,140
Payables ledger control account	120	89,410

The following are the totals of transactions which took place during September 20X7, as extracted from the company's records.

	\$
Credit sales	101,260
Credit purchases	68,420
Sales returns	9,160
Purchases returns	4,280
Cash received from customers	91,270
Cash paid to suppliers	71,840

	\$
Cash discounts allowed	1,430
Cash discounts received	880
Irrecoverable debts written off	460
Refunds to customers	300
Contra settlements	480

At 30 September 20X7 the balances in the receivables and payables ledgers, as extracted, totalled:

	<i>Debit</i>	<i>Credit</i>
	\$	\$
Receivables ledger balances	To be ascertained	2,680
Payables ledger balances	90	To be ascertained

An initial attempt to balance the two ledgers showed that neither of them agreed with their control accounts. The differences were found to be due to the following.

- A credit balance of \$680 had been omitted when listing the receivables ledger balances.
- A contra settlement of \$500 had not been included in the totals of transactions prepared for the control accounts.
- A new employee had mistakenly entered five copy sales invoices into the purchases day book as if they had been purchase invoices and entered the amount to new payables ledger accounts. The total of these invoices was \$1,360.
- A \$20 cash refund to a customer was made out of petty cash, and has not been included in the summary of transactions given above. The \$20 was entered to the receivables ledger as if it had been a cash receipt from the customer, and this resulted in a \$40 credit balance on the account, which was still outstanding at 30 September 20X7.

When these errors had been corrected both control accounts agreed with the ledgers.

*Required*

Prepare the receivables ledger and payables ledger control (total) accounts for the month of September 20X7 *after* these errors had been corrected, and hence ascertain the missing totals of the ledger balances as indicated above (debit balances in receivables ledger and credit balances in payables ledger).

## 14 Control accounts

**27 mins**

- 1 You are given the following information:

Receivables at 1 January 20X3	\$10,000
Receivables at 31 December 20X3	\$9,000
Total receipts during 20X3 (including cash sales of \$5,000)	\$85,000

What is the figure for sales on credit during 20X3?

- \$81,000
- \$86,000
- \$79,000
- \$84,000

**(2 marks)**

- 2 A supplier sends you a statement showing a balance outstanding of \$14,350. Your own records show a balance outstanding of \$14,500.

Which one of the following could be the reason for this difference?

- the supplier sent an invoice for \$150 which you have not yet received
- the supplier has allowed you \$150 cash discount which you had omitted to enter in your ledgers
- you have paid the supplier \$150 which he has not yet accounted for
- you have returned goods worth \$150 which the supplier has not yet accounted for

**(2 marks)**

- 3 The receivables ledger control account at 1 May had balances of \$32,750 debit and \$1,275 credit. During May, sales of \$125,000 were made on credit. Receipts from receivables amounted to \$122,500 and cash discounts of \$550 were allowed. Refunds of \$1,300 were made to customers.

Which one of the following could be the closing balances at 31 May?

- A \$35,175 debit and \$3,000 credit
- B \$35,675 debit and \$2,500 credit
- C \$36,725 debit and \$2,000 credit
- D \$36,725 debit and \$1,000 credit

**(2 marks)**

- 4 The debit side of a trial balance totals \$50 more than the credit side. Which one of the following could this be due to?

- A a purchase of goods for \$50 being omitted from the supplier's account
- B a sale of goods for \$50 being omitted from the customer's account
- C an invoice of \$25 for electricity being credited to the electricity account
- D a receipt for \$50 from a customer being omitted from the cash book

**(2 marks)**

- 5 A receivables ledger control account had a closing balance of \$8,500. It contained a contra to the payables ledger of \$400, but this had been entered on the wrong side of the control account.

What should be the correct balance on the control account?

- A \$7,700 debit
- B \$8,100 debit
- C \$8,400 debit
- D \$8,900 debit

**(2 marks)**

- 6 Which of the following items could appear on the credit side of a receivables ledger control account?

- 1 Cash received from customers
- 2 Irrecoverable debts written off
- 3 Increase in allowance for receivables
- 4 Discounts allowed
- 5 Sales
- 6 Credits for goods returned by customers
- 7 Cash refunds to customers

- A 1, 2, 4 and 6
- B 1, 2, 4 and 7
- C 3, 4, 5 and 6
- D 5 and 7

**(2 marks)**

- 7 An inexperienced bookkeeper has drawn up the following receivables ledger control account:

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	180,000	Credit sales	190,000
Cash from credit customers	228,000	Irrecoverable debts written off	1,500
Sales returns	8,000	Contras against payables	2,400
Cash refunds to credit customers	3,300	Closing balance (balancing figure)	229,600
Discount allowed	4,200		
	423,500		423,500

What should the closing balance be after correcting the errors made in preparing the account?

- A \$130,600
- B \$129,200
- C \$142,400
- D \$214,600

**(2 marks)**

- 8 The following receivables ledger control account has been prepared by a trainee accountant

		\$			\$
<i>20X3</i>			<i>20X3</i>		
1 Jan	Balance	284,680	31 Dec	Cash received from credit customers	179,790
31 Dec	Credit sales	189,120		Contras against amounts owing by company in payables ledger	800
	Discounts allowed	3,660		Balance	<u>303,590</u>
	Irrecoverable debts written off	1,800			<u>484,180</u>
	Sales returns	<u>4,920</u>			<u>484,180</u>
		<u>484,180</u>			

What should the closing balance on the account be when the errors in it are corrected?

- A \$290,150  
 B \$286,430  
 C \$282,830  
 D \$284,430

(2 marks)

- 9 The following control account has been prepared by a trainee accountant:

RECEIVABLES LEDGER CONTROL ACCOUNT

		\$			\$
Opening balance		308,600	Cash received from credit customers		147,200
Credit sales		154,200	Discounts allowed to credit customers		1,400
Cash sales		88,100	Interest charged on overdue accounts		2,400
Contras against credit balances in payables ledger		4,600	Irrecoverable debts written off		4,900
		<u>555,500</u>	Allowance for receivables		2,800
			Closing balance		<u>396,800</u>
					<u>555,500</u>

What should the closing balance be when all the errors made in preparing the receivables ledger control account have been corrected?

- A \$395,200  
 B \$304,300  
 C \$307,100  
 D \$309,500

(2 marks)

- 10 The following receivables ledger control account prepared by a trainee accountant contains a number of errors:

RECEIVABLES LEDGER CONTROL ACCOUNT

		\$			\$
<i>20X4</i>			<i>20X4</i>		
1 Jan	Balance	614,000	31 Dec	Credit sales	301,000
31 Jan	Cash from credit customers	311,000		Discounts allowed	3,400
	Contras against amounts due to suppliers in payables ledger	8,650		Irrecoverable debts written off	32,000
		<u>933,650</u>		Interest charged on overdue accounts	1,600
				Balance	<u>595,650</u>
					<u>933,650</u>

What should the closing balance on the control account be after the errors in it have been corrected?

- A \$561,550
- B \$578,850
- C \$581,550
- D \$568,350

(2 marks)

(Total = 20 marks)

## 15 Preparation question: Gain

A young and inexperienced bookkeeper is having great difficulty in producing a bank reconciliation statement at 31 December. He gives you his attempt to produce a summarised cash book, and also the bank statement received for the month of December. These are shown below. You may assume that the bank statement is correct and that the first cheque issued in December was number 7654. You may also assume that the trial balance at 1 January did indeed show a bank overdraft of \$7,000.12.

CASH BOOK SUMMARY - DRAFT					
	\$	<i>Dr</i> \$	<i>Cr</i> \$		
Jan 1					
Opening overdraft		7,000.12	35,000.34	Jan-Nov payments	
Jan-Nov receipts	39,500.54				
Add: discounts	<u>500.02</u>				
		40,000.56			
			<u>12,000.34</u>	Balance Nov 30	
		<u>47,000.68</u>	<u>47,000.68</u>		
Dec 1 brought down		12,000.34	Dec payments	Cheque no	
Dec receipts	178.19		37.14	7654	
	121.27		192.79	7655	
	14.92		5,000.00	7656	
	<u>16.88</u>		123.45	7657	
		329.26	678.90	7658	
Dec receipts	3,100.00		1.47	7659	
	171.23		19.84	7660	
	<u>1,198.17</u>		10.66	7661	
		<u>4,469.40</u>	<u>10,734.75</u>	Balance c/d Dec 31	
		<u>16,799.00</u>	<u>16,799.00</u>		
Jan 1 balance brought down		10,734.75			

### BANK STATEMENT – DECEMBER 31

	<i>Withdrawals</i> \$	<i>Deposits</i> \$	<i>Balance</i> \$
1 December			800.00 O/D
7650	300.00	178.19	
7653	191.91	121.27	
7654	37.14	14.92	
7651	1,111.11	16.88	
7656	5,000.00	3,100.00	
7655	129.79	171.23	
7658	678.90	1,198.17	
Standing order	50.00	117.98	
7659	1.47		
7661	10.66		
Bank charges	80.00		
31 December			3,472.34 O/D



*Required*

Prepare a corrected cash book summary and a reconciliation of the balance on this revised summary with the bank statement balance as at 31 December to establish the remaining difference.

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## 16 Preparation question: George

George has completed his financial statements for the year ended 31 March 20X9, which showed a profit of \$81,208, when he realised that no bank reconciliation statement had been prepared for that date.

When checking the cash book against the bank statement and carrying out other checks, he found the following.

- (a) A cheque for \$1,000 had been entered in the cash book but had not yet been presented.
- (b) Cheques from customers totalling \$2,890 entered in the cash book on 31 March 20X9 were credited by the bank on 1 April 20X9.
- (c) Bank charges of \$320 appear in the bank statement on 30 March 20X9 but have not been recorded by George.
- (d) A cheque for \$12,900 drawn by George to pay for a new item of plant had been mistakenly entered in the cash book and plant account as \$2,900. Depreciation of \$290 had been charged in the statement of comprehensive income for this plant.
- (e) A cheque for \$980 from a credit customer paid in on 26 March was dishonoured after 31 March 20X9 and George decided that the debit would have to be written off as the customer was now untraceable.
- (f) A cheque for \$2,400 in payment for some motor repairs had been mistakenly entered in the cash book as a debit and posted to the credit of motor vehicles account. Depreciation at 25% per annum (straight line) is charged on motor vehicles, with a full year's charge calculated on the balance at the end of each year.
- (g) The total of the payments side of the cash book had been understated by \$1,000. On further investigation it was found that the debit side of the purchases account had also been understated by \$1,000.
- (h) George had instructed his bank to credit the interest of \$160 on the deposit account maintained for surplus business funds to the current account. This the bank had done on 28 March. George had made an entry on the payments side of the cash book for this \$160 and had posted it to the debit of interest payable account.
- (i) George had mistakenly paid an account for \$870 for repairs to his house with a cheque drawn on the business account. The entry in the cash book had been debited to repairs on the premises account.
- (j) George had also mistakenly paid \$540 to Paul, a trade supplier, to clear his account in the purchases ledger, using a cheque drawn on George's personal bank account. No entries have yet been made for this transaction.

The cash book showed a debit balance of \$4,890 before any correcting entries had been made. The balance in the bank statements is to be derived from your answer.

*Required*

- (a) Prepare an adjusted cash book showing the revised balance which should appear in George's statement of financial position at 31 March 20X9.
  - (b) Prepare a bank reconciliation statement as at 31 March 20X9.
  - (c) Draw up a statement for George showing the effect on his profit of the adjustments necessary to correct the errors found.
- 

## 17 Bank reconciliations

**25 mins**

- 1 Your cash book at 31 December 20X3 shows a bank balance of \$565 overdrawn. On comparing this with your bank statement at the same date, you discover the following.
  - 1 A cheque for \$57 drawn by you on 29 December 20X3 has not yet been presented for payment.
  - 2 A cheque for \$92 from a customer, which was paid into the bank on 24 December 20X3, has been dishonoured on 31 December 20X3.

What is the correct bank balance to be shown in the statement of financial position at 31 December 20X3?

- A \$714 overdrawn
- B \$657 overdrawn
- C \$473 overdrawn
- D \$53 overdrawn

(2 marks)

- 2 The cash book shows a bank balance of \$5,675 overdrawn at 31 August 20X5. It is subsequently discovered that a standing order for \$125 has been entered twice, and that a dishonoured cheque for \$450 has been debited in the cash book instead of credited.

What is the correct bank balance?

- A \$5,100 overdrawn
- B \$6,000 overdrawn
- C \$6,250 overdrawn
- D \$6,450 overdrawn

(2 marks)

- 3 A business had a balance at the bank of \$2,500 at the start of the month. During the following month, it paid for materials invoiced at \$1,000 less trade discount of 20% and cash discount of 10%. It received a cheque from a customer in respect of an invoice for \$200, subject to cash discount of 5%.

What was the balance at the bank at the end of the month?

- A \$1,970
- B \$1,980
- C \$1,990
- D \$2,000

(2 marks)

- 4 The bank statement on 31 October 20X7 showed an overdraft of \$800. On reconciling the bank statement, it was discovered that a cheque drawn by your company for \$80 had not been presented for payment, and that a cheque for \$130 from a customer had been dishonoured on 30 October 20X7, but that this had not yet been notified to you by the bank.

What is the correct bank balance to be shown in the statement of financial position at 31 October 20X7?

- A \$1,010 overdrawn
- B \$880 overdrawn
- C \$750 overdrawn
- D \$720 overdrawn

(2 marks)

- 5 Your firm's cash book at 30 April 20X8 shows a balance at the bank of \$2,490. Comparison with the bank statement at the same date reveals the following differences:

	\$
Unpresented cheques	840
Bank charges not in cash book	50
Receipts not yet credited by the bank	470
Dishonoured cheque not in cash book	140

What is the adjusted bank balance per the cash book at 30 April 20X8?

- A \$1,460
- B \$2,300
- C \$2,580
- D \$3,140

(2 marks)

- 6 The following bank reconciliation statement has been prepared by a trainee accountant:

BANK RECONCILIATION 30 SEPTEMBER 20X2

	\$
Balance per bank statement (overdrawn)	36,840
Add: lodgements credited after date	<u>51,240</u>
	88,080
Less: outstanding cheques	<u>43,620</u>
Balance per cash book (credit)	<u>44,460</u>

Assuming the amounts stated for items other than the cash book balance are correct, what should the cash book balance be?

- A \$44,460 credit as stated
- B \$60,020 credit
- C \$29,220 debit
- D \$29,220 credit

(2 marks)

- 7 Listed below are some possible causes of difference between the cash book balance and the bank statement balance when preparing a bank reconciliation:

- 1 Cheque paid in, subsequently dishonoured.
- 2 Error by bank
- 3 Bank charges
- 4 Lodgements credited after date
- 5 Outstanding cheques not yet presented.

Which of these items require an entry in the cash book?

- A 1 and 3 only
- B 1, 2, 3, 4 and 5
- C 2, 4, and 5 only

(1 mark)

- 8 In preparing a company's bank reconciliation statement at March 20X3, the following items are causing the difference between the cash book balance and the bank statement balance:

- 1 Bank charges \$380
- 2 Error by bank \$1,000 (cheque incorrectly debited to the account)
- 3 Lodgements not credited \$4,580
- 4 Outstanding cheques \$1,475
- 5 Direct debit \$350
- 6 Cheque paid in by the company and dishonoured \$400

Which of these items will require an entry in the cash book?

- A 2, 4 and 6
- B 1, 5 and 6
- C 3 and 4
- D 3 and 5

(2 marks)

- 9 The following bank reconciliation statement has been prepared by a trainee accountant:

	\$
Overdraft per bank statement	3,860
Less: outstanding cheques	<u>9,160</u>
	5,300
Add: deposits credited after date	<u>16,690</u>
Cash at bank as calculated above	<u>21,990</u>

What should be the correct balance per the cash book?

- A \$21,990 balance at bank as stated
- B \$3,670 balance at bank
- C \$11,390 balance at bank
- D \$3,670 overdrawn

(2 marks)

10 Which of the following statements about bank reconciliations are correct?

- 1 A difference between the cash book and the bank statement must be corrected by means of a journal entry.
- 2 In preparing a bank reconciliation, lodgements recorded before date in the cash book but credited by the bank after date should reduce an overdrawn balance in the bank statement.
- 3 Bank charges not yet entered in the cash book should be dealt with by an adjustment in the bank reconciliation statement.
- 4 If a cheque received from a customer is dishonoured after date, a credit entry in the cash book is required.

- A 2 and 4
- B 1 and 4
- C 2 and 3
- D 1 and 3

(2 marks)

(Total = 19 marks)

## 18 Preparation question: Choctaw (PFS June 2005)

The draft financial statements of Choctaw, a limited liability company, for the year ended 31 December 20X4 showed a profit of \$86,400. The trial balance did not balance, and a suspense account with a credit balance of \$3,310 was included in the statement of financial position.

In subsequent checking the following errors were found:

- (a) Depreciation of motor vehicles at 25 per cent was calculated for the year ended 31 December 20X4 on the reducing balance basis, and should have been calculated on the straight-line basis at 25 per cent. Relevant figures:  
Cost of motor vehicles \$120,000, net book value at 1 January 20X4, \$88,000
- (b) Rent received from subletting part of the office accommodation \$1,200 had been put into the petty cash box. No receivable balance had been recognised when the rent fell due and no entries had been made in the petty cash book or elsewhere for it. The petty cash float in the trial balance is the amount according to the records, which is \$1,200 less than the actual balance in the box.
- (c) Irrecoverable debts totalling \$8,400 are to be written off.
- (d) The opening accrual on the motor repairs account of \$3,400, representing repair bills due but not paid at 31 December 20X3, had not been brought down at 1 January 20X4.
- (e) The cash discount totals for December 20X4 had not been posted to the discount accounts in the nominal ledger.

The figures were:

	\$
Discount allowed	380
Discount received	290

After the necessary entries, the suspense account balanced.

*Required*

Prepare journal entries, with narratives, to correct the errors found, and prepare a statement showing the necessary adjustments to the profit.

## 19 Journal entries and suspense accounts I

22 mins

- 1 The debit side of a trial balance totals \$800 more than the credit side.  
Which one of the following errors would fully account for the difference?
- A \$400 paid for plant maintenance has been correctly entered in the cash book and credited to the plant asset account.
  - B Discount received \$400 has been debited to discount allowed account.
  - C A receipt of \$800 for commission receivable has been omitted from the records.
  - D The petty cash balance of \$800 has been omitted from the trial balance.
- (2 marks)**

### The following information is relevant for question 2 and 3

When Q's trial balance failed to agree, a suspense account was opened for the difference. The trial balance totals were:

	\$
Debit	864,390
Credit	860,930

The company does not have control accounts for its receivables and payables ledgers.

The following errors were found:

- 1 In recording an issue of shares at par, cash received of \$333,000 was credited to the ordinary share capital account as \$330,000
- 2 Cash \$2,800 paid for plant repairs was correctly accounted for in the cash book but was credited to the plant asset account.
- 3 The petty cash book balance \$500 had been omitted from the trial balance.
- 4 A cheque for \$78,400 paid for the purchase of a motor car was debited to the motor vehicles account as \$87,400.
- 5 A contra between the receivables ledger and the payables ledger for \$1,200 which should have been credited in the receivables ledger and debited in the payables ledger was actually debited in the receivables ledger and credited in the payables ledger.

- 2 Which of these errors will require an entry to the suspense account to correct them?
- A All five items
  - B 3 and 5 only
  - C 2, 4 and 5 only
  - D 1, 2, 3 and 4 only
- (2 marks)**

- 3 What will the balance on the suspense account be after making the necessary entries to correct the errors affecting the suspense account?
- A \$2,440 Debit
  - B \$15,560 Credit
  - C \$13,640 Debit
  - D \$3,440 Debit
- (2 marks)**

- 4 A company's trial balance totals were:
- |        |           |           |
|--------|-----------|-----------|
| Debit  | \$387,642 |           |
| Credit |           | \$379,511 |
- A suspense account was opened for the difference.  
Which one of the following errors would have the effect of reducing the difference when corrected?

- A The petty cash balance of \$500 has been omitted from the trial balance
- B \$4,000 received for rent of part of the office has been correctly recorded in the cash book and debited to rent account
- C \$3,000 paid for repairs to plant has been debited to the plant asset account **(1 mark)**

- 5 The bookkeeper of Peri made the following mistakes:
- Discount allowed \$3,840 was credited to discounts received account.  
Discount received \$2,960 was debited to discounts allowed account.  
Discounts were otherwise correctly recorded.

Which one of the following journal entries will correct the errors?

	<i>Dr</i>	<i>Cr</i>	
	\$	\$	
A Discount allowed	7,680		
Discount received		5,920	
Suspense account		1,760	
B Discount allowed	880		
Discount received	880		
Suspense account		1,760	
C Discount allowed	6,800		
Discount received		6,800	
			<b>(1 mark)</b>

- 6 A company's trial balance failed to agree, the totals being:

Debit	\$815,602
Credit	\$808,420

Which one of the following errors could fully account for the difference?

- A The omission from the trial balance of the balance on the insurance expense account \$7,182 debit
- B Discount allowed \$3,591 debited in error to the discount received account
- C No entries made in the records for cash sales totalling \$7,182
- D The returns outwards total of \$3,591 was included in the trial balance as a debit balance **(2 marks)**

- 7 Listed below are five potential causes of difference between a company's cash book balance and its bank statement balance as at 30 November 20X3:

- 1 Cheques recorded and sent to suppliers before 30 November 20X3 but not yet presented for payment.
- 2 An error by the bank in crediting to another customer's account a lodgement made by the company.
- 3 Bank charges.
- 4 Cheques paid in before 30 November 20X3 but not credited by the bank until 3 December 20X3.
- 5 A cheque recorded and paid in before 30 November 20X3 but dishonoured by the bank.

Which one of the following alternatives correctly analyses these items into those requiring an entry in the cash book and those that would feature in the bank reconciliation?

	<i>Cash book entry</i>	<i>Bank reconciliation</i>	
A	1, 2, 4	3, 5	
B	3, 5	1, 2, 4	
C	3, 4	1, 2, 5	
D	2, 3, 5	1, 4	<b>(2 marks)</b>

- 8 A trial balance extracted from a sole trader's records failed to agree, and a suspense account was opened for the difference.

Which of the following errors would require an entry in the suspense account in correcting them?

- 1 Discount allowed was mistakenly debited to discount received account.
  - 2 Cash received from the sale of a non-current asset was correctly entered in the cash book but was debited to the disposal account.
  - 3 The balance on the rent account was omitted from the trial balance.
  - 4 Goods taken from inventory by the proprietor had been recorded by crediting drawings account and debiting purchases account.
- A All four items  
 B 2 and 3 only  
 C 2 and 4 only  
 D 1 and 3 only

(2 marks)

- 9 Which of the following journal entries may be accepted as being correct according to their narratives?

		<i>DR</i>	<i>CR</i>
		\$	\$
1	Wages account	38,000	
	Purchases account	49,000	
	Buildings account		87,000
	Labour and materials used in construction of extension to factory		
2	Directors' personal accounts: A	30,000	
	B	40,000	
	Directors' remuneration		70,000
	Directors' bonuses transferred to their accounts		
3	Suspense account	10,000	
	Sales account		10,000
	Correction of error in addition – total of credit side of sales account \$10,000 understated		

- A 1 and 3  
 B 1 and 2  
 C 3 only  
 D 2 and 3

(2 marks)

(Total = 16 marks)

## 20 Journal entries and suspense accounts II

24 mins

- 1 Which one of the following would be an error of principle?

- A Plant and machinery purchased was credited to a non-current assets account  
 B Plant and machinery purchased was debited to the purchases account  
 C Plant and machinery purchased was debited to the equipment account

(1 mark)

- 2 An organisation's year end is 30 September. On 1 January 20X6 the organisation took out a loan of \$100,000 with annual interest of 12%. The interest is payable in equal instalments on the first day of April, July, October and January in arrears.

How much should be charged to the statement of comprehensive income (SOCl) for the year ended 30 September 20X6, and how much should be accrued on the statement of financial position (SOFp)?

	<i>SOCI</i>	<i>SOFP</i>	
A	\$12,000	\$3,000	
B	\$9,000	\$3,000	
C	\$9,000	NIL	
D	\$6,000	\$3,000	<b>(2 marks)</b>

3 A suspense account was opened when a trial balance failed to agree. The following errors were later discovered.

- A gas bill of \$420 had been recorded in the gas account as \$240
- A discount of \$50 given to a customer had been credited to discounts received
- Interest received of \$70 had been entered in the bank account only

What was the original balance on the suspense account?

- A Debit \$210
- B Credit \$210
- C Debit \$160
- D Credit \$160

**(2 marks)**

4 What is an error of commission?

- A An error where a transaction has not been recorded
- B An error where one side of a transaction has been recorded in the wrong account, and that account is of a different class to the correct account
- C An error where one side of a transaction has been recorded in the wrong account, and that account is of the same class as the correct account

**(1 mark)**

5 Where a transaction is entered into the correct ledger accounts, but the wrong amount is used, what is the error known as?

- A An error of omission
- B An error of original entry
- C An error of commission
- D An error of principle

**(2 marks)**

6 A business's bank balance increased by \$750,000 during its last financial year. During the same period it issued shares of \$1 million and repaid a loan note of \$750,000. It purchased non-current assets for \$200,000 and charged depreciation of \$100,000. Working capital (other than the bank balance) increased by \$575,000.

What was its profit for the year?

- A \$1,175,000
- B \$1,275,000
- C \$1,325,000
- D \$1,375,000

**(2 marks)**

7 A sole trader's business made a profit of \$32,500 during the year ended 31 March 20X8. This figure was after deducting \$100 per week wages for himself. In addition, he put his home telephone bill through the business books, amounting to \$400 plus sales tax at 17.5%. He is registered for sales tax and therefore has charged only the net amount to his statement of comprehensive income.

His capital at 1 April 20X7 was \$6,500. What was his capital at 31 March 20X8?

- A \$33,730
- B \$33,800
- C \$38,930
- D \$39,000

**(2 marks)**



- 8 The trial balance of Delta, a limited liability company, did not agree and a suspense account was opened for the difference. The following errors were subsequently found:
- 1 A cash refund due to customer A was correctly treated in the cash book and then credited to the accounts receivable ledger account of customer B.
  - 2 The sale of goods to a director for \$300 was recorded by debiting sales revenue account and crediting the director's current account.
  - 3 The total of the discount received column in the cash book had been credited in error to the discount allowed account.
  - 4 Some of the cash received from customers had been used to pay sundry expenses before banking the money.
  - 5 \$5,800 paid for plant repairs was correctly treated in the cash book and then credited to plant and equipment asset account.

Which of the above errors would require an entry to the suspense account as part of the process of correcting them?

- A 1, 3 and 5  
B 1, 2 and 5  
C 1 and 5  
D 3 and 4

(2 marks)

- 9 A business can make a profit and yet have a reduction in its bank balance. Which ONE of the following might cause this to happen?

- A The sale of non-current assets at a loss  
B The charging of depreciation in the statement of comprehensive income  
C The lengthening of the period of credit given to customers  
D The lengthening of the period of credit taken from suppliers

(2 marks)

- 10 A manufacturing company receives an invoice on 29 February 20X2 for work done on one of its machines. \$25,500 of the cost is actually for a machine upgrade, which will improve efficiency. The accounts department do not notice and charge the whole amount to maintenance costs. Machinery is depreciated at 25% per annum on a straight-line basis, with a proportional charge in the years of acquisition and disposal. By what amount will the profit for the year to 30 June 20X2 be understated?

- A \$19,125  
B \$25,500  
C \$23,375  
D \$21,250

(2 marks)

(Total 18 marks)

## 21 Preparation question: Altese (PFS June 2003)

- (a) The net assets of Altese, a trader, at 1 January 20X2 amounted to \$128,000.  
During the year to 31 December 20X2 Altese introduced a further \$50,000 of capital and made drawings of \$48,000.  
At 31 December 20X2 Altese's net assets totalled \$184,000.  
*Required*  
Using this information compute Altese's total profit for the year ended 31 December 20X2.
- (b) Senji does not keep proper accounting records, and it is necessary to calculate her total purchases for the year ended 31 January 20X3 from the following information:



Based on these figures, what is the sales revenue for the year?

- A \$1,333,500
- B \$1,587,500
- C \$2,381,250
- D The sales revenue figure cannot be calculated from this information **(2 marks)**

- 5 Which of the following calculations could produce an acceptable figure for a trader's net profit for a period if no accounting records had been kept?
- A Closing net assets plus drawings minus capital introduced minus opening net assets
  - B Closing net assets minus drawings plus capital introduced minus opening net assets
  - C Closing net assets minus drawings minus capital introduced minus opening net assets **(1 mark)**

- 6 A sole trader took some goods costing \$800 from inventory for his own use. The normal selling price of the goods is \$1,600.

Which of the following journal entries would correctly record this?

	<i>Dr</i>	<i>Cr</i>
A	Inventory account Purchases account	\$ \$ 800 800
B	Drawings account Purchases account	800 800
C	Sales account Drawings account	1,600 1,600
D	Drawings account Sales account	800 800

**(2 marks)**

- 7 A sole trader fixes his prices to achieve a gross profit percentage on sales revenue of 40%. All his sales are for cash. He suspects that one of his sales assistants is stealing cash from sales revenue.

His trading account for the month of June 20X3 is as follows:

	\$
Recorded sales revenue	181,600
Cost of sales	114,000
Gross profit	67,600

Assuming that the cost of sales figure is correct, how much cash could the sales assistant have taken?

- A \$5,040
- B \$8,400
- C \$22,000
- D It is not possible to calculate a figure from this information **(2 marks)**

### The following information is relevant for questions 8 and 9

A is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 November 20X3.

	\$
Trade receivables, 1 December 20X2	130,000
Trade payables, 1 December 20X2	60,000
Cash received from customers	686,400
Cash paid to suppliers	302,800
Discounts allowed	1,400
Discounts received	2,960

Irrecoverable debts	4,160
Amount due from a customer who is also a supplier offset against an amount due for goods supplied by him	2,000
Trade receivables, 30 November 20X3	181,000
Trade payables, 30 November 20X3	84,000

8 Based on the above information, what figure should appear in A's statement of comprehensive income for the year ended 30 November 20X3 for sales revenue?

- A \$748,960
  - B \$748,800
  - C \$744,960
  - D \$743,560
- (2 marks)**

9 Based on the above information, what figure should appear in A's statement of comprehensive income for the year ended 30 November 20X3 for purchases?

- A \$283,760
  - B \$325,840
  - C \$329,760
  - D \$331,760
- (2 marks)**

10 A sole trader fixes her prices by adding 50 per cent to the cost of all goods purchased. On 31 October 20X3 a fire destroyed a considerable part of the inventory and all inventory records.

Her trading account for the year ended 31 October 20X3 included the following figures:

	\$	\$
Sales		281,250
Opening inventory at cost	183,600	
Purchases	<u>249,200</u>	
	432,800	
Closing inventory at cost	<u>204,600</u>	
		<u>228,200</u>
Gross profit		<u>53,050</u>

Using this information, what inventory loss has occurred?

- A \$61,050
  - B \$87,575
  - C \$40,700
  - D \$110,850
- (2 marks)**

**(Total = 18 marks)**

## 23 Preparation question: PDQ & Co

Profit before appropriation for PDQ & Co in its first year of trading was \$72,000.

Drawings were made as follows:-

	\$
P	7,200
D	9,600
Q	7,200

P was to receive a salary of \$12,960 p.a.

Fixed capital on starting the business was

	\$
P	14,400
D	24,000
Q	36,000

Interest was given at 20% in the partnership agreement on fixed capital. Interest was charged at 5% on any drawings made before the year end. Profit sharing was agreed at 10:15:20.

*Required*

Calculate balances in each partner's current account at the end of the year, using an appropriation account.

## 24 Preparation question: Leon and Mark (PFS June 2006)

The following balances are in the accounting records of a partnership as at 31 December 20X5:

		\$
Capital accounts	Leon, as at 1 January 20X5	400,000
	Mark, introduced 1 July 20X5	200,000
Drawings	Leon	160,000
	Mark	80,000

Notes

- (1) Until 30 June 20X5, Leon had run the business as a sole trader. Mark joined him on 1 July 20X5 introducing capital of \$200,000.
- (2) The following profit-sharing arrangements were agreed from that date:
  - (i) Both partners to receive interest on their capital account balances at 5% per year
  - (ii) Mark to receive a salary of \$20,000 per year
  - (iii) Balance of profit to be shared – Leon 60%, Mark 40%.
- (3) The profit for the year ended 31 December 20X5 was \$250,000. It was agreed that this profit had accrued one third in the six months ended 30 June 20X5 and two thirds in the six months ended 31 December 20X5, except for an irrecoverable debt of \$20,000 charged in arriving at the profit which was to be regarded as occurring in the six months ended 30 June 20X5.

*Required:*

Prepare a statement showing the division of the profit and prepare the partners' current accounts for the year ended 31 December 20X5.

## 25 Partnerships

**32 mins**

- 1 A partnership employs an inexperienced bookkeeper. He has written up the current account of one of the partners as follows.

CURRENT ACCOUNT			
	\$		\$
Interest on capital	2,800	Balance b/f	270
Salary	1,500	Drawings	6,200
Balance c/f	<u>10,870</u>	Net profit	<u>8,700</u>
	<u>15,170</u>		<u>15,170</u>

The balance brought forward is entered correctly and the other entries are all correct in amount. However, the bookkeeper is not very sure of the difference between debits and credits.

What is the corrected balance carried forward?

- A A debit balance of \$1,530
- B A debit balance of \$6,530
- C A credit balance of \$7,070
- D A credit balance of \$16,470

**(2 marks)**

2 A partner's private petrol bills have been treated as part of the partnership's motor vehicle expenses. Which of the following entries is necessary to correct the error?

- A *Debit* Drawings account  
*Credit* Motor vehicle expenses account
- B *Debit* Motor vehicles expenses account  
*Credit* Drawings account
- C *Debit* Motor vehicles expenses account  
*Credit* Capital account
- D *Debit* Capital account  
*Credit* Motor vehicle expenses account

**(2 marks)**

3 What double entry is necessary to reflect interest earned on partners' capital account balances?

- A *Debit* Partners' current accounts  
*Credit* Profit and loss appropriation account
- B *Debit* Profit and loss appropriation account  
*Credit* Partners' current accounts
- C *Debit* Profit and loss appropriation account  
*Credit* Cash
- D *Debit* Profit and loss appropriation account  
*Credit* Partners' capital accounts

**(2 marks)**

4 If there is no partnership agreement, the split of profits between the partners is governed by which of the following?

- A International Financial Reporting Standards
- B The UK Partnership Act
- C Must be agreed between the partners

**(1 mark)**

5 What double entry is necessary to reflect interest payable on partners' drawings?

- A *Debit* Partners' drawings accounts  
*Credit* Partners' current accounts
- B *Debit* Profit and loss appropriation account  
*Credit* Partners' drawings accounts
- C *Debit* Partners' drawings accounts  
*Credit* Interest payable account
- D *Debit* Partners' current accounts  
*Credit* Profit and loss appropriation account

**(2 marks)**

6 Faith, Hope and Charity are partners sharing residual profits in the ratio 3:2:1. The partnership agreement provides for interest on capital at the rate of 8% per annum and for a salary for Hope of \$8,000 per annum. Net profit for 20X5 was \$84,000 and the balances on partners' capital accounts during the year were: Faith \$20,000; Hope \$15,000; Charity \$12,000.

What was Charity's share of residual profits for 20X5?

- A \$12,040
- B \$12,667
- C \$13,000
- D \$14,000

(2 marks)

- 7 P and Q are in partnership, sharing profits in the ratio 3:2 and compiling their accounts to 30 June each year.

On 1 January 20X2 R joined the partnership, and from that date the profit-sharing ratio became P 50%, Q 25% and R 25%, after providing for salaries for Q and R as follows:

- Q \$20,000 per year
- R \$12,000 per year

The partnership profit for the year ended 30 June 20X2 was \$480,000, accruing evenly over the year.

What are the partners' total profit shares for the year ended 30 June 20X2?

	<i>P</i>	<i>Q</i>	<i>R</i>
	\$	\$	\$
A	256,000	162,000	62,000
B	248,000	168,000	64,000
C	264,000	166,000	66,000
D	264,000	156,000	60,000

(2 marks)

- 8 A and B are in partnership. They decide to let C join the partnership on 31 December 20X8. On that date the net book value of the net assets is \$500,000. The partners agree that the fair value of the net assets is \$750,000 at 31 December 20X8. The business is valued at \$850,000 by a firm of valuers for the purposes of calculating the amount that C will pay to buy a share in the partnership.

What is the value of goodwill?

- A \$350,000
- B \$250,000
- C \$100,000
- D \$850,000

(2 marks)

- 9 P, after having been a sole trader for some years, entered into partnership with Q on 1 July 20X2, sharing profits equally.

The business profit for the year ended 31 December 20X2 was \$340,000, accruing evenly over the year, apart from a charge of \$20,000 for an irrecoverable debt relating to trading before 1 July 20X2 which it was agreed that P should bear entirely.

How is the profit for the year to be divided between P and Q?

	<i>P</i>	<i>Q</i>
	\$'000	\$'000
A	245	95
B	250	90
C	270	90
D	255	85

(2 marks)

- 10 G, H and I are in partnership, compiling their accounts for the year to 31 December each year.

The profit-sharing arrangements are as follows:

Until 30 June 20X3

- Annual salaries H \$40,000
- I \$20,000

	G	H	I
	%	%	%
Balance of profit split	60	20	20
From 1 July 20X3			
Salaries to be discontinued, profit to be divided	50	30	20

The profit for the year ended 31 December 20X3 was \$400,000 before charging partners' salaries, accruing evenly through the year and after charging an expense of \$40,000, which it was agreed related wholly to the first six months of the year.

How should the profit for the year be divided among the partners?

	G	H	I	
	\$	\$	\$	
A	182,000	130,000	88,000	
B	200,000	116,000	84,000	
C	198,000	118,000	88,000	
D	180,000	132,000	88,000	(2 marks)

- 11 X and Y are in partnership, sharing profits in the ratio 2:1 and compiling their financial statements to 30 June each year.

On 1 January 20X4 Z joined the partnership, and it was agreed that the profit-sharing arrangement should become X 50%, Y 30% and Z 20%.

The profit for the year ended 30 June 20X4 was \$540,000, after charging an expense of \$30,000 which it was agreed related to the period before 1 January 20X4. The profit otherwise accrued evenly over the year.

What is X's total profit share for the year ended 30 June 20X4?

A	\$305,000	
B	\$312,500	
C	\$315,000	
D	\$295,000	(2 marks)

- 12 Goodwill is calculated as the excess of the price paid over the net book value of the net assets of the business.

Is this statement true or false?

A	True	
B	False	(1 mark)

- 13 G, H and I are in partnership, sharing profits in the ratio 3:1:1, after charging salaries of \$20,000 per year each for H and I. On 1 January 20X4 they agreed to change the profit-sharing ratio to 3:2:1 and to discontinue H's salary. I's salary continued unchanged. The partnership profit for the year ended 30 June 20X4 was \$380,000, accruing evenly over the year.

How should the \$380,000 profit be divided among the partners?

	G	H	I	
	\$	\$	\$	
A	192,000	104,000	84,000	
B	192,500	103,333	84,167	
C	209,000	101,333	69,667	
D	209,000	111,333	89,667	(2 marks)

(Total = 24 marks)



## 26 Preparation question: bonus issue

Clarke Fringland Co

(Extract) Statement of Financial Position as at 31/12/20X3

	\$
Share capital (50c)	10,000
Share premium	7,000
Retained earnings	8,000
	<u>25,000</u>

Clarke Fringland Co has decided on a bonus issue of 1 for 4.

The double entry is \$

Dr	
----	--

Cr	
----	--

The adjusted statement of financial position extract would be as follows:

	\$
Share capital	
Share premium	
Retained earnings	

Note: There has been an issue of shares and so share capital must be credited at the **nominal** value only.

## 27 Preparation question: rights issue

Clarke Fringland Co

(Extract) Statement of Financial Position as at 31/12/20X3

	\$
Share capital (50c)	8,000
Share premium	7,000
Retained earnings	10,000
	<u>25,000</u>

In this instance, Clarke Fringland Co decides on a rights issue of 1 for 4 at \$1.20.

The double entry is \$

Dr	
----	--

Cr	
----	--

Cr	
----	--

The adjusted statement of financial position extract would be as follows:

	\$	
Share capital		
Share premium		
Retained earnings		

*Note:* Again here is an issues of shares so share capital must be credited with the **nominal** value of the shares only.

## 28 Preparation question: Shuswap (PFS June 2005)

The draft statement of financial position shown below has been prepared for Shuswap, a limited liability company, as at 31 December 20X4:

	<i>Cost</i> \$'000	<i>Accumulated depreciation</i> \$'000	<i>Net book value</i> \$'000
<b>Assets</b>			
<i>Non-current assets</i>			
Land and buildings	9,000	1,000	8,000
Plant and equipment	<u>21,000</u>	<u>9,000</u>	<u>12,000</u>
	<u>30,000</u>	<u>10,000</u>	<u>20,000</u>
<i>Current assets</i>			
Inventories			3,000
Receivables			2,600
Cash at bank			<u>1,900</u>
Total assets			<u>27,500</u>
<i>Equity and liabilities</i>			
<i>Capital and reserves</i>			
Issued share capital (ordinary shares of 50c each)			6,000
Retained earnings			12,400
<i>Non-current liabilities</i>			
Loan notes (redeemable 20Y0)			2,000
<i>Current liabilities</i>			
Trade payables			<u>2,100</u>
			22,500
Suspense account			<u>5,000</u>
			<u>27,500</u>

The following further information is available:

- 1 It has been decided to revalue the land and buildings to \$12,000,000 at 31 December 20X4.
- 2 Trade receivables totalling \$200,000 are to be written off.
- 3 During the year there was a contra settlement of \$106,000 in which an amount due to a supplier was set off against the amount due from the same company for goods sold to it. No entry has yet been made to record the set-off.

- 4 Some inventory items included in the draft statement of financial position at cost \$500,000 were sold after the reporting date for \$400,000, with selling expenses of \$40,000.
- 5 The suspense account is made up of two items:
- The proceeds of issue of 4,000,000 50c shares at \$1.10 per share, credited to the suspense account from the cash book.
  - The balance of the account is the proceeds of sale of some plant on 1 January 20X4 with a net book value at the date of sale of \$700,000 and which had originally cost \$1,400,000. No other accounting entries have yet been made for the disposal apart from the cash book entry for the receipt of the proceeds. Depreciation on plant has been charged at 25% (straight line basis) in preparing the draft statement of financial position without allowing for the sale. The depreciation for the year relating to the plant sold should be adjusted for in full.

*Required*

Prepare the company's statement of financial position as at 31 December 20X4, complying as far as possible with IAS 1 *Presentation of financial statements*.

Details of non-current assets, adjusted appropriately, should appear as they are presented in the question.

## 29 Company financial statements I

**23 mins**

- 1 The issued share capital of Alpha, a limited liability company, is as follows:

	\$
Ordinary shares of 10c each	1,000,000
8% Preference shares of 50c each	500,000

In the year ended 31 October 20X2, the company has paid the preference dividend for the year and an interim dividend of 2c per share on the ordinary shares. A final ordinary dividend of 3c per share was proposed, before the reporting date.

What is the total amount of dividends relating to the year ended 31 October 20X2?

- \$580,000
- \$90,000
- \$130,000
- \$540,000

**(2 marks)**

- 2 When a company makes a rights issue of equity shares which of the following effects will the issue have?

- Assets are increased
- Retained earnings are reduced
- Share premium account is reduced
- Investments are increased

- 1 only
- 1 and 2
- 3 only
- 1 and 4

**(2 marks)**

- 3 Which of the following items may appear as current liabilities in a company's statement of financial position?

- Revaluation reserve.
- Loan due for repayment within one year.
- Taxation.
- Preference dividend payable

- 1, 2 and 3
- 1, 2 and 4
- 1, 3 and 4
- 2, 3 and 4

**(2 marks)**

- 4 A company made an issue for cash of 1,000,000 50c shares at a premium of 30c per share.

Which one of the following journal entries correctly records the issue?

		<i>Debit</i>	<i>Credit</i>
		\$	\$
A	Share capital	500,000	
	Share premium	300,000	
	Bank		800,000
B	Bank	800,000	
	Share capital		500,000
	Share premium		300,000
C	Bank	1,300,000	
	Share capital		1,000,000
	Share premium		300,000
D	Share capital	1,000,000	
	Share premium		300,000
	Bank		1,300,000

**(2 marks)**

- 5 Which of the following might appear as an item in a company's statement of changes in equity?

- 1 Profit on disposal of properties.
- 2 Surplus on revaluation of properties
- 3 Equity dividends proposed after the reporting date.
- 4 Issue of share capital.

- A 1, 3 and 4 only  
 B 2 and 4 only  
 C 1 and 2 only  
 D 3 and 4 only

**(2 marks)**

- 6 At 31 December 20X2 the following matters require inclusion in a company's financial statements:

- 1 On 1 January 20X2 the company made a loan of \$12,000 to an employee, repayable on 30 April 20X3, charging interest at 2 per cent per year. On the due date she repaid the loan and paid the whole of the interest due on the loan to that date.
- 2 The company has paid insurance \$9,000 in 20X2, covering the year ending 31 August 20X3.
- 3 In January 20X3 the company received rent from a tenant \$4,000 covering the six months to 31 December 20X2.

For these items, what total figures should be included in the company's statement of financial position at 31 December 20X2?

	<i>Current assets</i>	<i>Current liabilities</i>
	\$	\$
A	22,000	240
B	22,240	NIL
C	10,240	NIL
D	16,240	6,000

**(2 marks)**

- 7 At 31 December 20X1 the capital structure of a company was as follows:

	\$
Ordinary share capital	
100,000 shares of 50c each	50,000
Share premium account	180,000

During 20X2 the company made a bonus issue of 1 share for every 2 held, using the share premium account for the purpose, and later issued for cash another 60,000 shares at 80c per share.

What is the company's capital structure at 31 December 20X2?

	<i>Ordinary share capital</i>	<i>Share premium account</i>	
	\$	\$	
A	130,000	173,000	
B	105,000	173,000	
C	130,000	137,000	
D	105,000	137,000	<b>(2 marks)</b>

8 Which, if any, of the following statements are correct according to IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies?

- 1 The correction of a fundamental error relating to a past period should be made in the current period. It is not acceptable to make the correction by adjusting the opening balance of retained earnings.
- 2 A change in an accounting policy constitutes a fundamental error and should be accounted for in the current period.
- 3 The benchmark treatment for a change of accounting policy is normally to apply it retrospectively, with adjustment to the opening balance of retained earnings.

- A 1 only  
B 2 only  
C 3 only

**(1 mark)**

9 If a company changes a material accounting policy, which of the following statements are correct?

- 1 The notes to the financial statements should disclose the reason for the change and its effect.
- 2 The effect of the change should be disclosed in the current year's statement of comprehensive income as an extraordinary item.
- 3 The opening balance of retained earnings should be adjusted if practicable, as if the change had been in effect for previous periods.
- 4 In the financial statements for the current period, comparative figures for the previous period should be adjusted to reflect the change.

- A 1, 3 and 4  
B 2, 3 and 4  
C 1, 2 and 3  
D 1, 2 and 4

**(2 marks)**

**(Total = 17 marks)**

## 30 Company financial statements II

**24 mins**

1 Which of the following statements about company financial statements is/are correct, according to International Financial Reporting standards?

- 1 A material profit or loss on the sale of part of the entity must appear in the statement of comprehensive income as an extraordinary item.
- 2 Dividends paid and proposed should be included in the statement of comprehensive income.
- 3 The statement of comprehensive income must show separately any material profit or loss from operations discontinuing during the year.
- 4 The statement of changes in equity must not include unrealised gains or losses.

- A 1, 2 and 3  
B 2 and 4  
C 3 only

**(1 mark)**

2 Which of the following items are required to be disclosed in a limited liability company's financial statements according to IAS 1 Presentation of Financial Statements?

- 1 Authorised share capital
- 2 Finance costs
- 3 Staff costs
- 4 Depreciation and amortisation

- A 1, 2 and 3 only
- B 2, 3 and 4 only
- C All four items

(1 mark)

3 At 30 June 20X2 a company's capital structure was as follows:

	\$
Ordinary share capital	
500,000 shares of 25c each	125,000
Share premium account	100,000

In the year ended 30 June 20X3 the company made a rights issue of 1 share for every 2 held at \$1 per share and this was taken up in full. Later in the year the company made a bonus issue of 1 share for every 5 held, using the share premium account for the purpose.

What was the company's capital structure at 30 June 20X3?

	<i>Ordinary share capital</i>	<i>Share premium account</i>
	\$	\$
A	450,000	25,000
B	225,000	250,000
C	225,000	325,000
D	212,500	262,500

(2 marks)

4 At 30 June 20X2 a company had \$1m 8% loan notes in issue, interest being paid half-yearly on 30 June and 31 December.

On 30 September 20X2 the company redeemed \$250,000 of these loan notes at par, paying interest due to that date.

On 1 April 20X3 the company issued \$500,000 7% loan notes, interest payable half-yearly on 31 March and 30 September.

What figure should appear in the company's statement of comprehensive income for interest payable in the year ended 30 June 20X3?

- A \$88,750
- B \$82,500
- C \$65,000
- D \$73,750

(2 marks)

5 Which of the following statements about the financial statements of limited liability companies are correct according to International Financial Reporting Standards?

- 1 In preparing a statement of cash flows, either the direct or the indirect method may be used. Both lead to the same figure for net cash from operating activities.
- 2 Loan notes can be classified as current or non-current liabilities.
- 3 Financial statements must disclose a company's total expense for staff costs and for depreciation, if material.
- 4 A company must disclose by note details of all adjusting events allowed for in the financial statements.

- A 1, 2 and 3 only
- B 2 and 4 only
- C 3 and 4 only
- D All four items

(2 marks)

6 Which of the following could appear as separate items in the statement of changes in equity required by IAS 1 *Presentation of Financial Statements* as part of a company's financial statements?

- 1 Gain on revaluation of land.
- 2 Loss on sale of investments.
- 3 Prior year adjustments.
- 4 Proceeds of an issue of ordinary shares.
- 5 Dividends proposed after the year end.

- A 1, 3 and 4 only
- B 1, 2 and 4 only
- C 1 and 3 only
- D All five items

(2 marks)

7 Which of the following must be disclosed in the financial statements of a quoted (listed) company, if material?

- 1 Total spent on research and development.
- 2 An analysis of operating profit into continuing and discontinued activities.
- 3 Profit or loss on the disposal of a discontinued operation.
- 4 Authorised share capital.
- 5 Finance costs.

- A 2, 3 and 4 only
- B 1, 2, 3 and 5 only
- C 1 and 5 only
- D All five items

(2 marks)

8 A limited liability company issued 50,000 ordinary shares of 25c each at a premium of 50c per share. The cash received was correctly recorded but the full amount was credited to the ordinary share capital account.

Which one of the following journal entries is needed to correct this error?

	<i>Debit</i>	<i>Credit</i>
	\$	\$
A Share premium account	25,000	
Share capital account		25,000
B Share capital account	25,000	
Share premium account		25,000
C Share capital account	37,500	
Share premium account		37,500
D Share capital account	25,000	
Cash		25,000

(2 marks)

9 Which one of the following journal entries could correctly record a bonus issue of shares?

		<i>Debit</i>	<i>Credit</i>
		\$	\$
A	Cash	100,000	
	Ordinary share capital		100,000
B	Ordinary share capital	100,000	
	Share premium		100,000
C	Share premium	100,000	
	Ordinary share capital		100,000
D	Investments	100,000	
	Cash		100,000

**(2 marks)**

10 Which of these statements about limited liability companies is/are correct?

- 1 A company might make a bonus (capitalisation) issue to raise funds for expansion.
  - 2 The profit or loss on the disposal of part of a company's operations must be disclosed in the statement of comprehensive income as an extraordinary item if material.
  - 3 Both realised and unrealised gains and losses may be included in the statement of changes in equity required by IAS 1 Presentation of Financial Statements.
- A 1 and 3  
B 2 and 3  
C 1 and 2  
D 3 only
- (2 marks)**

**(Total = 18 marks)**

## 31 Events after the reporting period

**11 mins**

1 Which of the following material events after the reporting period and before the financial statements are approved by the directors should be adjusted for in those financial statements?

- 1 A valuation of property providing evidence of impairment in value at the reporting period
- 2 Sale of inventory held at the end of the reporting period for less than cost
- 3 Discovery of fraud or error affecting the financial statements
- 4 The insolvency of a customer with a debt owing at the end of the reporting period which is still outstanding

- A All of them  
B 1, 2 and 4 only  
C 3 and 4 only  
D 1, 2 and 3 only

**(2 marks)**

2 The draft financial statements of a limited liability company are under consideration. The accounting treatment of the following material events after the reporting period needs to be determined.

- 1 The bankruptcy of a major customer, with a substantial debt outstanding at the end of the reporting period.
- 2 A fire destroying some of the company's inventory (the company's going concern status is not affected).
- 3 An issue of shares to finance expansion.
- 4 Sale for less than cost of some inventory held at the end of the reporting period.



According to IAS 10 *Events after the reporting period*, which of the above events require an adjustment to the figures in the draft financial statements?

- A 1 and 4 only
- B 1, 2 and 3 only
- C 2 and 3 only
- D 2 and 4 only

(2 marks)

3 In finalising the financial statements of a company for the year ended 30 June 20X4, which of the following material matters should be adjusted for?

- 1 A customer who owed \$180,000 at the end of the reporting period went bankrupt in July 20X4.
- 2 The sale in August 20X4 for \$400,000 of some inventory items valued in the statement of financial position at \$500,000.
- 3 A factory with a value of \$3,000,000 was seriously damaged by a fire in July 20X4. The factory was back in production by August 20X4 but its value was reduced to \$2,000,000.
- 4 The company issued 1,000,000 ordinary shares in August 20X4.

- A All four items
- B 1 and 2 only
- C 1 and 4 only
- D 2 and 3 only

(2 marks)

4 Which of the following statements about provisions, contingencies and events after the reporting period is/are correct?

- 1 A company expecting future operating losses should make provision for those losses as soon as it becomes probable that they will be incurred.
- 2 Details of all adjusting events after the reporting period must be disclosed by note in a company's financial statements.
- 3 Contingent assets must be recognised if it is probable that they will arise.
- 4 Contingent liabilities must be treated as actual liabilities and provided for if it is probable that they will arise.

- A 4 only
- B 2 and 4 only
- C 1 and 2 only
- D All four statements are correct

(2 marks)

(Total = 8 marks)

## 32 Preparation question: Sioux (PFS June 2005)

The following information is available for Sioux, a limited liability company:

### Statements of financial position

	31 December			
	20X4	20X4	20X3	20X3
	\$'000	\$'000	\$'000	\$'000
<i>Non-current assets</i>				
Cost or valuation		11,000		8,000
Accumulated depreciation		(5,600)		(4,800)
Net book value		5,400		3,200
<i>Current assets</i>				
Inventories	3,400		3,800	
Receivables	3,800		2,900	
Cash at bank	400	7,600	100	6,800
		<u>13,000</u>		<u>10,000</u>

	31 December			
	20X4		20X3	
	\$'000	\$'000	\$'000	\$'000
<i>Equity and liabilities</i>				
<i>Capital and reserves</i>				
Ordinary share capital	1,000		1,000	
Revaluation reserve	1,500		1,000	
Retained earnings	<u>3,100</u>	5,600	<u>2,200</u>	4,200
<i>Non-current liabilities</i>				
10% Loan notes		3,000		2,000
<i>Current liabilities</i>				
Trade payables	3,700		3,200	
Income tax	<u>700</u>	<u>4,400</u>	<u>600</u>	<u>3,800</u>
		<u>13,000</u>		<u>10,000</u>

Summarised statement of comprehensive income for the year ended 31 December 20X4

	\$'000
Profit from operations	2,650
Finance cost (loan note interest)	<u>(300)</u>
	2,350
Income tax expense	<u>(700)</u>
Net profit for the year	<u>1,650</u>

#### Notes

- 1 During the year non-current assets which had cost \$800,000, with a net book value of \$350,000, were sold for \$500,000.
- 2 The revaluation surplus arose from the revaluation of some land that was not being depreciated.
- 3 The 20X3 income tax liability was settled at the amount provided for at 31 December 20X3.
- 4 The additional loan notes were issued on 1 January 20X4. Interest was paid on 30 June 20X4 and 31 December 20X4.
- 5 Dividends paid during the year amounted to \$750,000.

#### Required

Prepare the company's statement of cash flows for the year ended 31 December 20X4, using the indirect method, adopting the format in IAS 7 *Statement of cash flows*.

## 33 Statements of cash flows

22 mins

- 1 Which of the following items could appear in a company's statement of cash flows?
  - 1 Surplus on revaluation of non-current assets.
  - 2 Proceeds of issue of shares.
  - 3 Proposed dividend.
  - 4 Irrecoverable debts written off.
  - 5 Dividends received.

A 1, 2 and 5 only  
 B 2, 3, 4, 5 only  
 C 2 and 5 only  
 D 3 and 4 only

(2 marks)

- 2 Part of the process of preparing a company's statement of cash flows is the calculation of cash inflow from operating activities.

Which of the following statements about that calculation (using the indirect method) are correct?

- 1 Loss on sale of operating non-current assets should be deducted from net profit before taxation.
- 2 Increase in inventory should be deducted from operating profits.
- 3 Increase in payables should be added to operating profits.
- 4 Depreciation charges should be added to net profit before taxation.

- A 1, 2 and 3  
 B 1, 2 and 4  
 C 1, 3 and 4  
 D 2, 3 and 4

**(2 marks)**

- 3 In the course of preparing a company's statement of cash flows, the following figures are to be included in the calculation of net cash from operating activities.

	\$
Depreciation charges	980,000
Profit on sale of non-current assets	40,000
Increase in inventories	130,000
Decrease in receivables	100,000
Increase in payables	80,000

What will the net effect of these items be in the statement of cash flows?

	\$
A Addition to operating profit	890,000
B Subtraction from operating profit	890,000
C Addition to operating profit	1,070,000
D Addition to operating profit	990,000

**(2 marks)**

- 4 Part of a company's draft statement of cash flows is shown below:

	\$000
Operating profit	8,640
Depreciation charges	(2,160)
Proceeds of sale of non-current assets	360
Increase in inventory	(330)
Increase in accounts payable	440

The following criticisms of the above extract have been made:

- 1 Depreciation charges should have been added, not deducted.
- 2 Increase in inventory should have been added, not deducted.
- 3 Increase in accounts payable should have been deducted, not added.
- 4 Proceeds of sale of non-current assets should not appear in this part of the statement of cash flows.

Which of these criticisms are valid?

- A 2 and 3 only  
 B 1 and 4 only  
 C 1 and 3 only  
 D 2 and 4 only

**(2 marks)**

- 5 In preparing a company's statement of cash flows complying with IAS 7, which, if any, of the following items could form part of the calculation of cash flow from financing activities?

- 1 Proceeds of sale of premises
- 2 Dividends received
- 3 Bonus issue of shares

- A 1 only
- B 2 only
- C 3 only
- D None of them

(2 marks)

6 Which of the following assertions about statement of cash flows is/are correct?

- 1 A statement of cash flows prepared using the direct method produces a different figure for operating cash flow from that produced if the indirect method is used.
- 2 Rights issues of shares do not feature in statements of cash flows.
- 3 A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows.
- 4 A profit on the sale of a non-current asset will appear as an item under Cash Flows from Investing Activities in a statement of cash flows.

- A 1 and 4
- B 2 and 3
- C 3 only
- D 2 and 4

(2 marks)

7 An extract from a statement of cash flows prepared by a trainee accountant is shown below.

Cash flows from operating activities	\$m
Net profit before taxation	28
Adjustments for: Depreciation	<u>(9)</u>
Operating profit before working capital changes	19
Decrease in inventories	13
Increase in receivables	<u>(4)</u>
Increase in payables	<u>(8)</u>
Cash generated from operations	<u>10</u>

Which of the following criticisms of this extract are correct?

- 1 Depreciation charges should have been added, not deducted
- 2 Decrease in inventories should have been deducted, not added.
- 3 Increase in receivables should have been added, not deducted.
- 4 Increase in payables should have been added, not deducted

- A 2 and 4
- B 2 and 3
- C 1 and 3
- D 1 and 4

(2 marks)

8 Which of the following items could appear in a company's statement of cash flows?

- 1 Proposed dividends
- 2 Rights issue of shares
- 3 Bonus issue of shares
- 4 Repayment of loan

- A 1 and 3
- B 2 and 4
- C 1 and 4
- D 2 and 3

(2 marks)

(Total = 16 marks)

## 34 Mixed bank I

56 mins

- 1 Who issues International Accounting Standards?
- A The Auditing Practices Board
  - B The stock exchange
  - C The IASB
  - D The government
- (2 marks)**
- 

- 2 Which one of the following is *not* an accounting concept?
- A Prudence
  - B Consistency
  - C Depreciation
  - D Accruals
- (2 marks)**
- 

- 3 When preparing financial statements in periods of inflation, what adjustments must directors make?
- A Reduce asset values
  - B Increase asset values
  - C Reduce dividends
  - D No adjustments are required
- (2 marks)**
- 

- 4 The following information relates to a bank reconciliation.
- (i) The bank balance in the cashbook before taking the items below into account was \$8,970 overdrawn.
  - (ii) Bank charges of \$550 on the bank statement have not been entered in the cashbook.
  - (iii) The bank has credited the account in error with \$425 which belongs to another customer.
  - (iv) Cheque payments totalling \$3,275 have been entered in the cashbook but have not been presented for payment.
  - (v) Cheques totalling \$5,380 have been correctly entered on the debit side of the cashbook but have not been paid in at the bank.
- What was the balance as shown by the bank statement *before* taking the items above into account?
- A \$8,970 overdrawn
  - B \$11,200 overdrawn
  - C \$12,050 overdrawn
  - D \$17,750 overdrawn
- (2 marks)**
- 

- 5 W bought a new printing machine from abroad. The cost of the machine was \$80,000. The installation costs were \$5,000 and the employees received specific training on how to use this particular machine, at a cost of \$2,000. Before using the machine to print customers' orders, a test was undertaken and the paper and ink cost \$1,000.
- What should be the cost of the machine in the company's statement of financial position?
- A \$80,000
  - B \$85,000
  - C \$87,000
  - D \$88,000
- (2 marks)**
- 

- 6 The electricity account for the year ended 30 June 20X1 was as follows.
- |  | \$  |
|--|-----|
| Opening balance for electricity accrued at 1 July 20X0 | 300 |
| Payments made during the year                          |     |
| 1 August 20X0 for three months to 31 July 20X0         | 600 |
| 1 November 20X0 for three months to 31 October 20X0    | 720 |
| 1 February 20X1 for three months to 31 January 20X1    | 900 |
| 30 June 20X1 for three months to 30 April 20X1         | 840 |

Which of the following is the appropriate entry for electricity?

	<i>Accrued</i> At 30 June 20X1	<i>Charge to SOCI</i> year ended 30 June 20X1
A	\$Nil	\$3,060
B	\$460	\$3,320
C	\$560	\$3,320
D	\$560	\$3,420

(2 marks)

- 7 The year end of M Inc is 30 November 20X0. The company pays for its gas by a standing order of \$600 per month. On 1 December 20W9, the statement from the gas supplier showed that M Inc had overpaid by \$200. M Inc received gas bills for the four quarters commencing on 1 December 20W9 and ending on 30 November 20X0 for \$1,300, \$1,400, \$2,100 and \$2,000 respectively.

Which of the following is the correct charge for gas in M Inc's statement of comprehensive income for the year ended 30 November 20X0?

- A \$6,800
- B \$7,000
- C \$7,200
- D \$7,400

(2 marks)

- 8 S sells three products – Basic, Super and Luxury. The following information was available at the year end.

	<i>Basic</i> \$ per unit	<i>Super</i> \$ per unit	<i>Luxury</i> \$ per unit
Original cost	6	9	18
Estimated selling price	9	12	15
Selling and distribution costs	1	4	5
	units	units	units
Units of inventory	200	250	150

What is the value of inventory at the year end?

- A \$4,200
- B \$4,700
- C \$5,700
- D \$6,150

(2 marks)

- 9 A car was purchased by a newsagent business in May 20W7 for:

	\$
Cost	10,000
Road tax	150
Total	<u>10,150</u>

The business adopts a date of 31 December as its year end.

The car was traded in for a replacement vehicle in August 20X0 at an agreed value of \$5,000.

It has been depreciated at 25% per annum on the reducing-balance method, charging a full year's depreciation in the year of purchase and none in the year of sale.

What was the profit or loss on disposal of the vehicle during the year ended December 20X0?

- A Profit: \$718
- B Profit: \$781
- C Profit: \$1,788
- D Profit: \$1,836

(2 marks)

10 An inventory record card shows the following details.

February	1	50 units in stock at a cost of \$40 per unit
	7	100 units purchased at a cost of \$45 per unit
	14	80 units sold
	21	50 units purchased at a cost of \$50 per unit
	28	60 units sold

What is the value of inventory at 28 February using the FIFO method?

- A \$2,450
- B \$2,700
- C \$2,950
- D \$3,000

(2 marks)

11 A particular source of finance has the following characteristics: a fixed return, a fixed repayment date, it is secured and the return is classified as an expense.

What is this source of finance?

- A Ordinary share
- B Hire purchase
- C Loan stock
- D Preference share

(2 marks)

12 Which of the following statements gives the best definition of the objective of accounting?

- A To provide useful information to users
- B To record, categorise and summarise financial transactions
- C To calculate the taxation due to the government
- D To calculate the amount of dividend to pay to shareholders

(2 marks)

13 A company has been notified that a receivable has been declared bankrupt. The company had previously made a specific allowance for this debt. Which of the following is the correct double entry?

	<i>DR</i>	<i>CR</i>
A	Irrecoverable debts account	Account receivable
B	Account receivable	Irrecoverable debts account
C	Allowance for receivables	Account receivable
D	Account receivable	Allowable for receivables

(2 marks)

14 W is registered for sales tax. The managing director has asked four staff in the accounts department why the output tax for the last quarter does not equal 17.5% of sales (17.5% is the rate of tax). Which one of the following four replies she received was *not* correct?

- A The company had some exports that were not liable to sales tax
- B The company made some sales of zero-rated products
- C The company made some sales of exempt products
- D The company sold some products to businesses not registered for sales tax

(2 marks)

15 Which one of the following is *not* the purpose of a receivables ledger control account?

- A A receivables ledger control account provides a check on the arithmetical accuracy of the personal ledger
- B A receivables ledger control account helps to locate errors in the trial balance
- C A receivables ledger control account ensures that there are no errors in the personal ledger
- D Control accounts deter fraud

(2 marks)

- 16 The net book value of a company's non-current assets was \$200,000 at 1 August 20X0. During the year ended 31 July 20X1, the company sold non-current assets for \$25,000 on which it made a loss of \$5,000. The depreciation charge of the year was \$20,000. What was the net book value of non-current assets at 31 July 20X1?
- A \$150,000  
B \$155,000  
C \$160,000  
D \$180,000 (2 marks)
- 
- 17 According to the IASB *Framework* which one of the following is *not* an objective of financial statements?
- A Providing information regarding the financial position of a business  
B Providing information regarding the performance of a business  
C Enabling users to assess the performance of management to aid decision making  
D Helping to assess the going concern status of a business (2 marks)
- 
- 18 The IASB *Framework* identifies user groups. Which one of the following is *not* an information need for the 'Investor' group?
- A Assessment of repayment ability of an entity  
B Measuring performance, risk and return  
C Taking decisions regarding holding investments  
D Taking buy/sell decisions (2 marks)
- 
- 19 What is the role of the IASB?
- A To oversee the standard setting and regulatory process  
B To formulate accounting standards  
C To review defective accounts  
D To control the accountancy profession (2 marks)
- 
- 20 Which one of the following items does not appear under the heading 'reserves' on a company statement of financial position?
- A Share premium account  
B Retained earnings  
C Revaluation surpluses  
D Loan stock (2 marks)
- 
- 21 Which one of the following statements regarding a limited liability company statement of comprehensive income is correct?
- A Accounting standards define the expenses which are reported under 'cost of sales'  
B 'Depreciation' appears as a separate heading  
C Interest payable is deducted from profit after taxation  
D Irrecoverable debts will be included under one of the statutory expense headings (usually administrative expenses) (2 marks)

(Total = 42 marks)

## 35 Mixed bank II (PFS Pilot Paper)

53 mins

- 1 In an accounts receivable control account, which one of the following lists is composed only of items which would appear on the credit side of the account?
- A Cash received from customers, sales returns, irrecoverable debts written off, contra against amounts due to suppliers in the accounts payable ledger  
B Sales, cash refunds to customers, irrecoverable debts written off, discounts allowed





- A \$3,000
  - B \$2,500
  - C \$2,000
  - D \$5,000
- (2 marks)**

6 IAS 2 *Inventories* defines the items that may be included in computing the value of an inventory of finished goods manufactured by a business.

Which one of the following lists consists only of items which may be included in the statement of financial position value of such inventories, according to IAS 2?

- A Foreman's wages, carriage inwards, carriage outwards, raw materials
  - B Raw materials, carriage inwards, costs of storage of finished goods, plant depreciation
  - C Plant depreciation, carriage inwards, raw materials, foreman's wages
  - D Carriage outwards, raw materials, foreman's wages, plant depreciation
- (2 marks)**

7 The closing inventory of X amounted to \$116,400 *excluding* the following two inventory lines:

- 1 400 items which had cost \$4 each. All were sold after the reporting period for \$3 each, with selling expenses of \$200 for the batch.
- 2 200 different items which had cost \$30 each. These items were found to be defective at the end of the reporting period. Rectification work after the statement of financial position amounted to \$1,200, after which they were sold for \$35 each, with selling expenses totalling \$300.

Which of the following total figures should appear in the statement of financial position of X for inventory?

- A \$122,300
  - B \$121,900
  - C \$122,900
  - D \$123,300
- (2 marks)**

8 The IASB's *Framework* gives five qualitative characteristics which make financial information reliable. These five characteristics are:

- A Prudence, consistency, understandability, faithful representation, substance over form
  - B Accruals basis, going concern concept, consistency, prudence, true and fair view
  - C Faithful representation, neutrality, substance over form, completeness, consistency
  - D Substance over form, faithful representation, neutrality, prudence, completeness
- (2 marks)**

9 The following attempt at a bank reconciliation statement has been prepared by Q Co:

	\$
Overdraft per bank statement	38,600
Add: deposits not credited	<u>41,200</u>
	79,800
Less: outstanding cheques	<u>3,300</u>
Overdraft per cash book	<u>76,500</u>

Assuming the bank statement balance of \$38,600 to be correct, what *should* the cash book balance be?

- A \$76,500 overdrawn, as stated
  - B \$5,900 overdrawn
  - C \$700 overdrawn
  - D \$5,900 cash at bank
- (2 marks)**

10 After checking a business cash book against the bank statement, which of the following items could require an entry in the cash book?

- 1 Bank charges
- 2 A cheque from a customer which was dishonoured
- 3 Cheque not presented
- 4 Deposits not credited

- 5 Credit transfer entered in bank statement  
 6 Standing order entered in bank statement.
- A 1, 2, 5 and 6  
 B 3 and 4  
 C 1, 3, 4 and 6  
 D 3, 4, 5 and 6

(2 marks)

- 11 The following information is relevant to the calculation of the sales figure for Alpha, a sole trader who does not keep proper accounting records:

	\$
Opening accounts receivable	29,100
Cash received from credit customers and paid into the bank	381,600
Expenses paid out of cash received from credit customers before banking	6,800
Irrecoverable debts written off	7,200
Refunds to credit customers	2,100
Discounts allowed to credit customers	9,400
Cash sales	112,900
Closing accounts receivable	38,600

Which of the following should appear in Alpha's trading account for sales?

- A \$525,300  
 B \$511,700  
 C \$529,500  
 D \$510,900

(2 marks)

- 12 A sole trader who does not keep full accounting records wishes to calculate her sales revenue for the year.

The information available is:

1 Opening inventory	\$17,000
2 Closing inventory	\$24,000
3 Purchases	\$91,000
4 Standard gross profit percentage on sales revenue	40%

Which of the following is the sales figure for the year calculated from these figures?

- A \$117,600  
 B \$108,000  
 C \$210,000  
 D \$140,000

(2 marks)

- 13 A business compiling its accounts for the year to 31 January each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. After remaining unchanged for some years, the rent was increased from \$24,000 per year to \$30,000 per year as from 1 July 2000.

Which of the following figures is the rent expense which should appear in the statement of comprehensive income for year ended 31 January 20X1?

- A \$27,500  
 B \$29,500  
 C \$28,000  
 D \$29,000

(2 marks)

- 14 On 31 December 20X0 the inventory of V was completely destroyed by fire. The following information is available:

- 1 Inventory at 1 December 20X0 at cost \$28,400  
 2 Purchases for December 20X0 \$49,600

- 3 Sales for December 20X0 \$64,800  
 4 Standard gross profit percentage on sales revenue 30%

Based on this information, which of the following is the amount of inventory destroyed?

- A \$45,360  
 B \$32,640  
 C \$40,971  
 D \$19,440

(2 marks)

- 15 Which of the following statements concerning the accounting treatment of research and development expenditure are true, according to IAS 38 *Intangible assets*?

- 1 If certain criteria are met, research expenditure may be recognised as an asset.  
 2 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.  
 3 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.  
 4 Development expenditure recognised as an asset must be amortised over a period not exceeding five years.  
 5 The financial statements should disclose the total amount of research and development expenditure recognised as an expense during the period.

- A 1, 4 and 5  
 B 2, 4 and 5  
 C 2, 3 and 4  
 D 2, 3 and 5

(2 marks)

- 16 D, E and F are in partnership, sharing profits in the ratio 5:3:2 respectively, after charging salaries for E and F of \$24,000 each per year.

On 1 July 20X0 they agreed to change the profit-sharing ratio 3:1:1 and to increase E's salary to \$36,000 per year, F's salary continuing unchanged.

For the year ended 31 December 20X0 the partnership profit amounted to \$480,000.

Which of the following correctly states the partners' total profit shares for the year?

	<i>D</i>	<i>E</i>	<i>F</i>
A	\$234,000	\$136,800	\$109,200
B	\$213,000	\$157,800	\$109,200
C	\$186,000	\$171,600	\$122,400
D	\$237,600	\$132,000	\$110,400

(2 marks)

- 17 At 1 January 20X0 the capital structure of Q, a limited liability company, was as follows:

	\$
Issued share capital 1,000,000 ordinary shares of 50c each	500,000
Share premium account	300,000

On 1 April 20X0 the company made an issue of 200,000 50c shares at \$1.30 each, and on 1 July the company made a bonus (capitalisation) issue of one share for every four in issue at the time, using the share premium account for the purpose.

Which of the following correctly states the company's share capital and share premium account at 31 December 20X0?

	<i>Share capital</i>	<i>Share premium account</i>
A	\$750,000	\$230,000
B	\$875,000	\$285,000
C	\$750,000	\$310,000
D	\$750,000	\$610,000

(2 marks)

- 18 According to the illustrative financial structure in IAS 1 (revised) *Presentation of financial statements*, where should dividends paid during the year should be disclosed?
- A Statement of comprehensive income  
 B Statement of changes in equity  
 C Statement of financial position  
 D None of these

(2 marks)

- 19 IAS 7 requires the statement of cash flows to open with the calculation of net cash from operating activities, arrived at by adjusting net profit before taxation.

Which one of the following lists consists only of items which could appear in such a calculation?

- A Depreciation, increase in receivables, decrease in payables, proceeds from sale of equipment, increase in inventories  
 B Increase in payables, decrease in inventories, profit on sale of plant, depreciation, decrease in receivables  
 C Increase in payables, proceeds from sale of equipment, depreciation, decrease in receivables, increase in inventories  
 D Depreciation, interest paid, proceeds from sale of equipment, decrease in inventories.

(2 marks)

- 20 IAS 10 *Events after the reporting period* regulates the extent to which events after the reporting period should be reflected in financial statements.

Which one of the following lists of such events consists only of items that, according to IAS 10, should normally be classified as non-adjusting?

- A Insolvency of an account receivable which was outstanding at the end of the reporting period, issue of shares or loan notes, a major merger with another company  
 B Issue of shares or loan notes, changes in foreign exchange rates, major purchases of non-current assets  
 C A major merger with another company, destruction of a major non-current asset by fire, discovery of fraud or error which shows that the financial statements were incorrect  
 D Sale of inventory, giving evidence about its value at the end of the reporting period, issue of shares or loan notes, destruction of a major non-current asset by fire

(2 marks)

(Total = 40 marks)

### 36 Mixed bank III (PFS 06/05)

53 mins

- 1 B, a limited liability company, receives rent for subletting part of its office premises to a number of tenants.

In the year ended 31 December 20X4 B received cash of \$318,600 from its tenants.

Details of rent in advance and in arrears at the beginning and end of 20X4 are as follows:

	31 December	
	20X4	20X3
	\$	\$
Rent received in advance	28,400	24,600
Rent owing by tenants	18,300	16,900

All rent owing was subsequently received

What figure for rental income should be included in the statement of comprehensive income of B for 20X4?

- A \$341,000  
 B \$336,400  
 C \$300,800  
 D \$316,200

(2 marks)

- 2 The following information is available for the year ended 31 December 20X4 for a trader who does not keep proper accounting records:

	\$
Inventories at 1 January 20X4	38,000
Inventories at 31 December 20X4	45,000
Purchases	637,000

Gross profit percentage on sales = 30%

Based on this information, what was the trader's sales figure for the year?

- A \$900,000  
 B \$819,000  
 C \$920,000  
 D \$837,200

(2 marks)

- 3 The following bank reconciliation statement has been prepared for a company:

	\$
Overdraft per bank statement	39,800
Add: Deposits credited after date	64,100
	<u>103,900</u>
Less: Outstanding cheques presented after date	44,200
Overdraft per cash book	<u>59,700</u>

Assuming the amount of the overdraft per the bank statement of \$39,800 is correct, what should be the balance in the cash book?

- A \$158,100 overdrawn  
 B \$19,900 overdrawn  
 C \$68,500 overdrawn  
 D \$59,700 overdrawn as stated

(2 marks)

- 4 Which, if any, of the following journal entries is correct according to their narratives?

	<i>Debit</i>	<i>Credit</i>
	\$	\$
1 B receivables ledger account	450	
Irrecoverable debts account		450
Irrecoverable balance written off		
2 Investments: Q ordinary shares	100,000	
Share capital		100,000
80,000 shares of 50c each issued at \$1.25 in exchange for shares in Q.		
3 Suspense account	1,000	
Motor vehicles account		1,000
Correction of error – debit side of Motor vehicles account undercast by \$1,000		

- A None of them  
 B 1 only  
 C 2 only  
 D 3 only

(2 marks)

- 5 An entity has made a material change to an accounting policy in preparing its current financial statements.

Which of the following disclosures are required by IAS 8 *Accounting policies, changes in accounting estimates and errors* in these financial statements?

- 1 The reasons for the change.
  - 2 The amount of the consequent adjustment in the current period and in comparative information for prior periods.
  - 3 An estimate of the effect of the change on future periods, where possible.
- A 1 and 2 only  
 B 1 and 3 only  
 C 2 and 3 only  
 D All three items
- (2 marks)**

- 6 At 31 December 20X3 Q, a limited liability company, owned a building that had cost \$800,000 on 1 January 20W4.

It was being depreciated at two per cent per year.

On 31 December 20X3 a revaluation to \$1,000,000 was recognised. At this date the building had a remaining useful life of 40 years.

Which of the following pairs of figures correctly reflects the effects of the revaluation?

	<i>Depreciation charge for year ended 31 December 20X4</i>	<i>Revaluation reserve as at 31 December 20X3</i>
	\$	\$
A	25,000	200,000
B	25,000	360,000
C	20,000	200,000
D	20,000	360,000

**(2 marks)**

- 7 The inventory value for the financial statements of Q for the year ended 31 December 20X4 was based on an inventory count on 4 January 20X5, which gave a total inventory value of \$836,200.

Between 31 December and 4 January 20X5, the following transactions took place:

	\$
Purchases of goods	8,600
Sales of goods (profit margin 30% on sales)	14,000
Goods returned by Q to supplier	700

What adjusted figure should be included in the financial statements for inventories at 31 December 20X4?

- A \$838,100  
 B \$853,900  
 C \$818,500  
 D \$834,300
- (2 marks)**

- 8 P and Q are in partnership, sharing profits in the ratio 2:1. On 1 July 20X4 they admitted P's son R as a partner. P guaranteed that R's profit share would not be less than \$25,000 for the six months to 31 December 20X4. The profit sharing arrangements after R's admission were P 50%, Q 30%, R 20%. The profit for the year ended 31 December 20X4 is \$240,000, accruing evenly over the year.

What should P's final profit share be for the year ended 31 December 20X4?

- A \$140,000  
 B \$139,000  
 C \$114,000  
 D \$139,375
- (2 marks)**

- 9 Which of the following costs should be included in valuing inventories of finished goods held by a manufacturing company, according to IAS 2 *Inventories*?
- 1 Carriage inwards.
  - 2 Carriage outwards.
  - 3 Depreciation of factory plant.
  - 4 Accounts department costs relating to wages for production employees.
- A All four items  
 B 2 and 3 only  
 C 1, 3 and 4 only  
 D 1 and 4 only
- (2 marks)**

- 10 During 20X4, B, a limited liability company, paid a total of \$60,000 for rent, covering the period from 1 October 20X3 to 31 March 20X5.
- What figures should appear in the company's financial statements for the year ended 31 December 20X4?

	<i>SOCI</i>		<i>SOFP</i>
	\$		\$
A	40,000		10,000 Prepayment
B	40,000		15,000 Prepayment
C	50,000		10,000 Accrual
D	50,000		15,000 Accrual

**(2 marks)**

- 11 Wanda keeps no accounting records. The following information is available about her position and transactions for the year ended 31 December 20X4:

	\$
Net assets at 1 January 20X4	210,000
Drawings during 20X4	48,000
Capital introduced during 20X4	100,000
Net assets at 31 December 20X4	400,000

Based on this information, what was Wanda's profit for 20X4?

- A \$42,000  
 B \$242,000  
 C \$138,000  
 D \$338,000
- (2 marks)**

- 12 The following receivables ledger control account has been prepared by a trainee accountant:

RECEIVABLES LEDGER CONTROL ACCOUNT					
		\$			\$
<i>20X5</i>			<i>20X5</i>		
1 Jan	Balance	318,650	31 Jan	Cash from credit customers	181,140
	Credit sales	161,770		Interest charged on overdue accounts	280
	Cash sales	84,260		Irrecoverable debts written off	1,390
	Discounts allowed to credit customers	1,240		Sales returns from credit customers	3,990
		<u>565,920</u>		Balance	<u>379,120</u>
					<u>565,920</u>

What should the closing balance at 31 January 20X5 be after correcting the errors in the account?

- A \$292,380  
 B \$295,420  
 C \$292,940  
 D \$377,200
- (2 marks)**



- 13 At 31 December 20X4 a company's trade receivables totalled \$864,000 and the allowance for receivables was \$48,000.

It was decided that debts totalling \$13,000 were to be written off, and the allowance for receivables adjusted to five per cent of the receivables.

What figures should appear in the statement of financial position for trade receivables (after deducting the allowance) and in the statement of comprehensive income for the total of irrecoverable debts and movement on receivables allowance?

	<i>Irrecoverable debts and receivables allowance</i>	<i>Net trade receivables</i>	
	\$	\$	
A	8,200	807,800	
B	7,550	808,450	
C	18,450	808,450	
D	55,550	808,450	<b>(2 marks)</b>

- 14 Which of the following statements about accounting concepts and conventions are correct?

- 1 The entity concept requires that a business is treated as being separate from its owners.
- 2 The use of historical cost accounting tends to understate assets and profit when prices are rising.
- 3 The prudence concept means that the lowest possible values should be applied to income and assets and the highest possible values to expenses and liabilities.
- 4 The money measurement concept means that only assets capable of being reliably measured in monetary terms can be included in the statement of financial position of a business.

- A 1 and 2  
B 2 and 3  
C 3 and 4  
D 1 and 4

**(2 marks)**

- 15 A business statement of comprehensive income for the year ended 31 December 20X4 showed a net profit of \$83,600. It was later found that \$18,000 paid for the purchase of a motor van had been debited to motor expenses account. It is the company's policy to depreciate motor vans at 25 per cent per year, with a full year's charge in the year of acquisition.

What would the net profit be after adjusting for this error?

- A \$106,100  
B \$70,100  
C \$97,100  
D \$101,600

**(2 marks)**

- 16 How should interest charged on partners' drawings appear in partnership financial statements?

- A As income in the statement of comprehensive income  
B Added to net profit and charged to partners in the division of profit  
C Deducted from net profit and charged to partners in the division of profit  
D Deducted from net profit in the division of profit and credited to partners

**(2 marks)**

- 17 Which of the following statements about intangible assets in company financial statements are correct according to international financial reporting standards?

- 1 Internally generated goodwill should not be capitalised.
- 2 Purchased goodwill should normally be amortised through the statement of comprehensive income.
- 3 Development expenditure must be capitalised if certain conditions are met.

- A 1 and 3 only  
B 1 and 2 only  
C 2 and 3 only  
D All three statements are correct

**(2 marks)**

- 18 Which of the following events occurring after the reporting period are classified as adjusting, if material?
- 1 The sale of inventories valued at cost at the end of the reporting period for a figure in excess of cost.
  - 2 A valuation of land and buildings providing evidence of an impairment in value at the year end.
  - 3 The issue of shares and loan notes.
  - 4 The insolvency of a customer with a balance outstanding at the year end.
- A 1 and 3  
 B 2 and 4  
 C 2 and 3  
 D 1 and 4
- (2 marks)**

- 19 Which of the following statements about contingent assets and contingent liabilities are correct?
- 1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.
  - 2 A contingent liability should be disclosed by note if it is probable that a transfer of economic benefits to settle it will be required, with no provision being made.
  - 3 No disclosure is required for a contingent liability if it is not probable that a transfer of economic benefits to settle it will be required.
  - 4 No disclosure is required for either a contingent liability or a contingent asset if the likelihood of a payment or receipt is remote.
- A 1 and 4 only  
 B 2 and 3 only  
 C 2, 3 and 4  
 D 1, 2 and 4
- (2 marks)**

- 20 Which of the following statements about limited liability companies' accounting is/are correct?
- 1 A revaluation reserve arises when a non-current asset is sold at a profit.
  - 2 The authorised share capital of a company is the maximum nominal value of shares and loan notes the company may issue.
  - 3 The notes to the financial statements must contain details of all adjusting events as defined in IAS 10 *Events after the reporting period*.
- A All three statements  
 B 1 and 2 only  
 C 2 and 3 only  
 D None of the statements
- (2 marks)**

**(Total = 40 marks)**

## 37 Mixed bank IV (PFS 12/05)

**53 mins**

- 1 The following information is available for a sole trader who keeps no accounting records:

	\$
Net business assets at 1 July 20X4	186,000
Net business assets at 30 June 20X5	274,000
During the year ended 30 June 20X5:	
Cash drawings by proprietor	68,000
Additional capital introduced by proprietor	50,000
Business cash used to buy a car for the proprietor's wife, who takes no part in the business	20,000

Using this information, what is the trader's profit for the year ended 30 June 20X5?

- A \$126,000
- B \$50,000
- C \$86,000
- D \$90,000

(2 marks)

- 2 Evon, a limited liability company, issued 1,000,000 ordinary shares of 25 cents each at a price of \$1.10 per share, all received in cash.

What should be the accounting entries to record this issue?

- |   |         |                   |             |
|---|---------|-------------------|-------------|
| A | Debit:  | Cash              | \$1,100,000 |
|   | Credit: | Share capital     | \$250,000   |
|   | Credit: | Share premium     | \$850,000   |
|   |         |                   |             |
| B | Debit:  | Share capital     | \$250,000   |
|   |         | Share premium     | \$850,000   |
|   | Credit: | Cash              | \$1,100,000 |
|   |         |                   |             |
| C | Debit:  | Cash              | \$1,100,000 |
|   | Credit: | Share capital     | \$1,100,000 |
|   |         |                   |             |
| D | Debit:  | Cash              | \$1,100,000 |
|   | Credit: | Share capital     | \$250,000   |
|   |         | Retained earnings | \$850,000   |

(2 marks)

- 3 P and Q are in partnership, sharing profits equally.

On 1 January 20X5, R joined the partnership and it was agreed that from that date all three partners should share equally in the profit.

In the year ended 30 June 20X5 the profit amounted to \$300,000, accruing evenly over the year, after charging a bad debt of \$30,000 which it was agreed should be borne equally by P and Q only.

What should be the partners' total profit shares for the year ended 30 June 20X5?

	<i>P</i>	<i>Q</i>	<i>R</i>
	\$	\$	\$
A	95,000	95,000	110,000
B	122,500	122,500	55,000
C	125,000	125,000	50,000
D	110,000	110,000	50,000

(2 marks)

- 4 At 1 July 20X4 a limited liability company's capital structure was as follows:

	\$
Share capital 1,000,000 shares of 50c each	500,000
Share premium account	400,000

In the year ended 30 June 20X5 the company made the following share issues:

1 January 20X5:

A bonus issue of one share for every four in issue at that date, using the share premium account.

1 April 20X5

A rights issue of one share for every ten in issue at that date, at \$1.50 per share.

What will be the balances on the company's share capital and share premium accounts at 30 June 20X5 as a result of these issues?

	<i>Share capital</i>	<i>Share premium account</i>	
	\$	\$	
A	687,500	650,000	
B	675,000	375,000	
C	687,500	150,000	
D	687,500	400,000	<b>(2 marks)</b>

5 Which of the following journal entries are correct, according to their narratives?

	<i>Dr</i>	<i>Cr</i>
	\$	\$
1	18,000	
	Rent received account	18,000
	Correction of error in posting \$24,000 cash received for rent to the rent received account as \$42,000	
2	22,000	
	B receivables ledger account	22,000
	A receivables ledger account	
	Correction of error: cash received from A wrongly entered to B's account	
3	400,000	
	Share premium account	400,000
	Share capital account	
	1 for 3 bonus issue on share capital of 1,200,000 50c shares	
4	750,000	
	Shares in X	250,000
	Share capital account	500,000
	Share premium account	
	500,000 50c shares issued at \$1.50 per share in exchange for shares in X.	

- A 1 and 3  
 B 2 and 3  
 C 1 and 4  
 D 2 and 4

**(2 marks)**

6 The receivables ledger control account below contains several incorrect entries.

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	138,400	Credit sales	80,660
		Contras against credit balances in payables ledger	1,000
Cash received from credit customers	78,420	Discounts allowed to credit customers	1,950
		Irrecoverable debts written off	3,000
		Dishonoured cheques from credit customers	850
		Closing balance	129,360
	<u>216,820</u>		<u>216,820</u>

What should the closing balance be when all the errors are corrected?

- A \$133,840  
 B \$135,540  
 C \$137,740  
 D \$139,840

**(2 marks)**

7 A limited liability company's trial balance does not balance. The totals are:

Debit	\$384,030
Credit	\$398,580

A suspense account is opened for the difference.

Which of the following pairs of errors could clear the balance on the suspense account when corrected?

- A Debit side of cash book undercast by \$10,000; \$6,160 paid for rent correctly entered in the cash book but entered in the rent account as \$1,610.
- B Debit side of cash book overcast by \$10,000; \$1,610 paid for rent correctly entered in the cash book but entered in the rent account as \$6,160.
- C Debit side of cash book undercast by \$10,000; \$1,610 paid for rent correctly entered in the cash book but entered in the rent account as \$6,160.
- D Debit side of cash book overcast by \$10,000; \$6,160 paid for rent correctly entered in the cash book but entered in the rent account as \$1,610.

**(2 marks)**

8 A draft statement of cash flows contains the following calculation of cash flows from operating activities:

	\$m
Profit before tax	13
Depreciation	2
Decrease in inventories	(3)
Decrease in trade and other receivables	5
Decrease in trade payables	4
Net cash inflow from operating activities	<u>21</u>

Which of the following corrections need to be made to the calculation?

- 1 Depreciation should be deducted, not added.
  - 2 Decrease in inventories should be added, not deducted.
  - 3 Decrease in receivables should be deducted, not added.
  - 4 Decrease in payables should be deducted, not added.
- A 1 and 3
  - B 2 and 3
  - C 1 and 4
  - D 2 and 4

**(2 marks)**

9 The following information is available for Orset, a sole trader who does not keep full accounting records:

	\$
Inventory 1 July 20X4	138,600
30 June 20X5	149,100
Purchases made for year ended 30 June 20X5	716,100

Orset makes a standard gross profit of 30 percent on sales.

Based on these figures, what is Orset's sales figure for the year ended 30 June 20X5?

- A \$2,352,000
- B \$1,038,000
- C \$917,280
- D \$1,008,000

**(2 marks)**

- 10 At 1 July 20X4 a company had prepaid insurance of \$8,200. On 1 January 20X5 the company paid \$38,000 for insurance for the year to 30 September 20X5.

What figures should appear for insurance in the company's financial statements for the year ended 30 June 20X5?

	<i>SOCI</i>	<i>SOFP</i>	
A	\$27,200	Prepayment \$19,000	
B	\$39,300	Prepayment \$9,500	
C	\$36,700	Prepayment \$9,500	
D	\$55,700	Prepayment \$9,500	<b>(2 marks)</b>

- 11 Which one of the following correctly describes the imprest system for operating petty cash?

A	All expenditure out of petty cash must be supported by a properly authorised voucher.	
B	A regular equal amount of cash is transferred into petty cash.	
C	The exact amount of expenditure out of petty cash is reimbursed at intervals.	
D	A budget is fixed for a period which petty cash expenditure must not exceed.	<b>(2 marks)</b>

- 12 Alpha buys goods from Beta. At 30 June 20X5 Beta's account in Alpha's records showed \$5,700 owing to Beta. Beta submitted a statement to Alpha as at the same date showing a balance due of \$5,200.

Which one of the following could account fully for the difference?

A	Alpha has sent a cheque to Beta for \$500 which has not yet been received by Beta.	
B	The credit side of Beta's account in Alpha's records has been undercast by \$500.	
C	An invoice for \$250 from Beta has been treated in Alpha's records as if it had been a credit note.	
D	Beta has issued a credit note for \$500 to Alpha which Alpha has not yet received.	<b>(2 marks)</b>

- 13 Which of the following statements about intangible assets are correct?

1	If certain criteria are met, research expenditure must be recognised as an intangible asset.	
2	If certain criteria are met, development expenditure must be capitalised	
3	Intangible assets must be amortised	
A	2 and 3 only	
B	1 and 3 only	
C	1 and 2 only	
D	All three statements are correct.	<b>(2 marks)</b>

- 14 Which of the following events between the reporting date and the date the financial statements are authorised for issue must be adjusted in the financial statements?

1	Declaration of equity dividends.	
2	Decline in market value of investments.	
3	The announcement of changes in tax rates.	
4	The announcement of a major restructuring.	
A	1 only	
B	2 and 4	
C	3 only	
D	None of them	<b>(2 marks)</b>

- 15 A company sublets part of its office accommodation. In the year ended 30 June 20X5 cash received from tenants was \$83,700.

Details of rent in arrears and in advance at the beginning and end of the year were:

	<i>In arrears</i>	<i>In advance</i>
	\$	\$
30 June 20X4	3,800	2,400
30 June 20X5	4,700	3,000

All arrears of rent were subsequently received.

What figure for rental income should be included in the company's statement of comprehensive income for the year ended 30 June 20X5?

- A \$84,000
- B \$83,400
- C \$80,600
- D \$85,800

(2 marks)

- 
- 16 At 30 June 20X4 a company's allowance for receivables was \$39,000. At 30 June 20X5 trade receivables totalled \$517,000. It was decided to write off debts totalling \$37,000 and to adjust the allowance for receivables to the equivalent of 5 per cent of the trade receivables based on past events.

What figure should appear in the statement of comprehensive income for these items?

- A \$61,000
- B \$22,000
- C \$24,000
- D \$23,850

(2 marks)

- 
- 17 IAS 2 *Inventories* defines the extent to which overheads are included in the cost of inventories of finished goods. Which of the following statements about the IAS 2 requirements in this area are correct?

- 1 Finished goods inventories may be valued on the basis of labour and materials cost only, without including overheads.
- 2 Carriage inwards, but not carriage outwards, should be included in overheads when valuing inventories of finished goods.
- 3 Factory management costs should be included in fixed overheads allocated to inventories of finished goods.

- A All three statements are correct.
- B 1 and 2 only
- C 1 and 3 only
- D 2 and 3 only

(2 marks)

- 
- 18 A limited liability company sold a building at a profit.

How will this transaction be treated in the company's statement of cash flows?

*Proceeds of sale*

*Profit on sale*

- |  |   |
|--|---|
| A Cash inflow under financing activities | Add to profit in calculating cash flow from operating activities        |
| B Cash inflow under investing activities | Deducted from profit in calculating cash flow from operating activities |
| C Cash inflow under investing activities | Added to profit in calculating cash flow from operating activities      |
| D Cash inflow under financing activities | Deducted from profit in calculating cash flow from operating activities |

(2 marks)

- 
- 19 Which of the following items may appear in a company's statement of changes in equity, according to IAS 1 *Presentation of financial statements*?

- 1 Unrealised revaluation gains.
- 2 Dividends paid.
- 3 Proceeds of equity share issue.
- 4 Profit for the period.

- A 2, 3 and 4 only
- B 1, 3 and 4 only
- C All four items
- D 1, 2 and 4 only

(2 marks)

- 20 Sigma's bank statement shows an overdrawn balance of \$38,600 at 30 June 20X5. A check against the company's cash book revealed the following differences:
- 1 Bank charges of \$200 have not been entered in the cash book.
  - 2 Lodgements recorded on 30 June 20X5 but credited by the bank on 2 July \$14,700.
  - 3 Cheque repayments entered in cash book but not presented for payment at 30 June 20X5 \$27,800.
  - 4 A cheque payment to a supplier of \$4,200 charged to the account in June 20X5 recorded in the cash book as a receipt.

Based on this information, what was the cash book balance **before** any adjustments?

- A \$43,100 overdrawn
- B \$16,900 overdrawn
- C \$60,300 overdrawn
- D \$34,100 overdrawn

(2 marks)

(Total = 40 marks)

### 38 Mixed bank V (PFS 06/06)

51 mins

- 1 The plant and machinery cost account of a company is shown below. The company's policy is to charge depreciation at 20% on the straight line basis, with proportionate depreciation in years of acquisition and disposal.

Plant and machinery – cost

20X5		\$	20X5		\$
1 Jan	Balance b/f	280,000	30 June	Transfer disposal	14,000
1 Apr	Cash	48,000			
1 Sept	Cash	36,000	31 Dec	Balance c/f	350,000
		<u>364,000</u>			<u>364,000</u>

What should be the depreciation charge for the year ended 31 December 20X5?

- A \$67,000
- B \$70,000
- C \$64,200
- D \$68,600

(2 marks)

- 2 Which of the following are correct?
- 1 The statement of financial position value of inventory should be as close as possible to net realisable value.
  - 2 The valuation of finished goods inventory must include production overheads.
  - 3 Production overheads included in valuing inventory should be calculated by reference to the company's normal level of production during the period.
  - 4 In assessing net realisable value, inventory items must be considered separately, or in groups of similar items, not by taking the inventory value as a whole.
- A 1 and 2 only
  - B 3 and 4 only
  - C 1 and 3 only
  - D 2, 3 and 4

(2 marks)



- 3 A business sublets part of its office accommodation.

The rent is received quarterly in advance on 1 January, 1 April, 1 July and 1 October. The annual rent has been \$24,000 for some years, but it was increased to \$30,000 from 1 July 20X5.

What amounts for this rent should appear in the company's financial statements for the year ended 31 January 20X6?

	<i>SOCI</i>	<i>SOPF</i>
A	\$27,500	\$5,000 in sundry receivables
B	\$27,000	\$2,500 in sundry receivables
C	\$27,000	\$2,500 in sundry payables
D	\$27,500	\$5,000 in sundry payables

(2 marks)

- 4 A trainee accountant has prepared the following receivables ledger control account to calculate the credit sales of a business which does not keep proper accounting records (all sales are on credit):

Receivables ledger control account

	\$		\$
Opening receivables	148,200	Credit sales	870,800
Cash received from customers	819,300		
Discounts allowed to credit customers	16,200		
Irrecoverable debts written off	1,500		
Returns from customers	38,700	Closing receivables	153,100
	<u>1,023,900</u>		<u>1,023,900</u>

The account contains several errors.

What is the sales figure when all the errors have been corrected?

- A \$848,200  
 B \$877,600  
 C \$835,400  
 D \$880,600

(2 marks)

- 5 Which of the following events after the reporting period would normally qualify as adjusting events according to IAS 10 *Events after the reporting period*?

- The bankruptcy of a credit customer with a balance outstanding at the end of the reporting period.
- A decline in the market value of investments.
- The declaration of an ordinary dividend.
- The determination of the cost of assets purchased before the end of the reporting period.

- A 1, 3, and 4  
 B 1 and 2 only  
 C 2 and 3 only  
 D 1 and 4 only

(2 marks)

- 6 Ordan received a statement from one of its suppliers, Alta, showing a balance due of \$3,980. The amount due according to the payables ledger account of Alta in Ordan's records was only \$230. Comparison of the statement and the ledger account revealed the following differences:

- A cheque sent by Ordan for \$270 has not been allowed for in Alta's statement.
- Alta has not allowed for goods returned by Ordan \$180.
- Ordan made a contra entry, reducing the amount due to Alta by \$3,200, for a balance due from Alta in Ordan's receivables ledger. No such entry has been made in Alta's records.

What difference remains between the two companies' records after adjusting for these items?

- A \$460
- B \$640
- C \$6,500
- D \$100

(2 marks)

- 7 A company's trial balance failed to agree, and a suspense account was opened for the difference. Subsequent checking revealed that discounts allowed \$13,000 had been credited to discounts received account and an entry on the credit side of the cash book for the purchase of some machinery \$18,000 had not been posted to the plant and machinery account.

Which two of the following journal entries would correct the errors?

	Debit	Credit
	\$	\$
(1) Discounts allowed	13,000	
Discounts received		13,000
(2) Discounts allowed	13,000	
Discounts received	13,000	
Suspense account		26,000
(3) Suspense account	26,000	
Discounts allowed		13,000
Discounts received		13,000
(4) Plant and machinery	18,000	
Suspense account		18,000
(5) Suspense account	18,000	
Plant and machinery		18,000

- A 1 and 4
- B 2 and 5
- C 2 and 4
- D 3 and 5

(2 marks)

### The following information is relevant for questions 8 and 9

A company's draft financial statements for 20X5 showed a profit of \$630,000. However, the trial balance did not agree, and a suspense account appeared in the company's draft statement of financial position. Subsequent checking revealed the following errors:

- (1) The cost of an item of plant \$48,000 had been entered in the cash book and in the plant register as \$4,800. Depreciation at the rate of 10% per year (\$480) had been charged.
- (2) Bank charges of \$440 appeared in the bank statement in December 20X5 but had not been entered in the company's records.
- (3) One of the directors of the company paid \$800 due to a supplier in the company's payables ledger by a personal cheque. The bookkeeper recorded a debit in the supplier's ledger account but did not complete the double entry for the transaction. (The company does not maintain a payables ledger control account).
- (4) The payments side of the cash book had been understated by \$10,000.

- 8 Which of the above items would require an entry to the suspense account in correcting them?

- A All four items
- B 3 and 4 only
- C 2 and 3 only
- D 1, 2 and 4 only

(2 marks)

- 9 What would the company's profit become after the correction of the above errors?
- A \$634,760
  - B \$624,760
  - C \$624,440
  - D \$625,240
- (2 marks)**
- 

- 10 Which of the following statements are correct?
- 1 A company might make a rights issue if it wished to raise more equity capital.
  - 2 A rights issue might increase the share premium account whereas a bonus issue is likely to reduce it.
  - 3 A bonus issue will generate cash for a company.
  - 4 A rights issue will always increase the number of shareholders in a company whereas a bonus issue will not.
- A 1 and 2
  - B 1 and 3
  - C 2 and 3
  - D 2 and 4
- (2 marks)**
- 

- 11 Which of the following statements are correct?
- 1 Contingent assets are included as assets in financial statements if it is probable that they will arise.
  - 2 Contingent liabilities must be provided for in financial statements if it is probable that they will arise.
  - 3 Details of all adjusting events after the reporting period must be given in notes to the financial statements.
  - 4 Material non-adjusting events are disclosed by note in the financial statements.
- A 1 and 2
  - B 2 and 4
  - C 3 and 4
  - D 1 and 3
- (2 marks)**
- 

- 12 At 1 January 20X5 a company had an allowance for receivables of \$18,000  
At 31 December 20X5 the company's trade receivables were \$458,000.
- It was decided:
- (a) To write off debts totalling \$28,000 as irrecoverable;
  - (b) To adjust the allowance for receivables to the equivalent of 5% of the remaining receivables based on past experience.
- What figure should appear in the company's statement of comprehensive income for the total of debts written off as irrecoverable and the movement in the allowance for receivables for the year ended 31 December 20X5?
- A \$49,500
  - B \$31,500
  - C \$32,900
  - D \$50,900
- (2 marks)**
-

- 13 The following payables ledger control account contains some errors. All goods are purchased on credit

Payables ledger control account

	\$		\$
Purchases	963,200	Opening balance	384,600
Discounts received	12,600	Cash paid to suppliers	988,400
Contras with amounts receivable in receivables ledger	4,200	Purchases returns	17,400
Closing balance	<u>410,400</u>		
	<u>1,390,400</u>		<u>1,390,400</u>

What should the closing balance be when the errors have been corrected?

- A \$325,200
- B \$350,400
- C \$358,800
- D \$376,800

(2 marks)

- 14 Which one of the following journal entries is required to record goods taken from inventory by the owner of a business?

- A Debit Drawings  
Credit Purchases
- B Debit Sales  
Credit Drawings
- C Debit Drawings  
Credit Inventory
- D Debit Purchases  
Credit Drawings

(2 marks)

- 15 The following information is available about the transactions of Razil, a sole trader who does not keep proper accounting records:

	\$
Opening inventory	77,000
Closing inventory	84,000
Purchases	763,000
Gross profit as a percentage of sales	30%

Based on this information, what is Razil's sales revenue for the year?

- A \$982,800
- B \$1,090,000
- C \$2,520,000
- D \$1,080,000

(2 marks)

- 16 Which of the following statements are correct?

- 1 All non-current assets must be depreciated.
- 2 If property is revalued, the revaluation surplus appears in the statement of comprehensive income.
- 3 If a tangible non-current asset is revalued, all tangible assets of the same class should be revalued.
- 4 In a company's published statement of financial position, tangible assets and intangible assets must be shown separately.

- A 1 and 2
- B 2 and 3
- C 3 and 4
- D 1 and 4

(2 marks)

- 17 The following bank reconciliation statement has been prepared by an inexperienced bookkeeper at 31 December 20X5.

**Bank reconciliation statement**

	\$
Balance per bank statement (overdrawn)	38,640
<i>Add:</i> lodgements not credited	<u>19,270</u>
	57,910
<i>Less:</i> unpresented cheques	<u>14,260</u>
Balance per cash book	<u>43,650</u>

What should the final cash book balance be when all the above items have been properly dealt with?

- A \$43,650            overdrawn
- B \$33,630            overdrawn
- C \$5,110             overdrawn
- D \$72,170            overdrawn

(2 marks)

- 18 On 1 January 20X5 a company purchased some plant.

The invoice showed

	\$
Cost of plant	48,000
Delivery to factory	400
One year warranty covering breakdown during 20X5	<u>800</u>
	<u>49,200</u>

Modifications to the factory building costing \$2,200 were necessary to enable the plant to be installed.

What amount should be capitalised for the plant in the company's records?

- A \$51,400
- B \$48,000
- C \$50,600
- D \$48,400

(2 marks)

- 19 A business had an opening inventory of \$180,000 and a closing inventory of \$220,000 in its financial statements for the year ended 31 December 20X5.

Which of the following entries for these opening and closing inventory figures are made when completing the financial records of the business?

		<i>Debit</i>	<i>Credit</i>
		\$	\$
A	Inventory account	180,000	
	Income statement (SOCl)		180,000
	Income statement (SOCl)	220,000	
	Inventory account		220,000
B	Income statement (SOCl)	180,000	
	Inventory account		180,000
	Inventory account	220,000	
	Income statement (SOCl)		220,000
C	Inventory account	40,000	
	Purchases account		40,000
D	Purchases account	40,000	
	Inventory account		40,000
			<b>(2 marks)</b>

**(Total = 38 marks)**

### 39 Mixed bank VI (PFS 12/06)

**51 mins**

- 1 On 1 September 20X6, a business had inventory of \$380,000. During the month, sales totalled \$650,000 and purchases \$480,000. On 30 September 20X6 a fire destroyed some of the inventory. The undamaged goods in inventory were valued at \$220,000. The business operates with a standard gross profit margin of 30%.

Based on this information, what is the cost of the inventory destroyed in the fire?

- A \$185,000
- B \$140,000
- C \$405,000
- D \$360,000

**(2 marks)**

- 2 A company had the following transactions:

- 1 Goods in inventory that had cost \$1,000 were sold for \$1,500 cash.
- 2 A credit customer whose \$500 debt had been written off paid the amount in full.
- 3 The company paid credit suppliers \$1,000

What will be the combined effect of these transactions on the company's total net assets (current assets less current liabilities)?

- A Increase of \$1,000
- B Net assets remains unchanged
- C Increase of \$2,000
- D Increase of \$3,000

**(2 marks)**

- 3 Which of the following should appear as items in a company's statement of changes in equity?

- 1 Profit for the financial year
- 2 Income from investments
- 3 Gain on revaluation of non-current assets
- 4 Dividends paid

- A 1, 3 and 4
- B 1 and 4 only
- C 2 and 3 only
- D 1, 2 and 3

**(2 marks)**

- 4 The following information is available about a company's dividends:

		\$
<i>20X5</i>		
Sept.	Final dividend for the year ended 30 June 20X5 paid (declared August 20X5)	100,000
<i>20X6</i>		
March	Interim dividend for the year ended 30 June 20X6 paid	40,000
Sept.	Final dividend for the year ended 30 June 20X6 paid (declared August 20X6)	120,000

What figures, if any, should be disclosed in the company's statement of comprehensive income for the year ended 30 June 20X6 and its statement of financial position as at that date?

	<i>SOI for the period</i>	<i>SOPF liability</i>	
A	\$160,000 deduction	\$120,000	
B	\$140,000 deduction	nil	
C	nil	\$120,000	
D	nil	nil	<b>(2 marks)</b>

- 5 A and B are in partnership, sharing profits in the ratio 3:2 and preparing their accounts to 30 June each year. On 1 January 20X6, C joined the partnership and the profit sharing ratio became A 40%, B 30%, and C 30%.

Profits for the year ended 30 June 20X6 were:

	\$
6 months ended 31 December 20X5	300,000
6 months ended 30 June 20X6	450,000

An irrecoverable debt of \$50,000 was written off in the six months to 30 June in computing the \$450,000 profit. It was agreed that this expense should be borne by A and B only, in their original profit-sharing ratios.

What is A's total profit share for the year ended 30 June 20X6?

	\$	
A	330,000	
B	310,000	
C	340,000	
D	350,000	<b>(2 marks)</b>

- 6 At 1 July 20X5 a company's allowance for receivables was \$48,000.

At 30 June 20X6, trade receivables amounted to \$838,000. It was decided to write off \$72,000 of these debts and adjust the allowance for receivables to \$60,000.

What are the final amounts for inclusion in the company's statement of financial position at 30 June 20X6?

	<i>Trade receivables</i>	<i>Allowance for receivables</i>	<i>Net balance</i>
	\$	\$	\$
A	838,000	60,000	778,000
B	766,000	60,000	706,000
C	766,000	108,000	658,000
D	838,000	108,000	730,000

**(2 marks)**

- 7 Which of the following statements about inventory valuation for statement of financial position purposes are correct?

- 1 According to IAS 2 *Inventories*, average cost and FIFO (first in and first out) are both acceptable methods of arriving at the cost of inventories.
  - 2 Inventories of finished goods may be valued at labour and materials cost only, without including overheads.
  - 3 Inventories should be valued at the lowest of cost, net realisable value and replacement cost.
  - 4 It may be acceptable for inventories to be valued at selling price less estimated profit margin.
- A 1 and 3

- B 2 and 3
- C 1 and 4
- D 2 and 4

(2 marks)

- 8 A business received a delivery of goods on 29 June 20X6, which was included in inventory at 30 June 20X6. The invoice for the goods was recorded in July 20X6.

What effect will this have on the business?

- 1 Profit for the year ended 30 June 20X6 will be overstated.
- 2 Inventory at 30 June 20X6 will be understated.
- 3 Profit for the year ending 30 June 20X7 will be overstated.
- 4 Inventory at 30 June 20X6 will be overstated.

- A 1 and 2
- B 2 and 3
- C 1 only
- D 1 and 4

(2 marks)

- 9 Which of the following statements are correct?

- 1 A company's authorised share capital must be included in its published statement of financial position as part of shareholders' funds.
- 2 If a company makes a bonus issue of ordinary shares, the total shareholders' interest (share capital plus reserves) remains unchanged.
- 3 A company's statement of changes in equity must include the proceeds of any share issue during the period.
- 4 A company must disclose its significant accounting policies by note to its financial statements.

- A 1 and 2 only
- B 1 and 3 only
- C 3 and 4 only
- D 2, 3 and 4

(2 marks)

- 10 Which of the following characteristics of financial information contribute to reliability, according to the IASB's *Framework for the Preparation and Presentation of Financial Statements*?

- 1 Completeness
- 2 Prudence
- 3 Neutrality
- 4 Faithful representation

- A All four items
- B 1, 2 and 3 only
- C 1, 2 and 4 only
- D 2, 3 and 4 only

(2 marks)

- 11 Details of a company's insurance policy are shown below:

Premium for year ended 31 March 20X6 paid April 20X5	\$10,800
Premium for year ending 31 March 20X7 paid April 20X6	\$12,000

What figures should be included in the company's financial statements for the year ended 30 June 20X6?

	<i>SOCI</i>	<i>SOPF</i>
	\$	\$
A	11,100	9,000 prepayment (Dr)
B	11,700	9,000 prepayment (Dr)
C	11,100	9,000 accrual (Cr)
D	11,700	9,000 accrual (Cr)

(2 marks)

- 12 Which of the following statements about bank reconciliations are correct?



- 1 In preparing a bank reconciliation, unpresented cheques must be deducted from a balance of cash at bank shown in the bank statement.
  - 2 A cheque from a customer paid into the bank but dishonoured must be corrected by making a debit entry in the cash book.
  - 3 An error by the bank must be corrected by an entry in the cash book.
  - 4 An overdraft is a debit balance in the bank statement.
- A 1 and 3  
 B 2 and 3  
 C 1 and 4  
 D 2 and 4

(2 marks)

- 13 At 30 June 20X5 the capital and reserves of Meredith, a limited liability company, were:

	\$m
Share capital	
Ordinary shares of \$1 each	100
Share premium account	80

During the year ended 30 June 2006, the following transactions took place:

- 1 September 20X5 A bonus issue of one ordinary share for every two held, using the share premium account.
- 1 January 20X6 A fully subscribed rights issue of two ordinary shares for every five held at that date, at \$1.50 per share.

What would the balances on each account be at 30 June 20X6?

	<i>Share capital</i>	<i>Share premium account</i>
	\$m	\$m
A	210	110
B	210	60
C	240	30
D	240	80

(2 marks)

- 14 The following items have to be considered in finalising the financial statements of Q, a limited liability company:

- 1 The company gives warranties on its products. The company's statistics show that about 5% of sales give rise to a warranty claim.
- 2 The company has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.

What is the correct action to be taken in the financial statements for these items?

	<i>Create a provision</i>	<i>Disclose by note only</i>	<i>No action</i>
A	1	2	
B			
C	1, 2		
D		1, 2	

(2 marks)

- 15 Which of the following errors would cause a trial balance not to balance?

- 1 An error in the addition in the cash book.
- 2 Failure to record a transaction at all.
- 3 Cost of a motor vehicle debited to motor expenses account. The cash entry was correctly made.
- 4 Goods taken by the proprietor of a business recorded by debiting purchases and crediting drawings account.

- A 1 only
  - B 1 and 2 only
  - C 3 and 4 only
  - D All four items
- (2 marks)**

16 How should interest charged on partners' drawings be dealt with in partnership financial statements?

- A Credited as income in the statement of comprehensive income
  - B Deducted from profit in allocating the profit among the partners
  - C Added to profit in allocating the profit among the partners
  - D Debited as an expense in the statement of comprehensive income
- (2 marks)**

17 All the sales made by a retailer are for cash, and her sale prices are fixed by doubling cost. Details recorded of her transactions for September 20X6 are as follows:

		\$
1 Sept.	Inventories	40,000
30 Sept.	Purchases for month	60,000
	Cash banked for sales for month	95,000
	Inventories	50,000

Which two of the following conclusions could separately be drawn from this information?

- 1 \$5,000 cash has been stolen from the sales revenue prior to banking
  - 2 Goods costing \$5,000 have been stolen
  - 3 Goods costing \$2,500 have been stolen
  - 4 Some goods costing \$2,500 had been sold at cost price
- A 1 and 2
  - B 1 and 3
  - C 2 and 4
  - D 3 and 4
- (2 marks)**

18 A company owns a number of properties which are rented to tenants. The following information is available for the year ended 30 June 20X6:

	<i>Rent in advance</i>	<i>Rent in arrears</i>
	\$	\$
30 June 20X5	134,600	4,800
30 June 20X6	144,400	8,700

Cash received from tenants in the year ended 30 June 20X6 was \$834,600.

All rent in arrears was subsequently received.

What figure should appear in the company's statement of comprehensive income for rent receivable in the year ended 30 June 20X6?

- A \$840,500
  - B \$1,100,100
  - C \$569,100
  - D \$828,700
- (2 marks)**

- 19 The payables ledger control account below contains a number of errors:

Payables ledger control account			
	\$		\$
Opening balance (amounts owed to suppliers)	318,600	Purchases	1,268,600
Cash paid to suppliers	1,364,300	Contras against debit balances in receivables ledger	48,000
Purchases returns	41,200	Discounts received	8,200
Refunds received from suppliers	2,700	Closing balance	402,000
	<u>\$1,726,800</u>		<u>\$1,726,800</u>

All items relate to credit purchases.

What should the closing balance be when all the errors are corrected?

- A \$128,200
- B \$509,000
- C \$224,200
- D \$144,600

**(2 marks)**

**(Total = 38 marks)**

## 40 Mixed bank VII (PFS 6/07)

**59 mins**

- 1 A company issued one million ordinary \$1 shares at a premium of 50c per share. The proceeds were correctly recorded in the cash book, but were incorrectly credited to the sales account.

Which one of the following journal entries will correct the error?

	<i>Debit</i>	<i>Credit</i>	
	\$	\$	
A	Sales Share capital Share premium	1,500,000  1,000,000 500,000	
B	Share capital Share premium Sales	1,000,000  500,000 1,500,000	
C	Sales Share capital	1,500,000  1,500,000	
D	Share capital Sales	1,500,000  1,500,000	<b>(2 marks)</b>

- 2 Which one of the following would cause a company's gross profit percentage on sales to fall?

- A A reduction in the total value of goods returned to suppliers.
- B An increase in the costs of delivery of goods to customers.
- C A decline in average inventory levels.
- D An increase in theft of inventory by customers and staff

**(2 marks)**

- 3 Where, in a company's financial statements complying with International accounting standards, should you find dividends paid?

- 1 Statement of comprehensive income
- 2 Statement of financial position
- 3 Statement of cash flows
- 4 Statement of changes in equity.

- A 1 and 3
- B 2 and 3
- C 1 and 4
- D 3 and 4

(2 marks)

- 4 A property company received cash for rent totalling \$838,600 in the year ended 31 December 20X6.

Figures for rent in advance and in arrears at the beginning and end of the year were:

	31 December 20X5	31 December 20X6
	\$	\$
Rent received in advance	102,600	88,700
Rent in arrears (all subsequently received)	42,300	48,400

What amount should appear in the company's statement of comprehensive income for the year ended 31 December 20X6 for rental income?

- A \$818,600
- B \$738,000
- C \$939,200
- D \$858,600

(2 marks)

- 5 Which one of the following journal entries is correct according to its narrative?

	Debit	Credit
	\$	\$
A Mr Smith personal account	100,000	
Directors' remuneration		100,000
Bonus allocated to account of managing director (Mr Smith)		
B Purchases	14,000	
Wages	24,000	
Repairs to buildings		38,000
Transferring cost of repairs to buildings carried out by company's own employees, using materials from inventory.		
C Discounts allowed	2,800	
Discounts received		2,800
Correction of error: discounts allowed total incorrectly debited to discounts received account		
D Suspense account	20,000	
Rent receivable		10,000
Rent payable		10,000
Correction of error: rent received credited in error to rent payable account.		

(2 marks)

- 6 Which of the following items could appear as items in a company's statement of cash flows?

- 1 A bonus issue of shares
  - 2 A rights issue of shares
  - 3 Revaluation of non-current assets
  - 4 Dividends paid
- A All four items
  - B 1, 3 and 4 only
  - C 2 and 4 only
  - D 2 and 3 only

(2 marks)

- 7 A company has occupied rented premises for some years, paying an annual rent of \$120,000. From 1 April 20X6 the rent was increased to \$144,000 per year. Rent is paid quarterly in advance on 1 January, 1 April, 1 July and 1 October each year.

What figures should appear for rent in the company's financial statements for the year ended 30 November 20X6?

	<i>SOCI</i>	<i>SOPF</i>	
	\$	\$	
A	136,000	Prepayment 12,000	
B	136,000	Prepayment 24,000	
C	138,000	Nil	
D	136,000	Accrual 12,000	<b>(2 marks)</b>

- 8 At 1 January 20X6 a company had an allowance for receivables of \$49,000.

At 31 December 20X6 the company's trade receivables were \$863,000 and it was decided to write off balances totalling \$23,000 and to adjust the allowance for receivables to the equivalent of 5% of the remaining receivables based on past experience.

What total figure should appear in the company's statement of comprehensive income for irrecoverable debts and allowance for receivables?

A	\$16,000	
B	\$65,000	
C	\$30,000	
D	\$16,150	<b>(2 marks)</b>

- 9 At 1 January 20X6, a company's capital structure was as follows:

	\$
Ordinary share capital	
2,000,000 shares of 50c each	1,000,000
Share premium account	1,400,000

In January 20X6 the company issued 1,000,000 shares at \$1.40 each.

In September 20X6 the company made a bonus issue of 1 share for every 3 held using the share premium account.

What were the balances on the company's share capital and share premium accounts after these transactions?

	<i>Share capital</i>	<i>Share premium</i>	
	\$	\$	
A	4,000,000	800,000	
B	3,200,000	600,000	
C	2,000,000	1,800,000	
D	2,000,000	1,300,000	<b>(2 marks)</b>

- 10 Which of the following statements about the treatment of inventory and work in progress in financial statements are correct?

- 1 Inventory should be valued at the lowest of cost, net realisable value and replacement cost.
- 2 In valuing work in progress, materials costs, labour costs and variable and fixed production overheads must be included.
- 3 Inventory items can be valued using either first in, first out (FIFO) or weighted average cost.
- 4 A company's financial statements must disclose the accounting policies used in measuring inventories.

- A All four statements are correct.  
 B 1, 2 and 3 only  
 C 2, 3 and 4 only  
 D 1 and 4 only

(2 marks)

- 11 The plant and equipment account in the records of a company for the year ended 31 December 20X6 is shown below.

<i>Plant and equipment – cost</i>			
20X6	\$	20X6	\$
1 Jan Balance	960,000		
1 July Cash	48,000	30 Sept Transfer disposal account	84,000
		31 Dec Balance	924,000
	1,008,000		1,008,000

The company's policy is to charge depreciation on the straight line basis at 20% per year, with proportionate depreciation in the years of purchase and sale.

What should be the charge for depreciation in the company's statement of comprehensive income for the year ended 31 December 20X6?

- A \$184,800  
 B \$192,600  
 C \$191,400  
 D \$184,200

(2 marks)

- 12 The trial balance of a company did not balance, and a suspense account was opened for the difference.

Which of the following errors would require an entry to the suspense account in correcting them?

- (1) A cash payment to purchase a motor van had been correctly entered in the cash book but had been debited to motor expenses account.
- (2) The debit side of the wages account had been undercast.
- (3) The total of the discounts allowed column in the cash book had been credited to discounts received account.
- (4) A cash refund to a customer had been recorded by debiting the cash book and crediting the customer's account.

- A 1 and 2  
 B 2 and 3  
 C 3 and 4  
 D 2 and 4

(2 marks)

- 13 A trader took goods that had cost \$2,000 from inventory for personal use.

Which one of the following journal entries would correctly record this?

		<i>Debit</i>	<i>Credit</i>
		\$	\$
A	Drawings Inventory	2,000	2,000
B	Purchases Drawings	2,000	2,000
C	Sales Drawings	2,000	2,000
D	Drawings Purchases	2,000	2,000

(2 marks)

- 14 Which of the following statements about the requirements of IAS 37 *Provisions, contingent liabilities and contingent assets* are correct?
- 1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.
  - 2 No disclosure of a contingent liability is required if the possibility of a transfer of economic benefits arising is remote.
  - 3 Contingent assets must not be recognised in financial statements unless an inflow of economic benefits is virtually certain to arise.
- A All three statements are correct  
 B 1 and 2 only  
 C 1 and 3 only  
 D 2 and 3 only
- (2 marks)**

- 15 Which of the following statements are correct, according to IAS 10 *Events after the reporting period*?
- 1 Details of all adjusting events must be disclosed by note to the financial statements.
  - 2 A material loss arising from the sale, after the reporting period, of inventory valued at cost at the end of the reporting period must be reflected in the financial statements.
  - 3 If the market value of investments falls materially after the reporting period, the details must be disclosed by note.
  - 4 Events after the reporting period are those that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- A 1 and 2 only  
 B 1, 3 and 4  
 C 2 and 3 only  
 D 2, 3 and 4
- (2 marks)**

- 16 Where in the financial statements should tax on profit for the current period, and unrealised surplus on revaluation of properties, be separately disclosed?
- |   | <i>Tax on profit for current period</i> | <i>Unrealised surplus on revaluation of properties</i> |
|---|---|--|
| A | Statement of comprehensive income       | Statement of comprehensive income                      |
| B | Statement of changes in equity          | Statement of comprehensive income                      |
| C | Statement of comprehensive income       | Statement of changes in equity                         |
| D | Statement of changes in equity          | Statement of changes in equity                         |
- (2 marks)**

- 17 Which one of the following statements is correct?
- A The prudence concept requires assets to be understated and liabilities to be overstated.
  - B To comply with the law, the legal form of a transaction must always be reflected in financial statements.
  - C If a non-current asset initially recognised at cost is revalued, the surplus must be credited in the statement of comprehensive income.
  - D In times of rising prices, the use of historical cost accounting tends to understate assets and overstate profits.
- (2 marks)**

18 A draft statement of cash flows contains the following:

Profit before tax	\$m 22
Depreciation	8
Increase in inventories	(4)
Decrease in receivables	(3)
Increase in payables	(2)
Net cash inflow from operating activities	<u>21</u>

Which of the following corrections need to be made to the calculation?

- 1 Depreciation should be deducted, not added
- 2 Increase in inventories should be added, not deducted
- 3 Decrease in receivables should be added, not deducted
- 4 Increase in payables should be added, not deducted

- A 1 and 2
- B 1 and 3
- C 2 and 4
- D 3 and 4

**(2 marks)**

- 19 What is the correct treatment of interest charged on partners' drawings in preparing a partnership's financial statements?

- A Credited as income in the statement of comprehensive income
- B Debited as an expense in the statement of comprehensive income
- C Added to total profit in calculating partners' profit shares
- D Deducted from total profit in calculating partners' profit shares.

**(2 marks)**

- 20 X and Y are in partnership. They share profits equally after charging a salary \$40,000 per year for X and interest on capital at 5% per year.

At 1 January 20X6 their capital balances were:

	\$
X	200,000
Y	100,000

On 1 July 20X6 Y introduced a further \$100,000 capital, and X's salary was discontinued.

The partnership profit for the year ended 31 December 20X6 was \$337,500.

What was X's total profit share for the year ended 31 December 20X6?

\$

- A 182,500
- B 178,750
- C 180,000
- D 190,000

**(2 marks)**

- 21 Where, in a company's financial statements complying with International accounting standards, should you find the proceeds of non-current assets sold during the period?

- A Statement of cash flows and statement of financial position
- B Statement of changes in equity and statement of financial position
- C Statement of comprehensive income and statement of cash flows
- D Statement of cash flows only

**(2 marks)**

- 22 A payables ledger control account showed a credit balance of \$768,420. The payables ledger balances totalled \$781,200.

Which one of the following possible errors could account in full for the difference?

- A A contra against a receivables ledger debit balance of \$6,390 has been entered on the credit side of the payables ledger control account.
- B The total of discount allowed \$28,400 was entered to the debit of the payables ledger control account instead of the correct figure for discount received of \$15,620.
- C \$12,780 cash paid to a supplier was entered on the credit side of the supplier's account in the payables ledger.
- D The total of discount received \$6,390 has been entered on the credit side of the payables ledger control account.

**(2 marks)**

**(Total = 44 marks)**



## 41 Mixed bank VIII (FA 12/07, FA 6/08)

15 mins

The following questions are taken from the December 2007 and June 2008 exam papers.

12/07

- 1 Jill and John are in partnership sharing profits in the ratio 3:2. During the financial year the partnership earned \$28,650 profit. Jill is paid a salary of \$5,000 and partners were charged interest on drawings amounting to \$200 for Jill and \$350 for John. Jill's current account had a credit balance of \$15,614 at the beginning of the year.

What is the net increase in Jill's current account during the year?

- A \$19,320
- B \$34,934
- C \$19,720
- D \$14,480

(2 marks)

12/07

- 2 Which of the following provides advice to the International Accounting Standards Board (IASB) as well as informing the IASB of the implications of proposed standards for users and preparers of financial statements?

- A The Standards Advisory Council
- B The International Financial Reporting Interpretations Committee

(1 mark)

12/07

- 3 Samantha has extracted a trial balance and created a suspense account with a credit balance of \$759 to make it balance.

Samantha found the following:

- 1 A sales invoice for \$4,569 has not been entered in the accounting records
- 2 A payment of \$1,512 has been posted correctly to the payables control account but no other entry has been made.
- 3 A credit sale of \$131 has only been credited to the sales account.

What is the remaining balance on the suspense account after these errors have been corrected?

- A \$3,810 debit
- B \$2,140 credit
- C \$890 credit
- D \$622 debit

(2 marks)

6/08

- 4 Charles entered into the following transactions:

- 1 He sold goods on credit to Cody with a list price of \$3,200. He allows a 10% trade discount and a further 2% discount for payment within seven days. Cody paid within two days.
- 2 He made a credit sale to Mary allowing a 5% trade discount on the list price of \$640.
- 3 He purchased goods for \$600 and paid \$590, receiving a discount for immediate cash payment.

How much discount should be recorded in the Discount Allowed account as a result of the above transactions?

- A \$57.60
- B \$10.00
- C \$352.00
- D \$409.60

(2 marks)

6/08

- 5 Johnsons use the imprest method of accounting for petty cash.

The petty cash was counted and there was \$57.22 in hand. The following petty cash slips were found for the following:

	\$
Stamps	16.35
Sale of goods to staff	12.00
Coffee and tea purchase	18.23
Birthday cards for staff	20.20

What is Johnsons' imprest amount?

- A \$124
- B \$100
- C \$112
- D \$80

(2 marks)

6/08

- 6 Joanna has prepared her draft accounts for the year ended 30 April 2008, and needs to adjust them for the following items:

- 1 Rent of \$10,500 was paid and recorded on 2 January 2007 for the period 1 January to 31 December 2007. The landlord has advised that the annual rent for 2008 will be \$12,000 although it has not been invoiced or paid yet.
- 2 Property and contents insurance is paid annually on 1 March. Joanna paid and recorded \$6,000 on 1 March 2008 for the year from 1 March 2008 to 28 February 2009.

What should the net effect on profit be in the draft accounts for the year ended 30 April 2008 of adjusting for the above items?

- A \$1,000 decrease
- B \$1,500 increase
- C \$1,000 increase
- D \$1,500 decrease

(2 marks)

(Total = 11 marks)

## 42 Mixed bank IX (FA 12/08, FA 6/09)

15 mins

The following questions are taken from the December 2008 and June 2009 exam papers

12/08

- 1 Which of the following errors should be identified by performing a receivables control account reconciliation?
- A A sales invoice of \$500 has been omitted from the sales daybook
  - B A sales return of \$45 was entered as \$54 in the sales returns daybook
  - C Purchases of \$72 were entered as sales returns in the sales returns daybook and the individual account
  - D The total of the sales daybook was miscast by \$200

(2 marks)

12/08

- 2 Carol had receivables of \$598,600 at 30 November 2008. Her allowance for receivables at 1 December 2007 was \$12,460 and she wishes to change that to 2% of receivables at 30 November 2008. On 29 November 2008 she received \$635 in full settlement of a debt that she had written off in the year ended 30 November 2007.

What total amount should be recognised for receivables in the income statement for the year ended 30 November 2008?

- A \$488 credit
- B \$11,972 debit
- C \$1,123 credit
- D \$147 debit

(2 marks)

12/08

- 3 Carter, a limited liability company, has non-current assets with a carrying value of \$2,500,000 on 1 December 2007.

During the year ended 30 November 2008, the following occurred:

- Depreciation of \$75,000 was charged to the income statement
- Land and buildings with a carrying value of £1,200,000 were revalued to \$1,700,000
- An asset with a carrying value of £120,000 was disposed of for \$150,000
- The carrying value of non-current assets at 30 November 2008 was \$4,200,000.

What amount should be shown for the purchase of non-current assets in the statement of cash flows for the year ended 30 November 2008?

- A \$1,395,000
- B \$1,895,000
- C \$1,425,000
- D \$195,000

(2 marks)

**6/09**

- 4 Steven's receivables ledger control account does not agree with the total of the receivables ledger. He discovered the following errors:

- (1) A sales invoice has been entered into the sales day book as \$895 rather than \$859
- (2) The receivables column of the cash received day book has been undercast by \$600
- (3) A contra of \$400 against the purchase ledger has only been entered in the control account

Which of the above errors would cause a difference between the receivables control account and the total of the receivables ledger?

- A 2 and 3 only
- B 1 and 3 only
- C 1 and 2 only
- D 1, 2 and 3

**(2 marks)****6/09**

- 5 Luis sold goods to Pedro in May 2009 with a list price of \$98,000. Luis allowed a trade discount of 10%. Pedro returned goods with a list price of \$3,000 on 31 May and returned a further \$5,000 of goods at list price on 6 June as they were found to be unsuitable.

How much should Luis record in the sales returns account at 31 May?

- A \$2,700
- B \$3,000
- C \$8,000
- D \$7,200

**(2 marks)****6/09**

- 6 Fred's trial balance did not balance so he opened a suspense account with a debit balance of \$346. Control accounts are maintained for receivables and payables.

Fred discovered the following:

1. The sales day book was undercast by \$400
2. Purchases of \$520 from the purchases day book have only been recorded in the payables ledger control account
3. Profit on sale of non-current assets of \$670 had been recorded in the sundry income account as \$760

What is the remaining balance on Fred's suspense account after these errors have been corrected?

- A \$264 credit
- B \$136 debit
- C \$956 debit
- D \$1,266 debit

**(2 marks)****(Total = 12 marks)**



# Objective test questions



## 43 Accounting principles and regulation

15 mins

1 Which *two* of the following statements concerning the International Accounting Standards Board is true?

- 1 It develops and ultimately issues International Accounting Standards (IASs).
- 2 Each new standard issued by the IASB has to be approved by the Consultative Committee of Accountancy Bodies.
- 3 The IASB has stronger legal backing than its predecessor the IASC.
- 4 Consensus of the Board is required to approve a new standard.
- 5 The IASB is accountable to the International Accounting Standards Committee (IASC).

  

(2 marks)

2 According to Chapter 3 'Qualitative characteristics of financial information' of the IASB's *Framework*, which *two* of the following make information reliable?

- 1 It is understandable
- 2 It is relevant
- 3 Use of information that has the ability to influence decisions
- 4 Information that is free from material error

  

(2 marks)

3 A newly-registered company is considering the accounting policies it should adopt.

Policies under consideration are:

- 1 Research and development expenditure should be capitalised and amortised over the years in which the resultant product is sold or used.
- 2 Inventory should be valued at the lower of cost and net realisable value.
- 3 Purchased goodwill should be written off immediately it arises against distributable profits.

Which of these possible accounting policies would, if adopted, contravene International Financial Reporting Standards?

  

(2 marks)

4 There are generally agreed to be seven separate user groups for published accounting statements. Six groups are: owner/investors, loan creditor, analyst-advisers, business contact, the government and the public. Which is the missing group?

(1 mark)

5 Which of the following accounting concepts means that similar items should receive a similar accounting statement?

- Going concern
- Accruals
- Prudence
- Consistency

(2 marks)



- 6 'The shareholder needs a statement of financial prospects, ie an indication of future progress. However, the supplier of goods on credit needs a statement of financial position, ie an indication of the current state of affairs.'

True   
False

(1 mark)

- 7 You have recently been appointed as assistant accountant of PQR Co. You have assisted in preparing a forecast set of final accounts for the company whose year end is 31 December 20X7. The forecast shows that the company is expected to make a loss during the year to 31 December 20X7. This would be the first time that the company has made a loss since it was incorporated twenty years ago.

The managing director is concerned that the company's shareholders would be unhappy to hear that the company had made a loss. He is determined to avoid making a loss if at all possible. He has made the following suggestions in order to remedy the situation.

- 1 Make no further provision for obsolete inventory and consider crediting the statement of comprehensive income with the provision made in previous years.
- 2 Do not allow for depreciation for the year to 31 December 20X7.
- 3 Capitalise all research expenditure.
- 4 Do not make any further allowance for receivables and credit the statement of comprehensive income with the full amount of allowances made in previous years.

Which of these suggestions do you agree with?

(1 mark)

(Total = 11 marks)

## 44 Preparing financial accounts

50 mins

- 1 Your organisation sold goods to PQ Co for \$800 less trade discount of 20% and cash discount of 5% for payment within 14 days. The invoice was settled by cheque five days later. Which one of the following gives the entries required to record BOTH of these transactions?:

		<i>Debit</i>	<i>Credit</i>
		\$	\$
<input type="checkbox"/>	A	PQ Co	640
		Sales	640
		Bank	608
		Discount allowed	32
		PQ Co	640
<input type="checkbox"/>	B	PQ Co	640
		Sales	640
		Bank	600
		Discount allowed	40
		PQ Co	640
<input type="checkbox"/>	C	PQ Co	640
		Sales	640
		Bank	608
		Discount received	32
		PQ Co	640
<input type="checkbox"/>	D	PQ Co	800
		Sales	800
		Bank	608
		Discount allowed	182
		PQ Co	800

(2 marks)

2 The following totals appear in the day books for March 20X8.

	<i>Goods excluding Sales tax</i>	<i>Sales tax</i>
	\$	\$
Sales day book	40,000	7,000
Purchases day book	20,000	3,500
Returns inwards day book	2,000	350
Returns outward day book	4,000	700

Opening and closing inventories are both \$3,000. What is the gross profit for March 20X8?

\$  (1 mark)

3 Diesel fuel in inventory at 1 November 20X7 was \$12,500, and there were invoices awaited for \$1,700. During the year to 31 October 20X8, diesel fuel bills of \$85,400 were paid, and a delivery worth \$1,300 had yet to be invoiced. At 31 October 20X8, the inventory of diesel fuel was valued at \$9,800. What is the value of diesel fuel to be charged to the statement of comprehensive income for the year to 31 October 20X8?

\$  (1 mark)

4 What does an increase in the allowance for receivables result in?

- A a decrease in current liabilities
- B an increase in net profit
- C an increase in working capital
- D a decrease in working capital

(2 marks)

5 The petty cash imprest is restored to \$100 at the end of each week. The following amounts are paid out of petty cash during week 23.

Stationery	\$14.10 including sales tax at 17.5%
Travelling costs	\$25.50
Office refreshments	\$12.90
Sundry payables	\$24.00 plus sales tax at 17.5%

What is the amount required to restore the imprest to \$100? \$  (1 mark)

6 A company's telephone bill consists of two elements. One is a quarterly rental charge, payable in advance; the other is a quarterly charge for calls made, payable in arrears. At 1 April 20X9, the previous bill dated 1 March 20X9 had included line rental of \$90. Estimated call charges during March 20X9 were \$80.

During the following 12 months, bills totalling \$2,145 were received on 1 June, 1 September, 1 December 20X9 and 1 March 20Y0, each containing rental of \$90 as well as call charges. Estimated call charges for March 20Y0 were \$120.

What is the amount to be charged to the statement of comprehensive income for the year ended 31 March 20Y0? \$  (1 mark)

7 Which *three* of the following sets of items all appear on the same side of the trial balance?

- 1 Sales, interest received and accruals
- 2 Receivables, drawings and discount received
- 3 Non current assets, cost of sales and carriage outwards
- 4 Capital, trade payables and other operating expenses
- 5 Sundry expenses, prepayments and purchases

(2 marks)

8 Profit is \$1,051 and capital introduced is \$100. There is an increase in net assets of \$733.  
What are drawings? \$  (1 mark)

---

9 The increase in net assets is \$173, drawings are \$77 and capital introduced is \$45.  
What is the net profit for the year? \$  (1 mark)

---

10 Liabilities of a business are \$153, whereas assets are \$174.  
How much capital is in the business? \$  (1 mark)

---

11 Capital introduced is \$50. Profits brought forward at the beginning of the year amount to \$100 and liabilities are \$70. Assets are \$90.  
What is the retained profit for the year? \$  (1 mark)

---

12 On 1 May 20X9 Marshall's cash book showed a cash balance of \$224 and an overdraft of \$336. During the week ended 6 May the following transactions took place.

- May 1 Sold \$160 of goods to P Dixon on credit.
- May 1 Withdrew \$50 of cash from the bank for business use.
- May 2 Purchased goods from A Clarke on credit for \$380 less 15% trade discount.
- May 2 Repaid a debt of \$120 owing to R Hill, taking advantage of a 10% cash discount. The payment was by cheque.
- May 3 Sold \$45 of goods for cash.
- May 4 Sold \$80 of goods to M Maguire on credit, offering a 12<sup>1</sup>/<sub>2</sub>% discount if payment made within 7 days.
- May 4 Paid a telephone bill of \$210 by cheque.
- May 4 Purchased \$400 of goods on credit from D Daley.
- May 5 Received a cheque from H Larkin for \$180. Larkin has taken advantage of a \$20 cash discount offered to him.
- May 5 Sold \$304 of goods to M Donald on credit.
- May 5 Purchased \$135 of goods from Honour Co by cheque.
- May 6 Received a cheque from D Randle for \$482.
- May 6 Purchased \$100 of goods on credit from G Perkins.

What are the balances on the following books?

(a) Sales day book \$  (1 mark)

(b) Purchases day book \$  (1 mark)

(c) Bank \$  (1 mark)

---

13 A debit balance of \$1,250 on X's account in the books of Y means that:

- A X owes \$1,250 to Y
  - B Y owes \$1,250 to X
  - C X has returned goods worth \$1,250 to Y
  - D X is owed \$1,250 by Y
- (2 marks)
- 

14 You are an employee of Exelan Co and have been asked to help prepare the end of year statements for the period ended 30 November 20X9 by agreeing the figure for the total receivables.

The following figures, relating to the financial year, have been obtained from the books of original entry.

	\$
Purchases for the year	361,947
Sales	472,185
Returns inwards	41,226
Returns outwards	16,979
Irrecoverable debts written off	1,914
Discounts allowed	2,672
Discounts received	1,864
Cheques paid to suppliers	342,791
Cheques received from customers	429,811
Customer cheques dishonoured	626

You discover that at the close of business on 30 November 20X8 the total of the receivables amounted to \$50,241. What is the balance on the receivables ledger control account at 30 November 20X9?

\$  (1 mark)

- 15 Your rather inexperienced colleague, Peter Johnson, has attempted to extract and total the individual balances in the receivables ledger. He provides you with the following listing which he has prepared.

	\$
Bury Inc	7,500
P Fox & Son (Swindon) Co	2,000
Frank Wrendlebury & Co	4,297
D Richardson & Co	6,847
Ultra Co	783
Lawrenson Co	3,765
Walkers Inc	4,091
P Fox & Son (Swindon) Co	2,000
Whitchurch Co	8,112
Ron Bradbury & Co	5,910
Anderson Co	1,442
	<u>46,347</u>

Subsequent to the drawing up of the list, the following errors have so far been found.

- A sales invoice for \$267 sent to Whitchurch Co had been correctly entered in the day book but had not then been posted to the account for Whitchurch Co in the receivables ledger.
- One of the errors made by Peter Johnson (you suspect that his list may contain others) was to omit the \$2,435 balance of Rectofon Co from the list.
- A credit note for \$95 sent to Bury Inc had been correctly entered in the day book but was entered in the account in the receivables ledger as \$75.

Calculate the revised balance of the receivables ledger \$  (1 mark)

- 16 At 1 April 20X9, the payables ledger control account showed a balance of \$142,320.

At the end of April the following totals are extracted from the subsidiary books for April:

	\$
Purchases day book	183,800
Returns outwards day book	27,490
Returns inwards day book	13,240
Payments to payables, after deducting \$1,430 cash discount	196,360

It is also discovered that:

- the purchase day book figure is net of sales tax at 17.5%; the other figures all include sales tax.
- a customer's balance of \$2,420 has been offset against his balance of \$3,650 in the payables ledger.
- a supplier's account in the payables ledger, with a debit balance of \$800, has been included on the list of payables as a credit balance.

Calculate the corrected balance on the payables ledger control account \$  (1 mark)

- 17 On 10 January 20X9, Jane Smith received her monthly bank statement for December 20X8. The statement showed the following.

SOUTHERN BANK INC

<i>J Smith: Statement of Account</i>				
<i>Date</i>	<i>Particulars</i>	<i>Debits</i>	<i>Credits</i>	<i>Balance</i>
<i>20X8</i>		<i>\$</i>	<i>\$</i>	<i>\$</i>
Dec 1	Balance			1,862
Dec 5	417864	243		1,619
Dec 5	Dividend		26	1,645
Dec 5	Bank Giro Credit		212	1,857
Dec 8	417866	174		1,683
Dec 10	417867	17		1,666
Dec 11	Sundry Credit		185	1,851
Dec 14	Standing Order	32		1,819
Dec 20	417865	307		1,512
Dec 20	Bank Giro Credit		118	1,630
Dec 21	417868	95		1,535
Dec 21	417870	161		1,374
Dec 24	Bank charges	18		1,356
Dec 27	Bank Giro Credit		47	1,403
Dec 28	Direct Debit	88		1,315
Dec 29	417873	12		1,303
Dec 29	Bank Giro Credit		279	1,582
Dec 31	417871	25		1,557

Her cash book for the corresponding period showed:

CASH BOOK

<i>20X8</i>	<i>\$</i>	<i>20X8</i>	<i>Cheque no</i>	<i>\$</i>	
Dec 1	Balance b/d	1,862	Dec 1	Electricity 864	243
Dec 4	J Shannon	212	Dec 2	P Simpson 865	307
Dec 9	M Lipton	185	Dec 5	D Underhill 866	174
Dec 19	G Hurst	118	Dec 6	A Young 867	17
Dec 26	M Evans	47	Dec 10	T Unwin 868	95
Dec 27	J Smith	279	Dec 14	B Oliver 869	71
Dec 29	V Owen	98	Dec 16	Rent 870	161
Dec 30	K Walters	134	Dec 20	M Peters 871	25
			Dec 21	L Philips 872	37
			Dec 22	W Hamilton 873	12
			Dec 31	Balance c/d	1,793
		<u>2,935</u>			<u>2,935</u>

Calculate the revised cash book balance at 31 December 20X8. \$  (1 mark)

- 18 Sandilands Co uses a computer package to maintain its accounting records. A printout of its cash book for the month of May 20X3 was extracted on 31 May and is summarised below.

Opening balance	\$ 546	Payments	\$ 335,966
Receipts	<u>336,293</u>	Closing balance	<u>873</u>
	<u>336,839</u>		<u>336,839</u>

The company's chief accountant provides you with the following information.

- (a) The company's bank statement for May was received on 1 June and showed an overdrawn balance of \$2,954 at the end of May.
- (b) Cheques paid to various payables totalling \$7,470 have not yet been presented to the bank.

- (c) Cheques received by Sandilands Co totalling \$6,816 were paid into the bank on 31 May but not credited by the bank until 2 June.
- (d) Bank charges of \$630 shown on the bank statement have not been entered in the company's cash book.
- (e) Three standing orders entered on the bank statement have not been recorded in the company's cash book: a subscription for trade journals of \$52, an insurance premium of \$360 and a business rates payment of \$2,172.
- (f) A cheque drawn by Sandilands Co for \$693 and presented to the bank on 26 May has been incorrectly entered in the cash book as \$936.
- (g) A cheque for \$510 has been charged to the company's bank account in error by the bank. The cheque relates to Sandford Inc and should not have appeared on Sandilands Co's statement.
- (h) A monthly direct debit payable to a leasing company for \$1,000 was wrongly paid twice by the bank.

Prepare a bank reconciliation statement as at 31 May 20X3, and state the revised cash book figure.

\$  **(2 marks)**

- 19 An organisation restores its petty cash balance to \$250 at the end of each month. During October, the total expenditure column in the petty cash book was calculated as being \$210, and the imprest was restored by this amount. The analysis columns posted to the nominal ledger totalled only \$200.

Which one of the following would this error cause?

- A the trial balance being \$10 higher on the debit side
  - B the trial balance being \$10 higher on the credit side
  - C no imbalance in the trial balance
  - D the petty cash balance being \$10 lower than it should be
- (2 marks)**

- 20 You work for Perin Products as a bookkeeper and one of your duties is to enter appropriate transactions into the Journal. During the week ended 20 October 20X9 the following details are passed to you for your attention.

October 18 It comes to light that during the previous week motor vehicle servicing costs of \$124 were debited to the Motor Vehicles Account.

October 18 A payment by cheque to A Brigham for \$20 made earlier in the week was debited to the Bank Account and credited to A Brigham.

October 20 It is discovered that an invoice for \$425 relating to goods received from EFI Co on 30 September was filed away and not entered anywhere in the books of Perin Products.

*Required*

Show the journal entries that you would have made during the week. Narratives are not required.

	<i>Account</i>	<i>Debit</i> \$	<i>Credit</i> \$	
October 18	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<b>(2 marks)</b>
	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
October 18	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<b>(2 marks)</b>
	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	
October 20	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<b>(2 marks)</b>
	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	

- 21 A trial balance has an excess of debits over credits of \$14,000 and a suspense account has been opened to make it balance. It is later discovered that:
- (a) The discounts allowed balance of \$3,000 and the discounts received balance of \$7,000 have both been entered on the wrong side of the trial balance.
  - (b) The payables control account balance of \$233,786 had been included in the trial balance as \$237,386.
  - (c) An item of \$500 had been omitted from the sales records (ie from the sales day book).
  - (d) The balance on the current account with the senior partner's wife had been omitted from the trial balance. This item when corrected removes the suspense account altogether.

Calculate the amount to be entered in the suspense account for item (d) above.

\$  debit/credit (delete as appropriate) (1 mark)

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- 22 Accounting packages, such as Sage, are specifically tailored to each organisation's needs.

True   
False

(1 mark)

---

- 23 What is the name for a collection of information stored on a computer, which can be used in a number of ways?

(1 mark)

---

(Total = 36 marks)

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## 45 Accounting conventions and standards

32 mins

- 1 A machine cost \$9,000. It has an expected useful life of six years, and an expected residual value of \$1,000. It is to be depreciated at 30% per annum on the reducing balance basis. A full year's depreciation is charged in the year of purchase, with none in the year of sale. During year 4, it is sold for \$3,000.

The profit or loss on disposal is \$  profit/loss (delete as appropriate). (1 mark)

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- 2 The most appropriate definition of depreciation is a means of determining the decrease in market value of an asset over time.

True   
False

(1 mark)

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- 3 The accounting concept which dictates that non current assets should be valued at cost, less accumulated depreciation, rather than their enforced saleable value, is called which concept?  (1 mark)
- 

- 4 A non current asset was disposed of for \$2,200 during the last accounting year. It had been purchased exactly three years earlier for \$5,000, with an expected residual value of \$500, and had been depreciated on the reducing balance basis, at 20% per annum.

The profit or loss on disposal was \$  profit/loss (delete as appropriate). (1 mark)

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- 5 Which one of the following does a business aim to ensure by charging depreciation in the accounts?
- A the cost of non current assets is spread over the accounting periods which benefit from their use
- B there are sufficient funds set aside to replace the assets when necessary
- C its profits are not understated
- D the assets are shown at their real value **(2 marks)**

- 6 A machine was purchased in 20X6 for \$64,000. It was expected to last for 5 years and to have a residual value of \$2,000. Depreciation was charged at 50% per annum on the reducing balance method, with a full year's charge in the year of purchase. No depreciation is charged in the year of disposal. The company's year end is 31 December. The machine was sold on 3 April 20Y0 for \$2,500. What was the profit or loss on sale?
- \$  profit/loss (*delete as appropriate*). **(1 mark)**

- 7 The asset register shows a net book value of \$271,200. However the non-current asset account in the nominal ledger shows a net book value of \$251,200.
- The difference could be due to not having removed a disposed asset from the register, which had:
- A disposal proceeds of \$30,000 and a profit on disposal of \$10,000
- B disposal proceeds of \$30,000 and a net book value of \$10,000
- C disposal proceeds of \$30,000 and a loss on disposal of \$10,000
- D disposal proceeds of \$10,000 and a net book value of \$10,000 **(2 marks)**

- 8 When is reducing balance method of depreciating non-current assets more appropriate than the straight-line method?
- A When the expected life of the asset is short
- B When the asset is expected to decrease in value by a fixed percentage of cost each year
- C When the expected life of the asset is not capable of being estimated accurately
- D When the asset is expected to decrease in value less in later years than in the early years of its life **(2 marks)**

- 9 On 1 January 20X1 a business purchased a laser printer costing \$1,800. The printer has an estimated life of 4 years after which it will have no residual value.
- Required*
- Calculate the annual depreciation charge for 20X1 on the laser printer on the following bases.
- (a) The straight line basis \$  **(1 mark)**
- (b) The reducing balance method at 60% per annum \$  **(1 mark)**

- 10 Suppose that in 20X4 the laser printer in question 9 were to be sold on 1 July for \$200 and that the business had chosen to depreciate it at 60% per annum using the reducing balance method applied on a month for month basis.
- Calculate the profit or loss on disposal. \$  profit/loss (*delete as appropriate*). **(1 mark)**



11 ABC Co had the following balances on its motor vehicles accounts at 30 September 20X0.

	\$
Motor vehicles at cost	10,000
Provision for depreciation of motor vehicles	4,000

During the year to 30 September 20X1, the following transactions occurred.

- 31 January 20X1 Bought a motor van (plant number MV11) costing \$9,000.  
 24 April 20X1 Sold a motor van (plant number MV05) for \$500 which had originally cost \$4,000 in January 19W8.

During the year to 30 September 20X2, the following transactions occurred.

- 20 February 20X2 Bought a motor van (plant number MV12) costing \$12,000.  
 31 August 20X2 Traded in van bought on 31 January 20X1 (plant number MV11) for a new van (plant number MV13) costing \$14,000. The trade-in allowance was \$7,400.

ABC Co provides for depreciation on its motor vehicles at a rate of 25% per annum using the reducing balance method. It is company policy to make a full year's charge against all assets held at the end of its financial year (30 September).

- (a) Calculate the profit or loss on disposal at 30 September 20X1.  
 \$  profit/loss (*delete as appropriate*). **(1 mark)**
- (b) Calculate the profit or loss on disposal at 30 September 20X2.  
 \$  profit/loss (*delete as appropriate*). **(1 mark)**

12 Griffin Co maintains an asset register which contained the following details at 1 April 20X7.

	<i>Cost/valuation at 1 April 20X7</i>	<i>Accumulated depreciation at 1 April 20X7</i>
	\$	\$
Building	80,000	18,000
Plant: Machine A	60,000	27,000
Machine B	40,000	24,000
Machine C	26,000	11,700
Machine D	18,000	13,500

Buildings are depreciated at 2.5% per annum on cost. Plant is depreciated at 7.5% per annum on cost.

During the year ended 31 March 20X8, the following transactions occurred:

- (a) Machine E was purchased by cheque for \$17,000.  
 (b) Machine C was sold for \$13,000 to A Jones, on credit.  
 (c) Machine F was purchased by cheque for \$42,300 including sales tax at 17.5%. The purchase price included delivery and installation of \$1,200 plus sales tax, and a one-year maintenance contract of \$2,000 plus sales tax.

**Notes**

- (1) Ignore sales tax on all items except for those in transaction (c).  
 (2) The organisation's policy is to charge a full year's depreciation in the year of purchase.

For the year ended 31 March 20X8, calculate each of the following.

- (a) Buildings depreciation \$  **(1 mark)**
- (b) Plant depreciation \$  **(1 mark)**
- (c) Profit or loss on disposal of plant. \$  profit/loss (*delete as appropriate*). **(1 mark)**

13 A firm has the following transactions with its product R

Year 1

Opening inventory: nil

Buys 10 units at \$300 per unit

Buys 12 units at \$250 per unit

Sells 8 units at \$400 per unit

Buys 6 units at \$200 per unit

Sells 12 units at \$400 per unit

Year 2

Buys 10 units at \$200 per unit

Sells 5 units at \$400 per unit

Buys 12 units at \$150 per unit

Sells 25 units at \$400 per unit

Using FIFO:

At the end of the year 1, calculate closing inventory. \$  (1 mark)

At the end of the year 2, calculate cost of sales. \$  (1 mark)

14 The directors of a company are reviewing the company's most recent draft financial statements and the following points have been raised for discussion.

(a) **Events after the reporting period**

Shortly after the end of the reporting period a major customer of the company with a balance outstanding went into liquidation because of heavy trading losses and it is expected that little or nothing will be recoverable for the debt.

In the financial statements the debt has been written off, but one of the directors has pointed out that, as an event after the reporting period, the debt should not in fact be written off but disclosure should be made by note to this year's financial statements, and the debt written off next year.

True   
False

(1 mark)

(b) **Contingency**

An ex-director of the company has commenced an action against the company claiming substantial damages for wrongful dismissal. The company's solicitors have advised that the ex-director is unlikely to succeed with his claim. The solicitors' estimates of the company's potential liabilities are:

	\$
Legal costs (to be incurred whether the claim is successful or not)	50,000
Settlement of claim if successful	500,000
	<u>550,000</u>

At present there is no provision or note for this contingency. Is this the correct treatment?

Yes   
No

(1 mark)

- 15 The accounts of Exposure Inc for the year ended 31 December 20X1 are to be approved on 31 March 20X2. On 14 February 20X2 the directors decided to close down its northern branch which had been making losses for some years.

Are the directors correct in believing that the 20X1 accounts should be adjusted to reflect this decision under the provisions of IAS 10 *Events after the reporting period*?

Yes   
No

(1 mark)

(Total = 24 marks)

## 46 Final accounts and statements of cash flows

32 mins

- 1 Halberd runs a fish shop. He buys supplies daily from the wholesale market paying immediately by cheque. Most of his sales are for cash, except for sales to three local restaurants, which are supplied on monthly credit terms.

Halberd keeps only partial accounting records, and he has asked for your help in preparing his financial statements for the year ended 30 June 20X7. In previous years he has been assisted by a friend who is now ill and unable to continue or give any information.

Halberd's statement of financial position at 30 June 20X6 was as follows.

	Reference notes	Cost \$	Aggregate depreciation \$	Net book value \$
Property, plant and equipment				
Refrigeration equipment		8,400	2,520	5,880
Shop fittings		3,720	2,090	1,630
Van		<u>9,200</u>	<u>4,600</u>	<u>4,600</u>
		<u>21,320</u>	<u>9,210</u>	<u>12,110</u>
Current assets				
Inventory			680	
Trade receivables			4,270	
Prepayments	1		1,150	
Cash at bank			3,240	
Cash in till			<u>100</u>	
			<u>9,440</u>	
Current liabilities				
Accrued expenses	2		440	
				<u>9,000</u>
Net current assets				<u>21,110</u>
Capital @ 30 June 20X6				<u>21,110</u>

### Notes

- 1 *Prepayments at 30 June 20X6*
- |  |              |
|--|--------------|
|  | \$           |
| Insurance: paid in advance to 30 September 20X6  | 300          |
| Business rates: paid in advance to 31 March 20X7 | <u>850</u>   |
|  | <u>1,150</u> |
- 2 *Accrued expenses owing at 30 June 20X6*
- |                        |            |
|------------------------|------------|
|                        | \$         |
| Van expenses           | 320        |
| Miscellaneous expenses | <u>120</u> |
|                        | <u>440</u> |

Halberd has prepared an analysis of his bank transactions for the year to 30 June 20X7 and this is summarised below.

	\$	\$
Balance 30 June 20X6		3,240
<i>Receipts</i>		
Cash sales banked	108,600	
Receipts from credit customers (the restaurants)	28,440	
Loan received 1 January 20X7 carrying interest at 10% per annum and repayable in 20Y2	<u>10,000</u>	
		<u>147,040</u>
		150,280
<i>Payments</i>		
Purchases of fish for sale	81,470	
Rent of shop	8,600	
Staff wages	21,400	
Drawings	20,600	
Insurance	1,400	
Van expenses	3,270	
Miscellaneous expenses	3,600	
Purchase of new shop fittings	<u>1,570</u>	
		<u>141,910</u>
Balance at 30 June 20X7		<u>8,370</u>

The following further information is available.

- (a) Depreciation is to be provided as follows:

Refrigeration equipment: 10% on cost (straight line)

Shop fittings: 15% (reducing balance)

Van: 25% on cost (straight line)

A full year's depreciation is to be taken for the shop fittings purchased during the year.

- (b) At 30 June 20X7 the following assets and liabilities existed.

	<i>Assets</i>	<i>Liabilities</i>
	\$	\$
Inventory of fish for sale	810	
Trade receivables (see note c)	6,190	
Prepayments: Insurance	350	
Rent	1,000	
Amounts owing for miscellaneous expenses		200

- (c) Halberd is worried about the amount owing by one of the restaurants. The account is three months in arrears and a provision for the full amount due of \$1,860 is to be made.
- (d) In addition to the drawings of \$20,600 shown in the bank statement summary, Halberd always takes \$300 per week (\$15,600 for the year) out of the takings before banking them. He also estimates that he has had fish costing \$400 from inventory for his own use during the year.
- (e) Halberd had a balance of cash in his till of \$150 at 30 June 20X7.

Calculate the following figures for the year ended 30 June 20X7.

- (a) What is the sales figure for the year? \$  (1 mark)
- (b) What is cost of sales for the year? \$  (1 mark)
- (c) What is the charge to I/S for insurance? \$  (1 mark)
- (d) What is the depreciation charge for the year? \$  (1 mark)

2 You are given the following information about a sole trader.

TRIAL BALANCE 31 DECEMBER 20X8

	\$'000	\$'000
Bank	53	
Capital		300
Land and buildings	320	
Plant and machinery: cost	200	
Depreciation		80
Closing inventory	100	
Sales		1,000
Cost of sales	600	
Operating expenses (including depreciation of \$20,000)	140	
Irrecoverable debt written off	2	
Receivables	100	
Accruals		5
Payables		130
	1,515	1,515

*Cash receipts* (year to 31 December 20X8)

Sales 950

*Cash payments* (year to 31 December 20X8)

Purchases 560

Plant (1 January 20X8) 90

Operating items 130

Drawings 20

The payables figure has doubled since 1 January 20X8.

Calculate the following figures in the *opening* statement of financial position at 1 January 20X8.

- (a) Inventory \$  **(1 mark)**
- (b) Receivables \$  **(1 mark)**
- (c) Bank \$  **(1 mark)**

3 Ganatri and Lucifer are in partnership sharing profits and losses in the ratio 7:3 respectively.

The following information has been taken from the partnership records for the financial year ended 31 May 20X9.

Partners' capital account balances:

Ganatri	\$200,000
Lucifer	\$140,000

Partners' current accounts, balances as at 1 June 20X8:

Ganatri	\$15,000 Cr
Lucifer	\$13,000 Cr

During the year ended 31 May 20X9 the partners made the following drawings from the partnership bank account.

Ganatri	\$10,000 on 31 August 20X8
	\$10,000 on 30 November 20X8
	\$10,000 on 28 February 20X9
	\$10,000 on 31 May 20X9

Lucifer	\$7,000 on 31 August 20X8
	\$7,000 on 30 November 20X8
	\$7,000 on 28 February 20X9
	\$7,000 on 31 May 20X9

Interest is to be charged on drawings at the rate of 12% per annum. Interest is allowed on capital accounts and credit balances on current accounts at the rate of 12% per annum.

Lucifer is to be allowed a salary of \$15,000 per annum.

The net profit of the partnership for the year ended 31 May 20X9 is \$102,940.

- (a) Calculate the total interest chargeable on the partner's drawings for the year ended 31 May 20X9.  
 \$  (1 mark)
- (b) Calculate the profit share for each partner for the year ended 31 May 20X9.  
 Ganatri \$  (1 mark)  
 Lucifer \$  (1 mark)
- (c) A computation of the balance on each partner's current account as at 31 May 20X9.  
 Ganatri \$  debit/credit (*delete as appropriate*). (1 mark)  
 Lucifer \$  debit/credit (*delete as appropriate*). (1 mark)

- 4 The trial balance of Zed Co at 1 January 20X3 contains the following items.

	\$'000
Bank overdraft	7
Building: cost	80
depreciation	5
Payables: trade	28
operating expenses	2
16% Loan notes	50
Receivables	24
Land at valuation	125
Machinery: cost	90
depreciation	43
Ordinary shares, \$1 each	100
10% preferred shares, \$1 each	40
Retained earnings	34
Revaluation reserve	45
Inventories	35

Summarised transactions and events for the year to 31 December 20X3 are as follows.

- (a)
- |   |        |
|---|--------|
|   | \$'000 |
| Sales   | 920    |
| Purchases   | 500    |
| Irrecoverable debts written off                   | 5      |
| Contras between receivables and payables accounts | 8      |
| Operating expenses paid                           | 360    |
- (b) 30,000 \$1 ordinary shares were issued at \$2.00 per share on 1 January 20X3; this transaction was not reflected in the trial balance above.
- (c) Loan note interest and the preferred dividend for the year were all paid on 31 December. An ordinary dividend of 20c per share was paid on 31 December.
- (d) The land is revalued at 31 December 20X3 at \$130,000. The machinery is to be depreciated at 10% on cost and the buildings are to be depreciated on the straight line basis over eighty years.

(e) At 31 December 20X3:		\$'000
Additional operating expenses owing are		10
Closing inventory is		40
Closing receivables are		35
Closing trade payables are		25

Calculate the following items as at 31 December 20X3.

(a) Dividends paid:	ordinary	\$	<input type="text"/>	(1 mark)
	preferred	\$	<input type="text"/>	(1 mark)
(b) The balance on the share premium account		\$	<input type="text"/>	(1 mark)
(c) The balance on the revaluation reserve		\$	<input type="text"/>	(1 mark)

5	The following balances existed in the accounting records of Koppa Co, at 31 December 20X7.	\$'000
	Development costs capitalised, 1 January 20X7	180
	Research and development expenditure for the year	162

In preparing the company's statement of comprehensive income and statement of financial position at 31 December 20X7 the following further information is relevant.

(a)	The \$180,000 total for development costs as at 1 January 20X7 relates to two projects:	\$'000
	Project 836: completed project:	82
	(balance being amortised over the period expected to benefit from it.	
	Amount to be amortised in 20X7: \$20,000)	
	Project 910: in progress	98
		<u>180</u>
(b)	The research and development expenditure for the year is made up of:	\$'000
	Research expenditure	103
	Development costs on Project 910 which continues to satisfy the requirements in IAS 38 for capitalisation	59
		<u>162</u>

Calculate the research and development costs to be disclosed:

(a)	In the statement of comprehensive income	\$	<input type="text"/>	(1 mark)
(b)	In the statement of financial position	\$	<input type="text"/>	(1 mark)

- 6 The statements of financial position of Rapier Co at 30 September 20X6 and 30 September 20X7 are given below.

STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER

	<i>20X6</i>		<i>20X7</i>	
	\$'000	\$'000	\$'000	\$'000
<i>Property, plant and equipment (see note 1)</i>				
Cost	600		730	
Aggregate depreciation	<u>220</u>		<u>240</u>	
		380		490
<i>Current assets</i>				
Inventory	81		90	
Receivables	90		86	
Cash	<u>4</u>		<u>7</u>	
		175		183
		<u>555</u>		<u>673</u>
<i>Equity</i>				
Called up share capital				
Ordinary shares of \$1 each (see Note 3)		150		200
Share premium account		50		80
Revaluation reserve		–		50
Retained earnings		<u>176</u>		<u>203</u>
		376		533
<i>Non current liabilities</i>				
10% loan notes (see Note 2)		100		50
<i>Current liabilities</i>				
Trade payables	48		50	
Bank overdraft	13		18	
Dividends	<u>18</u>		<u>22</u>	
		79		90
		<u>555</u>		<u>673</u>

**Notes**

1 *Property, plant and equipment*

During the year property, plant and equipment which had cost \$100,000, and which had a book value at 30 September 20X6 of \$20,000, were sold for \$25,000.

2 *Loan notes*

Interest is due half-yearly on 31 March and 30 September and was paid on the due dates.

\$50,000 of the 10% loan notes were repaid on 30 September 20X7.

3 *Share capital*

The increase in share capital took place on 1 January 20X7.

4 An interim dividend of 5 cents per share was paid on 6 May 20X7 to holders of all the shares in issue at that date.

5 Taxation has not been allowed for and is to be ignored in your answer.

*Required*

- (a) Calculate the net cash inflow from operating activities at 30 September 20X7.

\$

**(1 mark)**

- (b) Calculate capital expenditure for the year. \$

**(1 mark)**



- 7 Set out below are the financial statements of Emma Co.

EMMA CO  
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20X2

	\$'000
Turnover	2,553
Cost of sales	<u>(1,814)</u>
Gross profit	739
Distribution costs	(125)
Administrative expenses	(264)
Interest received	25
Interest paid	<u>(75)</u>
Profit before taxation	300
Taxation	<u>(140)</u>
Profit for the year	<u>160</u>

EMMA CO  
STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER

	20X2 \$'000	20X1 \$'000
<i>Non current assets</i>		
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	<u>–</u>	<u>25</u>
	630	530
<i>Current assets</i>		
Inventories	150	102
Receivables	390	315
Short-term investments	50	–
Cash in hand	<u>2</u>	<u>1</u>
	592	418
	<u>1,222</u>	<u>948</u>
<i>Equity</i>		
Share capital (\$1 ordinary shares)	200	150
Share premium account	160	150
Revaluation reserve	100	91
Retained earnings	<u>160</u>	<u>100</u>
	620	491
<i>Non current liabilities</i>		
Long-term loan	100	–
Deferred taxation	<u>70</u>	<u>50</u>
	790	541
<i>Current liabilities</i>		
Trade payables	127	119
Bank overdraft	85	98
Taxation	120	110
Dividends	<u>100</u>	<u>80</u>
	432	407
	<u>1,222</u>	<u>948</u>

The following information is available.

- The proceeds of the sale of non current asset investments amounted to \$30,000.
- Fixtures and fittings, with an original cost of \$85,000 and a net book value of \$45,000, were sold for \$32,000 during the year.
- The current asset investments fall within the definition of liquid resources under IAS 7.

(d) The following information relates to property, plant and equipment.

	31 December	
	20X2	20X1
	\$'000	\$'000
Cost	720	595
Accumulated depreciation	<u>340</u>	<u>290</u>
Net book value	<u>380</u>	<u>305</u>

(e) 50,000 \$1 ordinary shares were issued during the year at a premium of 20c per share.

(f) The dividends were declared before the year end.

*Required*

Prepare the following elements in the statement of cash flows for the year to 31 December 20X2.

(a) Taxation	\$ <input type="text"/>	(1 mark)
(b) Net cash from operating activities	\$ <input type="text"/>	(1 mark)
(c) Net cash flow from investing activities	\$ <input type="text"/>	(1 mark)
(d) Net cash flow from financing activities	\$ <input type="text"/>	(1 mark)

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(Total = 24 marks)

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# Answers to multiple choice questions



# 1 Preparation question: Accounting concepts

**Top tips.** There are plenty of accounting concepts to choose from. We give six here, although only four were required. But make sure you answer the question – explain how each of your concepts contributes to fair presentation.

## *Going concern*

Under the going concern concept, users of financial statements are entitled to assume that the business will continue for the foreseeable future, and the financial statements are prepared on this basis. If this concept does not apply, this must be made clear in the financial statements and it will affect some items such as the valuation of assets.

## *Accruals*

Under the accruals concept, transactions are recognised in the financial statements in the period in which they occur, rather than in the period in which any related cash is received or paid. This enables users to see the true trading position, undistorted by any cash management issues, and also gives them valuable information regarding outstanding assets and liabilities.

## *Reliability*

Information in financial statements must be reliable if it is to be useful to users. It can be said to be reliable when it is free from material error or bias. This is not always so easy to achieve, but financial statements must seek to represent faithfully the transactions which have taken place during the year.

## *Prudence*

Prudence is important when dealing with estimates and uncertainties in financial information. Under this concept, preparers of financial statements must exercise a degree of caution when making judgements under conditions of uncertainty.

## *Neutrality*

Information in financial statements must be neutral, or free from bias. Users need to know that they are not being given a distorted view of the entity's performance or position. This is not the case if, for instance, accounting policies are selected which will give the most favourable impression of an entity's results.

## *Comparability*

Users must be able to compare an entity's results to its results in previous years and to the results of other entities. In order for this to be possible, accounting policies must be applied consistently both within the financial statements and from one period to the next. Users must be informed of any changes of accounting policy or accounting estimate and must be able to see the effects of such changes.

*Note:* Only four concepts were required.

## 2 Accounting concepts I

- 1 A Fails to take account of changing price levels over time.
- 2 B Remember you were asked for the main aim.
- 3 D The historical cost convention.
- 4 B The going concern concept.
- 5 C Assets less liabilities = opening capital plus profits less drawings  
Therefore, assets less liabilities less opening capital plus drawings = profit
- 6 D The separate entity concept.
- 7 B Historical cost
- 8 C The accruals concept.
- 9 C The prudence concept.
- 10 A The realisation concept.

## 3 Accounting concepts II

- 1 A Neutrality, prudence and completeness.
- 2 C The prudence concept does not require the understating of assets or the overstating of liabilities.
- 3 A (a) Materiality concerns whether an item in the financial statements can influence users decisions  
(b) Substance over form means that the commercial effect should be recognised not the strict legal form
- 4 A The application of a degree of caution in exercising judgement under conditions of uncertainty.
- 5 C Profit will be overstated due to depreciation based on understated assets and cost of sales based on understated inventory.
- 6 D Statements 1,3 and 4 are all incorrect.
- 7 B The use of a degree of caution in making estimates required under conditions of uncertainty.
- 8 D None of these statements is correct.

## 4 Preparation question: Sampi

**Top tips.** This is a short question testing a topic that is more likely to appear in an MCQ in the exam. Note that as LIFO is no longer examinable you are more likely to be tested on weighted average.

*Weighted average cost*

Date	Narrative	No. of units	Unit cost	Value
			\$	\$
28 Feb	Inventory b/f	4,000	13.00	52,000
8 Mar	Issues	3,800	15.00	57,000
12 Mar	Sale	(5,000)	13.97	(69,850)
18 Mar	Sale	(2,000)	13.97	(27,940)
	Balance	800	14.01	11,210
22 Mar	Issues	6,000	18.00	108,000
24 Mar	Sale	(3,000)	17.53	(52,590)
28 Mar	Sale	(2,000)	17.53	(35,060)
28 Mar	Balance	1,800	17.53	<u>31,560</u>

**Note.** you would only need to enter a value total on the final line.

## 5 Inventories

1	D		\$
		Opening inventory	318,000
		Purchases	412,000
		Closing inventory	<u>(214,000)</u>
			516,000
		Notional cost of sales (612,000 x 75%)	<u>(459,000)</u>
		Inventory lost	<u>57,000</u>

2 C Carriage outwards and storage are distribution costs.

3	A		\$
		Original value	284,700
		Coats – Cost 400 × \$80	<u>(32,000)</u>
		– NRV (\$75 × 95%) × 400	<u>28,500</u>
			<u>281,200</u>

At 31 January 20X3 the skirts were correctly valued at costs incurred to date of \$20 per skirt which was lower than the NRV of \$22. Therefore no adjustment required.

4	A		\$
		50 @ \$190	9,500
		500 @ \$220	110,000
		300 @ \$230	<u>69,000</u>
			<u>188,500</u>

5 C Statement 1) inventory should be valued at the lower of cost and NRV not the higher  
Statement 2) production overheads based on a normal level of production should be included

6	D		\$
		Inventory check balance	483,700
		Less: goods from suppliers	<u>(38,400)</u>
		Add: goods sold	14,800
		Less: goods returned	<u>(400)</u>
		Add: goods returned to supplier	<u>1,800</u>
			<u>461,500</u>

7 C If closing inventory is understated, cost of sales will be overstated. Next year opening inventory will be understated and cost of sales will be understated.

8	A		\$	\$
		Original balance		386,400
		Item 1) Cost	<u>(18,000)</u>	
		NRV 15,000 – 800	<u>14,200</u>	
		Write down		<u>(3,800)</u>
		Inventory value		<u>382,600</u>

9 C 2 is a distribution cost, 4 is administrative expenses.



## 6 Preparation question: Riffon

**Top tips.** This requires six ledger accounts. Draw them all up, leave plenty of space and enter the opening balances. Then you can just methodically post the transactions.

(a)		<b>OFFICE BUILDING AT COST/VALUATION</b>	
		\$'000	\$'000
	<i>20X2</i>		
	1 July Balance	1,600	<i>20X3</i> 30 June Balance c/d
	1 July Revaluation	400	2,000
		<u>2,000</u>	<u>2,000</u>
		<b>OFFICE BUILDING – ACCUMULATED DEPRECIATION</b>	
		\$'000	\$'000
	<i>20X2</i>		
	1 July Revaluation	320	<i>20X2</i> 1 July Balance
	<i>20X3</i>		320
	30 June Balance c/d	50	<i>20X3</i> 30 June Income statement (2,000,000/40)
		<u>370</u>	<u>50</u>
			<u>370</u>
		<b>REVALUATION RESERVE</b>	
		\$'000	\$'000
	<i>20X3</i>		
	30 June Balance c/d	720	<i>20X2</i> 1 July Cost
		<u>720</u>	400
			<i>20X2</i> 1 July Depreciation
			<u>320</u>
			<u>720</u>
(b)		<b>PLANT AND MACHINERY AT COST</b>	
		\$'000	\$'000
	<i>20X2</i>		
	30 June Balance	840	<i>20X3</i> 1 April Disposal
	1 Oct Additions	200	240
		<u>1,040</u>	<i>20X3</i> 30 June Balance c/d
			<u>800</u>
			<u>1,040</u>
		<b>PLANT AND MACHINERY – ACCUMULATED DEPRECIATION</b>	
		\$'000	\$'000
	<i>20X3</i>		
	1 April Disposal	180	<i>20X2</i> 30 June Balance
	30 June Balance c/d	326	306
		<u>506</u>	<i>20X3</i> 30 June Income statement (800,000 x 25%)
			<u>200</u>
			<u>506</u>
		<b>PLANT AND MACHINERY – DISPOSAL</b>	
		\$'000	\$'000
	<i>20X3</i>		
	1 April Cost	240	<i>20X3</i> 1 April Depreciation
	30 June Income statement profit	10	180
		<u>250</u>	Proceeds
			<u>70</u>
			<u>250</u>

## 7 Tangible non-current assets

1	A	It is <b>never</b> B as funds are not set aside; nor C, this is revaluation.	
2	D	$(\$5,000 - \$1,000)/4 = \$1,000$ depreciation per annum $\therefore$ NBV = \$2,000.	
3	D		\$
		Balance b/d	67,460
		Less: NBV of non-current asset sold	
		(4,000 + 1,250)	<u>5,250</u>
			<u>62,210</u>
4	A	If disposal proceeds were \$15,000 and profit on disposal is \$5,000, then net book value must be \$10,000, the difference between the asset register figure and the non-current asset account in the nominal ledger.	
5	A	An expense has been posted as a non-current asset.	
6	D		\$
		December addition – $18,000 \times 20\% \times 10/12$	3,000
		June disposal – $36,000 \times 20\% \times 8/12$	4,800
		Balance – $345,200 \times 20\%$	<u>69,040</u>
			<u>76,840</u>
7	C		\$
		Valuation	210,000
		Net book value ( $170,000 \times 16/20$ )	<u>(136,000)</u>
		Revaluation reserve	<u>74,000</u>
8	A		\$
		Repairs cost overstated	20,000
		Depreciation understated ( $(20,000 - 4,000) \times 20\% \times 6/12$ )	<u>(1,600)</u>
		Profit understated	<u>18,400</u>
9	A		\$
		Plant held all year $(200,000 - 40,000) \times 20\%$	32,000
		Disposal $40,000 \times 20\% \times 9/12$	6,000
		Additions $50,000 \times 20\% \times 6/12$	<u>5,000</u>
			<u>43,000</u>
10	D		\$
		Plant held all year $(240,000 - 60,000) \times 20\%$	36,000
		Addition $160,000 \times 20\% \times 6/12$	16,000
		Disposal $60,000 \times 20\% \times 3/12$	<u>3,000</u>
			<u>55,000</u>

## 8 Intangible non-current assets

- B There is no requirement that development expenditure should be amortised over a period not exceeding five years.
- C
  - Development expenditure must be capitalised if the criteria are met
  - There is no time scale given by IAS 38 for amortisation
- C Development costs are amortised over the useful life of the project. This is not confined to five years.
- A 3 only.
- D Goodwill is an **intangible** non-current asset shown on the **statement of financial position** and internally generated goodwill is never recognised.

## 9 Preparation question: XY ledger accounts

**Top tips** Questions asking you to prepare four ledger accounts are relatively uncommon. This question tests both in theory and in practice, whether you fully understand accruals and prepayments.

(a)	<b>RENT PAYABLE ACCOUNT</b>		\$		\$	
			\$		\$	
	20X5			20X6		
	1 Oct	Bal b/fwd	1,000	30 Sep	Charge to I/S	6,000
	30 Nov	Bank	1,500	30 Sep	Rent prepaid c/fwd	1,000
	20X6					
	29 Feb	Bank	1,500			
	31 May	Bank	1,500			
	31 Aug	Bank	1,500			
			<u>7,000</u>			<u>7,000</u>
	1 Oct	Rent prepaid b/fwd	1,000			
(b)	<b>ELECTRICITY ACCOUNT</b>					
			\$		\$	
	20X5			20X5		
	5.11.X5	Bank	1,000	1 Oct	Bal b/fwd	800
	20X6			20X6		
	10 Feb	Bank	1,300	30 Sep	Charge to I/S	5,000
	8 May	Bank	1,500			
	7 Aug	Bank	1,100			
	30 Sep	Accrual c/fwd	900			
			<u>5,800</u>			<u>5,800</u>
				1 Oct	Balance b/fwd	900
(c)	<b>INTEREST RECEIVABLE ACCOUNT</b>					
			\$		\$	
	20X5			20X5		
	1 Oct	Bal b/fwd	300	2 Oct	Bank	250
	20X6			20X6		
	30 Sep	Transfer to I/S	850	3 Apr	Bank	600
			<u>1,150</u>	30 Sep	Accrual c/fwd	300
						<u>1,150</u>
	1 Oct	Balance b/fwd	300			
(d)	<b>ALLOWANCE FOR RECEIVABLES</b>					
			\$		\$	
	20X6			20X5		
	30 Sep	Bal c/fwd (125,000 × 5%)	6,250	1 Oct	Bal b/fwd	4,800
				20X6		
			<u>6,250</u>	30 Sep	Charge to I/S	1,450
						<u>6,250</u>
				1 Oct	Balance b/fwd	6,250

## 10 Preparation question: Kate's Coffee House

Electricity expense (I/S) \$1,317

Insurance expense (I/S) \$950

### Workings

Electricity paid:	\$
	309
	320
	340
	321
Add: closing accrual	107
$(321 \times \frac{1}{3})$	
Less: opening accrual	<u>(80)</u>
	<u>1,317</u>
Insurance paid:	\$
	1,000
Less: closing prepayment	(500)
$(1,000 \times \frac{6}{12})$	
Add: opening prepayment	<u>450</u>
	<u>950</u>

These can be shown in "T" account form:

Electricity Expense			
	\$		\$
Bank (Qtr – 31.8.X0)	309	Accrual – reversal	80
Bank (Qtr – 30.11.X0)	320	∴ I/S	1,317
Bank (Qtr – 28.2.X1)	340		
Bank (Qtr – 31.5.X1)	321		
Accrual ( $\frac{1}{3} \times 321$ )	<u>107</u>		
	<u>1,397</u>		<u>1,397</u>
Insurance Expense			
	\$		\$
Prepayment – reversal	450	∴ I/S	950
Bank	<u>1,000</u>	Prepayment ( $1,000 \times \frac{6}{12}$ )	<u>500</u>
	<u>1,450</u>		<u>1,450</u>

## 11 Preparation question: Irrecoverable debts

### Trade receivables

	\$		\$
B/d	76,000	Irrecoverable debts expense (a)	3,000
		C/d	73,000
	<u>76,000</u>		<u>76,000</u>

### Irrecoverable Debt expense a/c

	\$		\$
Trade receivables (a)	3,000	Cash received for debt	
Allowance for receivables:		previously written off (d)	1,500
– specific (b)	3,000	I/S	4,700
– general (c)	<u>200</u>		
	<u>6,200</u>		<u>6,200</u>

### Allowance for Receivables

	\$		\$
		B/d	4,000
C/d allowance		Allowance	
– specific	3,000	expense a/c	
– general	4,200	– specific	700
		– specific	2,300
		Increase in	
		general allowance	
		(4,200 – 4,000)	200
	<u>7,200</u>		<u>7,200</u>

General allowance:

	\$
Revised trade receivables balance	73,000
Less: trade receivables specifically provided for	<u>(3,000)</u>
Trade receivables on which to calculate allowance	<u>70,000</u>
General allowance required	4,200
(6% × 70,000)	
General allowance opening balance	<u>(4,000)</u>
Increase required	<u>200</u>

*Note:* when a debt that has been previously written off as irrecoverable is later paid, the double entry required is:

DR Cash

CR Irrecoverable debt expense

## 12 Adjustments to accounts

1	D	RENT RECEIVABLE			
		\$		\$	
		Opening balance	21,200	Opening balance	28,700
		Closing balance	31,200	Cash received	481,200
		20X2 income	475,900	Closing balance	18,400
			<u>528,300</u>		<u>528,300</u>
2	C			\$	
		<i>Receipt</i>			
		1 October 20X1 ( $\$7,500 \times 1/3$ )	2,500		
		30 December 20X1	7,500		
		4 April 20X2	9,000		
		1 July 20X2	9,000		
		1 October 20X2 ( $9,000 \times 2/3$ )	6,000	Credit rent in advance 3,000	
		Credit to statement of comprehensive income	<u>34,000</u>		
3	B			\$	
		February to March 20X2 ( $22,500 \times 2/3$ )		15,000	
		April to June		22,500	
		July to September		22,500	
		October to December		30,000	
		January 20X3 ( $30,000 \times 1/3$ )		10,000	
		Rent for the year		<u>100,000</u>	
		Accrual $30,000 \times 1/3 = 10,000$			
4	D			\$	
		Payments made		34,600	
		Add: opening balance		8,200	
		Less: opening accrual		(3,600)	
		Less: closing balance		(9,300)	
		Add: closing accrual		3,200	
				<u>33,100</u>	
5	D			\$	
		Closing allowance required ( $400,000 - 38,000$ ) $\times 10\%$		36,200	
		Opening allowance		50,000	
		Decrease in allowance		(13,800)	
		Irrecoverable debts written off		38,000	
		Income statement charge		<u>24,200</u>	
6	A			\$	
		Irrecoverable debts written off		14,600	
		Reduction in allowance		(2,000)	
				<u>12,600</u>	
7	B			\$	
		<i>Statement of comprehensive income</i>			
		December to June $8,400 \times 7/12$		4,900	
		July to November $12,000 \times 5/12$		5,000	
				<u>9,900</u>	
		Sundry payables $12,000 \times 1/12 = 1,000$ (December rent received in advance)			

8	D	Irrecoverable debt written off	\$ 28,500
		Increase in allowance ((868,500 – 28,500) x 5% – 38,000)	<u>4,000</u>
			<u>32,500</u>
9	C	\$146,000 + (\$218,000 – \$83,000) = \$281,000	
10	C	August to September 60,000 × 2/12	\$ 10,000
		October to July 72,000 × 10/12	<u>60,000</u>
			<u>70,000</u>

### 13 Preparation Question: Scimitar

**Top tips.** If you find yourself running out of time, do not bother to close off the accounts. There are no points allocated to straightforward opening and closing balances; in this question the only such balance for which a mark was allocated was the closing credit balance on the receivables ledger control account.

With ledger control accounts questions, make sure that you have the figures on the correct side.

#### RECEIVABLES LEDGER CONTROL ACCOUNT

		\$			\$
<i>20X7</i>			<i>20X7</i>		
1 Sep	Balance b/f	188,360	1 Sep	Balance b/f	2,140
30 Sep	Sales (W1)	102,620	30 Sep	Sales returns	9,160
	Cash refunds	300		Cash received	91,270
	Petty cash refund	20		Cash discounts	1,430
	Balance c/f (W2)	3,320		Irrecoverable debts written off	460
				Contras	980
				Balance c/f	<u>189,180</u>
		<u>294,620</u>			<u>294,620</u>
1 Oct	Balance b/f	189,180	1 Oct	Balance b/f	3,320

#### PAYABLES LEDGER CONTROL ACCOUNT

		\$			\$
<i>20X7</i>			<i>20X7</i>		
1 Sep	Balance b/f	120	1 Sep	Balance b/f	89,410
30 Sep	Purchases returns	4,280	30 Sep	Purchases (W3)	67,060
	Cash to suppliers	71,840		Balance c/f	90
	Cash discounts	880			
	Contras	980			
	Balance c/f	78,460			
		<u>156,560</u>			<u>156,560</u>
1 Oct	Balance b/f	90	1 Oct	Balance b/f	78,460

#### Workings

1	<i>Receivables</i>	
	Credit sales	\$ 101,260
	Error (c)	<u>1,360</u>
		<u>102,620</u>

2	<i>Receivables ledger control account closing balance</i>	\$
	Receivables ledger balance given in question	2,680
	Error (a)	680
	Error (d)	<u>(40)</u>
		<u>3,320</u>
3	<i>Purchases</i>	\$
	Credit purchases	68,420
	Error (c)	<u>(1,360)</u>
		<u>67,060</u>

## 14 Control accounts

- 1 C Credit sales = \$80,000 – \$10,000 + \$9,000 = \$79,000.
- 2 B A, C and D would make the supplier's statement \$150 *higher*.
- 3 C Debits total \$32,750 + \$125,000 + \$1,300 = \$159,050.  
Credits total \$1,275 + \$122,500 + \$550 = \$124,325.  
Therefore, net balance = \$34,725 debit.
- 4 A B and C would make the credit side \$50 higher. D would have no effect.
- 5 A \$8,500 – (2 × \$400) = \$7,700.
- 6 A Sales and refunds are posted on the *debit* side, changes in the allowance for receivables do not appear in the control account.

7	B	RECEIVABLES LEDGER CONTROL ACCOUNT			
		\$		\$	
		Opening balance	180,000	Cash from credit customers	228,000
		Credit sales	190,000	Irrecoverable debts written off	1,500
		Cash refunds	3,300	Sales returns	8,000
				Discount allowed	4,200
				Contras	2,400
				Closing balance	<u>129,200</u>
			<u>373,300</u>		<u>373,300</u>

8	C	RECEIVABLES LEDGER CONTROL ACCOUNT			
		\$		\$	
		Opening balance	284,680	Cash received	179,790
		Credit sales	189,120	Discounts allowed	3,660
				Irrecoverable debts written off	1,800
				Sales returns	4,920
				Contras	800
				Closing balance	<u>282,830</u>
			<u>473,800</u>		<u>473,800</u>

9	C	RECEIVABLES LEDGER CONTROL ACCOUNT			
		\$		\$	
		Opening balance	308,600	Cash received	147,200
		Credit sales	154,200	Discounts allowed	1,400
		Interest charged	2,400	Contra	4,600
				Irrecoverable debts	4,900
				Closing balance	<u>307,100</u>
			<u>465,200</u>		<u>465,200</u>



## RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	614,000	Cash from customers	311,000
Credit sales	301,000	Discounts allowed	3,400
Interest charged on overdue accounts	1,600	Irrecoverable debts written off	32,000
		Contras	8,650
		Closing balance	<u>561,550</u>
	<u>916,600</u>		<u>916,600</u>

## 15 Preparation question: Cain

**Top tips.** This is quite a tough question. It is more realistic than many bank reconciliations given in examinations, because you have to *detect* the errors as well as *correct* them. Some are obvious, such as the omission of the standing order, bank giro credit etc from the cash book, but others will only be spotted by careful attention to the question: for example, did you notice that the overdraft has been brought down as a debit balance? Or that the casting of the first December credits is wrong? Or the transposition error in recording cheque number 7655?

## CASH BOOK SUMMARY (corrected)

	\$	\$	\$		Note
Jan-Nov receipts		39,500.54	7,000.12	Overdraft	(i)
Balance at 30/11		<u>2,499.92</u>	35,000.34	Jan-Nov payments	(ii)
		<u>42,000.46</u>	<u>42,000.46</u>		
Dec receipts	178.19		2,499.92	Brought down 1/12	
	121.27				
	14.92			Cheques	
	<u>16.88</u>		37.14	7654	
		331.26	129.79	7655	(iii), (iv)
			5,000.00	7656	
Dec receipt	3,100.00		123.45	7657	
	171.23		678.90	7658	
	<u>1,198.17</u>		1.47	7659	
		4,469.40	19.84	7660	
Dec receipt		117.98	10.66	7661	
			80.00	Charges	
Balance		<u>3,712.53</u>	50.00	Standing order	
		<u>8,631.17</u>	<u>8,631.17</u>		

- (a) The trainee had entered the overdraft to the wrong side of the cash book.  
 (b) Discounts should not be entered in the cash book.  
 (c) The receipt had been miscast in the draft cash book as \$329.26.  
 (d) There was a transposition error in recording the cheque in the cash book.

## BANK RECONCILIATION AT 31 DECEMBER

	\$	\$
Balance per bank statement (overdraft)		3,472.34
Unpresented cheques 7660	19.84	
7657	<u>123.45</u>	
		143.29
Balance as per cash book		<u>3,615.63</u>
Remaining difference		<u>3,712.53</u>
		<u>96.90</u>

## 16 Preparation question: George

**Top tips.** Watch the preparation of the bank reconciliation. This is the area where most candidates slip up in the actual exam. You must be clear which adjustments are made in the cash book.

(a) *Cash book*

	\$
Opening balance	4,890
(3) Bank charges	(320)
(4) Mistake on cheque recorded	(10,000)
(5) Dishonoured cheque	(980)
(6) Misposted cheque payment	(4,800)
(7) Miscasting	(1,000)
(8) Misposting of interest received	320
Adjusted cash book balance as at 31 March 20X9	<u>(11,890)</u>

(b) *Bank reconciliation*

	\$
Balance from cash book (from part (a))	(11,890)
Add: (1) unpresented cheque	1,000
(5) dishonoured cheque	980
Less: uncleared lodgement	<u>(2,890)</u>
Balance per bank statement	<u>(12,800)</u>

(c) *Profit adjustment*

	\$
Original profit figure	81,208
(3) Bank charges	(320)
(4) Additional depreciation [(12,900 – 2,900)@ 10%]	(1,000)
(5) Bad debt	(980)
(6) Motor repairs	(2,400)
(6) Depreciation adjustment	(600)
(7) Purchases	(1,000)
(8) Interest received	320
(9) Home repairs	870
Adjusted profit	<u>76,098</u>

## 17 Bank reconciliations

1 B \$(565) o/d – \$92 dishonoured cheque = \$(657) o/d

2 D		\$
	Balance b/d	5,675 o/d
	Less: standing order	(125)
	Add: dishonoured cheque (450 × 2)	900
		<u>6,450 o/d</u>

3 A		\$
	Opening bank balance	2,500
	Payment (\$1,000 – \$200) × 90%	(720)
	Receipt (\$200 – \$10)	190
	Closing bank balance	<u>1,970</u>

4	B		\$
		Balance per bank statement	(800)
		Unpresented cheque	(80)
		Dishonoured cheque (affects cash book only)	—
			<u>(880)</u>
5	B		\$
		Original cash book figure	2,490
		Adjustment re charges	(50)
		Adjustment re dishonoured cheque	<u>(140)</u>
			<u>2,300</u>
6	D		\$
		Bank statement	(36,840)
		Lodgements credited after date	51,240
		Outstanding cheques	<u>(43,620)</u>
		Balance per cash book (o/d)	<u>(29,220)</u>
7	A	Dishonoured cheques and bank charges must be entered in the cash book.	
8	B	Bank charges, direct debits and dishonoured cheques will all be written into the cash book.	
9	B		\$
		Overdraft	(3,860)
		Outstanding cheques	<u>(9,160)</u>
			<u>(13,020)</u>
		Deposits	<u>16,690</u>
		Cash at bank	<u>3,670</u>
10	A	Bank charges not entered in the cash book can be entered, and the cash book balance adjusted.	

## 18 Preparation question: Choctaw

**Top tips.** The first point to note is that not all of these errors will have affected the suspense account. Otherwise, this is a standard bookkeeping question. If you need to do any workings, make sure they are legible.

### Journal entries

	<i>Debit</i>	<i>Credit</i>
	\$	\$
(a) Depreciation expense- motor vehicles (W)	8,000	
Accumulated depreciation – motor vehicles		8,000
Being change of depreciation calculation from reducing balance to straight line		
(b) Petty cash	1,200	
Rent receivable		1,200
Being rent received but omitted from the records		
(c) Irrecoverable debts expense	8,400	
Receivables ledger control		8,400
Being irrecoverable debts written off		
(d) Suspense account	3,400	
Motor repairs		3,400
Being correction of omission of opening balance		
(e) Discount allowed	380	
Discount received		290
Suspense account		90
Being posting of discounts omitted from ledgers.		

### Statement of profit adjustments

	\$
Draft profit	86,400
Additional depreciation	(8,000)
Rental income	1,200
Irrecoverable debts written off	(8,400)
Motor repairs	3,400
Discounts allowed	(380)
Discounts received	<u>290</u>
Adjusted profit	<u>74,510</u>

**Tutorial note.** it was not a necessary part of the question to show how the suspense account was cleared but it is a useful check that the journal entries relating to the suspense account are correct.

#### SUSPENSE ACCOUNT

	\$		\$
Motor repairs	3,400	Opening balance	3,310
		Discounts	90
	<u>3,400</u>		<u>3,400</u>

#### Working

##### Depreciation adjustment

	\$
Reducing balance (88 x 25%)	22,000
Straight line (120 x 25%)	<u>30,000</u>
Additional depreciation	<u>8,000</u>

## 19 Journal entries and suspense accounts I

1 B The discount received should have been *credited* to discounts received, so the effect is doubled.

2 D Error (5) will not cause a trial balance imbalance.

3 A

#### SUSPENSE ACCOUNT

	\$		\$
Share capital	3,000	Opening balance	3,460
Motor vehicles	9,000	Plant asset (2,800 × 2)	5,600
		Petty cash (TB)	500
		Closing balance	<u>2,440</u>
	<u>12,000</u>		<u>12,000</u>

4 B This results in a debit to the suspense account therefore reducing the balance.

Option A results in a credit to the suspense account and options C and D do not affect the suspense account at all.

5 B Star by posting the adjustment in full:

	<i>Debit</i>	<i>Credit</i>
	\$	\$
Discount allowed	3,840	2,960
Discount received	3,840	2,960
Suspense account		<u>1,760</u>

6 D Option A would be a further credit entry in the suspense account  
Option B and C do not affect the suspense account

- 7 B Cash book 3, 5: bank reconciliation 1, 2, 4
- 8 B (1) This entry has been correctly debited but to the wrong account – no effect on trial balance  
(4) Double entry has been carried out although the wrong way round – no effect on trial balance
- 9 C Journal entries 1 and 2 should both be reversed.

## 20 Journal entries and suspense accounts II

- 1 B This has debited a non current asset to cost of sales.
- 2 B \$9,000 is payable (I/S), but only \$6,000 paid (April and July).

3 A

SUSPENSE ACCOUNT			
	\$		\$
Balance b/d	210	Gas bill (420 – 240)	180
Interest	<u>70</u>	Discount (2 × 500)	<u>100</u>
	<u>280</u>		<u>280</u>

- 4 C A transaction has been posted to the wrong account, but not the wrong class of account.

- 5 B This is an error of original entry.

6 A

	\$'000
Profit for the year	1,175
Add back depreciation	<u>100</u>
	1,275
Add: issue of shares	1,000
Less: repayment of loan notes	(750)
Less: purchase of non current assets	<u>(200)</u>
	1,325
Less: increase in working capital	<u>(575)</u>
Increase in bank balance	<u>750</u>

7 C

	\$
Capital at 1 April 20X7	6,500
Add: profit (after drawings)	32,500
Less: sales tax element	<u>(70)</u>
Capital at 31 March 20X8	<u>38,930</u>

- 8 C The transactions in 1 and 5 should both have been **debited**.
- 9 C This will mean less cash coming into the bank.
- 10 C Cost less 4 months depreciation = 25,500 – 2,125 = \$23,375

## 21 Preparation question: Altese

**Top tips.** These are three small incomplete records calculations. Read them carefully and set out your workings very clearly.

- (a) Increase in net assets = Capital introduced + profit – drawings
- $$184,000 - 128,000 = 50,000 + \text{profit} - 48,000$$
- $$\text{Profit} = 56,000 - 50,000 + 48,000$$
- $$= \$54,000$$

(b)	PURCHASES CONTROL ACCOUNT			
		\$		\$
	Payments to suppliers	888,400	Opening balance	130,400
	Discounts received	11,200	Goods taken	1,000
	Closing balance	171,250	Refunds received	2,400
		<u>1,070,850</u>	Purchases (bal fig)	<u>937,050</u>
				<u>1,070,850</u>

(c)	<i>Cost of sales</i>		\$
	Opening inventory		243,000
	Purchases		595,400
	Less: purchases returns		<u>(41,200)</u>
			797,200
	Less: closing inventory		<u>(261,700)</u>
			<u>535,500</u>

Sales =  $535,500 \times 3/2 = \$803,250$

## 22 Incomplete records

- 1 B Closing capital – opening capital = increase (I) in net assets. This means that option B is equivalent to:

$$P = I + D - C_i$$

This is the correct form of the business equation.

- 2 D  $I = P + C_i - D$   
 $= \$(72,500 + 8,000 - 2,200)$   
 $= \$78,300$

Therefore, closing net assets =  $\$(101,700 + 78,300) = \$180,000$ .

- 3 B  $I = P + C_i - D$   
 $= \$(35,400 - 6,000 + 10,200)$   
 $= \$39,600$

Therefore, opening capital = opening net assets =  $\$(95,100 - 39,600) = \$55,500$ .

- |   |   |                   |                  |
|---|---|-------------------|------------------|
| 4 | B |                   | \$               |
|   |   | Opening inventory | 386,200          |
|   |   | Purchases         | 989,000          |
|   |   | Closing inventory | <u>(422,700)</u> |
|   |   | Cost of sales     | <u>952,500</u>   |

$$952,500 \times 100/60 = 1,587,500$$

- 5 A Closing net assets plus drawings minus capital introduced minus opening net assets.

- 6 B The selling price is not relevant to this adjustment.

- 7 B Cost of sales = \$114,000

Therefore sales should be =  $\$114,000 \times 100/60 = \$190,000$

Theft =  $\$190,000 - 181,600 = \$8,400$

8	C	TOTAL RECEIVABLES ACCOUNT			
			\$		\$
		Opening balance	130,000	Cash received	686,400
		Sales (balancing figure)	744,960	Discounts allowed	1,400
				Irrecoverable debts	4,160
				Contra	2,000
				Closing balance	181,000
			<u>874,960</u>		<u>874,960</u>
9	D	TOTAL PAYABLES ACCOUNT			
			\$		\$
		Cash paid	302,800	Opening balance	60,000
		Discounts received	2,960	Purchases (balancing figure)	331,760
		Contra	2,000		
		Closing balance	84,000		
			<u>391,760</u>		<u>391,760</u>
10	C	Cost of sales = £281,250 × 2/3 = £187,500			
		Loss of inventory = £228,200 – 187,500 = £40,700			

## 23 Preparation question: PDQ & Co

Appropriation of profits:

### Appropriation Account

		\$		\$
Salary:		12,960	Profit before appropriation	72,000
Interest on capital: P		2,880	Interest on drawings: P	360
D		4,800	D	480
Q		7,200	Q	360
Profit: P		10,080		
D		15,120		
Q		<u>20,160</u>		
		<u>73,200</u>		<u>73,200</u>

### Current Account

	<i>P</i>	<i>D</i>	<i>Q</i>		<i>P</i>	<i>D</i>	<i>Q</i>
	\$	\$	\$		\$	\$	\$
Drawings	7,200	9,600	7,200	Salary	12,960		
				Interest on capital	2,880	4,800	7,200
Interest on drawings	360	480	360	Profit	10,080	15,120	20,160
c/d	<u>18,360</u>	<u>9,840</u>	<u>19,800</u>		<u>25,920</u>	<u>19,920</u>	<u>27,360</u>
	<u>25,920</u>	<u>19,920</u>	<u>27,360</u>				

## 24 Preparation question: Leon and Mark

**Top tips.** Note that Mark joins half way through the year. So the profit needs to be divided between Leon as a sole trader and the partnership.

### Division of profit

(a)	<b>Six months to 30 June 20X5</b>		\$
	Profit accrual ( $\frac{1}{3} \times (250,000 + 20,000) - 20,000$ )		<u>70,000</u>
	All goes to Leon		
(b)	<b>Six months to 31 December 20X5</b>	\$	\$
	Profit accrual ( $2/3 \times (250,000 + 20,000)$ )		180,000
	Interest on capital – Leon ( $5\% \times 400,000 \times \frac{1}{2}$ )	10,000	
	– Mark ( $5\% \times 200,000 \times \frac{1}{2}$ )	<u>5,000</u>	
	Salary – Mark ( $20,000 \times \frac{1}{2}$ )		(15,000)
			<u>(10,000)</u>
			<u>155,000</u>
	Balance of profit – Leon (60%)	93,000	
	– Mark (40%)	<u>62,000</u>	
			<u>155,000</u>

(c)

#### CURRENT ACCOUNTS

	<i>Leon</i>	<i>Mark</i>		<i>Leon</i>	<i>Mark</i>
	\$	\$		\$	\$
Drawings	160,000	80,000	Profit to 30.6.X5	70,000	–
			Profit to 31.12.X5:		
			Interest	10,000	5,000
			Salary	–	10,000
			Balance of profit	93,000	62,000
Balance	<u>13,000</u>	–	Balance c/f	–	<u>3,000</u>
	<u>173,000</u>	<u>80,000</u>		<u>173,000</u>	<u>80,000</u>

## 25 Partnerships

1 C The corrected account looks like this.

#### CURRENT ACCOUNT

	\$		\$
Drawings	6,200	Balance b/f	270
Balance c/f	<u>7,070</u>	Interest on capital	2,800
		Salary	1,500
		Net profit	<u>8,700</u>
	<u>13,270</u>		<u>13,270</u>

2 A The petrol bills have been debited to motor vehicle expenses. This is incorrect and should be revised (so credit motor vehicles expenses). Because they are private expenses of the expenses of the partner they should be debited to his drawing account.



- 3 B Interest on partners' capital is an appropriation of profit (debit appropriation account). Since partners have earned the money by their investment in the business, their current accounts should be credited with it. (option D would be theoretically possible, but most firms maintain current accounts separately from capital accounts in order to record such items.)
- 4 C There is no IFRS on partnerships and the UK Partnership Act applies to UK partnerships only. Therefore, under international standards, the profit share must be agreed between the partners.
- 5 D Interest payable by partners increases the amounts of profits available for appropriation (credit appropriation account). It must be charged against the partners (debit partners' current accounts).
- 6 A The appropriations earned by each partner are shown below.

	<i>Faith</i>	<i>Hope</i>	<i>Charity</i>	<i>Total</i>
	\$	\$	\$	\$
Interest on capital	1,600	1,200	960	3,760
Salary		8,000		8,000
	<u>1,600</u>	<u>9,200</u>	<u>960</u>	<u>11,760</u>
Residual profit (3:2:1)	<u>36,120</u>	<u>24,080</u>	<u>12,040</u>	<u>72,240</u>
	<u>37,720</u>	<u>33,280</u>	<u>13,000</u>	<u>84,000</u>

- 7 A

		<i>P</i>	<i>Q</i>	<i>R</i>
	\$	\$	\$	\$
Profit to 30 December	240,00	144,000	96,000	
Salaries	16,000		10,000	6,000
Balance of profit	224,000	112,000	56,000	56,000
	480,000	256,000	162,000	62,000

- 8 C Goodwill = price payable – fair value of net assets  
= \$850,000 – \$750,000  
= \$100,000

- 9 B

	<i>P</i>	<i>Q</i>
	\$	\$
January to June (340 – (360/2))	160	
July to December (180/2)	90	90
	<u>250</u>	<u>90</u>

- 10 B

	<i>G</i>	<i>H</i>	<i>I</i>	<i>Total</i>
	\$	\$	\$	\$
To 30 June				
Salaries		20,000	10,000	30,000
Profit (220 – 40 – 30)	90,000	30,000	30,000	150,000
To 31 Dec (220)	<u>110,000</u>	<u>66,000</u>	<u>44,000</u>	<u>220,000</u>
	<u>200,000</u>	<u>116,000</u>	<u>84,000</u>	<u>400,000</u>

$$\text{Profit for each half year} = \frac{(400 + 40)}{2}$$

$$= 220$$

- 11 B

Profit for July to Dec (570,000/2 – 30,000)	\$ 255,000
Profit for Jan to June (570,000/2)	285,000
X profit share July to Dec 255,000 × 2/3	170,000
X profit share Jan to June 285,000 × 50%	142,500
	<u>312,500</u>

- 12 B False. Goodwill is the excess of purchase price over the fair value of the net assets.

13 A

	G \$	H \$	I \$	Total \$
July to December – salaries		10,000	10,000	20,000
Profit share (380/2 – 20)	102,000	34,000	34,000	170,000
January to June – salary			10,000	10,000
Profit share (380/2 – 10)	90,000	60,000	30,000	180,000
	<u>192,000</u>	<u>104,000</u>	<u>84,000</u>	<u>380,000</u>

## 26 Preparation question: bonus issue

The double entry is \$

Dr	Share premium*	2,500	(\$10,000 ÷ 50c x 1/4 x 50c)
----	----------------	-------	------------------------------

Cr	Share capital	2,500
----	---------------	-------

\* or retained earnings

### Adjusted Statement of Financial Position

	\$
Share capital (50c)	12,500
Share premium	4,500
Retained earnings	8,000
	<u>25,000</u>

## 27 Preparation question: Rights issue

The double entry is \$

Dr	Bank	4,800	(\$8,000 ÷ 50c x 1/4 x \$1.20)
----	------	-------	--------------------------------

Cr	Share capital	2,000	(\$8,000 ÷ 50c x 1/4 x 50c)
----	---------------	-------	-----------------------------

Cr	Share premium	2,800
----	---------------	-------

### Adjusted Statement of Financial Position

	\$
Share capital	10,000
Share premium	9,800
Retained earnings	10,000
	<u>29,800</u>

## 28 Preparation question: Shuswap

**Top tips.** This question is not difficult but requires an organised approach. Most of the adjustments can be annotated against the figures in the question paper. You will have to do a working for property, plant and equipment and retained earnings, so do them neatly so that they can be presented as part of your answer.

### Shuswap – Statement of Financial Position as at 31 December 20X4

	Cost or valuation \$'000	Accumulated depreciation \$'000	Net book value \$'000
<b>Assets</b>			
<i>Non-current assets</i>			
Land and buildings	12,000	–	12,000
Plant and equipment(W1)	<u>19,600</u>	<u>7,950</u>	<u>11,650</u>
			<u>23,650</u>
<i>Current assets</i>			
Inventories(3,000 – 140)			2,860
Receivables (2,600 – 200 – 106)			2,294
Cash at bank			<u>1,900</u>
Total assets			<u>30,704</u>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Issued share capital (6,000 + 2,000)			8,000
Share premium (4,000 × 0.60)			2,400
Revaluation reserve (3,000 + 1,000)			4,000
Retained earnings (W2)			<u>12,310</u>
			<u>26,710</u>
<i>Non-current liabilities</i>			
Loan notes			2,000
<i>Current liabilities</i>			
Trade payables (2,100 – 106)			<u>1,994</u>
Total equity and liabilities			<u>30,704</u>
<b>Workings</b>			
1	<i>Plant and equipment</i>		\$'000
	Disposal – Cost		1,400
	– Depreciation		<u>(700)</u>
	– NBV		700
	Proceeds (W3)		<u>(600)</u>
	Loss on sale		<u>100</u>
	Cost adjustment $21,000 - 1,400 = 19,600$		
	Accumulated depreciation adjustment $(9,000 - 700 - (1,400 \times 25\%)) = 7,950$		
2	<i>Retained earnings</i>		\$'000
	Per draft		12,400
	Irrecoverable debts		(200)
	Inventory write down (500 – 360)		(140)
	Loss on disposal of plant (W1)		(100)
	Depreciation adjustment (1,400 × 25%) (W1)		<u>350</u>
			<u>12,310</u>

3	<i>Suspense account</i>	
	Proceeds of issue of 4m shares at \$1.10	4,400
	Proceeds of sale of plant (balance)	<u>600</u>
		<u>5,000</u>

## 29 Company financial statements I

1	D		\$
		Preferred shares 500,000 × 8%	40,000
		Ordinary shares 10m × 5c	<u>500,000</u>
			<u>540,000</u>
2	A	A rights issue will increase cash and therefore assets. Retained earnings remain the same and the share premium account will be increased.	
3	D		
4	B	Share capital will be credited with the nominal value of the shares – the balance goes to share premium.	
5	B	Profit on disposal of properties will be included in profit in the statement of comprehensive income. Equity dividends proposed after the reporting period are disclosed by note.	
6	B		\$
		<i>Current assets</i>	
		Insurance 9,000 × 8/12	6,000
		Loan	12,000
		Interest due 12,000 × 2%	240
		Rent due	<u>4,000</u>
			<u>22,240</u>
7	B		\$
		Ordinary shares at start of year	50,000
		Add: bonus issue 50,000 × 50c	25,000
		Add: new issue 60,000 × 50c	<u>30,000</u>
			<u>105,000</u>
		Share premium at start of year	180,000
		Less: bonus issue 50,000 × 50c	(25,000)
		Add: new issue 60,000 × 30c	<u>18,000</u>
			<u>173,000</u>
8	C	Statement 3 is the correct treatment for a change of accounting policy or the correction of a prior period error.	
9	A	Changes of accounting policy require retrospective adjustment.	

## 30 Company financial statements II

- 1 C Only statement 3 is correct. Extraordinary items are now prohibited.
- 2 C All of these items are disclosed, either in the financial statements or in the notes.
- 3 B
- |                        |                 | \$                        |
|------------------------|-----------------|---------------------------|
| <i>Ordinary shares</i> |                 |                           |
|                        | Opening balance | 125,000                   |
|                        | Rights issue    | 250,000 × 25c<br>62,500   |
|                        | Bonus issue     | 150,000 × 25c<br>37,500   |
|                        |                 | <u>225,000</u>            |
| <i>Share premium</i>   |                 |                           |
|                        | Opening balance | 100,000                   |
|                        | Rights issue    | 250,000 × 75c<br>187,500  |
|                        | Bonus issue     | 150,000 × 25c<br>(37,500) |
|                        |                 | <u>250,000</u>            |
- 4 D
- |  |                  | \$                              |
|--|------------------|---------------------------------|
|  | July – September | 1,000,000 × 8% × 3/12<br>20,000 |
|  | October – March  | 750,000 × 8% × 6/12<br>30,000   |
|  | April – June     | 750,000 × 8% × 3/12<br>15,000   |
|  |                  | 500,000 × 7% × 3/12<br>8,750    |
|  |                  | <u>73,750</u>                   |
- 5 A Adjusting events after the reporting period should be adjusted for, not just disclosed.
- 6 A The loss on sale of investments will have been recognised in the statement of comprehensive income.
- 7 D All of these items must be disclosed.
- 8 B This is the transfer of the premium to the share premium account.
- 9 C A bonus issue does not involve cash but can be financed from the share premium account.
- 10 D A bonus issue does not raise any funds and items are no longer classified as extraordinary.

## 31 Events after the reporting period

- 1 A All of these events are indicative of conditions that existed at the reporting period.
- 2 A 2 and 3 do not affect the company's position at the end of the reporting period.
- 3 B These affect valuation of receivables and inventory at the end of the reporting period.
- 4 A
- 1 Future operating losses must not be provided for
  - 2 Adjusting events must be adjusted in the financial statements. It is non-adjusting events that should be disclosed
  - 3 Contingent assets must be disclosed, not recognised, if they are probable

## 32 Preparation question: Sioux

**Top tips.** This is a basic cash flow question. Make sure you know the format and the working for net cash flow from operating activities using the indirect method. The only working required is for non-current assets – do not forget to allow for the revaluation.

### Sioux

#### Statement of cash flows for the year ended 31 December 20X4

	\$'000	\$'000
Net profit before tax	2,350	
Add: depreciation (W)	1,250	
Less: profit on disposal (500 – 350)	(150)	
Add: Interest	300	
Operating profit before working capital changes	<u>3,750</u>	
Decrease in inventories	400	
Increase in receivables	(900)	
Increase in payables	500	
Cash generated from operations	<u>3,750</u>	
Interest paid (3,000 × 10%)	(300)	
Tax paid	<u>(600)</u>	
		2,850
<i>Cash flows from investing activities</i>		
Payments to acquire non-current assets (W)	(3,300)	
Proceeds from sale of non-current assets	<u>500</u>	
Net cash used in investing activities		(2,800)
<i>Cash flows from financing activities</i>		
Proceeds from issue of loan notes (3,000 – 2,000)	1,000	
Dividends paid	<u>(750)</u>	
Net cash from financing activities		<u>250</u>
Net increase in cash		300
Cash at 1 January 20X4		<u>100</u>
Cash at 31 December 20X4		<u><u>400</u></u>

#### Workings

##### Non-current assets

##### NON-CURRENT ASSETS AT COST

	\$		\$
Opening balance	8,000	Disposal	800
Revaluation	500	Closing balance	11,000
Additions (balance figure)	<u>3,300</u>		
	<u><u>11,800</u></u>		<u><u>11,800</u></u>

##### NON-CURRENT ASSETS – ACCUMULATED DEPRECIATION

	\$		\$
Disposal (800 – 350)	450	Opening balance	4,800
Closing balance	<u>5,600</u>	Charge for year (balance figure)	<u>1,250</u>
	<u><u>6,050</u></u>		<u><u>6,050</u></u>

### 33 Statements of cash flows

- 1 C Only the proceeds of a share issue and dividends received involve the movement of cash.
- 2 D Loss on sale of non-current assets should be added back to net profit before tax.
- 3 D
- |  |                                |                |
|--|--------------------------------|----------------|
|  |                                | \$             |
|  | Add: depreciation charge       | 980,000        |
|  | Less: profit on sale of assets | (40,000)       |
|  | Less: increase in inventories  | (130,000)      |
|  | Add: decrease in receivables   | 100,000        |
|  | Add: increase in payables      | <u>80,000</u>  |
|  | Addition to operating profit   | <u>990,000</u> |
- 4 B Depreciation should be added back as it not a cash flow and proceeds of sale of non-current assets appears under 'investing' cash flows.
- 5 D
- 1 Proceeds from sale of premises appears under investing activities
  - 2 Dividends received appears under operating or investing activities
  - 3 A bonus issue of shares is not a cash flow.
- 6 C
- 1 The direct and indirect methods will give the correct figure
  - 2 A rights issue of shares is a cash flow
  - 4 The profit on sale of a non-current asset appears as an adjustment to profit in order to reach net cash flow from operations
- 7 D The depreciation charge and the increase in payables should both have been added.
- 8 B Neither a proposed dividend nor a bonus issue of shares involve the movement of cash.

### 34 Mixed bank I

- 1 C
- 2 C
- 3 D
- 4 B
- |  |              |                |                      |                |
|--|--------------|----------------|----------------------|----------------|
|  |              | \$             |                      | \$             |
|  | Cash book    |                | Bank statement       |                |
|  | Balance      | (8,970)        | Balance              | (11,200)       |
|  | Bank charges | (550)          | Credit in error      | (425)          |
|  |              |                | Unpresented cheques  | (3,275)        |
|  |              |                | Outstanding deposits | <u>5,380</u>   |
|  |              | <u>(9,520)</u> |                      | <u>(9,520)</u> |
- 5 D
- |  |                 |               |
|--|-----------------|---------------|
|  |                 | \$            |
|  | Cost of machine | 80,000        |
|  | Installation    | 5,000         |
|  | Training        | 2,000         |
|  | Testing         | <u>1,000</u>  |
|  |                 | <u>88,000</u> |

6	C	ELECTRICITY ACCOUNT		\$		\$
					Balance b/fwd	300
		20X0:				
		1 August	Paid bank	600		
		1 November	Paid bank	720		
		20X1:				
		1 February	Paid bank	900		
		30 June	Paid bank	840		
		30 June	Accrual c/d			
			\$840 × $\frac{2}{3}$	<u>560</u>	I & E account	<u>3,320</u>
				<u>3,620</u>		<u>3,620</u>

7	A	GAS SUPPLIER ACCOUNT		\$		\$
					Balance b/fwd	
				200		
		Bank \$600 x 12		<u>7,200</u>	28 February invoice	1,300
					31 May invoice	1,400
					31 August invoice	2,100
					30 November invoice	2,000
					30 November bal. c/d	<u>600</u>
				<u>7,400</u>		<u>7,400</u>

		GAS ACCOUNT		\$		\$
		28 February invoice		1,300		
		31 May invoice		1,400		
		31 August invoice		2,100		
		30 November invoice		<u>2,000</u>	30 November I & E account	<u>6,800</u>
				<u>6,800</u>		<u>6,800</u>

8	B		<i>Net</i>	<i>Lower of</i>		
		<i>Cost</i>	<i>realisable value</i>	<i>cost &amp; NRV</i>	<i>Units</i>	<i>Value</i>
		\$	\$	\$		\$
		Basic 6	8	6	200	1,200
		Super 9	8	8	250	2,000
		Luxury 18	10	10	150	<u>1,500</u>
						<u>4,700</u>

9	B		\$
		Cost	10,000
		20W7 Depreciation	<u>2,500</u>
			7,500
		20W8 Depreciation	<u>1,875</u>
			5,625
		20W9 Depreciation	<u>1,406</u>
			4,219
		20X0 Part exchange Profit	<u>5,000</u>
			<u>781</u>

- 10 C
- 11 C
- 12 A
- 13 C
- 14 D



- 15 C
- 16 A
- |   | \$           | \$                                |
|---|--------------|-----------------------------------|
| Net book value at 1 <sup>st</sup> August 20X0 |              | 200,000                           |
| Less depreciation                             |              | (20,000)                          |
| Proceeds                                      | 25,000       |                                   |
| Loss  | <u>5,000</u> |                                   |
| Therefore net book value                      |              | <u>(30,000)</u><br><u>150,000</u> |
- 17 D Correct. This is not an objective from the *framework*. Additional data is required to assess this.  
 A This is a primary objective.  
 B Again, a major objective.  
 C All Classes of users require information for decision making.
- 18 A This information is needed by lenders
- 19 B
- 20 D Loan stock is a non-current liability.  
 A This is statutory reserve.  
 B Otherwise known as the revenue reserve.  
 C This is an unrealised reserve.
- 21 D Correct, company will usually include this under distribution costs or administrative expenses.  
 A Incorrect, the contents of cost of sales are not defined by any IAS.  
 B Depreciation will be included under the relevant statutory expense heading (eg office equipment depreciation will go into administrative expenses).  
 C Incorrect, net profit is calculated after interest.

## 35 Mixed bank II

- 1 A
- 2 B
- |        |                               |          |          |
|--------|-------------------------------|----------|----------|
| DEBIT  | Property, plant and equipment | \$38,000 |          |
| CREDIT | Plant repairs                 |          | \$38,000 |
| DEBIT  | Dep'n expense                 | \$1,900  |          |
| CREDIT | Accumulated dep'n             |          | \$1,900  |
- Profit is understated by \$38,000 – \$1,900 = \$36,100
- 3 D
- |  | \$             |        |
|--|----------------|--------|
| <i>Suspense account</i>                      |                |        |
| Opening balance                              | 16,500         | credit |
| Discount allowed (debit discount allowed)    | 3,900          | credit |
| Discount received (credit discount received) | (5,100)        | debit  |
| Transposition of cash received (credit RLCA) | <u>(9,900)</u> | debit  |
|  | <u>5,400</u>   | credit |
- 4 B Only errors 1 and 3 involve a suspense account entry to correct them.
- 5 B 
$$\frac{\$30,000 - \$6,000}{4 \text{ years}} \times \frac{5 \text{ months}}{12 \text{ months}} = \$2,500$$
- 6 C

7	C		\$
			116,400
		Line 1: (400 × \$3) – \$200	1,000
		Line 2: (200 × \$35) – \$300 – \$1,200	5,500
			<u>122,900</u>

8 D

9	C	The bank is overdrawn.	\$
		Overdraft	(38,600)
		Deposits	41,200
			2,600
		Unpresented cheques	<u>(3,300)</u>
		Overdraft	<u>(700)</u>

10 A The other two items are part of the bank reconciliation.

11 A RLCA

	\$		\$
Opening balance	29,100	Cash from credit customers	381,600
Refunds	2,100	Cash sales	112,900
Sales (balancing figure)	525,300	Expenses paid out of cash	6,800
		Irrecoverable debts w/off	7,200
		Discounts allowed	9,400
		Closing balance	38,600
	<u>556,500</u>		<u>556,500</u>

12 D Cost of sales: \$17,000 + \$91,000 – \$24,000 = \$84,000

Sales	100%
Cost of sales	60%
Gross profit	<u>40%</u>

$$\text{Sales: } \frac{\$84,000}{60\%} = \$140,000$$

13 A  $\frac{5 \text{ months}}{12 \text{ months}} \times \$24,000 = \$10,000$

$$\frac{7 \text{ months}}{12 \text{ months}} \times \$30,000 = \$17,500$$

$$\text{Total rent: } \$10,000 + \$17,500 = \$27,500$$

14 B

	\$
Sales (100%)	64,800
Cost of sales (70%)	45,360
Gross profit (30%)	<u>19,440</u>
	\$
Opening inventory	28,400
Purchases	49,600
	78,000
Calculated closing inventory (bal fig)	<u>(32,640)</u>
Cost of sales	<u>45,360</u>
Calculated closing inventory	32,640
Actual closing inventory	-
Destroyed by fire	<u>32,640</u>

15 D Research expenditure is never capitalised

16 A

	<i>D</i>	<i>E</i>	<i>F</i>	<i>Total</i>
	\$	\$	\$	\$
Salaries (see note)	–	30,000	24,000	54,000
PSR to 1.7.20X0 (240,000 – 24,000) 5:3:2	108,000	64,800	43,200	216,000
PSR to 31.12.20X0 (240,000 – 30,000) 3:1:1	126,000	42,000	42,000	210,000
	<u>234,000</u>	<u>136,800</u>	<u>109,200</u>	<u>480,000</u>

*Note*

F's salary is \$24,000 for the year (\$12,000 each ½ year)

E's salary is ½ × \$24,000 for the first 6 months and ½ × \$36,000 for the second 6 months (\$12,000 + \$18,000)

17 C

	\$
Share capital @ 1.1.20X0	500,000
Issue on 1.4.20X0 (200,000 @ 50c)	100,000
Bonus issue (1.2m ÷ 4) @ 50c	150,000
Share capital as at 31.12.20X0	<u>750,000</u>
Share premium @ 1.1.20X0	300,000
1.4.20X0 200,000 shares @ (130c – 50c)	160,000
Bonus issue (as above)	(150,000)
	<u>310,000</u>

18 B The statement of changes in equity

19 B Proceeds from sale of equipment are included in investing activities

20 B

## 36 Mixed bank III

1 D

### RENTAL INCOME ACCOUNT

	\$		\$
Opening rent owing	16,900	Opening rent in advance	24,600
Rent income (balancing figure)	316,200	Cash received	318,600
Closing rent in advance	28,400	Closing rent owing	18,300
	<u>361,500</u>		<u>361,500</u>

2 A

	\$
<i>Cost of sales</i>	
Opening inventory	38,000
Purchases	637,000
Less: closing inventory	(45,000)
	<u>630,000</u>

Sales 630,000 × 100/70 = \$900,000

3 B

	\$
Overdraft per bank statement	39,800
Less: deposits credited	(64,100)
Add: outstanding cheques	44,200
Overdraft per cash book	<u>19,900</u>

4 A All three are incorrect. In 1 and 3 the debit and credit entries should be reversed and 2 should show a credit of \$60,000 to the share premium account.

- 5 A A change of accounting policy should be adjusted retrospectively. Estimates of impact on future periods are not required.
- 6 B Revaluation reserve –  $(1,000,000 - (800,000 - (800,000 \times 2\% \times 10))) = \$360,000$   
 Depreciation charge –  $(1,000,000/40) = \$25,000$
- 7 A
- |  |                                     |                |
|--|-------------------------------------|----------------|
|  |                                     | \$             |
|  | Inventory count value               | 836,200        |
|  | Less: purchases                     | (8,600)        |
|  | Add: sales $(14,000 \times 70/100)$ | 9,800          |
|  | Add: goods returned                 | 700            |
|  | Inventory figure                    | <u>838,100</u> |
- 8 B
- |  | <i>P</i>       | <i>Q</i>      | <i>R</i>      |
|--|----------------|---------------|---------------|
|  | \$             | \$            | \$            |
|  | 80,000         | 40,000        |               |
|  | 60,000         | 36,000        | 24,000        |
|  | (1,000)        |               | 1,000         |
|  | <u>139,000</u> | <u>76,000</u> | <u>25,000</u> |
- 9 C Carriage outwards is a distribution expense.
- 10 A Statement of comprehensive income =  $\$60,000 \times 12/18 = \$40,000$   
 Statement of financial position =  $\$60,000 \times 3/18$  prepayment =  $\$10,000$
- 11 C
- |  |                    |   |          |   |                    |   |          |   |                    |
|--|--------------------|---|----------|---|--------------------|---|----------|---|--------------------|
|  | Opening net assets | + | Profit   | + | Capital introduced | – | Drawings | = | Closing net assets |
|  | 210,000            |   | + Profit |   | 100,000            |   | – 48,000 |   | = 400,000          |
- Profit =  $\$138,000$
- 12 C
- | RECEIVABLES LEDGER CONTROL ACCOUNT |                |                                 |                |
|------------------------------------|----------------|---------------------------------|----------------|
|                                    | \$             |                                 | \$             |
| Opening balance                    | 318,650        | Cash from customers             | 181,140        |
| Credit sales                       | 161,770        | Discounts allowed               | 1,240          |
| Interest on overdue accounts       | 280            | Irrecoverable debts written off | 1,390          |
|                                    |                | Sales returns                   | 3,990          |
|                                    |                | Closing balance                 | 292,940        |
|                                    | <u>480,700</u> |                                 | <u>480,700</u> |
- 13 B
- |   |              |
|---|--------------|
|   | \$           |
| Allowance required $5\% \times (864,000 - 13,000)$    | 42,550       |
| Existing allowance                                    | (48,000)     |
| Reduction in allowance                                | (5,450)      |
| Irrecoverable debts written off                       | 13,000       |
| Income statement charge                               | <u>7,550</u> |
| Net trade receivables = $\$864,000 - 13,000 - 42,550$ |              |
| = $\$808,450$   |              |
- 14 D 1 and 4
- 15 C
- |  |               |
|--|---------------|
|  | \$            |
| Draft net profit                                     | 83,600        |
| Add: purchase price                                  | 18,000        |
| Less: additional depreciation $(18,000 \times 25\%)$ | (4,500)       |
| Adjusted profit                                      | <u>97,100</u> |
- 16 B Interest charged to partners is part of the profit share calculation, not an item in the statement of comprehensive income.
- 17 A Purchased goodwill is now retained in the statement of financial position subject to an impairment review.

- 18 B 2 and 4 both affect the valuation of assets at the end of the reporting period.
- 19 A A possible transfer of economic benefits should be disclosed. Where transfer is probable a provision should be made.
- 20 D A revaluation reserve arises when a non-current asset is **revalued**. Loan notes are not part of share capital. Adjusting events lead to adjustment in the accounts, not disclosure in the notes.

### 37 Mixed bank IV

1 A

	\$
Increase in net assets	88,000
Capital introduced	(50,000)
Drawings (68,000 + 20,000)	88,000
Profit for the year	<u>126,000</u>

2 A

	\$
Debit cash	1,100,000
Credit share capital	250,000
Credit share premium	850,000

3 B

	P	Q	R	Total
Irrecoverable debt	(15,000)	(15,000)	–	(30,000)
Profit to 30 December (330,000/2)	82,500	82,500	–	165,000
Profit to 30 June (330,000/2)	<u>55,000</u>	<u>55,000</u>	55,000	165,000
Total	<u>122,500</u>	<u>122,500</u>	<u>55,000</u>	<u>300,000</u>

4 D

	Share capital	Share premium
	\$	\$
1 July 20X4	500,000	400,000
1 January 20X5 – bonus issue (250,000 × 50c)	125,000	(125,000)
1 April 20X5 – rights issue	<u>62,500</u>	125,000
	<u>687,500</u>	<u>400,000</u>

- 5 D 2 and 4. Journal entry 1 has debits and credits transposed and journal entry 3 uses the wrong amount.

6 B

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	138,400	Cash received	78,420
Credit sales	80,660	Payables contra	1,000
Dishonoured cheques	850	Discounts allowed	1,950
		Irrecoverable debts written off	3,000
		Closing balance	<u>135,540</u>
	<u>219,910</u>		<u>219,910</u>

7 A

SUSPENSE ACCOUNT

	\$		\$
Opening balance	14,550	To cash account	10,000
		To rent account	4,550

- 8 D 2 and 4. Decrease in inventories should be added, decrease in payables should be deducted.

9	D			
				\$
		Opening inventory		138,600
		Purchases		716,100
		Closing inventory		<u>(149,100)</u>
		Cost of sales		<u>705,600</u>

Sales = 705,600 × 100/70 = 1,008,000

10	C		<i>SOCI</i>	<i>SOFP</i>
			\$	\$
		Prepaid insurance	8,200	
		Payment January 20X5	38,000	
		Prepayment July-Sept 20X5	<u>(9,500)</u>	<u>9,500</u>
			<u>36,700</u>	<u>9,500</u>

11 C The exact amount of expenditure out of petty cash is reimbursed at intervals.

12 D Beta has issued a credit note for \$500 to Alpha which Alpha has not yet received.

13 A Research expenditure is never capitalised.

14 D None of these events require adjustment in the financial statements.

15 A RENT RECEIVED

	\$		\$
Arrears b/f	3,800	In advance b/f	2,400
Rent in advance	3,000	Cash received	83,700
Balance c/f	<u>84,000</u>	In arrears	<u>4,700</u>
	<u>90,800</u>		<u>90,800</u>

16	B			\$
		Allowance for receivables ((517,000 – 37,000) × 5%)		24,000
		Previous allowance		<u>(39,000)</u>
		Reduction		<u>(15,000)</u>
		Debts written off		<u>37,000</u>
		Charge to statement of comprehensive income		<u>22,000</u>

17 D 2 and 3 only. Attributable overheads should be included in finished goods inventories.

18 B The proceeds will appear under *investing activities* and any profit will be deducted under *operating activities*.

19 C All four items will appear in the statement of changes in equity.

20	A			\$
		Balance per bank statement		(38,600)
		Bank charges		200
		Lodgements		14,700
		Cheque payments		<u>(27,800)</u>
		Cheque payment misposted		<u>8,400</u>
		Balance per cash book		<u>(43,100)</u>

## 38 Mixed bank V

1 C

	\$
Balance b/f $((280,000 - 14,000) \times 20\%)$	53,200
Addition 1 April $(48,000 \times 20\% \times \frac{9}{12})$	7,200
Addition 1 Sept $(36,000 \times 20\% \times \frac{4}{12})$	<u>2,400</u>
	62,800
Sale $(14,000 \times 20\% \times \frac{1}{2})$	<u>1,400</u>
	<u>64,200</u>

2 D Item 1 is wrong, as inventory should be valued at the **lower** of cost and net realisable value. Items 2, 3 and 4 are all correct.

3 D Rent receivable

	\$		\$
31.1.X6 Income statement	27,500	1.2.X5 Balance b/f $(\frac{2}{3} \times \$6,000)$	4,000
		1.4.X5 Received	6,000
		1.7.X5 Received	7,500
		1.10.X5 Received	7,500
31.1.X6 Balance c/f $(\frac{2}{3} \times \$7,500)$	<u>5,000</u>	1.1.X6 Received	<u>7,500</u>
	<u>32,500</u>		<u>32,500</u>

4 D Receivables ledger control account

	\$		\$
Opening receivables	148,200	Cash received from customers	819,300
Credit sales (bal. fig.)	880,600	Discounts allowed	16,200
		Irrecoverable debts w/off	1,500
		Returns from customers	38,700
		Closing receivables	<u>153,100</u>
	<u>1,028,800</u>		<u>1,028,800</u>

5 D Items 1 and 4 are adjusting events. Item 2 is a non-adjusting event but might be disclosed by way of note if material. Item 3 is a non-adjusting event that is disclosed by way of note.

6 D

	\$
Balance per Alta	3,980
Cheque not yet received	(270)
Goods returned	(180)
Contra entry	<u>(3,200)</u>
Revised balance per Alta	330
Balance per Ordan	<u>(230)</u>
Remaining difference	<u>100</u>

7 C For discounts, we need to debit the discounts received account \$13,000 to reverse the entry and debit the discounts allowed account \$13,000 to record the entry correctly. The credit of \$26,000 will be to suspense. So journal 2 is correct.

For machinery, we need to debit plant and machinery \$18,000 and credit suspense \$18,000. So journal 4 is correct.

8 B Item (1), as the plant register is not part of the double entry system, the adjustment does not go through the suspense account.

Item (2), the transaction has been completely omitted from the records.

Therefore only items (3) and (4) affect the suspense account.

9 D

	\$
Initial profit	630,000
Item (1) – increase in depreciation (4,800 – 480)	(4,320)
Item (2) – bank charges	(440)
Item (3) – no effect on I/S	–
Item (4) – no effect on I/S	–
Revised profit	<u>625,240</u>

10 A Statements 1 and 2 are correct.

11 B Only statements 2 and 4 are correct.

12 B

	\$
Closing receivables	458,000
Irrecoverable debts w/off	<u>(28,000)</u>
	430,000
Allowance required (5% × 430,000)	21,500
Existing allowance	<u>(18,000)</u>
Increase required	<u>3,500</u>
Charge to income statement (28,000 + 3,500)	<u>31,500</u>

13 A

Payables ledger control account

	\$		\$
Cash paid to suppliers	988,400	Opening balance	384,600
Discounts received	12,600	Purchases	963,200
Purchases returns	17,400		
Contras	4,200		
Closing balance	<u>325,200</u>		
	<u>1,347,800</u>		<u>1,347,800</u>

14 A We need to increase drawings (debit) and reduce purchases (credit). Therefore journal A is the correct answer. Remember that we only adjust inventory at the year end.

15 D

	\$	\$
Sales (balancing figure)		1,080,000
Opening inventory	77,000	
Purchases	<u>763,000</u>	
	840,000	
Closing inventory	<u>84,000</u>	
Cost of sales (70%)		<u>756,000</u>
Gross profit ( $\frac{30}{70} \times 756,000$ )		<u>324,000</u>

16 C Statements (3) and (4) are correct. Statement (1) is incorrect because land is not usually depreciated.



17 B *Bank reconciliation statement*

	\$
Balance per bank (overdrawn)	(38,640)
Add: outstanding lodgements	<u>19,270</u>
	(19,370)
Less: unpresented cheques	<u>(14,260)</u>
Balance per cash book (overdrawn)	<u><u>(33,630)</u></u>

18 C  $48,000 + 400 + 2,200 = 50,600$

19 B Opening inventory: debit income statement, credit inventory account

Closing inventory: debit inventory account, credit income statement

Remember that inventory is part of cost of sales, which is included in the income statement.

## 39 Mixed bank VI

1 A

	\$
Sales (100%)	650,000
Cost of sales (70%)	<u>455,000</u>
Gross profit (30%)	<u>195,000</u>
Opening inventory	380,000
Purchases	<u>480,000</u>
	860,000
Closing inventory (bal. fig.)	<u>(405,000)</u>
Cost of sales	<u>455,000</u>
Calculated inventory	405,000
Actual inventory	<u>220,000</u>
Lost in fire	<u><u>185,000</u></u>

2 A

<i>Transaction</i>	<i>Effect</i>
1	+ 500
2	+ 500
3	<u>No effect</u>
	<u>+ 1,000</u>

3 A Income from investments goes to the statement of comprehensive income. All the other items go through SOCIE.

4 D Dividends paid go through the SOCIE, not the statement of comprehensive income. Also dividends declared after the end of the reporting period, are disclosed by way of note to the accounts.

5 D

	\$
<b>Period to 31/12/X5</b>	
$3/5 \times 300,000$	= 180,000
<b>Period to 30/6/X6</b>	
$40\% \times (450,000 + 50,000)$	= 200,000
$3/5 \times 50,000$	<u>(30,000)</u>
	<u><u>350,000</u></u>

6 B Trade receivables =  $838,000 - 72,000$   
= 766,000

Allowance for receivables = 60,000

Net balance =  $766,000 - 60,000$   
= 706,000

- 7 C 1 and 4 are incorrect.
- 8 C Inventory is correctly recorded, so 2 and 4 are incorrect. Purchases are understated, so cost of sales are understated and so profit for 20X6 is overstated. Therefore 1 only is the correct answer.
- 9 D **Authorised** share capital is not included in the financial statements, **issued** share capital is included instead. All other statements are correct.
- 10 A All four items are correct.

11 A

INSURANCE			
	\$		\$
Prepayment b/f (3/4 × 10,800)	8,100	I/S	11,100
		Prepayments c/f (3/4 × 12,000)	9,000
Paid	<u>12,000</u>		
	<u>20,100</u>		<u>20,100</u>

- 12 C Statements 2 and 3 are incorrect. A bounced cheque is credited to the cash book and bank errors do not go through the cash book at all.

13 B

SHARE CAPITAL			
	\$m		\$m
		Bal b/f	100
		Bonus (1/2 × 100m)	50
Bal c/f	<u>210</u>	Rights (2/5 × 150m)	<u>60</u>
	<u>210</u>		<u>210</u>

SHARE PREMIUM			
	\$m		\$m
Bonus	50	Bal b/f	80
Bal c/f	<u>60</u>	Rights	<u>30</u>
	<u>110</u>		<u>110</u>

- 14 A Item 1 is certain and so needs to be provided for. However item 2 is only possible and so is a contingent liability.
- 15 A Items 2, 3 and 4 preserve double entry and so would not show up in a trial balance.
- 16 C Interest charged increases the profits available for appropriation to the partners.
- 17 B

	\$
Opening inventory	40,000
Purchases	60,000
	<u>100,000</u>
Closing inventory	<u>(50,000)</u>
Cost of sales	<u>50,000</u>
This implies sales	<u>100,000</u> (50,000 × 2)

So either 1 is correct or 3 is correct.

18 D

RENT RECEIVED			
	\$		\$
Arrears b/f	4,800	Prepayments b/f	134,600
		Cash received	834,600
I/S	828,700		
Prepayments c/f	<u>144,400</u>	Arrears c/f	<u>8,700</u>
	<u>977,900</u>		<u>977,900</u>

19 A

PLCA

\$		\$	
Purchases returns	41,200	Bal b/f	318,600
Cash paid	1,364,300	Purchases	1,268,600
Discounts received	8,200	Refunds	2,700
Contras	48,000		
Bal c/f	<u>128,200</u>		
	<u>1,589,900</u>		<u>1,589,900</u>

## 40 Mixed bank VII

- 1 A Share capital (1m × \$1) = 1,000,000  
Share premium (1m × 50c) = 500,000
- 2 D Increase in theft would increase cost of sales (if not spotted) and so would cause gross profit to fall
- 3 D Dividends paid will only appear in the statement of cash flows and the SOCIE.
- 4 D

RENTAL INCOME

\$		\$	
Arrears b/f	42,300	Prepayments b/f	102,600
I/S	858,600	Received	838,600
Prepayments c/f	<u>88,700</u>	Arrears c/f	<u>48,400</u>
	<u>989,600</u>		<u>989,600</u>

- 5 C Journals A and B have their entries reversed and Journal D should not include the suspense account at all.
- 6 C Only cash items appear in the statement of cash flows. Therefore items 1 and 3 are incorrect as they do not involve cash movements.
- 7 A

RENT PAID

\$		\$	
Prepayment b/f (1/12 × 120,000)	10,000		
Paid – 1/1	30,000	I/S	136,000
– 1/4	36,000		
– 1/7	36,000		
– 1/10	36,000	Prepayments c/f (1/3 × 36,000)	12,000
	<u>148,000</u>		<u>148,000</u>

8 A

Trade receivables	863,000	\$
Irrecoverable debts w/off	<u>(23,000)</u>	
	840,000	
Closing allowance for receivables (5% × 840,000)		42,000
Opening allowance		<u>49,000</u>
Reduction		<u>(7,000)</u>
Charge = 23,000 – 7,000		
= 16,000		

9 C

SHARE CAPITAL

	\$m		\$m
		Bal b/f	1.0
		Share issue (note 1)	0.5
Bal b/f	<u>2.0</u>	Bonus (note 2)	<u>0.5</u>
	<u>2.0</u>		<u>0.2</u>

SHARE PREMIUM

	\$m		\$m
Bonus (note 2)	0.5	Bal b/f	1.4
Bal c/f	<u>1.8</u>	Share issue (note 1)	<u>0.9</u>
	<u>2.3</u>		<u>2.3</u>

Notes

- Share issues of 1,000,000 shares raises \$1,400,000. Shares are 50c each, so share capital is \$500,000 and share premium \$900,000
- Share capital is \$1.5m or 3m shares. Therefore the bonus issue is 1m shares.

10 C Inventory should be valued at the lower of cost and net realisable value, so statement 1 is incorrect.

11 B

	\$
Held all year $((960,000 - 84,000) \times 20\%)$	175,200
Addition $(48,000 \times 20\% \times 1/2)$	4,800
Disposal $(84,000 \times 20\% \times 3/4)$	<u>12,600</u>
	<u>192,600</u>

12 B Items 1 and 4 involve completed double entry and so do not go through the suspense account.

13 D Debit drawings and credit the cost to purchases.

14 A All 3 statements are correct.

15 D Adjusting events go through the financial statements and so do not need to be disclosed by note. Therefore statement 1 is correct.

16 C Tax goes through the statement of comprehensive income, while an unrealised surplus on re-valuation goes through the SOCIE.

17 D In times of inflation, historical cost will understate assets. It will also understate expenses and so overstate profits.

18 D A decrease in receivables should be added and so should an increase in payables. Therefore 3 and 4 are correct.

19 C Interest charged increases the amount available for appropriation to the partners.

20 C **Period to 30/6/X6**

	\$
Salary $(40,000 \times 1/2)$	20,000
Interest $(200,000 \times 5\%)$	10,000
Profit share $((337,500 - 20,000 - 10,000 - 7,500) \times 1/2)$	<u>150,000</u>
	<u>180,000</u>

21 D Proceeds of a sale of non-current assets will only be shown in the statement of cash flows.

22 B Only B fully accounts for the difference of \$12,780 credit.

## 41 Mixed bank VIII

1

**Examiner's comments.** Almost as many students selected B as the answer as those who had selected A. (Answer B is the **closing balance** on Jill's account. The question asked for the **net increase** on Jill's account.) This demonstrates that candidates are still not reading the requirements of the question properly.

A	<i>Jill</i>	<i>John</i>	<i>Total</i>
	\$	\$	\$
Net profit	–	–	28,650
Interest on drawings	(200)	(350)	550
Salary	5,000	–	(5,000)
Adjusted profit			<u>24,200</u>
PSR (3:2)	<u>14,520</u>	<u>9,680</u>	
	<u>19,320</u>	<u>9,330</u>	

2

**Examiner's comments.** There was roughly an even split between candidates giving each of the two answers. This suggests that the regulatory framework and the role of accounting bodies is perceived as an area which is peripheral to the syllabus and so is not given adequate attention by students in their preparation for exams. It should be noted that this area is seen to be an important aspect of the F3 syllabus. Due to the nature and structure of the examination, questions will be set every sitting across the breadth of the syllabus, and so students should revise across the whole of the syllabus.

Worryingly, some students answered C or D to this question. If an answer to a question is to be guessed, it is worth checking whether the question offers A, B, C and D as options before putting pen to paper.

A

3

**Examiner's comments.** Only 41% of students who answered this question selected the correct answer. The most popular incorrect answer was B. Therefore the majority of students recognised that error 1 had no effect on the suspense account, which is encouraging. The error rate on this question though, reflects a lack of understanding of error correction and double entry. This is an area which is tested in numerous questions in each examination, and should be mastered prior to attempting the F3 examination.

D	SUSPENSE ACCOUNT		\$
Cash	1,512	Bal b/f	759
		Receivables	131
		Bal c/f	<u>622</u>
	<u>1,512</u>		<u>1,512</u>

**Examiner's comments.** The correct answer to this question is A which only records the early settlement discount allowed. However, more students selected D as the answer than those who correctly chose A. Option D included both the trade and early settlement discounts which was incorrect.

This suggests that candidates have a lack of knowledge in the treatment of discounts. There are two types of discounts that have to be dealt with – trade discounts and early settlement discounts. A trade discount is one which reduces the amount of money required from customers. The discount is not recorded in the accounts as the sale is recorded at the price charged net of the trade discount. In this question, items 1 and 2 include trade discounts which can be ignored as only the reduced sales price is accounted for in Charles' accounts.

An early settlement discount is a discount that is given or received for early settlement of an amount owed. It is up to the individual business whether they take this discount or not. In item 1, the early settlement discount allowed to Cody should be recorded in discounts allowed as Cody took advantage of the discount and paid early. This is the only discount that should have been recorded in the scenario.

Item 3 related to an early settlement discount that is received by Charles and therefore would be recorded in the discounts received account and not in discounts allowed.

A Selling price =  $\$3,200 \times 90\% = \$2,880$ . Early settlement discount =  $2\% \times \$2,880 = \$57.60$ .

**Examiner's comments.** The correct answer is B, although the majority of students selected A. This suggests that the question wasn't read carefully enough.

The way to answer the question was to work from the petty cash in hand and add back expenditure and deduct receipts to establish the opening balance. This technique was followed to arrive at answer A which suggested that students were aware of what they needed to do, but those who answered A missed that the sale of goods to staff would be a cash receipt for petty cash. Therefore, it is assumed that the question was not read carefully enough. This is an important factor for exam success as the questions need to be read carefully to understand both the requirement and the scenario information given. Candidates who selected A worked out most of the answer but lost marks by not reading the given information with sufficient care.

B	PETTY CASH ACCOUNT		
	\$	\$	
Bal b/f	100.00	Stamps	16.35
Staff sales	12.00	Coffee and tea	18.23
		Birthday cards for staff	20.20
		Bal c/f	<u>57.22</u>
	<u>112.00</u>		<u>112.00</u>

**Examiner's comments.** The correct answer is C although only 30% of students who answered this question correctly selected this answer. The remaining responses were evenly spread across the other three answers. This suggests that students have problems dealing with the effect of accruals and prepayments.

The actual calculation of the accrual and prepayment is straightforward as reading the information carefully should enable students to arrive at an accrual for rent and a prepayment for insurance. It is very important to read the dates carefully to avoid unnecessary errors.

The question asks for the net effect on the profit for the year, so once the accrual and prepayment have been calculated the last step should be very easy and it is worrying that so many students failed to work this out. An accrual is an additional expense and hence will reduce profit, whereas a prepayment is an expense paid in advance so when adjusted will increase profit.

This is a key area in this paper and questions will often go beyond the simple calculation of an accrual and prepayment to ask for the effect on profit or assets / liabilities so students must ensure they are prepared for this.

C		\$
	Rent accrual ( $4/12 \times \$12,000$ )	(4,000)
	Insurance prepayment ( $10/12 \times \$6,000$ )	<u>5,000</u>
	Net increase in profit	<u>1,000</u>

## 42 Mixed bank IX

1

**Examiner's comments.** The correct answer is D, although only 29% of students who answered the question chose the correct answer. These type of questions can be difficult as every option has to be evaluated before selecting the correct response. A control account reconciliation compares the balance on the control account with the total of the list of balances. If everything has been posted correctly, the two balances should agree. However, errors can be made and items may have been posted to the control account and not in the individual account and vice versa.

In this question, option A cannot be correct as if the sales invoice is missing from the daybook it cannot have been posted either in the control account (through the posting of the total) or the individual account.

In option B, the original entry was incorrect and this incorrect value has been posted to the daybook (which feeds into the control account) and also into the individual account. This is also not a reconciling item and B is not the correct answer. Over half of students that answered this question chose this option.

In option C a purchase invoice has been entered both in the daybook and the individual account as a sales return. Again as the incorrect entry has been posted both in the control account and individual account this cannot be a reconciling item and C is incorrect.

Option D is the correct answer. The sales daybook has been totalled incorrectly so the incorrect total has been posted to the control account. Each individual transaction has been posted to the individual accounts so when the two are compared there will be a difference of \$200.

D

2

**Examiner's comments.** The correct answer is C.

This question tests the accounting treatment of irrecoverable debts and the allowance for receivables. There are a number of issues to consider: the calculation of the closing allowance for receivables, the charge to the income statement and the debt that has been recovered in the current year.

Calculating the closing allowance for receivables is straightforward at 2% of receivables. However, the charge to the income statement is the movement on the allowance, in this case the allowance has reduced to this will be a credit to the income statement.

The debt that had been written off in 2007 and has now been received needs to be dealt with. When a debt is written off it is removed from the receivables account and charged to the income statement as an irrecoverable debt. If the cash is subsequently received it cannot be credited to the receivables balance as it no longer exists. Instead, it is credited to the irrecoverable debts account.

C

	\$
Receivables allowance at 30/11/08 (598,600 x 2%)	11,972
Opening provision at 1/12/07	<u>(12,460)</u>
Reduction in provision (credit to income statement)	<u>(488)</u>

Total credit to income statement = 488 + 635 = \$1,123

3

**Examiner's comments.** The correct answer is A. Somewhat surprisingly, only 38% of students who answered the question chose the correct answer. Those who answered the question incorrectly chose answers B or C. Answer B ignored the revaluation altogether and answer C used the cash proceeds as the figure for disposals. Both of these are errors that suggest that this topic may need to be studied in more depth.

This question requires the student to calculate the purchase of non-current assets for inclusion in a statement of cash flows. As with most figures in a statement of cash flows, the method of arriving at the answer requires the student to reconcile the opening balance of non-current assets to the closing balance taking account of all movements during the year. The balancing figure will be the amount of non-current assets purchased for cash during the year.

A	NON-CURRENT ASSETS			
		\$'000		\$'000
	Bal b/f	2,500	Depreciation	75
	Revaluation	500	Disposal	120
	Additions (bal fig)	<u>1,395</u>	Bal c/f	<u>4,200</u>
		<u>4,395</u>		<u>4,395</u>

4

**Examiner's comments.** The correct answer is A. Answering this question should be straightforward, as each option can be evaluated individually and then the answer selected. However, only 29% of candidates correctly answered this question. Students typically struggle on questions covering the reconciliation of control accounts to the individual ledgers.

The key to arriving at the correct answer is to consider which of the three options will affect only the control account or only the receivables ledger. If an error occurs in both accounts then it will not be a reconciling item when the two are compared.

A



5

**Examiner's comments.** The correct answer is A. Only 21% of students correctly answered this question which was surprising as it is very straightforward.

In this question the **dates must be read carefully** as some of the goods are returned after 31 May and we are only concerned with sales returns at that date, which is the goods with a list price of \$3,000. The value of the original sale is after the trade discount of 10%, so the actual amount invoiced for those goods is \$2,700 ( $\$3,000 \times 90\%$ ).

The most popular incorrect answer was B (\$3,000), which showed that students had not understood what to do with the trade discount.

A

6

**Examiner's comments.** The correct answer is A. Suspense accounts are very tricky and students always have trouble dealing with them. Only 21% of students correctly answered this question.

The key in dealing with the correction of suspense accounts is to establish whether an error requires an entry in the suspense account in the first place. This will only happen if the original entry was one-sided, ie only had a debit and no credit or vice versa. This means that the correction of the entry would be to debit or credit the missing account and the balancing entry posted to the suspense account to clear it.

The most common incorrect answer was B, where every error given was put into the suspense account.

A

		SUSPENSE ACCOUNT	
		\$	\$
Bal b/f	346	Purchases (2)	520
Bal c/f	<u>264</u>	Sundry income (3)	<u>90</u>
	<u>610</u>		<u>610</u>

# Answers to objective test questions



## 43 Accounting principles and regulation

- 1 1 and 3
- 2 1 and 4
- 3 1 and 3. Policy 1 because research expenditure should be written off to I/S and 3 since purchased goodwill is shown as an asset and written down when impaired.
- 4 The employee group
- 5  Consistency
- 6  False. Although the shareholder needs to know the future prospects, he also needs to know that the current position of the company is secure. Similarly the supplier needs to know the future prospects to ensure that he will be paid.
- 7 None. All of the suggestions are flawed. Obsolete inventory should be provided for under the concepts of prudence and consistency. If no depreciation is allowed for, this assumes that there is no reduction in useful life over the past year (which is very unlikely). Therefore not to allow for depreciation is inconsistent and imprudent. Accounting standards require research costs to be written off in the year they are incurred. To discontinue the allowance for receivables would break the principles of matching, prudence and consistency.

## 44 Preparing financial accounts

- 1  A
 

	<i>Debit</i>	<i>Credit</i>	\$
Sales price			800
Less: 20% trade discount			<u>120</u>
Sale	PQ Co	Sales	<u>640</u>
Cash discount 5%	Discount allowed		32
Cash payment	Bank		<u>608</u>
		PQ Co	<u>640</u>
  
- 2 \$22,000
 

Reconstruction of the trading account

	\$	\$
Sales		40,000
Returns inwards		<u>(2,000)</u>
		38,000
Opening inventory	3,000	
Purchases	20,000	
Returns outwards	(4,000)	
Closing inventory	<u>(3,000)</u>	
		<u>(16,000)</u>
Gross profit		<u>22,000</u>
  
- 3 \$87,700
 

	\$		\$
<i>Diesel fuel payable account</i>		<i>Cost of fuel used</i>	
Balance b/fwd	(1,700)	Opening inventory	12,500
Payments	85,400	Purchases	85,000
Balance c/fwd	<u>1,300</u>	Closing inventory	<u>(9,800)</u>
Purchases	<u>85,000</u>	Transfer to I/S	<u>87,700</u>
  
- 4  D. It reduces receivables.

- 5     \$80.70
- |                                |              |
|--------------------------------|--------------|
|                                | \$           |
| Stationery                     | 14.10        |
| Travel                         | 25.50        |
| Refreshments                   | 12.90        |
| Sundry payables (\$24 × 1.175) | <u>28.20</u> |
|                                | <u>80.70</u> |
- 6     \$2,185. Prepayment b/f \$60 (2/3 × 90) + \$2,145 – prepayment c/f \$60 – accrual b/f \$80 + accrual c/f \$120 = \$2,185.
- 7     1, 3 and 5. In option 2, receivables and drawings are debits but discount received is a credit. In option 4, capital and trade payables are credits but operating expenses are debits.
- 8     \$418
- Profit \$1,051 = Drawings + \$733 – \$100  
\$1,051 - \$733 + \$100     = Drawings = \$418
- 9     \$205
- Profit = Drawings + Increase in net assets – Capital introduced  
= \$77 + \$173 – \$45  
= \$205
- 10    \$21
- Capital + Liabilities = Assets  
Capital + \$153 = \$174  
Therefore, Capital = \$21
- 11    \$130 loss
- Capital = Assets - Liabilities  
\$50 + \$100 + profit for the year = \$90 – \$70  
\$150 + profit for the year = \$20  
Therefore, the profit for the year is in fact a *loss* of \$130.
- 12    (a)    \$544
- SALES BOOK
- |                     |            |
|---------------------|------------|
|                     | \$         |
| 20X9                |            |
| 1 May     P Dixon   | 160        |
| 4 May     M Maguire | 80         |
| 5 May     M Donald  | <u>304</u> |
|                     | <u>544</u> |
- (b)    \$823
- PURCHASES BOOK
- |                         |            |
|-------------------------|------------|
|                         | \$         |
| 20X9                    |            |
| 2 May     A Clarke (W1) | 323        |
| 4 May     D Daley       | 400        |
| 6 May     G Perkins     | <u>100</u> |
|                         | <u>823</u> |

(c) \$177 overdraft

CASH BOOK

20X9			Bank	Cash	Dis-	20X9		
			\$	\$	count			
						Bank	Cash	Dis-
						\$	\$	count
								\$
1 May	Balance b/d			224		1 May	Balance b/d	336
1 May	Cash withdrawal			50		1 May	Cash withdrawal	50
3 May	Cash sales			45		2 May	R Hill (W2)	108
5 May	H Larkin	180			20	4 May	Telephone bill	210
6 May	D Randle	482				5 May	Honour Co	135
6 May	Balance c/d	177				6 May	Balance c/d	319
			<u>839</u>	<u>319</u>	<u>20</u>			<u>319</u>
7 May	Balance b/d			319		7 May	Balance b/d	177

Workings

$$1 \quad \$380 \times \frac{85}{100} = \$323$$

$$2 \quad \$120 \times \frac{100 - 10}{100} = \$108$$

13  A X is a receivable of Y.

14 \$47,429

RECEIVABLES LEDGER CONTROL

20X8		\$	20X8		\$
1 Dec	Balance b/d	50,241	Returns inwards		41,226
	Sales	472,185	Irrecoverable debts written off		1,914
	Cheques dishonoured	626	Discounts allowed		2,672
			Cheques received		429,811
			30 Nov Balance c/d		47,429
		<u>523,052</u>			<u>523,052</u>

15 \$47,429

Balance per P Johnson	\$	46,347
Add: Whitchurch Co invoice, previously omitted from ledger	267	
Rectofen Co balance, previously omitted from list	2,435	
Casting error in list total (\$46,747, not \$46,347)	<u>400</u>	
		<u>3,102</u>
		49,449
Less: Error on posting of Bury Inc's credit note to ledger	20	
P Fox & Son (Swindon) Co's balance included twice	<u>2,000</u>	
		<u>2,020</u>
Balance per receivables ledger control account		<u>47,429</u>

16 \$130,585

PAYABLES LEDGER CONTROL ACCOUNT

		\$			\$
Returns outwards	27,490	Balance b/f		142,320	
Payments to payables	196,360	Credit purchases (183,800 × 1.175)		215,965	
Discount received	1,430				
Contra	2,420				
Balance c/f	<u>130,585</u>				
	<u>358,285</u>				<u>358,285</u>
		Balance b/f		130,585	

17 \$1,681

CASH BOOK

	\$		\$
<i>20X8</i>		<i>20X8</i>	
31 Dec Balance b/d	1,793	31 Dec Bank charges	18
31 Dec Dividend	26	Standing order	32
		Direct debit	88
		Balance c/d	<u>1,681</u>
	<u>1,819</u>		<u>1,819</u>

18 \$2,098

BANK RECONCILIATION

	\$	\$
Balance per bank statement		(2,954)
Add: outstanding lodgements	6,816	
cheque debited in error	510	
direct debit paid in error	<u>1,000</u>	
		<u>8,326</u>
		5,372
Less: unrepresented cheques		<u>(7,470)</u>
Balance per cash book		<u>(2,098)</u>

Although the question does not ask you to prepare the revised cash book, this is shown below to prove the above figure.

CASH BOOK

	\$		\$
<i>20X3</i>		<i>20X3</i>	
31 May Balance b/d	873	31 May Bank charges	630
Error \$(936 – 693)	243	Trade journals	52
Balance c/d	2,098	Insurance	360
		Business rates	<u>2,172</u>
	<u>3,214</u>		<u>3,214</u>
		1 May Balance b/d	2,098

19  B The cash book was credited with \$210 reimbursement of petty cash. However, the nominal ledger was posted with only \$200 of expenditure debits. Therefore the credits are \$10 higher than the debits.

20

<i>Date</i>		<i>Debit</i> \$	<i>Credit</i> \$
18 October	Motor vehicle servicing costs	124	
	Motor vehicles at cost		124
	Payables ledger control	40	
	Bank		40
	<b>(Note.</b> You must both correct the misposting and post the entry correctly - so the bank balance is credited by 2 × \$20, not just \$20.)		
October 20	Purchases	425	
	Payables ledger control		425

21 \$9,600 debit

SUSPENSE ACCOUNT

	\$		\$
		Balance b/d	14,000
Discounts received	14,000	Discounts allowed	6,000
Current a/c – partner's wife	9,600	Payables control a/c	3,600
	<u>23,600</u>		<u>23,600</u>

22  False. Accounting packages are generally **ready made programs** written to maintain a business accounting system. They are not usually tailored to individual businesses.

23 Database

## 45 Accounting conventions and standards

1 \$87 loss

	\$
NBV: $9,000 \times 0.7 \times 0.7 \times 0.7$	3,087
Proceeds of sale	<u>(3,000)</u>
Loss on disposal	<u>87</u>

2  False. Depreciation is a means of allocating the cost of an asset over its useful life.

3 Going concern concept

4 \$360 loss

	\$
NBV ( $\$5,000 \times 0.8 \times 0.8 \times 0.8$ )*	2,560
Proceeds	<u>(2,200)</u>
Loss on disposal	<u>360</u>

\* Remember this is the reducing balance method, the residual value is included in the 20% rate.

5  A Depreciation is an application of the accruals principle.

6 \$1,500 loss

	\$
NBV ( $\$64,000 \times 0.5 \times 0.5 \times 0.5 \times 0.5$ )	4,000
Proceeds	<u>(2,500)</u>
Loss	<u>1,500</u>

7  A ie NBV \$20,000

8  D The reducing balance method charges more depreciation in earlier years.

9 (a) \$450

$$\begin{aligned}\text{Annual depreciation} &= \frac{\text{Cost minus residual value}}{\text{Estimated economic life}} \\ &= \frac{\$1,800 - \$0}{4 \text{ years}} \\ &= \$450\end{aligned}$$

(b) \$1,080

The reducing balance method at 60% per annum involves the following calculations.

	\$
Cost at 1.1.20X1	1,800
Depreciation 20X1 ( $60\% \times \$1,800$ )	<u>1,080</u>
Book value 1.1.20X2	<u>720</u>



10	\$113 profit		\$
	Received from sale of laser printer		200
	Net book value at date of disposal (see below)		87
	Profit on disposal		<u>113</u>
			\$
	Cost at 1.1. 20X1		1,800
	Depreciation 20X1 (\$1,800 × 60%)		<u>1,080</u>
			720
	Depreciation 20X2 (\$720 × 60%)		<u>432</u>
			288
	Depreciation 20X3 (288 × 60%)		<u>173</u>
			115
	Depreciation 20X4 (\$115 × 6/12 × 60%)		<u>35</u>
	Net book value		<u>80</u>
11	(a) \$1,187 loss		
	(b) \$650 profit		

#### MOTOR VEHICLES AT COST

	\$		\$
01.10.X0 Balance b/f	10,000	24.04.X1 Disposals (MV05)	4,000
31.01.X1 Motor van (MV11)	<u>9,000</u>	30.09.X1 Balance c/f	<u>15,000</u>
	<u>19,000</u>		<u>19,000</u>
01.10.X1 Balance b/f	15,000	31.08.X2 Disposals (MV11)	9,000
20.02.X2 Motor van (MV12)	12,000	30.09.X2 Balance c/f	32,000
31.08.X2 Motor van (MV13)	<u>14,000</u>		
	<u>41,000</u>		<u>41,000</u>
01.10.X2 Balance b/f	32,000		

#### ALLOWANCE FOR DEPRECIATION OF MOTOR VEHICLES

	\$		\$
24.04.X1 Disposals (W1)	2,313	01.10.X0 b/f	4,000
30.09.X1 c/f	<u>5,015</u>	30.01.X1 Allowance (W2)	<u>3,328</u>
	<u>7,328</u>		<u>7,328</u>
31.08.X2 Disposals (W3)	2,250	01.10.X1 b/f	5,015
30.09.X2 c/f	<u>10,074</u>	30.09.X2 Allowance (W4)	<u>7,309</u>
	<u>12,324</u>		<u>12,324</u>

#### DISPOSALS

	\$		\$
24.04.X1 MV05	4,000	24.04.X1 Depreciation (MV05)	2,313
		24.04.X1 Cash	500
		30.09.X1 I/S	<u>1,187</u>
	<u>4,000</u>		<u>4,000</u>
31.08.X2 MV11	9,000	31.08.X2 Depreciation (MV11)	2,250
31.09.X2 I/S	<u>650</u>	Trade-in allowance	<u>7,400</u>
	<u>9,650</u>		<u>9,650</u>

Workings

1	<i>Depreciation on motor van MV05</i>		<i>Net book value</i>	<i>Depreciation</i>
			\$	\$
	Cost (January 20W8)		4,000	
	Depreciation – September 20W8 (25%)		<u>(1,000)</u>	1,000
			3,000	
	Depreciation – September 20W9 (25%)		<u>(750)</u>	750
			2,250	
	Depreciation – September 20X0 (25%)		<u>(563)</u>	563
			<u>1,687</u>	<u>2,313</u>
2	<i>Depreciation allowance 20X1</i>			\$
	Cost at year end			15,000
	Depreciation provision (4,000 – 2,313)			<u>(1,687)</u>
				<u>13,313</u>
	Depreciation charge at 25% = <u>3,328</u>			
3	<i>Depreciation on motor van MV11</i>		<i>Net book value</i>	
			\$	\$
	Cost – January 20X1		9,000	
	Depreciation – September 20X1 (25%)		<u>(2,250)</u>	2,250
			<u>6,750</u>	<u>2,250</u>
4	<i>Depreciation allowance 20X2</i>			\$
	Cost at year end			32,000
	Accumulated depreciation (5,015 – 2,250)			<u>(2,765)</u>
				<u>29,235</u>
	Depreciation charge at 25% = <u>7,309</u>			
12	(a)	\$2,000		
	(b)	\$12,675		
	(c)	\$1,300 loss		

BUILDINGS (COST) ACCOUNT

		\$	
1.4.X7	Balance b/f	80,000	

PLANT (COST) ACCOUNT

		\$		\$
1.4.X7	Balance b/f	144,000	Disposal account	26,000
	Bank	17,000	31.3.X8 Balance c/f	169,000
	Bank (W1)	34,000		
		<u>195,000</u>		<u>195,000</u>
1.4.X8	Balance b/f	169,000		

BUILDINGS DEPRECIATION ACCOUNT

		\$		\$
31.3.X8	Balance c/f	20,000	1.4.X7 Balance b/f	18,000
		<u>20,000</u>	31.3.X8 I/S (W2)	2,000
				<u>20,000</u>
			1.4.X8 Balance b/f	20,000

PLANT DEPRECIATION ACCOUNT

		\$			\$
31.3.X8	Disposal a/c	11,700	1.4.X7	Balance b/f	76,200
31.3.X8	Balance c/f	<u>77,175</u>	31.3.X8	I/S (W2)	<u>12,675</u>
		<u>88,875</u>			<u>88,875</u>
			1.4.X8	Balance b/f	77,175

Workings

1			\$
	<i>Machine F</i>		
	Cost		42,300
	Less: sales tax $\left(\frac{42,300}{1.175} \times 0.175\right)$		<u>(6,300)</u>
			36,000
	Less maintenance		<u>(2,000)</u>
			<u>34,000</u>

2	Buildings depreciation:	$\$80,000 \times 2.5\% = \$2,000$
	Plant depreciation:	$\$169,000 \times 7.5\% = \$12,675$

PROPERTY, PLANT AND EQUIPMENT DISPOSAL ACCOUNT

		\$			\$
31.3.X8	Plant	26,000	31.3.X8	Plant depreciation a/c	11,700
				A Jones	13,000
				Loss on disposal	<u>1,300</u>
		<u>26,000</u>			<u>26,000</u>

13 FIFO

Closing inventory \$1,700

Year 1

Purchases	Sales	Balance	Inventory	Unit	Cost of	Sales
units	units	units	value	cost	sales	\$
			\$	\$	\$	\$
10		10	3,000	300		
12			<u>3,000</u>	250		
		22	6,000			
	8		<u>(2,400)</u>		2,400	3,200
		14	3,600			
6			<u>1,200</u>	200		
		20	4,800			
	12		<u>(3,100)*</u>		3,100	4,800
		8	<u>1,700</u>		<u>5,500</u>	<u>8,000</u>

\* 2 @ \$300 + 10 @ \$250 = \$3,100

Cost of sales \$5,500

Year 2

Purchases units	Sales units	Balance units	Inventory value \$	Unit cost \$	Cost of sales \$	Sales \$
B/f		8	1,700			
10			2,000	200		
		18	3,700			
	5		(1,100)*		1,100	2,000
		13	2,600			
12		25	1,800	150		
			4,400			
25			(4,400)**		4,400	10,000
		0	0		5,500	12,000

\* 2 @ \$250 + 3 @ \$200 = \$1,100

\*\* 13 @ \$200 + 12 @ \$150 = \$4,400

14 (a) **Events after the reporting period**

False

These are defined in IAS 10 as 'those events, both favourable and unfavourable, that occur between the reporting period and the date when the financial statements are authorised for issue.' Events after the reporting period may be either adjusting or non-adjusting in nature.

An appendix to IAS 10 cites a number of events after the reporting period which normally should be classified as adjusting events. The insolvency of a receivable is specifically included, since it is an event which provides additional evidence of a condition existing at the end of the reporting period.

Under the requirements of IAS 10 a provision for this bad debt should be made in the financial statements.

(b) **Contingency**

No

IAS 37, states that an entity should never recognise a contingent liability. The IAS requires a contingent liability to be disclosed by way of note, unless the possibility of any outflow of economic benefits to settle it is remote.

The IAS also states that a provision should be recognised only when an entity has an obligation that requires the transfer of economic benefits in settlement which can be measured sufficiently reliably.

As the claim is unlikely to succeed, the potential settlement of \$500,000 should be disclosed as a contingent liability note. However, given that the legal costs of \$50,000 must be paid whether the claim is successful or not, this amount should be provided for in the company's financial statements.

15  No

IAS 10 makes a distinction between

- (i) **Adjusting events**, that provide evidence of conditions that existed at the end of the reporting period (eg receipt of money from a customer whose debt had been regarded as an irrecoverable debt).
- (ii) **Non-adjusting events**, that are indicative of conditions that arose after the reporting period (eg a new issue of shares).

**IAS 10** requires that:

- (i) If there is an **adjusting event** which materially affects the view of conditions existing at the end of the reporting period the amounts to be included in the financial statements should be amended to reflect the event.
- (ii) If there is a **non-adjusting** event which is of such material significance that not to report it would prevent users of the financial statements from reaching a proper understanding of the financial position, it should be disclosed by way of note to the accounts. The note should describe the nature

of the event and an estimate of its financial effect (or a statement that it is not practicable to make such an estimate).

It would appear that the directors are treating a non-adjusting event as an adjusting event. The decision to close the branch was not made until after the year end.

If, however, the branch was so material to the company as a whole that its closure meant that the company was no longer a going concern, it would have to be treated as an adjusting event.

## 46 Final accounts and statements of cash flows

- 1 (a) \$154,610 (W1)  
 (b) \$80,940 (W3)  
 (c) \$1,350 (W5)  
 (d) \$3,620 (W6)

### Workings

1	<i>Sales</i>		\$
	Cash sales banked		108,600
	Taken as drawings		15,600
	Credit sales (per W2)		30,360
	Increase in cash balance (150 – 100)		50
			<u>154,610</u>

### 2 *Credit sales*

#### SALES LEDGER TOTAL ACCOUNT

	\$		\$
Opening receivables	4,270	Cash from customers	28,440
Sales	<u>30,360</u>	Closing receivables	<u>6,190</u>
	<u>34,630</u>		<u>34,630</u>

### 3 *Cost of sales*

	\$
Opening inventory	680
Purchases (W4)	<u>81,070</u>
	81,750
Closing inventory	<u>810</u>
	<u>80,940</u>

### 4 *Purchases*

	\$
Purchases – per bank summary	81,470
Less: personal consumption	<u>400</u>
	<u>81,070</u>

### 5 *Insurance*

	\$
Balance b/f @ 1.7.X6	300
Paid in year	1,400
Balance c/f @ 30.6.X7	<u>(350)</u>
Statement of comprehensive income	<u>1,350</u>

### 6 *Depreciation*

	\$
Refrigeration equipment (10% × \$8,400)	840
Shop fittings ((1,630 + 1,570) × 15%)	480
Van (25% × \$9,200)	<u>2,300</u>
	<u>3,620</u>

- 2 (a) \$75,000 (W2)  
 (b) \$52,000 (W3)  
 (c) \$97,000 overdrawn (W4)

*Workings*

1	PAYABLES		
	\$'000		\$'000
Bank	560	Balance b/d (\$130,000 ÷ 2)	65
Balance c/d	<u>130</u>	∴ Purchases	<u>625</u>
	<u>690</u>		<u>690</u>

2	COST OF SALES		
	\$'000		\$'000
∴ Opening inventory	75	Closing inventory	100
Purchases (W1)	<u>625</u>	I/S	<u>600</u>
	<u>700</u>		<u>700</u>

3	RECEIVABLES		
	\$'000		\$'000
∴ Balance b/d	52	Bank	950
Sales	<u>1,000</u>	Irrecoverable debts written off	2
	<u>1,052</u>	Balance c/d	<u>100</u>
			<u>1,052</u>

4	BANK		
	\$'000		\$'000
Receivables	950	Opening balance	97
		Payables	560
		Plant and machinery – cost	90
		Operating expenses	130
		Drawings	20
		Balance c/d	<u>53</u>
	<u>950</u>		<u>950</u>

- 3 (a) Interest on partners' drawings for the year ended 31 May 20X9

		\$
<i>Ganatri</i>		
31.8.X8	$\$10,000 \times 12\% \times \frac{9}{12}$	900
30.11.X8	$\$10,000 \times 12\% \times \frac{6}{12}$	600
28.2.X9	$\$10,000 \times 12\% \times \frac{3}{12}$	<u>300</u>
		<u>1,800</u>
 <i>Lucifer</i>		
31.8.X8	$\$7,000 \times 12\% \times \frac{9}{12}$	630
30.11.X8	$\$7,000 \times 12\% \times \frac{6}{12}$	420
28.2.X9	$\$7,000 \times 12\% \times \frac{3}{12}$	<u>210</u>
		<u>1,260</u>
Total		<u>3,060</u>

(b) GANATRI AND LUCIFER APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31 MAY 20X9			
		\$	\$
Net profit b/d			102,940
Add: interest on drawings paid to partnership			<u>3,060</u>
			106,000
Less: salary – Lucifer			15,000
Less: interest on capital and current accounts			
– Ganatri (12% × \$215,000)	25,800		
– Lucifer (12% × \$153,000)	<u>18,360</u>		
			44,160
			<u>46,840</u>
Profit share:			
Ganatri (7/10)	32,788		
Lucifer (3/10)	<u>14,052</u>		
			<u>46,840</u>

(c)		PARTNERS' CURRENT ACCOUNTS			
	<i>Ganatri</i>	<i>Lucifer</i>		<i>Ganatri</i>	<i>Lucifer</i>
	\$	\$		\$	\$
Drawings	40,000	28,000	Balances b/d	15,000	13,000
Interest on drawings	1,800	1,260	Salary	–	15,000
Balances c/d	31,788	31,152	Interest on capital and current accounts	25,800	18,360
	<u>73,588</u>	<u>60,412</u>	Profit share	<u>32,788</u>	<u>14,052</u>
				<u>73,588</u>	<u>60,412</u>
			Balance b/f	31,788	31,152

- 4 (a) Ordinary: \$26,000 (W1)  
Preferred: \$4,000 (W2)
- (b) \$30,000 (W3)
- (c) \$50,000 (W4)

*Workings*

1 *Ordinary dividend*

Shares: 100,000 + 30,000 = \$130,000

Dividend at 20c per share = \$26,000

2 *Preferred dividend*

\$40,000 @ 10% = 4,000

3 *Share premium account*

30,000 \$1 ordinary shares issued at \$2 per share, therefore, share premium = \$1 per share.

4 *Revaluation reserve*

Bal b/f	\$	45,000
Revaluation of land (\$130,000 – \$125,000)		<u>5,000</u>
		<u>50,000</u>

- 5 (a) \$123,000. Research expenditure \$103,000 + depreciation of development costs \$20,000.
- (b) \$219,000. Development costs b/f \$180,000 + additions on project 910 \$59,000 – depreciation \$20,000.

6	(a)	Net cash inflow from operating activities \$151,000 (note)	
	(b)	<i>Capital expenditure</i>	
			\$
		Purchase of property, plant and equipment (W2)	180,000
		Proceeds of sale of property, plant and equipment	<u>(25,000)</u>
			<u>155,000</u>

**Note.** Reconciliation of profit before tax to net cash inflow from operating activities.

		\$'000
	Profit before taxation (W1)	59
	Depreciation (W2)	100
	Interest expense	10
	Profit on sale of non current assets	(5)
	Interest paid	(10)
	Increase in inventory	(9)
	Decrease in receivables	4
	Increase in payables	<u>2</u>
	Net cash inflow from operating activities	<u>151</u>

*Workings*

1	<i>Profit before taxation</i>	\$'000
	Retained profit for year (203 – 176)	27
	Interim dividend	10
	Final dividend	<u>22</u>
	Profit before taxation	<u>59</u>

2 *Movements in property, plant and equipment*

PROPERTY, PLANT AND EQUIPMENT – COST

	\$'000		\$'000
Balance b/f	600	Disposal – transfer	100
Revaluation	50	Balance c/f	730
New assets purchased (bal fig)	180		
	<u>830</u>		<u>830</u>

PROPERTY, PLANT AND EQUIPMENT – DEPRECIATION

	\$'000		\$'000
Disposal – transfer	80	Balance b/f	220
Balance c/f	<u>240</u>	Income statement (bal fig)	<u>100</u>
	<u>320</u>		<u>320</u>

PROPERTY, PLANT AND EQUIPMENT – DISPOSAL

	\$'000		\$'000
Cost	100	Depreciation	80
Income statement (bal fig)	<u>5</u>	Proceeds of sales	<u>25</u>
	<u>105</u>		<u>105</u>

7	(a)	Taxation (W1)	\$'000 (110)
	(b)	Net cash inflow from operating activities (W2)	223
	(c)	Net cash flow from investing activities (W3)	(20)
	(d)	Net cash flow from financing activities (W4)	160



*Workings*

1 *Tax paid*

		TAX		
		\$'000		\$'000
	Tax paid	110	1.1.X2	Balance b/d Income statement
				140 – (70 – 50)*
31.12.X2	Balance c/d	<u>120</u>		<u>120</u>
		<u>230</u>		<u>230</u>

\* The taxation charge in the statement of comprehensive income includes the increase in deferred taxation provision. This must be excluded when calculating the amount of tax paid.

2 *Reconciliation of profit before tax to net cash from operating activities*

		\$'000
	Profit before tax	300
	Depreciation charge (W5)	90
	Interest expense	50
	Loss on sale of tangible non current assets (45 – 32)	13
	Profit on sale of investments	(5)
	Increase/decrease in inventories	(48)
	Increase/decrease in receivables	(75)
	Increase/decrease in payables	8
	Cash generated from operations	<u>333</u>
	Interest paid	(75)
	Tax paid	<u>(110)</u>
	<i>Net cash from operating activities</i>	<u>148</u>

3 *Net cash flow from investing activities*

		\$'000
	Interest received	25
	Proceeds of sale of non-current asset investments	<u>30</u>
		<u>55</u>

4 *Net cash flow from financing activities*

	Issue of ordinary share capital	60
	Issue of long-term loan	<u>100</u>
		<u>160</u>

5 *Depreciation charge*

		\$'000	\$'000
	Depreciation at 31 December 20X2		340
	Depreciation 31 December 20X1	290	
	Depreciation on assets sold (85 – 45)	<u>(40)</u>	
	Charge for the year		<u>90</u>

# Mock exams



# **ACCA Fundamentals Level**

## **Paper F3 (INT)**

### **Financial Accounting**

## **Mock Examination 1**

<b>Question Paper</b>	
<b>Time allowed</b>	<b>2 hours</b>
<b>ALL FIFTY questions are compulsory and MUST be attempted</b>	

**DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS**



## ALL FIFTY questions are compulsory and MUST be attempted

- 1 The following information was disclosed in the financial statements of Highfield Co for the year ended 31/12/20X2

	20X1	20X2
	\$	\$
Plant & Equipment cost	255,000	235,000
Accumulated depreciation	(100,000)	(110,000)

During 20X2, the following occurred in respect of Plant & Equipment:

	\$
Purchases of P&E	10,000
Depreciation charged on P&E	25,000
Loss on disposal of P&E	8,000

What were the sales proceeds received on disposal of the P&E?

- A \$7,000
- B \$15,000
- C \$25,000
- D \$8,000

(2 marks)

- 2 The debit side of a trial balance totals \$400 more than the credit side.

Which one of the following errors would fully account for the difference?

- A \$200 paid for building repairs has been correctly entered in the cashbook and credited to the building non-current asset account.
- B Discount received \$200 has been debited to the discount allowed account
- C A receipt of \$400 for commission receivable has been omitted from the records.

(1 mark)

- 3 Under IAS 1, which of the following **must** be disclosed on the *face* of the statement of comprehensive income?

- A Profit before tax
- B Gross profit
- C Revenue
- D Dividends.

(2 marks)

- 4 Rory and Tony have traded as partners for a number of years. Their statement of financial position as at 30 June 20X2 shows:

	\$	\$
Capital accounts		
Rory		45,000
Tony		<u>37,000</u>
		82,000
Current accounts		
Rory	19,214	
Tony	<u>8,632</u>	
		<u>27,846</u>
		<u>109,846</u>

During the year the business made a profit of \$41,320, the partners took drawings of \$12,000 each and non-current assets were revalued upwards by \$25,000.

What was the net asset total as at 1 July 20X1?

- A \$67,526
- B \$92,526
- C \$127,166
- D \$152,166

(2 marks)

5 The following bank reconciliation has been prepared:

	\$
Balance per bank statement (overdrawn)	73,680
Add: Outstanding lodgements	102,480
Less: Outstanding cheques	<u>(87,240)</u>
Balance per cash book (credit)	<u>88,920</u>

Assuming the amounts stated for items other than the cash book balance are correct, what should the cash book balance be?

- A \$88,920 credit (as stated)
- B \$120,040 credit
- C \$58,440 debit
- D \$58,440 credit

(2 marks)

6 In relation to statements of cash flows, which, if any, of the following are correct?

- 1 The direct method of calculating net cash from operating activities leads to a different figure from that produced by the indirect method, but this is balanced elsewhere in the statement of cash flows
- 2 A company making high profits must necessarily have a net cash inflow from operating activities.
- 3 Profits and losses on disposals of non-current assets appear as items under cash flows from investing activities in the statement of cash flows or a note to it.

- A Item 1 only
- B Items 2 and 3
- C None of the items

(1 mark)

7 Panther owns her own business selling Gladiator dolls to department stores. At 30 June 20X2 she had the following balances in her books:

	\$
Trade receivables	31,450
Allowance for receivables (General) (as at 1 July 20X1)	<u>(450)</u>
	<u>31,000</u>

A balance of \$1,000 due from Selfrodges Co is considered irrecoverable and is to be written off. Horrids Co was in financial difficulty and Panther wished to provide for 60% of their balance of \$800. She also decided to make a general provision of 10% on her remaining trade receivables. What was the allowance for receivables in her statement of financial position at 30 June 20X2?

- A \$3,477
- B \$3,765
- C \$3,445
- D \$3,545

(2 marks)

- 8 Curtis and Sillett are in partnership, sharing profits in the ratio 3:2 and compiling their accounts to 30 June each year.

On 1 January 20X2, Mcallister joined the partnership, and from that date the profit sharing ratio became Curtis 50%, Sillett 25% and Mcallister 25%, after providing for salaries for Sillett and Mcallister of \$20,000 and \$12,000 pa respectively.

The partnership profit for the year ended 30 June 20X2 was \$480,000, accruing evenly over the year.

What are the partners' total profit shares for the year ended June 20X2?

	<i>Curtis</i>	<i>Sillett</i>	<i>Mcallister</i>	
A	256,000	162,000	62,000	
B	248,000	168,000	64,000	
C	264,000	166,000	66,000	
D	264,000	156,000	60,000	(2 marks)

- 9 Which of the following items could appear on the credit side of a sales ledger control account?

- 1 cash received from customers
- 2 irrecoverable debts written off
- 3 increase in the allowance for receivables
- 4 discounts allowed
- 5 sales
- 6 credits for goods returned by customers
- 7 cash refunds to customers

- A 1, 2, 4, and 6  
B 1, 2, 4 and 7  
C 3, 4, 5 and 6

(1 mark)

- 10 A business has compiled the following information for the year ended 31 October 20X2:

	\$
Opening inventories	386,200
Purchases	989,000
Closing inventories	422,700

The gross profit percentage of sales is 40%

What is the sales revenue for the year?

- A \$1,333,500  
B \$1,587,500  
C \$2,381,250  
D The sales revenue is impossible to calculate from this information.

(2 marks)

- 11 On 30 September 20X1 part of the inventory of a company was completely destroyed by fire.

The following information is available:

- Inventory at 1 September 20X1 at cost \$49,800
- Purchases for September 20X1 \$88,600
- Sales for September 20X1 \$130,000
- Inventory at 30 September 20X1 – undamaged items \$32,000
- Standard gross profit percentage on sales 30%

Based on this information, what is the cost of the inventory destroyed?

- A \$17,800  
B \$47,400  
C \$15,400  
D \$6,400

(2 marks)



- 12 Catt sells goods at a margin of 50%. During the year to 31 March 20X3 the business made purchases totalling \$134,025 and sales totalling \$240,000. Inventories in hand at 31 March 20X3, valued at cost, was \$11,385 higher than the corresponding figure at 1 April 20X2.

What was the cost of the goods Catt had drawn out?

- A \$2,640
- B \$14,590
- C \$25,410
- D \$37,360

(2 marks)

- 13 At 1 July 20X0 the share capital and share premium account of a company were as follows:

	\$
Share capital – 300,000 ordinary shares of 25c each	75,000
Share premium account	200,000

During the year ended 30 June 20X1 the following events took place:

- 1 On 1 January 20X1 the company made a rights issue of one share for every five held, at \$1.20 per share.
- 2 On 1 April 20X1 the company made a bonus (capitalisation) issue of one share for every three in issue at that time, using the share premium account to do so.

What are the correct balances on the company's share capital and share premium accounts at 30 June 20X1?

	<i>Share capital</i>	<i>Share premium account</i>
A	\$460,000	\$287,000
B	\$480,000	\$137,000
C	\$120,000	\$137,000
D	\$120,000	\$227,000

(2 marks)

- 14 A statement of cash flows prepared in accordance with IAS 7 *Statements of cash flows* opens with the calculation of cash flows from operating activities from the net profit before taxation.

Which of the following lists of items consists only of items that would be ADDED to net profit before taxation in that calculation?

- A Decrease in inventories, depreciation, profit on sale of non-current assets.
- B Increase in trade payables, decrease in trade receivables, profit on sale of non-current assets.
- C Loss on sale of non-current assets, depreciation, increase in trade receivables.
- D Decrease in trade receivables, increase in trade payables, loss on sale of non-current assets.

(2 marks)

- 15 The issued share capital of Maelstrom Co is as follows:

Ordinary shares of 10c each	\$1,000,000
8% Preferred shares of 50c each	\$500,000

In the year ended 31 October 20X2, the company has paid the preferred dividend for the year and an interim dividend of 2c per share on the ordinary shares. A final ordinary dividend of 3c per share is declared on 30 October 20X2.

What is the total amount of dividends relating to the year ended 31 October 20X2?

- A \$580,000
- B \$90,000
- C \$130,000
- D \$540,000

(2 marks)

16 When a company makes a rights issue of equity shares which of the following effects will the issue have?

- (1) working capital is increased
- (2) Liabilities are increased
- (3) Share premium account is reduced
- (4) Investments are increased

- A 1 only
- B 1 and 2
- C 3 only
- D 1 and 4

(2 marks)

17 The following information relates to Eva Co's sales tax for the month of March 20X3:

	\$
Sales (including sales tax)	109,250
Purchases (net of sales tax)	64,000

Sales tax is charged at a flat rate of 15%. Eva Co's sales tax account showed an opening credit balance of \$4,540 at the beginning of the month and a closing debit balance of \$2,720 at the end of the month.

What was the total sales tax paid to regulatory authorities during the month of March 20X3?

- A \$6,470.00
- B \$11,910.00
- C \$14,047.50
- D \$13,162.17

(2 marks)

18 Which of the following may appear as current liabilities in a company's statement of financial position?

- (1) revaluation reserve
- (2) loan due for repayment within 1 year
- (3) income tax payable
- (4) preferred dividends payable?

- A 1,2 and 3
- B 1,2 and 4
- C 1,3 and 4
- D 2,3 and 4

(2 marks)

19 Which of the following errors would cause a trial balance imbalance?

- (i) The discounts received column of the cash payments book was overcast.
- (ii) Cash paid for the purchase of office furniture was debited to the general expenses account
- (iii) Returns inwards were included on the credit side of the trial balance

- A (i) only
- B (i) and (ii)
- C (iii) only

(1 mark)

20 On 1 September 2006, a business had inventory of \$380,000. During the month, sales totaled \$650,000 and purchases \$480,000. On 30 September 2006 a fire destroyed some of the inventory. The undamaged goods in inventory were valued at \$220,000. The business operates with a standard gross profit margin of 30%.

Based on this information, what is the cost of the inventory destroyed in the fire?

- A \$185,000
- B \$140,000
- C \$405,000
- D \$360,000

(2 marks)

21 A company had the following transactions:

- 1 Goods in inventory that had cost \$1,000 were sold for \$1,500 cash.
- 2 A credit customer whose \$500 debt had been written off paid the amount in full.
- 3 The company paid credit suppliers \$1,000

What will be the combined effect of these transactions on the company's total working capital (current assets less current liabilities)?

- A Increase of \$1,000
- B Working capital remains unchanged
- C Increase of \$2,000

(1 mark)

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22 Which of the following should appear as items in a company's statement of changes in equity?

- 1 Profit for the financial year
  - 2 Income from investments
  - 3 Gain on revaluation of non-current assets
  - 4 Dividends paid
- A 1, 3 and 4
  - B 1 and 4 only
  - C 2 and 3 only
  - D 1, 2 and 3

(2 marks)

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23 The following information is available about a company's dividends:

	\$
2005	
Sept. Final dividend for the year ended 30 June 2005 paid (declared August 2005)	100,000
2006	
March Interim dividend for the year ended 30 June 2006 paid	40,000
Sept. Final dividend for the year ended 30 June 2006 paid (declared August 2006)	20,000

What figures, if any, should be disclosed in the company's statement of comprehensive income for the year ended 30 June 2006 and its statement of financial position as at that date?

	<i>SOCI</i> <i>for the period</i>	<i>SOPF</i> <i>liability</i>
A	\$160,000 deduction	\$120,000
B	\$140,000 deduction	nil
C	nil	\$120,000
D	nil	nil

(2 marks)

---

24 A and B are in partnership, sharing profits in the ratio 3:2 and preparing their accounts to 30 June each year. On 1 January 2006, C joined the partnership and the profit sharing ratio became A 40%, B 30%, and C 30%.

Profits for the year ended 30 June 2006 were:

	\$
6 months ended 31 December 2005	300,000
6 months ended 30 June 2006	450,000

A bad debt of \$50,000 was written off in the six months to 30 June in computing the \$450,000 profit. It was agreed that this expense should be borne by A and B only, in their original profit-sharing ratios.

What is A's total profit share for the year ended 30 June 2006?

- \$
- A 330,000
  - B 310,000
  - C 340,000
  - D 350,000

(2 marks)

25 At 1 July 2005 a company's allowance for receivables was \$48,000.

At 30 June 2006, trade receivables amounted to \$838,000. It was decided to write off \$72,000 of these debts and adjust the allowance for receivables to \$60,000.

What are the final amounts for inclusion in the company's statement of financial position at 30 June 2006?

	<i>Trade Receivables</i>	<i>Allowance for receivables</i>	<i>Net balance</i>
	\$	\$	\$
A	838,000	60,000	778,000
B	766,000	60,000	706,000
C	766,000	108,000	658,000
D	838,000	108,000	730,000

(2 marks)

26 Which of the following statements about inventory valuation for statement of financial position purposes are correct?

- 1 According to IAS 2 *Inventories*, average cost and FIFO (first in and first out) are both acceptable methods of arriving at the cost of inventories.
- 2 Inventories of finished goods may be valued at labour and materials cost only, without including overheads.
- 3 Inventories should be valued at the lowest of cost, net realisable value and replacement cost.
- 4 It may be acceptable for inventories to be valued at selling price less estimated profit margin.

- A 1 and 3
- B 2 and 3
- C 1 and 4
- D 2 and 4

(1 mark)

27 A business received a delivery of goods on 29 June 2006, which was included in inventory at 30 June 2006.

The invoice for the goods was recorded in July 2006.

What effect will this have on the business?

- 1 Profit for the year ended 30 June 2006 will be overstated.
- 2 Inventory at 30 June 2006 will be understated.
- 3 Profit for the year ending 30 June 2007 will be overstated.
- 4 Inventory at 30 June 2006 will be overstated.

- A 1 and 2
- B 2 and 3
- C 1 only
- D 1 and 4

(2 marks)

28 Which of the following statements are correct?

- 1 A company's authorised share capital must be included in its published statement of financial position as part of shareholders' funds.
  - 2 If a company makes a bonus issue of ordinary shares, the total shareholders' interest (share capital plus reserves) remains unchanged.
  - 3 A company's statement of changes in equity must include the proceeds of any share issue during the period.
  - 4 A company must disclose its significant accounting policies by note to its financial statements.
- A 1 and 2 only  
B 1 and 3 only  
C 3 and 4 only  
D 2, 3 and 4

(2 marks)

29 Which, if any, of the following statements about intangible assets are correct?

- 1 Deferred development expenditure must be amortised over a period not exceeding five years.
  - 2 If the conditions specified in IAS 38 *Intangible assets* are met, development expenditure may be capitalised, if the directors decide to do so.
  - 3 Trade investments must appear in a company's statement of financial position under the heading of intangible assets.
- A 1 and 2  
B 2 and 3  
C 1 and 3  
D None of the statements is correct

(2 marks)

30 Which of the following characteristics of financial information contribute to reliability, according to the IASB's *Framework for the Preparation and Presentation of Financial Statements*?

- 1 Completeness
  - 2 Prudence
  - 3 Neutrality
  - 4 Faithful representation
- A All four items  
B 1, 2 and 3 only  
C 1, 2 and 4 only  
D 2, 3 and 4 only

(2 marks)

31 Details of a company's insurance policy are shown below:

Premium for year ended 31 March 2006 paid April 2005	\$10,800
Premium for year ending 31 March 2007 paid April 2006	\$12,000

What figures should be included in the company's financial statements for the year ended 30 June 2006?

	<i>SOCI</i>	<i>SQFP</i>
	\$	\$
A	11,100	9,000 prepayment (Dr)
B	11,700	9,000 prepayment (Dr)
C	11,100	9,000 accrual (Cr)
D	11,700	9,000 accrual (Cr)

(2 marks)

- 32 Which of the following statements about bank reconciliations are correct?
- 1 In preparing a bank reconciliation, unpresented cheques must be deducted from a balance of cash at bank shown in the bank statement.
  - 2 A cheque from a customer paid into the bank but dishonored must be corrected by making a debit entry in the cash book.
  - 3 An error by the bank must be corrected by an entry in the cash book.
  - 4 An overdraft is a debit balance in the bank statement.
- A 1 and 3  
 B 2 and 3  
 C 1 and 4  
 D 2 and 4
- (2 marks)**

- 33 At 30 June 2005 the capital and reserves of Meredith, a limited liability company, were:

	\$m
Share capital	
Ordinary shares of \$1 each	100
Share premium account	80

During the year ended 30 June 2006, the following transactions took place:

1 September 2005 A bonus issue of one ordinary share for every two held, using the share premium account.

1 January 2006 A fully subscribed rights issue of two ordinary shares for every five held at that date, at \$1.50 per share.

What would the balances on each account be at 30 June 2006?

	<i>Share Capital</i>	<i>Share premium account</i>
	\$m	\$m
A	210	110
B	210	60
C	240	30
D	240	80

- 34 The following items have to be considered in finalising the financial statements of Q, a limited liability company:

- 1 The company gives warranties on its products. The company's statistics show that about 5% of sales give rise to a warranty claim.
- 2 The company has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.

What is the correct action to be taken in the financial statements for these items?

	<i>Create a provision</i>	<i>Disclose by note only</i>	<i>No action</i>
A	1	2	
B		1	2
C	1.2		

- 35 Which of the following errors would cause a trial balance not to balance?
- 1 An error in the addition in the cash book.
  - 2 Failure to record a transaction at all.
  - 3 Cost of a motor vehicle debited to motor expenses account. The cash entry was correctly made.
  - 4 Goods taken by the proprietor of a business recorded by debiting purchases and crediting drawings account.
- A 1 only  
 B 1 and 2 only  
 C 3 and 4 only  
 D All four items
- (2 marks)**

- 36 How should interest charged on partners' drawings be dealt with in partnership financial statements?
- A Credited as income in the statement of comprehensive income
  - B Deducted from profit in allocating the profit among the partners
  - C Added to profit in allocating the profit among the partners
  - D Debited as an expense in the statement of comprehensive income
- (2 marks)**

- 37 All the sales made by a retailer are for cash, and her sale prices are fixed by doubling cost. Details recorded of her transactions for September 2006 are as follows:

		\$
1 Sept.	Inventories	40,000
30 Sept.	Purchases for month	60,000
	Cash banked for sales for month	95,000
	Inventories	50,000

Which two of the following conclusions could separately be drawn from this information?

- 1 \$5,000 cash has been stolen from the sales revenue prior to banking
  - 2 Goods costing \$5,000 have been stolen
  - 3 Goods costing \$2,500 have been stolen
  - 4 Some goods costing \$2,500 had been sold at cost price
- A 1 and 2  
 B 1 and 3  
 C 2 and 4  
 D 3 and 4
- (2 marks)**

- 38 A company owns a number of properties which are rented to tenants. The following information is available for the year ended 30 June 2006:

	<i>Rent in advance</i>	<i>Rent in arrears</i>
	\$	\$
30 June 2005	134,600	4,800
30 June 2006	144,400	8,700

Cash received from tenants in the year ended 30 June 2006 was \$834,600.

All rent in arrears was subsequently received.

What figure should appear in the company's statement of comprehensive income for rent receivable in the year ended 30 June 2006?

- A \$840,500
  - B \$1,100,100
  - C \$569,100
  - D \$828,700
- (2 marks)**

- 39 In October 2006 Utland sold some goods on sale or return terms for \$2,500. Their cost to Utland was \$1,500. The transaction has been treated as a credit sale in Utland's financial statements for the year ended 31 October 2006. In November 2006 the customer accepted half of the goods and returned the other half in good condition.

What adjustments, if any, should be made to the financial statements?

- A Sales and receivables should be reduced by \$2,500, and closing inventory increased by \$1,500.  
 B Sales and receivables should be reduced by \$1,250, and closing inventory increased by \$750  
 C Sales and receivables should be reduced by \$2,500, with no adjustment to closing inventory  
 D No adjustment is necessary **(2 marks)**

- 40 The payables ledger control account below contains a number of errors:

Payables ledger control account

	\$		\$
Opening balance (amounts owed to suppliers)	318,600	Purchases	1,268,600
Cash paid to suppliers	1,364,300	Contras against debt balances in receivables ledger	48,000
Purchases returns	41,200	Discounts received	8,200
Refunds received from suppliers	<u>2,700</u>	Closing balance	<u>402,000</u>
	<u>1,726,800</u>		<u>1,726,800</u>

All items relate to credit purchases.

What should the closing balance be when all the errors are corrected?

- A \$128,200  
 B \$509,000  
 C \$224,200  
 D \$144,600 **(2 marks)**

- 41 Which of the following is the correct format for the accounting equation?

- A Assets + Liabilities = Capital  
 B Assets + Capital = Liabilities  
 C Assets – Liabilities = Capital **(1 mark)**

- 42 Which of the following transactions is a capital transaction?

- A Depreciation of plant and equipment  
 B Expenditure on rent  
 C Payment of interest on loan stock  
 D Buying shares as an investment **(2 marks)**

- 43 Which of the following transactions is revenue expenditure?

- A Expenditure resulting in improvements to property  
 B Expenditure on heat and light  
 C Purchasing non-current assets  
 D Repaying a bank overdraft **(2 marks)**

- 44 A business operates an imprest system for petty cash. The imprest amount is \$400.

At the end of the month, \$30 has been received for private phone calls and there are vouchers for expenditure of \$205. There is an IOU for \$25. What is the physical amount of cash left in petty cash prior to reimbursement?

- A \$400  
 B \$200  
 C \$225  
 D \$170 **(2 marks)**



- 45 Which of the following would be recorded in the sales daybook?
- A Discounts allowed
  - B Sales invoices
  - C Credit notes received
  - D Trade discounts
- (2 marks)**
- 
- 46 Which of the following statements is true?
- A A debit records an increase in liabilities
  - B A debit records a decrease in assets
  - C A credit records an increase in liabilities
- (1 mark)**
- 
- 47 How is the total of the purchases daybook posted to the nominal ledger?
- A Debit purchases, Credit cash
  - B Debit payables control, Credit purchases
  - C Debit cash, Credit purchases
  - D Debit purchases, Credit payables control
- (2 marks)**
- 
- 48 Why do we prepare a trial balance?
- A To test the accuracy of the double entry bookkeeping records
  - B To prepare management accounts
  - C To prepare financial accounts
  - D To clear the suspense account
- (2 marks)**
- 
- 49 What are the journal entries for an accrual of rent expenses of \$500?
- A Debit prepayments \$500, credit rent \$500
  - B Debit accrual \$500, credit rent \$500
  - C Debit rent \$500, credit accruals \$500
  - D Debit rent \$500, credit prepayments \$500
- (2 marks)**
- 
- 50 What is goodwill?
- A A tangible non-current asset
  - B An intangible non-current asset
  - C The revaluation reserve
- (1 mark)**
-

# **Mock exam 1**

## **Answers**

**DO NOT TURN THIS PAGE UNTIL YOU HAVE  
COMPLETED THE MOCK EXAM**



1 A

P+E (NBV)

		\$		\$
b/d		155	Depreciation charge in year	25
Purchases of P+E		10	∴ NBV of sale	15
		<u>165</u>	c/d	<u>125</u>
				<u>165</u>
So,	NBV	15		
	Proceeds	(7)		
	Loss	<u>8</u>		

2 B \$200 debit which should have been credited – correction will bring trial balance into agreement

3 C

4 A

	\$
∴ NA b/d	67,526
Profit	41,320
Drawings	(24,000)
Revaluation	25,000
NA c/d	<u>109,846</u>

5 D  $(\$73,680) + 102,480 - 87,240 = (58,440)$  \$58,440 overdrawn

6 C 1, 2 and 3 are all incorrect.

7 C

Trade receivables				Allowance for receivables			
	\$		\$		\$		\$
B/d	31,450	Irrecoverable debt	1,000			b/d	450
		c/d	30,450	c/d	3,445 (W1)		
	<u>31,450</u>		<u>31,450</u>				

	\$
Net trade receivables	30,450
Less: Horrids	(800)
	<u>29,650</u>
Allowance @ 10%	<u>2,965</u>

	\$
General allowance	2,965
Specific allowance = $800 \times 60\%$	480
	<u>3,445</u>

8 A

Period to 31/12/X1

	\$	\$
Profit ( $1/2 \times 48,000$ )		<u>240,000</u>
Allocated:		
Curtis (3/5)	144,000	
Sillett (2/5)	96,000	
		<u>240,000</u>

Period to 30/6/X2

	\$	\$
Profit ( $1/2 \times 480,000$ )		240,000
Salaries ( $(20,000 + 12,000) \times 1/2$ )		(16,000)
		<u>224,000</u>

	\$	\$
Allocated:		
Curtis (50%)	112,000	
Sillett (25%)	56,000	
Mcallister (25%)	<u>56,000</u>	
		<u>224,000</u>

	<i>Curtis</i>	<i>Sillett</i>	<i>Mcallister</i>	<i>Total</i>
	£	£	£	£
Salary	–	10,000	6,000	16,000
Profit shares – to 31/12/X1	144,000	96,000	–	240,000
– to 30/6/X2	<u>112,000</u>	<u>56,000</u>	<u>56,000</u>	<u>224,000</u>
	<u>256,000</u>	<u>162,000</u>	<u>62,000</u>	<u>480,000</u>

9 A

10 B  $\$952,500 \times 100/60 = \$1,587,500$

11 C

	\$
Theoretical gross profit ( $\$130,000 \times 30\%$ )	39,000
Actual gross profit ( $\$130,000 - \$49,800 - \$88,600 + \$32,000$ )	<u>23,600</u>
Shortfall – missing inventory	<u>15,400</u>

12 A

	\$	\$
Sales		240,000
Purchases	134,025	
∴ Drawings	(2,640)	
Inventory adjustment	<u>(11,385)</u>	
Cost of sales ( $50\% \times 240,000$ )		<u>120,000</u>
		<u>120,000</u>

13 D

	\$
Share capital $75,000 + 15,000 + 30,000 =$	120,000
Share premium $200,000 + 57,000 - 30,000 =$	227,000
(Remember shares are 25c)	

14 D

15 D  $5c \times 10,000,000 + 8\% \times \$500,000$

16 A

17 B

#### SALES TAX CONTROL ACCOUNT

	\$		\$
Purchases ( $\$64,000 \times 15\%$ )	9,600	b/d	4,540
∴ Cash	<u>11,910</u>	Sales ( $\$109,250 \times 15\%/115\%$ )	14,250
	<u>21,510</u>	c/d	<u>2,720</u>
			<u>21,510</u>

18 D

19 C

20	A		\$	\$
		Sales		650,000
		Opening inventory	380,000	
		Purchases	<u>480,000</u>	
			860,000	
		Closing inventory (bal. fig.)	<u>405,000</u>	
		Cost of sales (650,000 – 195,000)		<u>455,000</u>
		Gross profit (30% × 650,000)		<u>195,000</u>
		Closing inventory should be		<u>405,000</u>
		Undamaged goods		<u>(220,000)</u>
		Goods lost in fire		<u>185,000</u>

21	A		\$
		(1) Increase	500
		(2) Increase	500
		(3) No effect (see below)	–
		Total increase	<u>1,000</u>

Item (3) has no effect because assets (bank) will decrease by \$1,000 and liabilities (payables) will also decrease by \$1,000.

22 A Income from investments appears in the statement of comprehensive income.

23 D The dividends actually paid will go through the statement of changes in equity. The final proposed dividend of \$120,000 is disclosed in the notes to the statement of financial position.

24	D	6 months to 31 December 2005:	\$
		Profits	<u>300,000</u>
		Profit share:	
		A (3/5)	180,000
		B (2/5)	<u>120,000</u>
			<u>300,000</u>
		6 months to 30 June 2006:	
		Profits	450,000
		Bad (irrecoverable) debts	<u>50,000</u>
			<u>500,000</u>
		Profit share:	
		A (40%)	200,000
		B (30%)	150,000
		C (30%)	<u>150,000</u>
			<u>500,000</u>

A's total share = 180,000 + 200,000 – 30,000 (3/5 × 50,000)  
= 350,000

25 B Trade receivables = \$838,000 – \$72,000  
= \$766,000

Allowance for receivables is increased by \$12,000 to \$60,000.

26 C

27 C The effect is to understate purchases for the year to 30 June 2006 and so to overstate profit for that year.

28 D

29 D

30 A

31 A Statement of comprehensive income =  $\frac{9}{12} \times \$10,800 + \frac{3}{12} \times \$12,000 = \$11,100$

Statement of financial position = prepayment of  $\frac{9}{12} \times \$12,000$   
= \$9,000

32 C

33 B

SHARE CAPITAL

	\$m		\$m
		Bal b/f	100
		Share premium (bonus)	50
Bal c/f	210	Bank (rights)	60
	<u>210</u>		<u>210</u>

SHARE PREMIUM

	\$m		\$m
Share capital (bonus)	50	Bal b/f	80
Bal c/f	60	Bank (rights)	30
	<u>110</u>		<u>110</u>

34 A

35 A

36 C

37 B Sales should be  $(40,000 + 60,000 - 50,000) \times 2 = \$100,000$ . Therefore either \$5,000 cash has been stolen or goods costing \$2,500 have been stolen.

38 D

RENT

	\$		\$
Bal b/f (rent in arrears)	4,800	Bal b/f (rent in advance)	134,600
Income statement (bal. fig.)	828,700	Bank	834,600
Bal c/f (rent in advance)	144,400	Bal c/f (rent in arrears)	8,700
	<u>977,900</u>		<u>977,900</u>

39 A

40 A

PAYABLES LEDGER CONTROL ACCOUNT

	\$		\$
Cash paid to suppliers	1,364,300	Opening balance	318,600
Discounts received	8,200	Purchases	1,268,600
Purchases returns	41,200	Refunds received from suppliers	2,700
Contras	48,000		
Closing balance	128,200		
	<u>1,589,900</u>		<u>1,589,900</u>

41 C The accounting equation is Assets = Capital + Liabilities. Rearranged, this becomes Assets - Liabilities = Capital.

42 D A, B and C all income items reflected in the statement of comprehensive income. In contrast D is reflected in the statement of financial position.

43 B Items A, C and D are all capital items, reflected in the statement of financial position.

44 B Amount of cash still held =  $400 + 30 - 205 - 25 = \$200$ .

- 45 B Discounts allowed are recorded in the cash book. Credit notes received are to do with returned purchases (not sales). Trade discounts are not recorded, as they are deducted on the sales invoices and only the net sale is recorded.
- 46 C A debit records an increase in assets or a decrease in liabilities. A credit records an increase in liabilities and/or capital. Therefore only C is true.
- 47 D Remember that only credit purchases are listed in the purchases daybook.
- 48 A Although we may use a trial balance as a step in preparing management or financial accounts, the main reason is A.
- 49 C We need to increase the rent expenses (debit) and set up a liability to pay this amount (credit accruals).
- 50 B Goodwill is an intangible asset and represents the excess of the purchase price of a business over the fair value of its net assets.





# **ACCA Fundamentals Level**

## **Paper F3 (INT)**

### **Financial Accounting**

## **Mock Examination 2**

### **(Computer-based exam)**

<b>Question Paper</b>	
<b>Time allowed</b>	2 hours
<b>ALL FIFTY questions are compulsory and MUST be attempted</b>	

**DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS**



## Answer ALL fifty questions

1 The Government issues International Financial Reporting Standards.

True

False

(1 mark)

2 The provision of depreciation is itself an accounting concept.

True

False

(1 mark)

3 When preparing financial statements in periods of inflation, directors must reduce asset values.

True

False

(1 mark)

4 The following information relates to a bank reconciliation.

- (i) The bank balance in the cashbook before taking the items below into account was \$8,970 overdrawn.
- (ii) Bank charges of \$550 on the bank statement have not been entered in the cashbook.
- (iii) The bank has credited the account in error with \$425 which belongs to another customer.
- (iv) Cheque payments totalling \$3,275 have been entered in the cashbook but have not been presented for payment.
- (v) Cheques totalling \$5,380 have been correctly entered on the debit side of the cashbook but have not been paid in at the bank.

What was the balance as shown by the bank statement *before* taking the above items into account?

\$  overdrawn.

(2 marks)

5 W Co bought a new printing machine from abroad. The cost of the machine was \$80,000. The installation costs were \$5,000 and the employees received specific training on how to install the machine in the factory at a cost of \$2,000. Before using the machine to print customers' orders, a test was undertaken and the paper and ink cost \$1,000.

What should be the cost of the machine in the company's statement of financial position?

\$

(2 marks)

6 The electricity account for the year ended 30 June 20X1 was as follows.

	\$
Opening balance for electricity accrued at 1 July 20X0	300
Payments made during the year	
1 August 20X0 for three months to 31 July 20X0	600
1 November 20X0 for three months to 31 October 20X0	720
1 February 20X1 for three months to 31 January 20X1	900
30 June 20X1 for three months to 30 April 20X1	840

Calculate the appropriate entry for electricity in the statement of financial position \$  and the statement of comprehensive income \$  as at 30 June 20X1.

(2 marks)

- 7 The year end of M Inc is 30 November 20X0. The company pays for its gas by a standing order of \$600 per month. On 1 December 20W9, the statement from the gas supplier showed that M Inc had overpaid by \$200. M Inc received gas bills for the four quarters commencing on 1 December 20W9 and ending on 30 November 20X0 for \$1,300, \$1,400, \$2,100 and \$2,000 respectively.

Calculate the correct charge for gas in M Inc's statement of comprehensive income for the year ended 30 November 20X0.

\$

(2 marks)

- 8 S & Co. sell three products - Basic, Super and Luxury. The following information was available at the year end.

	<i>Basic</i> \$ per unit	<i>Super</i> \$ per unit	<i>Luxury</i> \$ per unit
Original cost	6	9	18
Estimated selling price	9	12	15
Selling and distribution costs	1	4	5
	<i>units</i>	<i>units</i>	<i>units</i>
Units of inventory	200	250	150

What is the value of inventory at the year end? \$

(2 marks)

- 9 A car was purchased by a newsagent business in May 20W7 for:

	\$
Cost	10,000
Vehicle tax	<u>150</u>
Total	<u>10,150</u>

The business adopts a date of 31 December as its year end.

The car was traded in for a replacement vehicle in August 20X0 at an agreed value of \$5,000.

It has been depreciated at 25% per annum on the reducing-balance method, charging a full year's depreciation in the year of purchase and none in the year of sale.

What was the profit or loss on disposal of the vehicle during the year ended December 20X0?

\$  profit/loss (*delete as appropriate*).

(2 marks)

- 10 A summary of the statement of financial position of M Co at 31 March 20X0 was as follows

	\$000
Total assets less current liabilities	<u>120</u>
Ordinary share capital	40
Share premium account	10
Revenue reserve	10
5% loan notes 20Y0	<u>?</u>

What is the amount of the loan notes?

(2 marks)

- 11 The annual sales of a company are \$235,000 including sales tax at 17.5%. Half of the sales are on credit terms; half are cash sales. The receivables in the statement of financial position are \$23,500.

What is the output tax?

(2 marks)

- 12 Beta purchased some plant and equipment on 1 July 20X1 for \$40,000. The estimated scrap value of the plant in ten years' time is estimated to be \$4,000. Beta's policy is to charge depreciation on the straight line basis, with a proportionate charge in the period of acquisition.

What is the depreciation charge on the plant in Beta's accounting period of twelve months to 30 September 20X1? \$

(2 marks)

13 An inventory record card shows the following details.

February	1	50 units in inventory at a cost of \$40 per unit
	7	100 units purchased at a cost of \$45 per unit
	14	80 units sold
	21	50 units purchased at a cost of \$50 per unit
	28	60 units sold

What is the value of inventory at 28 February using the FIFO method? \$  (2 marks)

14 A particular source of finance has the following characteristics: a fixed return, a fixed repayment date, it is secured and the return is classified as an expense.

The source of finance is a preferred share.

True

False

(1 mark)

15 Which of the following statements gives the best definition of the objective of accounting?

A To provide useful information to users

B To record, categorise and summarise financial transactions

C To calculate the taxation due to the government

D To calculate the amount of dividend to pay to shareholders

(2 marks)

16 During the year ended 31 December 20X1, Alpha Rescue had the following transactions on the receivables ledger.

	\$
Receivables at 1 January 20X1	100,000
Receivables at 31 December 20X1	107,250
Goods returned	12,750
Amounts paid into the bank from receivables	225,000
Discount received	75,000
Discounts allowed	5,000

What were the sales for the year? \$  (2 marks)

17 The net book value of a company's non current assets was \$200,000 at 1 August 20X0. During the year ended 31 July 20X1, the company sold non current assets for \$25,000 on which it made a loss of \$5,000. The depreciation charge of the year was \$20,000. What was the net book value of non current assets at 31 July 20X1? \$  (2 marks)

18 The draft statement of financial position of B Co at 31 March 20X0 is set out below.

	\$	\$
<i>Non current assets</i>		450
<i>Current assets</i>		
Inventory	65	
Receivables	110	
Prepayments	<u>30</u>	
		<u>205</u>
		<u>655</u>

	\$	\$
Ordinary share capital		400
Revenue reserve		<u>100</u>
		500
<i>Non current liability</i>		
Loan		
<i>Current liabilities</i>		
Payables	30	
Bank overdraft (Note 1)	<u>50</u>	
		<u>80</u>
		<u>655</u>

Note 1: The bank overdraft first occurred on 30 September 20W9.

What is the amount outstanding on the loan?  **(2 marks)**

19 It is important to produce a trial balance prior to preparing the final accounts because it shows that the ledger accounts contain debit and credit entries of an  value. *Complete the missing word.* **(1 mark)**

20 A computerised accounts package would be *most* useful in maintaining a register of non current assets.

True

False **(1 mark)**

21 An error of original entry would occur if the purchase of goods for resale was debited and credited to the correct accounts using the correct/incorrect (*delete as appropriate*) amount in both cases. **(1 mark)**

22 An asset was purchased for \$100,000 exactly two years ago. The business uses depreciation of 20% reducing balance. Therefore the net book value now is \$  **(2 marks)**

23 Your organisation has received a statement of account from one of its suppliers, showing an outstanding balance due to them of \$1,350. On comparison with your ledger account, the following is determined:

- Your ledger account shows a credit balance of \$260
- The supplier has disallowed a cash discount of \$80 due to late payment of an invoice
- The supplier has not yet allowed for goods returned at the end of the period of \$270
- Cash in transit of \$830 has not been received by the supplier

Following consideration of these items, what is the unreconciled difference between the two records?

\$  **(2 marks)**

24 A Co is preparing its statement of cash flows for the year ended 31 December 20X2. Relevant extracts from the accounts are as follows.

*Statement of comprehensive income*

Depreciation	15,000
Profit on sale of non current assets	40,000

*Statement of financial position*

	20X2	20X1
Plant and machinery-cost	185,000	250,000
Plant and machinery-depreciation	45,000	50,000

Plant and machinery additions during the year were \$35,000. What is the cash flow arising from the sale of non current assets? \$  **(2 marks)**

25 Your organisation's trial balance at 31 October 20X9 is out of agreement, with the debit side totalling \$500 less than the credit side. During November, the following errors are discovered:

- The sales journal for October had been undercast by \$150
- Rent received of \$240 had been credited to the rent payable account
- The allowance for receivables, which decreased by \$420, had been recorded in the allowance for receivables account as an increase

Following the correction of these errors, what is the balance on the suspense account?

\$  debit/credit (*delete as appropriate*) (2 marks)

**The following scenario relates to questions 26 to 28**

P & Co maintain a receivables ledger control account within the nominal ledger. At 30 November 20X0, the total of the list of individual balances extracted from the receivables ledger was \$15,800, which did not agree with the balance on the receivables ledger control account. An examination of the books revealed the following information, which can be used to reconcile the receivables ledger and the receivables ledger control account.

- (i) The credit balance of \$420 in Ahmed's payables ledger account had been set off against his account in the receivables ledger, but no entries had been made in the receivables and payables ledger control accounts.
- (ii) The personal account of Mahmood was undercast by \$90.
- (iii) Yasmin's balance of (debit) \$780 had been omitted from the list of balances.
- (iv) Thomas' personal account balance of \$240 had been removed from the receivables ledger as a bad debt, but no entry had been made in the receivables ledger control account.
- (v) The January total of \$8,900 in the sales daybook had been posted as \$9,800.
- (vi) A credit note to Charles for \$1,000, plus sales tax of \$300, had been posted to the receivables ledger control account as \$1,300 and to Charles' personal account as \$1,000.
- (vii) The total on the credit side of Edward's personal account had been overcast by \$125.

26 Which of these items need to be corrected by journal entries?

(2 marks)

27 Calculate the revised total of the balances in the receivables ledger after the errors have been corrected.

\$

(2 marks)

28 Assuming that the closing balance on the receivables ledger control account should be \$16,000, calculate the opening balance before the errors were corrected. \$

(2 marks)

29 Jay Co values inventories on the first in first out (FIFO) basis. During October 20X9, these are the following details regarding inventories of product A

1 October	Balance in inventory	120 items valued at \$8 each
3 October	Purchases	180 items at \$9 each
4 October	Sales	150 items at \$12 each
8 October	Sales	80 items at \$15 each
18 October	Purchases	300 items at \$10 each
22 October	Sales	100 items at \$15 each

(a) Calculate the closing balance on the inventory account. \$  (2 marks)

(b) Calculate the closing balance using the AVCO (weighted average cost) method. \$  (2 marks)



**The following scenario applies to questions 30 to 33**

MMM Co is a recently-formed limited liability company, which provides training and educational services. The company was formed with an authorised share capital of 1,000,000 \$1 shares. The three shareholders, who are also directors, each purchased 120,000 shares at \$1.40 per share. It is expected that the business will grow rapidly during the first two years, and that funds for that expansion will be sought by issuing shares to family members and obtaining bank finance.

During the first year of trading, a net profit (before tax) of \$48,800 was made, after deducting salaries to the three directors, of \$60,000 in total. Income tax of \$6,500 was provided for the year. As well as the salaries, the three directors declared dividends for themselves of 5c per share. They also decided to transfer \$5,000 into general reserves.

During the second year of trading, net profit (before tax) was \$55,000. Family members purchased a further 30,000 shares at \$1.50 per share, at the start of the year. Salaries were as in the first year. Interim dividends of 3c per share were paid. Income tax of \$8,000 was provided for the year, and a further \$5,000 transferred into general reserves. A final dividend of 5c per share was proposed before the year end.

---

30 Calculate the retained earnings for year 1 \$  (2 marks)

---

31 Calculate the retained earnings for year 2 \$  (2 marks)

---

32 Calculate the equity (capital and reserves) at the end of year 1 \$  (2 marks)

---

33 Calculate the equity (capital and reserves) at the end of year 2 \$  (2 marks)

---

34 The closing inventory of Epsilon amounted to \$284,000 at 30 September 20X1, the reporting date. This total includes two inventory lines about which the inventory taker is uncertain.

- 1 500 items which had cost \$15 each and which were included at \$7,500. These items were found to have been defective at the end of the reporting period. Remedial work after the reporting period cost \$1,800 and they were then sold for \$20 each. Selling expenses were \$400.
- 2 100 items which had cost \$10 each. After the reporting period they were sold for \$8 each, with selling expenses of \$150.

The figure which should appear in Epsilon's statement of financial position for inventory is \$  (2 marks)

---

35 Which of these statements about research and development expenditure are correct?

- 1 If certain conditions are satisfied, research and development expenditure must be capitalised.
- 2 One of the conditions to be satisfied if development expenditure is to be capitalised is that the technical feasibility of the project is reasonably assured.
- 3 If capitalised, development expenditure must be amortised over a period not exceeding five years.
- 4 The amount of capitalised development expenditure for each project should be reviewed each year. If circumstances no longer justify the capitalisation, the balance should be written off over a period not exceeding five years.
- 5 Development expenditure may only be capitalised if it can be shown that adequate resources will be available to finance the completion of the project.

Tick the box(es)

- 1
- 2
- 3
- 4
- 5

(2 marks)

---

- 36 IAS 10 *Events after the reporting period* defines the treatment to be given to events arising after the reporting period but before the financial statements are approved by the Board of Directors.
- Consider each of the following two events.
- You may assume that all the amounts are material but that none is large enough to jeopardise the going concern status of the company.
- (a) The company makes an issue of 100,000 shares which raises \$180,000 shortly after the reporting period. Is this an adjusting event?
- Yes  
 No (2 marks)
- (b) A legal action brought against the company for breach of contract is decided shortly after the reporting period, and as a result the company will have to pay costs and damages totalling \$50,000. No provision has currently been made for this event. The breach of contract occurred before the end of the reporting period. Is this an adjusting event?
- Yes  
 No (2 marks)

- 37 At 30 September 20X0 a company has receivables totalling \$350,000 and an allowance for receivables of \$22,000 brought forward from the previous year.
- It has been decided to write off receivables totalling \$27,500 and adjust the allowance for receivables to 7% of remaining receivables.
- What will be the total charge for irrecoverable debts and receivables allowance appearing in the company's statement of comprehensive income for the year ended 30 September 20X0?
- \$  (2 marks)

- 38 A company has the following capital structure:
- |                        |        |
|------------------------|--------|
|                        | \$     |
| Ordinary share capital |        |
| 200,000 shares of 25c  | 50,000 |
| Share premium account  | 75,000 |
- It makes a 1 for 5 rights issue at \$1.25, which is fully subscribed.
- What is the balance on the share premium account following the rights issue? \$  (2 marks)

- 39 Capital Co has an adjusted net profit for the year of \$125,750. During the year trade receivables have declined by \$32,000, trade payables have increased by \$14,000, and inventory has increased by \$11,000.
- What is the net cash flow from operating activities? \$  (2 marks)

**The following scenario relates to questions 40 to 42**

Daedalus had a bonus issue of 1 share for 2 on 30 June 20X9. On 1 September 20X9 the company then had a rights issue of 1 for 5 at a cost of \$1.50. Statement of financial position extract for the company at 31 December 20X8 was:

	<i>Daedalus</i>
	\$
Ordinary shares (\$1)	700,000
Reserves (revenue)	530,000

- 40 What is the balance on revenue reserves at 31 December 20X9? \$  (2 marks)
- 41 What is the total ordinary share capital at 31 December 20X9? \$  (2 marks)

42 What is the balance on the share premium account at 31 December 20X9? \$  (2 marks)

**The following scenario relates to questions 43 to 45**

Dennis, Jim and Arthur are in business together sharing profits in the ratio 3:3:4 after providing for salaries for Dennis and Jim of \$10,000 and \$12,000 respectively. They each receive interest of 8% per annum on their capital balances and pay interest of 10% on their drawings. The profit for the year is \$127,000 before providing for salaries or interest and the partners' capital balances and drawings are as follows:

	<i>Capital balance</i>	<i>Drawings</i>
	\$	\$
Dennis	50,000	23,000
Jim	45,000	19,000
Arthur	66,000	24,000

43 What is Dennis' total profit share? \$  (2 marks)

44 What is Jim's total profit share? \$  (2 marks)

45 What is Arthur's total profit share? \$  (2 marks)

46 The balance on Janet's cash book is \$27 overdrawn. Her bank statement shows that she is \$625 in credit. When Janet does a reconciliation she finds that there are unpresented cheques of \$327 and unposted direct debits of \$200. However, one of her customers has paid \$525 directly into her bank account, so her cash book now has a debit balance. What is the value of this debit balance? \$  (2 marks)

47 Alexander's net assets have increased by \$127,000 over the year. He took drawings of \$47,000 and paid in the proceeds of an insurance policy amounting to \$25,000. What was his net profit for the year? \$  (2 marks)

48 Curtis sells clothes for cash from a market stall, at 80% mark-up on cost. His opening stock is valued at \$27,500 and his closing stock is valued at \$15,000. His purchases during the year were \$136,000. Curtis can account for cash receipts of \$245,000 but thinks some may be missing. What is the amount of missing cash? \$  (2 marks)

49 Exe Co., which has a year end of 31 December, purchased a machine on 28 February 20X1 for \$35,000. It was depreciated at 40% per annum on the reducing balance basis with a full year's charge in the year of acquisition and no charge in the year of disposal. On 30 June 20X4 Exe Co part-exchanged this machine for a more advanced model. They paid \$30,000 and realised a profit on disposal of \$2,440. What was the price of the new machine? \$  (2 marks)

50 If a company has a net profit percentage of 11%, and its sales are \$150,000, what is the cost of sales? \$  (1 mark)

# **Mock exam 2**

## **Answers**

**DO NOT TURN THIS PAGE UNTIL YOU HAVE  
COMPLETED THE MOCK EXAM**



- 1  False. The International Accounting Standards Board issues IASs and IFRSs.
- 2  False. Depreciation is an example of the accruals concept.
- 3  False. Directors need make no adjustments.
- 4 \$11,200 overdrawn.

<i>Cash book</i>	\$	<i>Bank statement</i>	\$
Balance	(8,970)	Balance b/f (bal fig)	(11,200)
Bank charges	(550)	Credit in error	(425)
		Unpresented cheques	(3,275)
		Outstanding deposits	<u>5,380</u>
	<u>(9,520)</u>		<u>(9,520)</u>

- 5 \$88,000

	\$
Cost of machine	80,000
Installation	5,000
Installation training	2,000
Testing	<u>1,000</u>
	<u>88,000</u>

- 6 Statement of financial position \$560, Statement of comprehensive income \$3,320.

#### ELECTRICITY ACCOUNT

	\$		\$
		Balance b/fwd	300
20X9:			
1 August	Paid bank	600	
1 November	Paid bank	720	
20Y0:			
1 February	Paid bank	900	
30 June	Paid bank	840	
30 June	Accrual c/d $\$840 \times \frac{2}{3}$	<u>560</u>	
		<u>3,620</u>	
		Income statement	<u>3,320</u>
			<u>3,620</u>

- 7 \$6,800

#### GAS SUPPLIER ACCOUNT

	\$		\$
Balance b/fwd	200		
Bank \$600 x 12	7,200	28 February	invoice
		31 May	invoice
		31 August	invoice
		30 November	invoice
		30 November	bal. c/d
	<u>7,400</u>		<u>600</u>
			<u>7,400</u>

#### GAS ACCOUNT

	\$		\$
28 February	invoice	1,300	
31 May	invoice	1,400	
31 August	invoice	2,100	
30 November	invoice	<u>2,000</u>	
		<u>6,800</u>	
		30 November	Income statement
			<u>6,800</u>
			<u>6,800</u>

	Cost	Net realisable value	Lower of cost & NRV	Units	Value	
8	\$4,700					
	\$	\$	\$		\$	
	Basic	6	8	6	200	1,200
	Super	9	8	8	250	2,000
	Luxury	18	10	10	150	1,500
						<u>4,700</u>

9	\$781 profit	
		\$
	Cost	10,000
	20W7 Depreciation	<u>2,500</u>
		7,500
	20W8 Depreciation	<u>1,875</u>
		5,625
	20W9 Depreciation	<u>1,406</u>
		4,219
	20X0 Part exchange	<u>5,000</u>
	Profit	<u>781</u>

10 \$60,000  
 Capital = Assets – Liabilities  
 60 = 120 – loan notes  
 so loan notes = 60

11 \$35,000  
 Output tax =  $\frac{235,000}{117.5} \times 17.5$

12 \$900.  $\$36,000 \times 10\% \times \frac{3}{12}$

13 \$2,950 (10 units @ \$45 + 50 units @ \$50)

14  False. It is a loan note because it is secured.

15  A

16 \$250,000

#### RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Bal b/f	100,000	Bank	225,000
Sales (balancing figure)	250,000	Discounts allowed	5,000
		Returns	12,750
		Bal c/f	107,250
	<u>350,000</u>		<u>350,000</u>

Discounts received refer to purchases and go in the payables ledger control account.

17	\$150,000	
		\$
	Net book value at 1 <sup>st</sup> August 20X9	200,000
	Less depreciation	<u>(20,000)</u>
		25,000
	Proceeds	<u>5,000</u>
	Loss	<u>(30,000)</u>
	Therefore net book value	<u>150,000</u>

- 18 \$75  
 $655 - 500 - 80 = 75$
- 19 Equal
- 20  False. It would be most useful in maintaining the ledger accounts.
- 21 Incorrect

22 \$64,000

	\$
Cost	100,000
Depreciation – year 1	<u>20,000</u>
	80,000
Depreciation – year 2	<u>16,000</u>
NBV	<u>64,000</u>

Alternatively, the answer is  $\$100,000 \times 0.8 \times 0.8 = \$64,000$ .

23 \$90

	\$
Ledger balance	260
Add back: disallowed discount	80
returns goods	270
cash in transit	<u>830</u>
Total balance	1,440
As stated by the supplier	<u>1,350</u>
Unreconciled difference	<u>90</u>

24 \$120,000

	\$
Sale proceeds (balancing figure)	120,000
NBV (see below)	<u>80,000</u>
Profit on sale	<u>40,000</u>
	200,000
NBV at 31 December 20X1 (250,000 – 50,000)	200,000
Additions	<u>35,000</u>
	235,000
NBV of disposals (balancing figure)	(80,000)
Depreciation	<u>(15,000)</u>
NBV at 31 December 20X2 (185,000 – 45,000)	<u>140,000</u>

25 \$190 credit

Opening balance on suspense account	500
Undercast sales figure	150
Misposted receivables allowance (420 x 2)	<u>(840)</u>
Balance on the suspense account	<u>(190)</u>

- 26 (i), (iv) and (v)

JOURNAL ENTRIES

	\$	\$
	DR	CR
Error (i) Payables ledger control	420	
Receivables ledger control		420
Error (iv) Irrecoverable debts	240	
Receivables ledger control		240
Error (v) Sales	900	
Receivables ledger control		900



27 \$16,495

BALANCES EXTRACTED FROM THE RECEIVABLES LEDGER

	+	-	
	\$	\$	\$
Total before corrections for errors			15,800
Error (ii) Mahmood	90		
Error (iii) Yasmin	780		
Error (vi) Charles		300	
Error (vii) Edward	<u>125</u>		
	<u>995</u>	<u>300</u>	<u>695</u>
			<u>16,495</u>

28 \$17,560

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
∴ Balance b/f	17,560	Error (i) Ahmed	420
		Error (iv) Thomas	240
		Error (v) Sales daybook total	<u>900</u>
			1,560
		Balance c/f	<u>16,000</u>
	<u>17,560</u>		<u>17,560</u>

29 (a) \$2,700

Date		<i>No. of items</i>	<i>Unit price</i>	<i>Value</i>
			\$	\$
1.10.X9	Balance	120	8	960
3.10.X9	Purchases	<u>180</u>	9	<u>1,620</u>
	Balance	300	8.60	2,580
4.10.X9	Sales	(120)	8	(960)
	Sales	<u>(30)</u>	9	<u>(270)</u>
	Balance	150	9	1,350
8.10.X9	Sales	<u>(80)</u>	9	<u>(720)</u>
	Balance	70	9	630
18.10.X9	Purchases	<u>300</u>	10	<u>3,000</u>
	Balance	370	9.81	3,630
22.10.X9	Sales	(70)	9	(630)
	Sales	<u>(30)</u>	10	<u>(300)</u>
	Balance	<u>270</u>	10	<u>2,700</u>

(b) \$2,628

Date		<i>No. of items</i>	<i>Unit price</i>	<i>Value</i>
			\$	\$
1.10.X9	Balance	120	8	960
3.10.X9	Purchases	<u>180</u>	9	<u>1,620</u>
	Balance	300	8.60	2,580
4.10.X9	Sales	(150)	8.60	(1,290)
	Balance	150	8.60	1,290
8.10.X9	Sales	<u>(80)</u>	8.60	<u>(688)</u>
	Balance	70	8.60	602
18.10.X9	Purchases	<u>300</u>	10	<u>3,000</u>
	Balance	370	9.74	3,602
22.10.X9	Sales	(100)	9.74	(974)
	Balance	<u>270</u>	9.73	<u>2,628</u>

30 \$19,300  
and  
31 \$10,800

Retained earnings

	Year 1	Year 2
	\$	\$
Profit before taxation	48,800	55,000
Taxation	<u>(6,500)</u>	<u>(8,000)</u>
Profit for the period	42,300	47,000
Interim dividend	–	(11,700)
Final dividend	(18,000)	(19,500)
Transfer to general reserves	<u>(5,000)</u>	<u>(5,000)</u>
Retained profit for the year	<u>19,300</u>	<u>10,800</u>

32 \$528,300  
and  
33 \$589,100

Equity

	Year 1	Year 2
	\$	\$
Share capital \$1 ordinary shares	360,000	390,000
Share premium account	144,000	159,000
Retained earnings	19,300	30,100
General reserves	<u>5,000</u>	<u>10,000</u>
	<u>528,300</u>	<u>589,100</u>

34		\$	
		284,000	
\$283,650	Item 1	–	No change as NRV exceeds cost
	Item 2	<u>(350)</u>	Reduce to NRV (1,000 – 650)
		<u>283,650</u>	

35 2  5  Statements 1, 3 and 4 are incorrect.

36 (a)  No. This is a **non-adjusting event**. An appropriate note might be as follows.

'On 7 January 20X7 the company issued 100,000 \$1 ordinary shares at a premium of 80c per share. The purpose of the share issue was to raise money to expand the non current asset base.'

(b)  Yes. This is an **adjusting event** as it provides evidence of conditions existing at the reporting date. The appropriate treatment would be to reduce profit by \$50,000 and to increase payables due within one year by the same amount.

37 \$28,075

	\$
Receivables total	350,000
less write-off	<u>(27,500)</u>
	322,500
x 7%	22,575
deduct opening balance	<u>(22,000)</u>
Additional allowance	575
Add write off	<u>27,500</u>
Total charge	<u>28,075</u>

38	\$115,000				
	1 for 5 issue means 40,000 shares issued at premium of \$1.				
	Balance on share premium account becomes \$75,000 + \$40,000 = \$115,000				
39	\$160,750				
				\$	
	Adjusted net profit			125,750	
	Decrease in receivables			32,000	
	Increase in payables			14,000	
	Increase in inventory			<u>(11,000)</u>	
	Net cash flow from operating activities			<u>160,750</u>	
40	\$180,000				
	Bonus issue of 1 for 2 = $\frac{700,000}{2}$				
	= 350,000				
	Balance on revenue reserves = \$ 530,000 - \$350,000				
	= \$180,000				
41	\$1,260,000				
				\$	
	Ordinary shares at 1 January 20X9			700,000	
	Bonus issue (1 for 2)			350,000	
				<u>1,050,000</u>	
	Rights issue (1 for 5)			210,000	
				<u>1,260,000</u>	
42	\$105,000				
	Rights issue (as above) = 210,000 shares				
	Proceeds = 210,000 × \$1.50				
	= \$315,000				
	Allocated as follows:			\$	
	Share capital			210,000	
	Share premium			<u>105,000</u>	
				<u>315,000</u>	
43	\$41,316 see below				
44	\$43,316 see below				
45	\$42,368 see below				
		<i>Dennis</i>	<i>Jim</i>	<i>Arthur</i>	<i>Total</i>
		\$	\$	\$	\$
	Salaries	10,000	12,000		22,000
	Interest on capital	4,000	3,600	5,280	12,880
	Interest on drawings	(2,300)	(1,900)	(2,400)	(6,600)
	Profit share	<u>29,616</u>	<u>29,616</u>	<u>39,488</u>	<u>98,720</u>
		<u>41,316</u>	<u>43,316</u>	<u>42,368</u>	<u>127,000</u>

46	\$298		
		<i>Cash book</i>	<i>Bank statement</i>
		\$	\$
		(27)	625
	Unpresented cheques		(327)
	Direct debits	(200)	
	Receipt	<u>525</u>	
		<u>298</u>	<u>298</u>
47	\$149,000		\$
	Increase in net assets		127,000
	Add drawings		47,000
	Deduct capital paid in		(25,000)
	Net profit		<u>149,000</u>
48	\$ 22,300		\$
	Opening stock		27,500
	Purchases		136,000
	Closing stock		(15,000)
	Cost of sales		<u>148,500</u>
	Theoretical sales (148,500 x 180%)		267,300
	Cash accounted for		(245,000)
	Missing cash		<u>22,300</u>
49	\$40,000		\$
	The machine has had 3 years depreciation at 40% reducing balance.		
	NBV is therefore (\$35,000 x 60% x 60% x 60%) =		7,560
	Add profit on disposal		<u>2,440</u>
	Part-exchange allowance		10,000
	Payment		<u>30,000</u>
	Price of new machine		<u>40,000</u>
50	\$133,500		\$
	Sales (100%)		150,000
	Cost of sales (89%)		<u>133,500</u>
	Net profit (11%)		<u>16,500</u>



# ACCA Fundamentals Level

## Paper F3 (INT)

### Financial Accounting

#### Mock Examination 3

#### Pilot paper

<b>Question Paper</b>	
Time allowed	<b>2 hours</b>
<b><i>ALL 50 questions are compulsory and MUST be attempted</i></b>	

**DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS**



ALL 50 questions are compulsory and MUST be attempted

1 Should details of material adjusting or material non-adjusting events after the balance sheet date be disclosed in the notes to financial statements according to IAS 10 *Events After the Balance Sheet Date*?

- A Adjusting events
- B Non-Adjusting events

(1 mark)

2 At 30 June 2005 a company's allowance for receivables was \$39,000. At 30 June 2006 trade receivables totalled \$517,000. It was decided to write off debts totalling \$37,000 and to adjust the allowance for receivables to the equivalent of 5 per cent of the trade receivables based on past events.

What figure should appear in the income statement for the year ended 30 June 2006 for these items?

- A \$61,000
- B \$22,000
- C \$24,000
- D \$23,850

(2 marks)

3 In times of rising prices, what effect does the use of the historical cost concept have on a company's asset values and profit?

- A Asset values and profit both understated
- B Asset values and profit both overstated
- C Asset values understated and profit overstated
- D Asset values overstated and profit understated.

(2 marks)

4 The IASB's *Framework for the preparation and presentation of financial statements* gives qualitative characteristics that make financial information reliable.

Which of the following are examples of those qualitative characteristics?

- A Faithful Representation, neutrality and prudence
- B Neutrality, comparability and true and fair view
- C Prudence, comparability and accruals
- D Neutrality, accruals and going concern

(2 marks)



5 The following bank reconciliation statement has been prepared by a trainee accountant:

	\$
Overdraft per bank statement	3,860
less: Outstanding cheques	9,160
	<u>5,300</u>
add: Deposits credited after date	16,690
Cash at bank as calculated above	<u>21,990</u>

**What should be the correct balance per the cash book?**

- A \$21,990 balance at bank as stated
- B \$3,670 balance at bank
- C \$11,390 balance at bank
- D \$3,670 overdrawn.

(2 marks)

6 Which of the following calculates a trader's net profit for a period?

- A Closing net assets + drawings – capital introduced – opening net assets
- B Closing net assets – drawings + capital introduced – opening net assets
- C Closing net assets – drawings – capital introduced – opening net assets
- D Closing net assets + drawings + capital introduced – opening net assets.

(2 marks)

7 A sole trader took some goods costing \$800 from inventory for his own use. The normal selling price of the goods is \$1,600.

**Which of the following journal entries would correctly record this?**

	Dr	Cr
	\$	\$
A Drawings account	800	
Inventory account		800
B Drawings account	800	
Purchases account		800
C Sales account	1,600	
Drawings account		1,600

(1 mark)

8 The debit side of a company's trial balance totals \$800 more than the credit side.

**Which one of the following errors would fully account for the difference?**

- A \$400 paid for plant maintenance has been correctly entered in the cash book and credited to the plant asset account.
- B Discount received \$400 has been debited to discount allowed account
- C A receipt of \$800 for commission receivable has been omitted from the records
- D The petty cash balance of \$800 has been omitted from the trial balance.

(2 marks)

- 9 A company's income statement for the year ended 31 December 2005 showed a net profit of \$83,600. It was later found that \$18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25 per cent per year on the straight line basis, with a full year's charge in the year of acquisition.

**What would the net profit be after adjusting for this error?**

- A \$106,100
- B \$70,100
- C \$97,100
- D \$101,600

(2 marks)

- 10 Should dividends paid appear on the face of a company's income statement?

- A Yes
- B No

(1 mark)

- 11 The following control account has been prepared by a trainee accountant:

Receivables ledger control account			
	\$		\$
Opening balance	308,600	Cash received from credit customers	147,200
Credit sales	154,200	Discounts allowed to credit customers	1,400
Cash sales	88,100	Interest charged on overdue accounts	2,400
Contras against credit balances in payables ledger	4,600	Bad debts written off	4,900
		Allowance for receivables	2,800
		Closing balance	396,800
	555,500		555,500

**What should the closing balance be when all the errors made in preparing the receivables ledger control account have been corrected?**

- A \$395,200
- B \$304,300
- C \$309,500
- D \$307,100

(2 marks)

- 12 At 31 December 2004 Q, a limited liability company, owned a building that cost \$800,000 on 1 January 1995. It was being depreciated at two per cent per year.

On 1 January 2005 a revaluation to \$1,000,000 was recognised. At this date the building had a remaining useful life of 40 years.

**What is the depreciation charge for the year ended 31 December 2005 and the revaluation reserve balance as at 1 January 2005?**

	Depreciation charge for year ended 31 December 2005	Revaluation reserve as at 1 January 2005
	\$	\$
A	25,000	200,000
B	25,000	360,000
C	20,000	200,000
D	20,000	360,000

(2 marks)

- 13 P and Q are in partnership, sharing profits equally.

On 30 June 2005, R joined the partnership and it was agreed that from that date all three partners should share equally in the profit.

In the year ended 31 December 2005 the profit amounted to \$300,000, accruing evenly over the year, after charging a bad debt of \$30,000 which it was agreed should be borne equally by P and Q only.

**What should P's total profit share be for the year ended 31 December 2005?**

- A \$ 95,000
- B \$122,500
- C \$125,000
- D \$110,000

(2 marks)

- 14 A company has made a material change to an accounting policy in preparing its current financial statements.

**Which of the following disclosures are required by IAS 8 *Accounting policies, changes in accounting estimates and errors in the financial statements*?**

- 1 The reasons for the change.
- 2 The amount of the adjustment in the current period and in comparative information for prior periods.
- 3 An estimate of the effect of the change on the next five accounting periods.

- A 1 and 2 only
- B 1 and 3 only
- C 2 and 3 only
- D 1, 2 and 3

(2 marks)

15 According to IAS 2 *Inventories*, which of the following costs should be included in valuing the inventories of a manufacturing company?

- (1) Carriage inwards
- (2) Carriage outwards
- (3) Depreciation of factory plant
- (4) General administrative overheads

- A All four items
- B 1, 2 and 4 only
- C 2 and 3 only
- D 1 and 3 only

(2 marks)

16 Part of a company's cash flow statement is shown below:

	\$'000
Operating profit	8,640
Depreciation charges	(2,160)
Increase in inventory	(330)
Increase in accounts payable	440

The following criticisms of the extract have been made:

- (1) Depreciation charges should have been added, not deducted.
- (2) Increase in inventory should have been added, not deducted.
- (3) Increase in accounts payable should have been deducted, not added.

Which of the criticisms are valid?

- A 2 and 3 only
- B 1 only
- C 1 and 3 only
- D 2 only

(2 marks)

17 Which of the following explains the imprest system of operating petty cash?

- A Weekly expenditure cannot exceed a set amount.
- B The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.
- C All expenditure out of the petty cash must be properly authorised.
- D Regular equal amounts of cash are transferred into petty cash at intervals.

(2 marks)

**18 Which of the following are differences between sole traders and limited liability companies?**

- (1) A sole traders' financial statements are private; a company's financial statements are sent to shareholders and may be publicly filed
- (2) Only companies have capital invested into the business
- (3) A sole trader is fully and personally liable for any losses that the business might make; a company's shareholders are not personally liable for any losses that the company might make.

- A** 1 and 2 only
- B** 2 and 3 only
- C** 1 and 3 only
- D** 1, 2 and 3

**(2 marks)**

**19 Which of the following documents should accompany a payment made to a supplier?**

- A** Supplier statement
- B** Remittance advice
- C** Purchase invoice

**(1 mark)**

**20 Goodwill should never be shown on the balance sheet of a partnership.**

**Is this statement true or false?**

- A** False
- B** True

**(1 mark)**

**21 Which of the following journal entries are correct, according to their narratives?**

	Dr	CR
	\$	\$
1	Suspense account	
	Rent received account	18,000
	Correction of error in posting \$24,000 cash received for rent to the rent received account as \$42,000	
2	Share premium account	400,000
	Share capital account	400,000
	1 for 3 bonus issue on share capital of 1,200,000 50c shares	
3	Trade investment in X	750,000
	Share capital account	250,000
	Share premium account	500,000
	500,000 50c shares issued at \$1.50 per share in exchange for shares in X	

- A** 1 and 2
- B** 2 and 3
- C** 1 only
- D** 3 only

**(2 marks)**

22 The plant and machinery account (at cost) of a business for the year ended 31 December 2005 was as follows:

Plant and machinery – cost			
2005		2005	
	\$		\$
1 Jan Balance	240,000	31 March Transfer disposal account	60,000
30 June Cash – purchase of plant	160,000	31 Dec Balance	340,000
	<u>400,000</u>		<u>400,000</u>

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

**What should be the depreciation charge for the year ended 31 December 2005?**

- A \$68,000
- B \$64,000
- C \$61,000
- D \$55,000

(2 marks)

23 Which of the following should appear in a company's statement of changes in equity?

- 1 Profit for the financial year
- 2 Amortisation of capitalised development costs
- 3 Surplus on revaluation of non-current assets

- A All three items
- B 2 and 3 only
- C 1 and 3 only
- D 1 and 2 only

(2 marks)

24 Which of the following statements are correct?

- (1) Capitalised development expenditure must be amortised over a period not exceeding five years.
- (2) Capitalised development costs are shown in the balance sheet under the heading of Non-current Assets
- (3) If certain criteria are met, research expenditure must be recognised as an intangible asset.

- A 2 only
- B 2 and 3
- C 1 only
- D 1 and 3

(2 marks)

- 25 A fire on 30 September destroyed some of a company's inventory and its inventory records.

The following information is available:

	\$
Inventory 1 September	318,000
Sales for September	612,000
Purchases for September	412,000
Inventory in good condition at 30 September	214,000

Standard gross profit percentage on sales is 25%

**Based on this information, what is the value of the inventory lost?**

- A \$96,000
- B \$271,000
- C \$26,400
- D \$57,000

(2 marks)

- 26 At 31 December 2004 a company's capital structure was as follows:

	\$
Ordinary share capital (500,000 shares of 25c each)	125,000
Share premium account	100,000

In the year ended 31 December 2005 the company made a rights issue of 1 share for every 2 held at \$1 per share and this was taken up in full. Later in the year the company made a bonus issue of 1 share for every 5 held, using the share premium account for the purpose.

**What was the company's capital structure at 31 December 2005?**

	Ordinary share capital	Share premium account
	\$	\$
A	450,000	25,000
B	225,000	250,000
C	225,000	325,000
D	212,500	262,500

(2 marks)

- 27 The inventory value for the financial statements of Q for the year ended 31 May 2006 was based on an inventory count on 4 June 2006, which gave a total inventory value of \$836,200.

Between 31 May and 4 June 2006, the following transactions took place:

	\$
Purchases of goods	8,600
Sales of goods (profit margin 30% on sales)	14,000
Goods returned by Q to supplier	700

**What adjusted figure should be included in the financial statements for inventories at 31 May 2006?**

- A \$838,100
- B \$853,900
- C \$818,500
- D \$834,300

(2 marks)

**28** In preparing a company's bank reconciliation statement at March 2006, the following items are causing the difference between the cash book balance and the bank statement balance:

- (1) Bank charges \$380
- (2) Error by bank \$1,000 (cheque incorrectly debited to the account)
- (3) Lodgements not credited \$4,580
- (4) Outstanding cheques \$1,475
- (5) Direct debit \$350
- (6) Cheque paid in by the company and dishonoured \$400.

**Which of these items will require an entry in the cash book?**

- A** 2, 4 and 6
- B** 1, 5 and 6
- C** 3, 4 and 5
- D** 1, 2 and 3

**(2 marks)**

**29** At 31 December 2005 the following require inclusion in a company's financial statements:

- (1) On 1 January 2005 the company made a loan of \$12,000 to an employee, repayable on 1 January 2006, charging interest at 2 per cent per year. On the due date she repaid the loan and paid the whole of the interest due on the loan to that date.
- (2) The company has paid insurance \$9,000 in 2005, covering the year ending 31 August 2006.
- (3) In January 2006 the company received rent from a tenant \$4,000 covering the six months to 31 December 2005.

**For these items, what total figures should be included in the company's balance sheet at 31 December 2005?**

	Current assets	Current liabilities
	\$	\$
<b>A</b>	10,000	12,240
<b>B</b>	22,240	nil
<b>C</b>	10,240	nil
<b>D</b>	16,240	6,000

**(2 marks)**

**30** How should a contingent liability be included in a company's financial statements if the likelihood of a transfer of economic benefits to settle it is remote?

- A** Disclosed by note with no provision being made
- B** No disclosure or provision is required

**(1 mark)**



**31 Which of the following material events after the balance sheet date and before the financial statements are approved are adjusting events?**

- (1) A valuation of property providing evidence of impairment in value at the balance sheet date.
- (2) Sale of inventory held at the balance sheet date for less than cost.
- (3) Discovery of fraud or error affecting the financial statements.
- (4) The insolvency of a customer with a debt owing at the balance sheet date which is still outstanding.

- A** 1, 2, 3 and 4
- B** 1, 2 and 4 only
- C** 3 and 4 only
- D** 1, 2 and 3 only.

**(2 marks)**

**32** Alpha received a statement of account from a supplier Beta, showing a balance to be paid of \$8,950. Alpha's payables ledger account for Beta shows a balance due to Beta of \$4,140.

Investigation reveals the following:

- (1) Cash paid to Beta \$4,080 has not been allowed for by Beta
- (2) Alpha's ledger account has not been adjusted for \$40 of cash discount disallowed by Beta.

**What discrepancy remains between Alpha's and Beta's records after allowing for these items?**

- A** \$690
- B** \$770
- C** \$9,850
- D** \$9,930

**(2 marks)**

**33** The business entity concept requires that a business is treated as being separate from its owners.

**Is this statement true or false?**

- A** True
- B** False

**(1 mark)**

**34** Theta prepares its financial statements for the year to 30 April each year. The company pays rent for its premises quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was \$84,000 per year until 30 June 2005. It was increased from that date to \$96,000 per year.

**What rent expense and end of year prepayment should be included in the financial statements for the year ended 30 April 2006?**

- |  | Expense | Prepayment |
|--|---------|------------|
|--|---------|------------|

**(2 marks)**

**35 Which of the following items could appear in a company's cash flow statement?**

- (1) Surplus on revaluation of non-current assets
- (2) Proceeds of issue of shares
- (3) Proposed dividend
- (4) Dividends received

- A** 1 and 2
- B** 3 and 4
- C** 1 and 3
- D** 2 and 4

**(2 marks)**

**36 What is the role of the International Financial Reporting Interpretations Committee?**

- A** To create a set of global accounting standards
- B** To issue guidance on the application of International Financial Reporting Standards

**(1 mark)**

**37** Q's trial balance failed to agree and a suspense account was opened for the difference. Q does not keep receivables and payables control accounts. The following errors were found in Q's accounting records:

- (1) In recording an issue of shares at par, cash received of \$333,000 was credited to the ordinary share capital account as \$330,000
- (2) Cash \$2,800 paid for plant repairs was correctly accounted for in the cash book but was credited to the plant asset account
- (3) The petty cash book balance \$500 had been omitted from the trial balance
- (4) A cheque for \$78,400 paid for the purchase of a motor car was debited to the motor vehicles account as \$87,400.

**Which of the errors will require an entry to the suspense account to correct them?**

- A** 1, 2 and 4 only
- B** 1, 2, 3 and 4
- C** 1 and 4 only
- D** 2 and 3 only

**(2 marks)**

**38** Mountain sells goods on credit to Hill. Hill receives a 10% trade discount from Mountain and a further 5% settlement discount if goods are paid for within 14 days. Hill bought goods with a list price of \$200,000 from Mountain. Sales tax is at 17.5%.

**What amount should be included in Mountain's receivables ledger for this transaction?**

- A** \$235,000
- B** \$211,500
- C** \$200,925
- D** \$209,925

**(2 marks)**

39 A computerised accounting system operates using the principle of double entry accounting.

Is this statement true or false?

- A False
- B True

(1 mark)

40 A company receives rent from a large number of properties. The total received in the year ended 30 April 2006 was \$481,200.

The following were the amounts of rent in advance and in arrears at 30 April 2005 and 2006:

	30 April 2005	30 April 2006
	\$	\$
Rent received in advance	28,700	31,200
Rent in arrears (all subsequently received)	21,200	18,400

What amount of rental income should appear in the company's income statement for the year ended 30 April 2006?

- A \$486,500
- B \$460,900
- C \$501,500
- D \$475,900

(2 marks)

41 Annie is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 June 2006:

	\$
Trade receivables, 1 July 2005	130,000
Trade payables, 1 July 2005	60,000
Cash received from customers	686,400
Cash paid to suppliers	302,800
Discounts allowed	1,400
Discounts received	2,960
Contra between payables and receivables ledgers	2,000
Trade receivables, 30 June 2006	181,000
Trade payables, 30 June 2006	84,000

What figure should appear in Annie's income statement for the year ended 30 June 2006 for purchases?

- A \$331,760
- B \$740,800
- C \$283,760
- D \$330,200

(2 marks)

42 The bookkeeper of Field made the following mistakes:

Discounts allowed \$3,840 was credited to the discounts received account

Discounts received \$2,960 was debited to the discounts allowed account

**Which journal entry will correct the errors?**

	DR	CR
<b>A</b> Discounts allowed	\$7,680	
Discounts received		\$5,920
Suspense account		\$1,760
<b>B</b> Discounts allowed	\$880	
Discounts received	\$880	
Suspense account		\$1,760
<b>C</b> Discounts allowed	\$6,800	
Discounts received		\$6,800
<b>D</b> Discounts allowed	\$3,840	
Discounts received		\$2,960
Suspense account		\$880

(2 marks)

43 Which of the following statements are correct?

- (1) Materiality means that only items having a physical existence may be recognised as assets.
- (2) The substance over form convention means that the legal form of a transaction must always be shown in financial statements even if this differs from the commercial effect.
- (3) The money measurement concept is that only items capable of being measured in monetary terms can be recognised in financial statements.

- A** 2 only  
**B** 1, 2 and 3  
**C** 1 only  
**D** 3 only

(2 marks)

44 The total of the list of balances in Valley's payables ledger was \$438,900 at 30 June 2006. This balance did not agree with Valley's payables ledger control account balance. The following errors were discovered:

- 1 A contra entry of \$980 was recorded in the payables ledger control account, but not in the payables ledger.
- 2 The total of the purchase returns daybook was undercast by \$1,000.
- 3 An invoice for \$4,344 was posted to the supplier's account as \$4,434.

**What amount should Valley report in its balance sheet as accounts payable at 30 June 2006?**

- A** \$436,830  
**B** \$438,010  
**C** \$439,790  
**D** \$437,830

(2 marks)

**45 Which of the following statements are correct?**

- (1) A cash flow statement prepared using the direct method produces a different figure for operating cash flow from that produced if the indirect method is used.
- (2) Rights issues of shares do not feature in cash flow statements.
- (3) A surplus on revaluation of a non-current asset will not appear as an item in a cash flow statement
- (4) A profit on the sale of a non-current asset will appear as an item under Cash Flows from Investing Activities in a cash flow statement.

- A** 1 and 4
- B** 2 and 3
- C** 3 only
- D** 2 and 4

**(2 marks)**

**46** Gareth, a sales tax registered trader purchased a computer for use in his business. The invoice for the computer showed the following costs related to the purchase:

	\$
Computer	890
Additional memory	95
Delivery	10
Installation	20
Maintenance (1 year)	25
	<hr/>
	1,040
Sales tax (17.5%)	182
	<hr/>
Total	1,222

**How much should Gareth capitalise as a non-current asset in relation to the purchase?**

- A** \$1,222
- B** \$1,040
- C** \$890
- D** \$1,015

**(2 marks)**

**47** A and B are in partnership sharing profits and losses in the ratio 3:2 respectively. Profit for the year was \$86,500. The partners' capital and current account balances at the beginning of the year were as follows:

	A	B
	\$	\$
Current accounts	5,750CR	1,200CR
Capital accounts	10,000CR	8,000CR

A's drawings during the year were \$4,300, and B's were \$2,430.

**What should A's current account balance be at the end of the year?**

- A** \$57,650
- B** \$51,900
- C** \$61,950
- D** \$53,350

**(2 marks)**

48 What is the correct double entry to record the depreciation charge for a period?

- A DR Depreciation expense  
CR Accumulated depreciation
- B DR Accumulated depreciation  
CR Depreciation expense

(1 mark)

49 A company values its inventory using the first in, first out (FIFO) method. At 1 May 2005 the company had 700 engines in inventory, valued at \$190 each.

During the year ended 30 April 2006 the following transactions took place:

2005

1 July Purchased 500 engines at \$220 each  
1 November Sold 400 engines for \$160,000

2006

1 February Purchased 300 engines at \$230 each  
15 April Sold 250 engines for \$125,000

What is the value of the company's closing inventory of engines at 30 April 2006?

- A \$188,500
- B \$195,500
- C \$166,000
- D \$106,000

(2 marks)

50 A company's motor vehicles at cost account at 30 June 2006 is as follows:

Motor vehicles – cost			
	\$		\$
Balance b/f	35,800	Disposal	12,000
Additions	12,950	Balance c/f	36,750
	48,750		48,750

What opening balance should be included in the following period's trial balance for motor vehicles – cost at 1 July 2006?

- A \$36,750 DR
- B \$48,750 DR
- C \$36,750 CR
- D \$48,750 CR

(2 marks)



# **Mock exam 3**

## **Answers**

**DO NOT TURN THIS PAGE UNTIL YOU HAVE  
COMPLETED THE MOCK EXAM**





- 1 B Non-adjusting events require disclosure only, whereas adjusting events will be adjusted for in the financial statements
- 2 B  $37,000 + ((517,000 - 37,000) \times 5\%) - 39,000 = 22,000$   
New allowance required is \$24,000, so the allowance is reduced by \$15,000
- 3 C
- 4 A
- 5 B  $-3,860 - 9,160 + 16,690 = 3,670$   
Note that the opening bank balance is overdrawn
- 6 A Remember the business equation:  $P = I + D - C$
- 7 B The inventory account is only changed at the end of the accounting period
- 8 B
- 9 C  $83,600 + 18,000 - (18,000 \times 25\%) = 97,100$   
Add back the capital expenditure, but charge depreciation for the year
- 10 B Dividends appear in the SOCIE
- 11 D
- | RECEIVABLES LEDGER CONTROL ACCOUNT |                |                     |                |
|------------------------------------|----------------|---------------------|----------------|
|                                    | \$             |                     | \$             |
| b/f                                | 308,600        | Contras             | 4,600          |
| Credit sales                       | 154,200        | Cash received       | 147,200        |
| Interest charged                   | 2,400          | Discounts allowed   | 1,400          |
|                                    |                | Irrecoverable debts | 4,900          |
|                                    |                | c/f                 | <u>307,100</u> |
|                                    | <u>465,200</u> |                     | <u>465,200</u> |
- 12 B  $1,000,000/40\text{years} = 25,000$ ;  $1,000,000 - (800,000 - (800,000 \times 2\% \times 10\text{years})) = 360,000$
- 13 B  $((300,000 + 30,000) / 2 \times \frac{1}{2}) + (300,000 + 30,000) / 2 \times \frac{1}{3} - (30,000 \times \frac{1}{2}) = 122,500$
- 14 A IAS 8 does not require prospective future information, so 3 is never correct
- 15 D Carriage outwards is a selling expense
- 16 B Depreciation charge is a non-cash movement that is charged to profit and loss to arrive at operating profit. Therefore it must be added back to operating profit in the statement of cash flows.
- 17 B
- 18 C A sole trader also invests capital in his or her business
- 19 B A remittance advice gives details of the invoices covered by the payment
- 20 A Goodwill is usually brought in under the old PSR and written off in the new PSR
- 21 D
- 22 D  $(240,000 \times 20\%) + (6/12 \times 160,000 \times 20\%) - (9/12 \times 60,000 \times 20\%) = 55,000$
- 23 C Item 2 is charged to the income statement
- 24 A Research expenditure must be charged to the income statement
- 25 D  $(318,000 + 412,000 - 214,000) - (612,000 \times 75\%) = 57,000$
- 26 B  $125,000 + (500,000 \times \frac{1}{2} \times 25c) + (750,000 \times \frac{1}{5} \times 25c) = 225,000$ ;  $100,000 + (500,000 \times \frac{1}{2} \times 75c) - (750,000 \times \frac{1}{5} \times 25c) = 250,000$
- 27 A  $836,200 - 8,600 + (14,000 \times 70\%) + 700 = 838,100$
- 28 B Items 2 to 4 are adjustments to the bank balance per the statement
- 29 B  $12,000 + (12,000 \times 2\%) + (9,000 \times 8/12) + 4,000 = 22,240$

- 30 B
- 31 A All these items provide additional information about conditions at the balance sheet date
- 32 A  $(8,950 - 4,080) - (4,140 + 40) = 690$
- 33 A
- 34 D  $(84,000 \times 2/12) + (96,000 \times 10/12) = 94,000$ ;  $96,000 \times 2/12 = 16,000$
- 35 D Items (1) and (3) do not involve movements of cash
- 36 B
- 37 B We believe that the examiner means plant asset register rather than plant asset account
- 38 D
- |   |                 |
|---|-----------------|
|   | \$              |
| List Price  | 200,000         |
| Trade discount                                    | <u>(20,000)</u> |
|   | 180,000         |
| Sales tax ( $17.5\% \times 95\% \times 180,000$ ) | <u>29,925</u>   |
|   | <u>209,925</u>  |
- 39 B
- 40 D
- | RENT RECEIVABLE              |                |                              |                |
|------------------------------|----------------|------------------------------|----------------|
|                              | \$             |                              | \$             |
| Rent in arrears b/f          | 21,200         | Rent received in advance b/f | 28,700         |
| Income statement (bal fig)   | 475,900        | Cash received                | 481,200        |
| Rent received in advance c/f | <u>31,200</u>  | Rent in arrears c/f          | <u>18,400</u>  |
|                              | <u>528,300</u> |                              | <u>528,300</u> |
- 41 A
- | PAYABLES LEDGER    |                |                              |                |
|--------------------|----------------|------------------------------|----------------|
|                    | \$             |                              | \$             |
| Cash paid          | 302,800        | b/f                          | 60,000         |
| Discounts received | 2,960          | Purchases (balancing figure) | 331,760        |
| Contra             | 2,000          |                              |                |
| C/f                | <u>84,000</u>  |                              |                |
|                    | <u>391,760</u> |                              | <u>391,760</u> |
- 42 B
- 43 D
- 44 D  $438,900 - 980 - (4,434 - 4,344) = 437,830$
- 45 C
- 46 D  $890 + 95 + 10 + 20 = 1,015$
- Maintenance is revenue expenditure and the sales tax is reclaimed
- 47 D  $5,750 + (86,500 \times 3/5) - 4,300 = 53,350$
- 48 A
- 49 A  $(300@230) + (500@220) + (50@190) = 188,500$
- 50 A Balance carried forward from previous period shows debits exceed credits and so it is a debit balance brought forward for the new period

# ACCA examiner's answers: Pilot paper



- 1 B  
 2 B  $37,000 + ((517,000 - 37,000) * 5\%) - 39,000 = 22,000$   
 3 C  
 4 A  
 5 B  $-3,860 - 9,160 + 16,690 = 3,670$   
 6 A  
 7 B  
 8 B  
 9 C  $83,600 + 18,000 - (18,000 * 25\%) = 97,100$   
 10 B  
 11 D

Receivables ledger control account

	\$		\$
Opening balance	308,600	Contras	4,600
Credit sales	154,200	Cash received	147,200
Interest charged	2,400	Discounts allowed	1,400
		Bad debts	4,900
		Closing balance	307,100
	465,200		465,200

- 12 B  $1,000,000/40\text{years} = 25,000; 1,000,000 - (800,000 - (800,000 * 2\% * 10\text{years})) = 360,000$   
 13 B  $((300,000 + 30,000) / 2 * 1/2) + (300,000 + 30,000) / 2 * 1/3 - (30,000 * 1/2) = 122,500$   
 14 A  
 15 D  
 16 B  
 17 B  
 18 C  
 19 B  
 20 A  
 21 D  
 22 D  $(240,000 * 20\%) + (6/12 * 160,000 * 20\%) - (9/12 * 60,000 * 20\%) = 55,000$   
 23 C  
 24 A  
 25 D  $(318,000 + 412,000 - 214,000) - (612,000 * 75\%) = 57,000$   
 26 B  $125,000 + (500,000 * 1/2 * 25\%) + (750,000 * 1/5 * 25\%) = 225,000; 100,000 + (500,000 * 1/2 * 75\%) - (750,000 * 1/5 * 25\%) = 250,000$   
 27 A  $836,200 - 8,600 + (14,000 * 70\%) + 700 = 838,100$   
 28 B  
 29 B  $12,000 + (12,000 * 2\%) + (9,000 * 8/12) + 4,000 = 22,240$   
 30 B  
 31 A  
 32 A  $(8,950 - 4,080) - (4,140 + 40) = 690$   
 33 A  
 34 D  $(84,000 * 2/12) + (96,000 * 10/12) = 94,000; 96,000 * 2/12 = 16,000$   
 35 D  
 36 B  
 37 B  
 38 D
- |                                   |          |
|-----------------------------------|----------|
| List Price                        | 200,000  |
| Trade discount                    | (20,000) |
|                                   | 180,000  |
| Sales tax (17.5% * 95% * 180,000) | 29,925   |
|                                   | 209,925  |

- 39 B  
 40 D

Rent receivable

	\$		\$
O/Balance	21,200	O/Balance	28,700
Income statement	475,900	Disposal	481,200
C/Balance	31,200	C/Balance	18,400
	528,300		528,300

41 A

Payables ledger

	\$		\$
Cash paid	302,800	O/balance	60,000
Discounts received	2,960	Purchases	331,760
Contra	2,000		
C/balance	84,000		
	<u>391,760</u>		<u>391,760</u>

42 B

43 D

44 D  $438,900 - 980 - 90 = 437,830$

45 C

46 D  $890 + 95 + 10 + 20 = 1,015$

47 D  $5,750 + (86,500 \times 3/5) - 4,300 = 53,350$

48 A

49 A  $(300 @ 230) + (500 @ 220) + (50 @ 190) = 188,500$

50 A

**Review Form & Free Prize Draw – Paper F3 Financial Accounting (International Stream) (01/10)**

All original review forms from the entire BPP range, completed with genuine comments, will be entered into one of two draws on 31 July 2010 and 31 January 2011. The names on the first four forms picked out on each occasion will be sent a cheque for £50.

**Name:** \_\_\_\_\_ **Address:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**How have you used this Kit?**

*(Tick one box only)*

- Home study (book only)
- On a course: college \_\_\_\_\_
- With 'correspondence' package
- Other \_\_\_\_\_

**Why did you decide to purchase this Kit?**

*(Tick one box only)*

- Have used the complementary Study text
- Have used other BPP products in the past
- Recommendation by friend/colleague
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- Saw advertising
- Other \_\_\_\_\_

**During the past six months do you recall seeing/receiving any of the following?**

*(Tick as many boxes as are relevant)*

- Our advertisement in *Student Accountant*
- Our advertisement in *Pass*
- Our advertisement in *PQ*
- Our brochure with a letter through the post
- Our website [www.bpp.com](http://www.bpp.com)

**Which (if any) aspects of our advertising do you find useful?**

*(Tick as many boxes as are relevant)*

- Prices and publication dates of new editions
- Information on product content
- Facility to order books off-the-page
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*Which BPP products have you used?*

- |          |                                     |            |                          |                    |                          |
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| Kit      | <input checked="" type="checkbox"/> | i-Learn    | <input type="checkbox"/> | Home Study Package | <input type="checkbox"/> |
| Passcard | <input type="checkbox"/>            | i-Pass     | <input type="checkbox"/> | Home Study PLUS    | <input type="checkbox"/> |

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	<i>Very useful</i>	<i>Useful</i>	<i>Not useful</i>
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## **Review Form & Free Prize Draw (continued)**

### **TELL US WHAT YOU THINK**

Please note any further comments and suggestions/errors below.

### **Free Prize Draw Rules**

- 1 Closing date for 31 July 2010 draw is 30 June 2010. Closing date for 31 January 2011 draw is 31 December 2010.
- 2 Restricted to entries with UK and Eire addresses only. BPP employees, their families and business associates are excluded.
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